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## The New Geography of Capital – How Wars, Tariffs, and Great-Power Competition Are Redrawing the PE/VC Map

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# The New Geography of Capital – How VC Maps Are Being Redrawn

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## **I. Executive Summary**

The global map of private capital is being permanently redrawn by five reinforcing forces: the 2026 Iran conflict, the US tariff regime, US-China decoupling, the Russia-Ukraine war entering its fifth year, and the fragmentation of the multilateral order. In 2026, the WEF ranked geoeconomic confrontation as the top short-term global risk. For private markets, geopolitical risk is no longer a variable to be discounted, it is the current operating environment.

The Iran conflict has been the most immediate accelerator. Disruption of the Strait of Hormuz, through which 20% of global petroleum flows normally, sent crude oil toward \$120, a shock the IEA called more severe than the 1970s oil crises. Tanker traffic fell 97%, LP redemption pressure spiked, and major deals including Macquarie's Kuwait pipeline transaction were abandoned mid-process. The tariff regime compounds this at a structural level: cross-border PE activity fell around 18% year-over-year, European VC hit its second-lowest volume in a decade, and EU exports to the US dropped 25% in Q3 2025.

Beneath the volatility, three structural shifts are underway. Capital is rerouting toward friendly jurisdictions (India, Southeast Asia, and intra-European flows), as Gulf LP deployment partially regionalises and China exposure is actively reduced. European defence tech has emerged as a genuine VC vertical, with DSR startups raising a record \$8.7 billion in 2025, up 55% year-on-year, anchored by NATO's 5% GDP defence commitment and public-private financing structures like the €7.3 billion European Defence Fund. Furthermore, deal structures are fundamentally changing: tariff clauses, geopolitical MAC provisions, and political risk insurance are now standard closing conditions, not exceptions.

Historical precedent suggests that the acute market volatility triggered by the Iran conflict will likely subside within months, consistent with the pattern observed across more than 40 geopolitical events since World War II. However, the policy responses, such as sanctions, export controls, tariff escalation, and friend-shoring mandates, are structural, not cyclical. These do not reverse when headlines fade. The short-term shock accelerates decisions that were already developing gradually: supply chain diversification, reduced exposure to politically sensitive regions, and increased allocation toward energy security, defence, and strategic industries.

**Investment View:** Overweight European defence tech, cybersecurity, pharmaceutical reshoring, and domestically anchored industrials. Underweight hardware with China-linked supply chains, cross-border aviation exposed to Middle Eastern routes, and assets carrying unhedged tariff risk. Prioritise friendly-jurisdiction geographies (particularly India, Southeast Asia, and intra-European corridors) and build geopolitical risk architecture into every deal structure. Favour continuation vehicles, tariff adjustment mechanisms, and earnout-based valuations to bridge uncertainty. The new geography of capital is not a temporary dislocation. It is a structural shift already shaping how capital is allocated for the decade ahead.

## **II. The Geopolitical Landscape in 2026**

This year is showing that it will not be one of isolated shocks but the reinforcement of ongoing conflicts and pressures culminating in the start of the Era of Competition, as labeled by the World Economic Forum (WEF). In fact, Geoeconomic Confrontation was ranked as the top global risk in the short run (2 years) by the WEF panel. As a result, the capital sector will have to adapt to the new reality that these are not punctual risks to be discounted but the actual new operating environment.

### **2.1 The Iran War**

After the US-Israel attempt at eliminating the Iranian nuclear threat in the 12-Day War, a new structural risk premium has been introduced to the Middle East region. With the recent developments in the war, the added risk only increased as the Strait of Hormuz is no longer a safe route for Brent Crude transportation, with prices surging to about \$120 a barrel as financial markets globally slumped harshly.

The impact on private credit markets is shown in the unprecedented redemption pressure by LP's, withdrawal limits imposed by major funds and alarming losses, most notably illustrated by Blackstone flagship credit fund, BCRED, posting its first monthly loss since 2022.

The full implications for regional deal flows, Israel's VC and Gulf wealth deployment will be developed in the following sections.

### **2.2 US-China Decoupling**

Since January 2025, the US Outbound Investment Security Program has prohibited Americans from investing in Chinese micro-chip, semiconductor and AI companies. In return, China has also shown increasing scrutiny on an already restricted Western investment.

Protectionism on both sides creates an arms race for technological development with no other precedents outside the Cold War. The Chinese VC for advanced technology start-ups included in its 15th Five Year Plan and the US stake acquisitions in AI, microchips and rare earths companies are some examples on how both countries are stimulating their own talent to develop breakthrough technology locally.

Fundamentally, what this creates is a technology bifurcation. For allocators, the critical distinction is between de-risking by restructuring China exposure without fully withdrawing funds, and full decoupling, which implies permanent exit. Markets are currently doing both simultaneously, and that ambiguity is itself a source of valuation uncertainty in any deal carrying China-linked revenue or supply chain exposure.

### **2.3 The US Tariff Regime**

Since “Liberation Day” many developments have come from the introduction of global tariffs by the US on essentially every country on Earth. Those nations replied with their own tariffs on the US. After backlash from the “Big Tech”, Trump was forced to ease out tariffs on supply chains for China’s minerals, microchips and semi-conductors. Just this year, all the US tariffs imposed on “Liberation Day” were deemed illegal and scaled down to a flat rate of 10%.

Finally, what is coming out of this Trade War, is exactly a strategy of War. Tariffs can no longer be seen as mere monetary policy but as a geopolitical intervention. As a result, Private Funds will need to adapt their investments according to supply chain limitations, as the future does not guarantee that the products will maintain their market viability, mainly those who rely on imports for production and for those that are actively in/intend to expand to international markets.

### **2.4 Russia-Ukraine War, Year Five**

Being four years into a war, the initial shock has already passed and the status quo for Europe has already settled for its goals in allocating capital towards its own defense and independent development.

NATO’s 5% of GDP expenditure on defense bill, ReArm Europe and the increasing global demand for weaponry and war technology further stimulates European VCs to look at the defense sector not only as a geopolitical backdrop, but as a main deal pipeline.

However, Europe is still in search of energetic independence, as the Iran war proved that the over reliance on oil is not financially sustainable for its oligopolist nature, so sustainable energy investments have increased, mainly in the fields of renewables and battery technology.

### **2.5 Multipolar Fragmentation**

The culmination of all the previous points is that the paradigm of international investment has shifted to a point where “friend-shoring” is now a reality and investors are heavily discouraged to source capital abroad. New clashing policies being made across the globe and diverging ideologies create a harsh foreign investment environment, with uncertainty to what the future might bring.

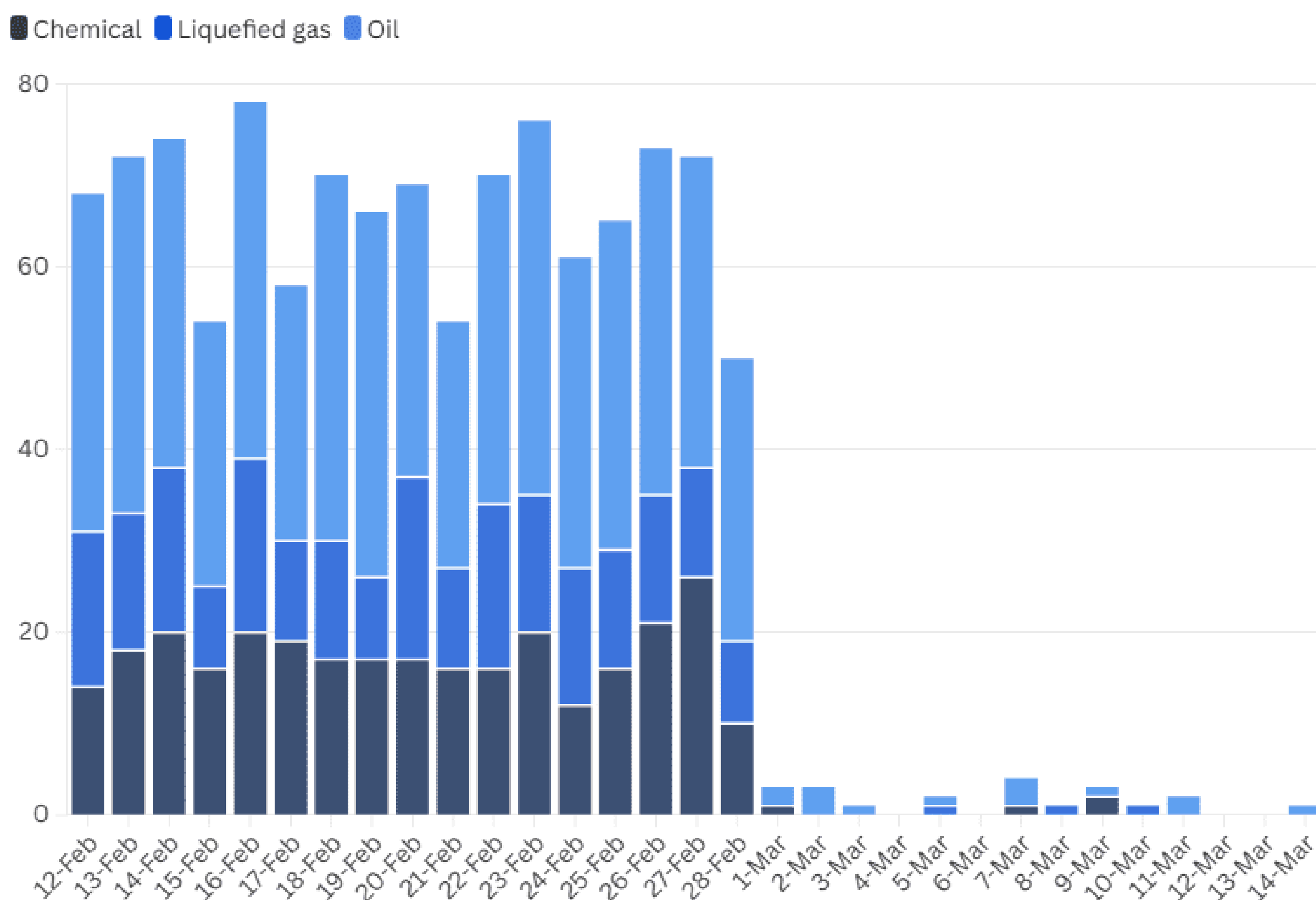
This is all a cause and a consequence of the weakening of multilateral institutions, as the UN’s credibility is at an all time low, international law is often bypassed in the conflicts previously mentioned and the polarisation of different nations create an unavoidable tension where, to quote the WEF’s 2026 Global Risk Report: “Collaboration on shared, cross-border challenges risks becoming more difficult, and as some governments try to turn newly created ambiguities around international rules and norms to their advantage, those countries that are least able to back up pursuit of their objectives with credible threats of economic, diplomatic or, ultimately, military retaliation could increasingly lose out”. As a result, the new capital corridor has straightened and we will develop this concept in a further section.

### **III. The Iran Conflict: Immediate Market Impact**

The geography of private capital is being reshaped by the cumulative interaction of geopolitical conflict, trade fragmentation, and intensifying strategic rivalry. Within this broader restructuring, the Iran conflict has emerged as a critical accelerator of global capital reallocation, converting military escalation into a system-wide oil shock.

## **Shipping traffic falling off a cliff since the Iran war began**

Daily number of tanker transits through the Strait of Hormuz



Source: Haver Analytics, IMF PortWatch, BMI • Days with no data indicate no transits recorded.

### **3.1 The Strait of Hormuz and the Oil Shock**

The economic significance of the Iran conflict has been magnified by its effect on oil flows through the Strait of Hormuz. Under normal conditions, roughly 20 million barrels per day pass through the Strait, equivalent to around 20% of global petroleum liquids consumption and more than one-quarter of global seaborne oil trade. This makes Hormuz not just a regional transit point, but one of the core transit routes of the global energy system. As such, any disruption there carries consequences far beyond the Gulf, immediately tightening supply expectations and placing upward pressure on oil prices.

As Brent rose towards \$120 during the conflict, the resulting oil shock quickly extended beyond energy markets, adding to inflationary pressure, complicating the monetary-policy outlook, and weakening industrial activity. Its significance lies in the fact that this was not merely an episode of short-term volatility, but a shock of systemic scale: the IEA has described it as more severe than both the oil shocks of the 1970s and the energy shock that followed Russia's invasion of Ukraine.

### **3.2 Asymmetric Leverage and Transit Disruption**

This also helps explain why Iran has used Hormuz as an instrument of asymmetric leverage. Unable to match U.S.-Israeli military power directly, Tehran has sought to impose costs through disruption of the global oil system rather than through battlefield superiority alone. Reuters reports that Iran has explicitly threatened wider closure measures, including mine-laying if its coast or islands are attacked, while also claiming that non-enemy-linked vessels may still pass under Iranian coordination. In practice, this has produced not a formal universal blockade, but a coercive and highly restrictive transit regime. For markets, however, the practical effect has been close to a shutdown: Reuters reports that tanker traffic through Hormuz fell by 97% after the conflict began on 28 February, while the IEA said the disruption had at times removed around 11 million b/d from the market.

### **3.3 Implications for Private Capital**

Its importance for the new geography of capital lies in the fact that oil is no longer treated merely as an input into production. As the ECB notes, it also functions as a barometer of global economic activity and as a financial asset, meaning that a disruption in oil markets can transmit simultaneously to inflation, growth, and market sentiment. In the current episode, the shock generated by the Iran conflict is therefore macroeconomic as well as financial since higher oil prices raise production and transport costs, feed quickly into consumer energy prices, and tighten inflationary pressure across the broader economy.

As a result, markets have begun to reprice the policy path of major central banks, with bond yields rising and traders shifting from expectations of rate cuts toward the possibility of renewed tightening. This shift matters for private capital because it changes the financial conditions against which investment opportunities are assessed. As higher energy prices feed through into inflation, tighter financing conditions, and greater supply-chain uncertainty, investors are compelled to reassess not only expected growth, but also the resilience of margins, the stability of cash flows, and the credibility of business models under stress. Rather than prompting a generalised retreat from risk, these conditions tend to produce a more selective allocation of capital, in which resilience, liquidity, and operational control assume greater importance in valuation. This shift is already visible in more conservative revenue assumptions, higher working-capital requirements, longer fundraising timelines, and closer scrutiny of contingency planning. In the context of this report, the broader implication is clear: the Iran conflict matters not only because it disrupts energy markets, but because it alters the terms on which private capital is priced, deployed, and managed.

## **IV. Tariffs and Trade Wars: The Structural Reshaping**

Trade policy has historically been a background condition for private capital, in that something that has affected portfolio companies at the margin but has rarely determined where investors chose to deploy. That era is over. The new tariff regime imposed by the Trump administration from Liberation Day in early 2025 onwards has transformed trade policy into one of the most deterministic structural forces shaping deal flow, portfolio valuations, and geographic capital allocation in private markets today.

The Trump tariffs represent the largest US tax increase as a percentage of GDP since 1993, accumulating to an average tax increase per US household of \$1,500 in 2026. The political and legal landscape has been no less volatile as on February 20th, 2026, the Supreme Court ruled 6-3 that the International Emergency Economic Powers Act (IEEPA) doesn't authorise tariffs, leaving only the Section 232 tariffs left. Following this ruling, the administration responded by imposing further tariffs of 10% on nearly all countries under Section 122, effective February 24th, 2026. The result of these actions is a trade regime characterised by both policy response and the tariff rates themselves, and it is this uncertainty that has most notably affected private markets.

### **4.1 The Tariff Architecture**

To understand the implications on private markets, we first must establish what the tariff environment currently looks like in early 2026. The average effective tariff rate was 7.7% in 2025 (the highest since 1947). With the IEEPA tariffs ruled illegal in February 2026, the weighted average applied tariff rate fell from 13.8% to 6.7% under the Section 232 tariffs that remain, although a 10% Section 122 tariff has since been applied to approximately \$1.2T in annual imports.

For European portfolio companies and investors, it is equally as complex of an environment. Under the US-EU trade agreement announced in late July 2025, most goods exports from the EU to the US face a 15% tariff rate, reflecting a dramatic increase from an average of around 2% prior to Trump's inauguration. The sectoral differentiation matters for private capital as the automotive sector will see tariffs fall to 15% from the 25% level announced on Liberation day in April 2025, while pharmaceutical and semiconductor exports will face similar 15% rates, a shift from their previous exempt status.

### **4.2 Deal Flow Disruption**

The most immediate market response has been a cooling in transaction activity. Abrupt tariff changes and related uncertainties have cooled private equity deal activity, paused expansion plans, and forced PE-backed companies to mount pressure on their supply chains.

The LP and fundraising environment has followed a similar trend of deterioration. As of the end of May 2025, both fund count and capital raised in the US were tracking to finish the year down, with fund count off by 6% and capital raised by 40%. Cross-border PE deal activity was down 10% ytd compared to the same period in 2024 and on pace to finish the year down approximately 18%.

Most general partners have responded cautiously. Many GPs are waiting to see what happens, with exit activity having slowed considerably while distressed acquisitions continue to drive more selective deal flow. Blackstone's CFO captured the sentiment well: "We expect realisation activity in the near term to be affected by policy-driven uncertainty and market volatility".

The European VC ecosystem hasn't been insulated either. The overall VC deal volume in Europe dropped to its second-lowest level in a decade in 2025, according to KPMG. In Q1 2025, the US share of total European deal value fell to 46.9%, down nearly 4% from the previous quarter, according to Pitchbook. The trade effect on European exports has also been significant as since July 2025, EU exports to the US have fallen sharply, with Eurostat data showing a 25% decline to €147.1B in Q3 2025 compared to the previous quarter. The EU's goods surplus with the US has almost halved, dropping from €81B in Q1 2025 to €41B in Q3.

### **4.3 Portfolio Company Pressure**

For equity-focused PE sponsors, tariffs are transmitted through portfolio companies in three main ways: direct cost increases on imported inputs, supply chain disruption, and valuation compression in tariff-sensitive sectors.

Equity-focused PE firms face increasing costs for portfolio companies reliant on imports, potentially eroding profitability and making exit strategies more complicated. For investment-focused PE firms, tariffs have led to greater market volatility and economic uncertainty, affecting the valuation and risk profile of investments, especially in the sectors most sensitive to trade policy.

The sectors most impacted are well-defined. Hardware, electronics, industrials, and manufacturing face the greatest direct cost increases, with startups building electronics being amongst the hardest hit, as many are dependent on Chinese, Taiwanese, or South Korean parts.

The healthcare sector faces its own distinct but equally significant pressure point. The BIOSECURE Act, signed into law in December 2025, prohibits US government agencies from contracting with companies using services from designated Chinese biotechnology companies.

Technology has proven to be the most resilient in the wake of the 2025 tariffs. The technology sector beat the broader trend in Q2 2025, recording its most impressive exit quarter since late 2021, with digital transformation trends shielding it relative to more trade-exposed sectors.

## **V. The New Capital Corridors**

The global flow of private capital is undergoing a structural reconfiguration. Historically, venture capital and private equity operated within a relatively frictionless global system, where capital moved freely across borders in pursuit of returns. However, the current rising geopolitical tensions alongside the trade restrictions and regional conflicts have introduced significant friction into these traditional investment routes.

As a result, capital no longer flows purely on the basis of economic opportunity but increasingly along geopolitical lines. Investors are reallocating toward jurisdictions that are politically aligned, operationally stable or strategically neutral. This change has led to the emergence of new “capital corridors”, which are defined pathways through which capital is being redirected in response to geopolitical constraints. These corridors are reshaping where capital flows and also which ecosystems receive disproportionate growth, liquidity and innovation.

### **5.1 Gulf LP Disruption**

One of the most important yet underappreciated shifts is the disruption of Gulf-based limited partner (LP) capital flows. Historically, wealth funds in the Gulf, such as Saudi Arabia’s Public Investment Fund (PIF), Abu Dhabi’s Mubadala and ADIA, have been among the largest allocators of capital to global private equity and venture capital funds.

However, geopolitical tensions arising in the Middle East are increasingly influencing both the deployment and reception of this capital. Conflicts in the region, alongside heightened political scrutiny from Western governments, are introducing friction into traditional LP-GP relationships. As a result, some Western funds are becoming more cautious in accepting Gulf capital, while Gulf investors are simultaneously increasing their focus on regional and strategically aligned investments.

This is leading to a partial regionalisation of Gulf capital, with increased allocation towards things such as domestic ecosystems, regional megaprojects and partnerships within politically aligned markets. For venture capital, this shift is particularly relevant as Gulf-backed capital has historically played a critical role in funding late-stage growth rounds globally. Any disruption to this flow has second-order effects across the global funding environment.

### **5.2 The Rise of Friendly-Jurisdiction Deals**

As this geopolitical fragmentation increases, investors are actively shifting capital towards “friendly-market” jurisdictions consisting of markets that are politically aligned with Western economies, or at least not exposed to direct geopolitical conflict.

India has emerged as a primary beneficiary of this shift. As Western capital reduces exposure to China, India is absorbing increasing levels of venture and private equity investment across fintech, SaaS and digital infrastructure. Its large domestic market, alongside the improving regulatory environment and geopolitical positioning, makes it a compelling alternative for long-term capital deployment.

Similarly, Southeast Asian markets such as Vietnam and Indonesia are attracting significant inflows, particularly in manufacturing, logistics and consumer technology. These countries are benefiting from supply chain diversification strategies, as global corporations seek to reduce reliance on China. Venture capital is following this shift, backing startups that enable and scale within these newly emerging economic hubs. This corridor reflects a broader pattern where capital is no longer purely chasing growth but also geopolitical alignment and supply chain resilience.

### **5.3 Europe's Inward Turn: Defence and Reshoring**

A third major shift in capital allocation is Europe's increasing inward focus, driven by security concerns and supply chain fragility. Following the Russian invasion of Ukraine, European defence spending has risen sharply, with Germany alone committing €100 billion to military investment. Now, with the rising tensions in the Middle East, this trend is continuing as we see rising uncertainty across the world. This has catalysed a structural shift in venture capital toward defence and dual-use technologies.

Historically underfunded, defence tech is now attracting significant capital. European startups such as Helsing have raised hundreds of millions in funding to develop AI-driven battlefield systems, while US-based Anduril Industries has expanded its presence in Europe. Venture Capital is increasingly targeting areas such as autonomous systems, surveillance and cyber security, which reflects a broader alignment between the increasing innovation and national security priorities.

At the same time, reshoring and nearshoring strategies are redirecting private equity capital into domestic manufacturing and industrial technology. European governments are actively incentivising local production in sectors such as semiconductors and energy, reducing reliance on external supply chains. This combination of defence spending and industrial policy is creating a new, state-supported investment corridor within Europe.

### **5.4 Outbound Capital and Liquidity Reconfiguration**

Alongside geographically driven capital reallocation, two structural dynamics are reshaping how capital is deployed and recycled: the rise of outbound Asian Investment and the rapid expansion of private market secondaries.

Institutional investors and corporates from Japan and South Korea are increasingly deploying capital internationally in search of growth and technological exposure. Firms such as SoftBank and Samsung are actively investing in the United States, Europe and Southeast Asia, targeting sectors including AI, semiconductors and mobility. This outbound flow is driven by structural domestic constraints, including slower economic growth and ageing populations and represents a proactive expansion of capital into higher-growth ecosystems.

At the same time, liquidity conditions within private markets have deteriorated, leading to a sharp rise in secondary transactions. With IPO markets subdued and M&A activity constrained since 2022, investors are increasingly relying on secondaries to rebalance portfolios and generate liquidity. Major players such as Blackstone and Lexington Partners have expanded their activity within this space, acquiring stakes in private companies and fund positions at discounted valuations.

Together, these shifts demonstrate that the global capital market is no longer defined by openness, but by strategic constraint. Capital is being rerouted, flowing through corridors shaped by geopolitical alignment, security priorities and liquidity pressures. For venture capital and private equity firms, this marks a transition from a globalised to a selectively interconnected system, where success increasingly depends on positioning within the right jurisdictions, sectors and capital networks. Those able to navigate these structural shifts will not only mitigate risk but also potentially capture disproportionate upside in the emerging geography of capital.

## **VI. Defense Tech: Europe's Emerging VC Vertical**

Fuelled by modern conflicts, hybrid warfare and constant technologic improvement, the European Defence sector has been more active than ever. Wars and conflicts around the world, especially on its own continent, taught the industry that war is not fought like it used to be. Conventional weapons are now paired with drone swarms. Cyberattacks on critical infrastructures and AI implementation have been reshuffling the Defence sector's goals. Now more than ever, innovation is at the heart of the European strategy.

### **6.1 The Spending Catalyst**

While Europe historically had an important Defence industry, the June 2025 NATO Summit in The Hague was the catalyst that changed the way Defence was funded. Heads of state agreed to a target of 5% of GDP on Defence by 2035, more than doubling the long-standing 2% benchmark. From there, national and institutional capitals flowed toward the industry.

Defence tech innovation requires long-term capital, a resource that private venture funds alone cannot provide in the quantities required. Defence programs often span across decade-long development cycles and must navigate regulated procurement channels that require public support. The emergence of a structured public-private financing architecture across Europe has been the most important enabling condition for the Defence tech investment ecosystem.

The European Defence Fund (EDF) is the European Commission's primary instrument for supporting collaborative defence R&D. With a €7.3 billion budget for 2021–2027, the EDF funds cross-border projects covering the full R&D cycle from research to prototype development. Among its topics of interest, the fund focuses on developing an EU endo-atmospheric interceptor, a main battle tank, a semi-autonomous naval vessel, and capabilities in quantum-secured networks and electronic warfare.

The EDF's EU Defence Innovation Scheme (EUDIS) provides grants and support tailored to SMEs, startups, and first-time Defence entrants. The European Commission and the European Investment Fund also launched the Defence Equity Facility. The facility aims at mobilising approximately €500 million in total private investment by acting as a cornerstone LP in independently managed PE and VC funds, insisting once again on public and private collaboration.

The European Investment Bank has undergone a significant strategic reorientation toward security and Defence. The EIB, historically constrained from directly financing lethal weapons systems, has revised its lending policy. Since, it has been allocating approximately 3.5% of its €100 billion 2025 budget to security and defence projects.

National backing and supportive public policies have become crucial for defence projects. France, the world's second largest exporter of military equipment, committed to its largest national defense modernization program in its post-Cold War history. The Loi de Programmation Militaire 2024–2030 plan to allocate more than €400 billion to the sector over 7 years. Germany went further by reforming its constitution on deficit rules to allow defense spending to exceed €100 billions in 2026. However, while both seem to share common goals, multi-lateral collaboration remains underexploited. No program better illustrates the ambition and dysfunction of European defense cooperation than the Future Combat Air System (FCAS). Conceived in 2017 as a Franco-German initiative and subsequently expanded to include Spain and Belgium, FCAS aspires to deliver a sixth-generation 'system of systems', a Next Generation Fighter paired with remote carrier drones and a networked 'Combat Cloud', by 2040. The program's budget is estimated at over €100 billion, making it the most expensive European defense development program of the 21st century. However, persistent disputes between Dassault Aviation and Airbus have brought the program to a 'make or break' moment.

## **6.2 The Private Investment Ecosystem**

The private investment ecosystem mobilizing around these public anchors has transformed radically since 2022. According to the NATO Innovation Fund, European Defence, Security and Resilience (DSR) startups raised a record \$8.7 billion in VC in 2025, a 55% increase year-on-year and nearly four times higher than five years ago. AI dominated the sector, underpinning 44% of all DSR funding. Late-stage investment tripled to \$4.7 billion, signaling ecosystem maturation.

NATO Innovation Fund is the world's first multi-sovereign VC fund, with €1 billion under management, backed by 24 NATO member states. The NIF has backed companies including Kraken Technology Group, ARX Robotics, Isar Aerospace, and CamGraPhIC.

Lakestar raised €500 million in 2025 for a Defence fund targeting early and growth-stage dual-use tech startups across AI, satellite technology, cybersecurity, drones, and quantum computing. Its founder, Klaus Hommels, became Chairman of NATO Innovation Fund between 2023 and 2025, once again highlighting the links between institutional and private fundings.

Join Capital has received a €50 million commitment from the European Investment Fund, the facility's largest single investment, to back 25 early-stage deeptech startups in defence, dual-use, security, and space.

Keen Venture Partner was backed by the Defence Equity Facility with a €40 million investment in 2025, to focus on early-stage companies in information superiority, cyber defence, robotics, AI, autonomous systems, and space.

Corporate venture capital from established European defence leaders has also grown materially. Airbus, Thales, MBDA, Rheinmetall, Dassault Aviation (with its \$200 million investment in Harmattan AI), and BAE Systems have all deployed strategic capital into the defense tech startup ecosystem, providing distribution, procurement access, and technology validation that independent VCs cannot replicate.

### **6.3 AI-Defence Convergence and Key Startups**

What makes the defense VC sector so attractive is both the need for sovereignty and the dual-use of the developed technologies. AI integration investments focus first on autonomous vehicles. Drones were the most highlighted with startups such as Harmattan AI, Tekever or Stark Defence. Stark has also been working on uncrewed vessels, just like Kraken Technology Group. Kraken was recently awarded the UK Royal Navy's Project Beehive £12 million contract to develop a hybrid naval fleet. Finally, to avoid falling behind on uncrewed aircrafts, Europe can count on startups such as Helsing and its CA-1 Europa project, and on historic actors such as Airbus Defense and Space. Investment in defence-focused AI also includes strategy and planning software, a field in which European startups such as Helsing and Quantum Systems are competing.

## **VII. Sector-by-Sector Impact Analysis**

Geopolitical shocks don't hit every sector the same way. Some get crushed, some quietly benefit, and some just get complicated. Here's where things actually stand across five key verticals.

### **7.1 Energy & Infrastructure**

The Iran conflict sent energy markets into a tailspin almost immediately. Brent crude surged and European gas prices roughly doubled as markets started pricing in Strait of Hormuz disruption risk, a chokepoint for around 20% of global oil supply. For infrastructure funds, that means long-duration energy assets are being repriced in real time.

Renewables are in an odd spot. The energy security narrative has never been stronger politically, but Chinese solar supply chain exposure and tariff escalation on components are making project finance underwriting genuinely difficult right now. What this means for deals, is that funds are moving toward regulated, contracted assets, anything with government-backed offtake or capacity payments. Geopolitical force majeure clauses and political risk insurance are becoming standard conditions to close, not optional extras.

## 7.2 Healthcare & Biotech

Healthcare has held up better than most sectors, but it's not immune. The US-China decoupling is quietly raising compliance costs for any fund with cross-border biotech exposure, export controls on dual-use research tools and restrictions on Chinese LP participation in US funds are real friction points now.

Within Europe, the story is genuinely positive. As it was covered in FINEDA's April 2025 CRISPR report, biotech VC bounced back hard in 2024, with US and European funding climbing from \$21.2B to \$28.1B. The approval of CASGEVY™, the first CRISPR gene therapy, gave the whole sector a confidence boost that's still carrying momentum.

The less-discussed angle is pharmaceutical supply chain vulnerability. The Russia-Ukraine war already exposed Europe's dependence on Eastern European API manufacturing. The Iran conflict added another layer of anxiety around Gulf logistics for biologics.

What this means for deal, is that Funds are overweighting domestically anchored therapeutic developers and increasingly looking at pharmaceutical reshoring as an infrastructure-style opportunity, especially with EU co-investment structures coming online.

## 7.3 Technology & Semiconductors

Tech, and chips specifically, is where the US-China fracture has been most structural. Export controls now cover over 200 product categories, and the bifurcation of the global semiconductor supply chain into two parallel ecosystems is no longer a future scenario, it's happening.

The Iran conflict added a cyber dimension that's been good for one sub-sector at least. Cybersecurity deal activity has picked up meaningfully as enterprise spending accelerates in response to the intensified threat environment linked to Iranian-attributed operations.

Cross-border tech M&A, meanwhile, has slowed noticeably. Buyers are struggling to quantify tariff pass-through in hardware-heavy deal models, and CFIUS review timelines have lengthened.

What this means for deals, is that the "Best technology" is no longer enough, it has to be in the right jurisdiction. European, Israeli, Indian, and Taiwanese assets are getting valuation premiums. Cybersecurity is arguably the strongest geopolitical tailwind in the whole PE/VC landscape right now.

## **7.4 Industrials & Manufacturing**

This is where tariffs have hit hardest, most directly. Cross-border industrial deal volume fell an estimated 18% year-over-year in H1 2026, with suspended processes and renegotiated valuation floors becoming routine. Buyers and sellers simply can't agree on tariff assumptions in financial models, and that gap is killing deals.

The flip side is a genuine reshoring wave. European and American industrial companies are pulling manufacturing back home, especially in defense supply chains, medical devices, and clean energy components. That's creating real PE deal flow in mid-market contract manufacturing and precision engineering.

What this means for deals, is that domestic consolidation has replaced cross-border platform arbitrage as the core strategy. Tariff adjustment mechanisms are becoming standard LBO features, and earnouts are being used more often to bridge valuation gaps.

## **7.5 Aviation, Tourism & Logistics**

Aviation took the most immediate hit. Regional corridor closures and war risk insurance premiums jumping 300–400% on Persian Gulf overflights grounded efficient routing options almost overnight. For PE-backed carriers and hospitality operators across Southern Europe and the Middle East, the revenue shock was fast and visible.

Logistics is more complicated. Red Sea disruptions were already rerouting global shipping before the Iran conflict, the Gulf situation made things worse, but operators with flexible routing capability and alternative warehouse infrastructure have actually captured elevated spot rates.

What this means for deals, is that in aviation, the play is defensive, domestic and intra-European networks over Middle Eastern route-dependent operators. In logistics, the structural opportunity is in physical infrastructure along alternative corridors; Poland, Morocco, Vietnam, India. These are attracting long-horizon infrastructure PE capital as tenants race to lock in capacity.

## **7.6 The Bigger Picture**

Three things are consistent across every sector looked at here. Geographic deal sourcing has shifted hard toward friendly jurisdictions. Deal structures are getting more complex, tariff clauses, geopolitical MAC provisions, and political risk insurance are now routine, not exceptional. And the defense-security theme is bleeding into sectors nobody previously thought of as defense-adjacent: cyber, industrial manufacturing, healthcare supply chains, energy infrastructure. That tells you something about just how broad this repricing of geopolitical risk really is.

## **VIII. Historical Precedent**

Every time there's a major geopolitical flare-up, the same cycle repeats. A significant headline emerges, markets decline, and within hours the same two questions circulate: how serious is this, and when does it end?

### **8.1 The Pattern: Sharp Drawdown, Fast Recovery**

The honest answer, if you examine the last 80 years of data, is that most of these situations resolve faster than anticipated. The Carson Group reviewed dozens of events since World War II and found the same pattern almost every time. A sharp drawdown around the event itself, followed by a recovery that tends to restore markets to near-normal levels within months. Volatility spikes, certainly, but it rarely damages lasting returns, mostly generating noise.

That said, the exceptions are what actually matter for investors. The events that escalated into multi-year problems were not necessarily the most dramatic at the time. They were the ones that coincided with everything else already under strain. Stretched valuations, a fragile economy, tight monetary policy. In those circumstances, a geopolitical shock does not cause a recession independently; it simply provides the trigger for what was likely to occur regardless. The shock becomes the headline, but the underlying fragility was already present.

### **8.2 Private Markets Response**

Private equity and venture capital tend to respond to these moments through adjustment rather than outright retreat. Exit timelines extend, deal activity decelerates, and funds increasingly rely on private credit or secondary transactions while public markets remain unstable. Covenants tighten, negotiations become more defensive, and limited partners receive more questions than usual during quarterly reviews. But it is hard to see a complete withdrawal from a region following a single event. The evidence is visible in how activity recovered after the Gulf War, and again after 9/11. The major investment centers absorbed both episodes within a couple of years. Capital is patient when the fundamentals have not materially changed.

### **8.3 The Oil Price Dynamic**

The oil price dynamic merits separate consideration, as it is frequently misunderstood. Supply disruptions in the Middle East do elevate prices, but a significant portion of that movement reflects fear premium rather than actual supply reduction, historically in the range of \$10–20 per barrel. Traders are pricing in a risk, not a confirmed reality. Once the situation stabilizes and governments indicate a willingness to intervene if necessary, that premium dissipates relatively quickly. The short-term consequences are real: higher input costs, inflationary pressure, valuation headwinds across rate-sensitive sectors. But absent a deeper structural change, the effect tends to diminish within a few months. Markets have encountered this pattern before.

#### **8.4 When Shocks Become Structural**

Where the analysis becomes genuinely more complex is when short-term shocks become the basis for long-term policy changes. Sanctions, export controls, tariffs, etc., these are the mechanisms that transform a geopolitical moment into a geopolitical era. This is the pattern that developed through the Cold War, through decades of Iran sanctions, and more recently in the response to Russia. Once such measures are established they rarely reverse cleanly, and the effect on capital flows becomes structural rather than cyclical. Certain markets are effectively removed from consideration. Investment routes are redrawn. New regional centers attract capital by default rather than by merit, simply because alternative paths have been closed. That structural dimension is what distinguishes a temporary disruption from a turning point. It is not about what occurs in the first few weeks, but whether the underlying rules change permanently. When trade becomes more costly, when supply chains require reorganization, when entire markets become too politically sensitive for large institutional investors, the original shock ceases to be the relevant variable. The policy response becomes the defining factor.

This is the substantive challenge with the current Iran situation. On the surface it has the characteristics of a typical short-term shock: oil supply risk, shipping uncertainty, elevated volatility in energy markets. Historical patterns suggest the acute phase resolves within months. But it is also occurring in a considerably different macroeconomic context than most of the historical comparisons currently being cited. Trade barriers have been increasing for years. Sanctions have become an early policy instrument rather than a measure of last resort. The broader movement toward friend-shoring and economic fragmentation was already well established before this. Iran is not the cause of that shift, it is one further data point reinforcing it.

The practical implication: immediate market volatility will likely subside. But the investment considerations that follow (supply chain diversification, reduced exposure to politically sensitive regions, increased allocation toward energy security, defense, and strategic industries) do not disappear when the headlines recede. They are already reflected in how serious allocators are approaching portfolio construction for the next decade. The short-term shock accelerates decisions that were already developing gradually.

Both conclusions hold simultaneously, and there is no clean resolution between them. This is a short-term event that markets will absorb relatively quickly, consistent with historical precedent. It is also one further step in a structural realignment that has years remaining, not because of Iran specifically, but because the broader forces driving that realignment were already in motion well before this episode.

## IX. Our View

The convergence of active conflict, trade fragmentation, and great-power competition has created an investment environment without meaningful precedent in the post-Cold War era. What distinguishes the current moment is not the severity of any single event, but the compounding interaction between them: the Iran oil shock reinforces the tariff-driven reshoring impulse, which reinforces the defence spending catalyst, which reinforces capital corridor realignment. For allocators, the key insight is that these forces are not independent risks to be modelled separately – they are a single, interconnected regime shift.

FINEDA's investment view is structured around four pillars: sector positioning, geographic positioning, deal structure adaptation, and key risks to the thesis.

### 9.1 Sector Positioning

- **Overweight: European Defence Tech and Dual-Use AI.** This is our highest-conviction call. European DSR startups raised \$8.7 billion in VC in 2025, a 55% YoY increase and nearly four times the level of five years ago. The spending catalyst is structural, not cyclical: NATO's 5% GDP target, the €7.3 billion European Defence Fund, Germany's constitutional reform unlocking over €100 billion in 2026 defence spending, and France's €400 billion LPM 2024–2030. AI underpinned 44% of all DSR funding in 2025, and late-stage investment tripled to \$4.7 billion, signalling genuine ecosystem maturation. Companies like Helsing, Harmattan AI, and Tekever represent the kind of dual-use platforms attracting both sovereign and private capital. We expect this vertical to compound for the remainder of the decade.
- **Overweight: Cybersecurity.** The Iran conflict introduced a cyber dimension that has accelerated enterprise spending meaningfully. Iranian-attributed operations have intensified the threat environment across critical infrastructure, financial services, and government systems. Cybersecurity is arguably the strongest geopolitical tailwind in the entire PE/VC landscape. Deal activity has picked up across both growth equity and buyout strategies, with European and Israeli assets commanding premium valuations.
- **Overweight: Pharmaceutical Reshoring and Healthcare Supply Chain Resilience.** The Russia-Ukraine war exposed Europe's dependence on Eastern European API manufacturing; the Iran conflict added another layer of vulnerability around Gulf logistics for biologics. The BIOSECURE Act has further restricted US-China biotech linkages. PE funds are increasingly treating pharmaceutical reshoring as an infrastructure-style opportunity, particularly with EU co-investment structures coming online. Domestically anchored therapeutic developers and CMOs focused on nearshored production are well-positioned.
- **Overweight: Domestically Anchored Industrials and Reshoring Infrastructure.** The tariff regime has created genuine PE deal flow in mid-market contract manufacturing, precision engineering, and domestic industrial consolidation. Cross-border industrial deal volume fell around 18% YoY in H1 2026, but domestic consolidation has replaced cross-border platform arbitrage as the core strategy.

- **Underweight: Hardware with China-Linked Supply Chains.** Export controls now cover over 200 product categories. The bifurcation of the global semiconductor supply chain is no longer a probable scenario. CFIUS review timelines have lengthened, and buyers are struggling to quantify tariff pass-through in hardware-heavy deal models.
- **Underweight: Cross-Border Aviation Exposed to Middle Eastern Routes.** War risk insurance premiums jumped 300–400% on Persian Gulf overflights. PE-backed carriers and hospitality operators with revenue concentration in Southern European and Middle Eastern corridors took fast, visible hits. We favour domestic and intra-European networks.
- **Underweight: Assets Carrying Unhedged Tariff Risk.** Any portfolio company with material import exposure that has not restructured its supply chain or incorporated tariff adjustment mechanisms is carrying latent valuation risk. The 15% rate on most EU goods exports to the US represents a dramatic shift from the pre-2025 average of around 2%.

## 9.2 Geographic Positioning

The central geographic thesis is that capital is flowing along geopolitical lines, not purely economic ones. We identify four priority corridors:

- **Intra-European** flows remain our primary geographic conviction. The combination of defence spending, reshoring incentives, and STEP funding is creating a state-supported investment corridor within Europe that did not exist five years ago.
- **India** is absorbing increasing levels of PE/VC investment across fintech, SaaS, and digital infrastructure as Western capital reduces China exposure. Its large domestic market, improving regulatory environment, and geopolitical positioning make it the most compelling large-market alternative.
- **Southeast Asia (Vietnam, Indonesia)** is attracting significant inflows in manufacturing, logistics, and consumer technology – direct beneficiaries of supply chain diversification strategies away from China.
- **Alternative logistics corridors (Poland, Morocco)** are attracting long-horizon infrastructure PE capital as Red Sea disruptions and Gulf instability reroute global shipping.

We recommend reducing direct China exposure and approaching Gulf LP capital with awareness of its partial regionalisation. Western funds should expect continued friction in Gulf LP-GP relationships.

## 9.3 Deal Structure Considerations

The current environment demands a fundamental rethinking of how deals are structured. Geopolitical risk can no longer be treated as a tail scenario, it must be priced into base cases:

- **Tariff adjustment mechanisms** should be embedded as standard LBO features. Dynamic adjustment clauses that link pricing or earnout thresholds to realised tariff rates reduce valuation disagreements between buyers and sellers.
- **Geopolitical MAC provisions** should be expanded beyond traditional definitions to cover sanctions escalation, Hormuz-type chokepoint disruptions, and sovereign policy reversals.

- **Political risk insurance** should be treated as a closing condition, not an optional extra. Funds that build insurance architecture into deal structures early will avoid repricing at close.
- **Continuation vehicles and GP-led secondaries** are becoming increasingly important as exit timelines extend and IPO markets remain subdued. The secondary market offers a liquidity escape valve, but also creates selective buying opportunities for funds with dry powder.
- **Earnout structures** are being used more frequently to bridge valuation gaps, particularly in industrials and cross-border transactions where buyers and sellers cannot agree on tariff assumptions.

#### 9.4 Key Risks to the Thesis

- **Rapid de-escalation:** A negotiated resolution to the Iran conflict, combined with tariff rollbacks following the IEEPA ruling, could reverse the risk premium supporting our overweight positions. Historical precedent suggests most geopolitical events resolve faster than anticipated, and the fear premium in oil tends to dissipate once situations stabilise.
- **Defence spending commitment fatigue:** NATO's 5% GDP target is ambitious, and fiscal pressures may create implementation gaps. The FCAS programme's "make or break" moment illustrates that European defence cooperation remains politically fraught.
- **Friendly-jurisdiction crowding:** As capital flows toward India, Southeast Asia, and intra-European corridors simultaneously, there is a risk of valuation inflation. Some deals may attract capital by default rather than by merit.
- **Secondary-market liquidity trap:** If IPO windows remain closed longer than expected, the secondary market itself may become saturated, compressing discounts and reducing the liquidity relief it currently provides.

The new geography of capital is not defined by a single event. It is the product of compounding structural forces that have been building for years and are now being accelerated by acute shocks. The Iran conflict did not cause the realignment – it revealed how far it had already progressed and how much further it has to go. For allocators who build geopolitical risk architecture into their process, this environment offers more opportunity than threat. Those who treat geopolitical risk as temporary noise will find themselves on the wrong side of the most significant restructuring of private capital geography since the end of the Cold War.

## X. Conclusion

This report has argued that the global PE/VC map is being permanently redrawn by the cumulative interaction of five geopolitical forces: the Iran conflict, US tariffs, US-China decoupling, the Russia-Ukraine war, and multipolar fragmentation. The central finding is that geopolitical risk has transitioned from a background variable to a core determinant of where capital is deployed, how deals are structured, and which sectors attract institutional conviction.

Three structural shifts define this transition. Capital is rerouting along geopolitical lines toward friendly jurisdictions. European defence tech has emerged as a legitimate, multi-year VC vertical. And deal structures across every sector are incorporating geopolitical risk provisions that were virtually unheard of three years ago.

The historical evidence is instructive but not deterministic. Most geopolitical shocks resolve faster than expected. But the events that escalate into multi-year problems are those that coincide with stretched valuations, fragile economies, and tight monetary policy (all conditions that describe the current macro environment). More importantly, the policy responses, such as sanctions, export controls, tariff escalation, and friend-shoring mandates, are structural instruments that rarely reverse cleanly. The short-term shock will pass. The rules governing capital flows will not revert.

### How Do Stocks Do After Major Events?

S&P 500 Index Performance After Geopolitical And Major Historical Events

| Market Shock Events                 | Event Date | S&P 500 Index Returns |          |          |           |
|-------------------------------------|------------|-----------------------|----------|----------|-----------|
|                                     |            | 1 Month               | 3 Months | 6 Months | 12 Months |
| Germany Invades France              | 5/10/1940  | (19.9%)               | (12.7%)  | (4.5%)   | (18.7%)   |
| Pearl Harbor Attack                 | 12/7/1941  | (1.0%)                | (11.0%)  | (6.5%)   | 4.3%      |
| N. Korean Invades S. Korea          | 6/25/1950  | (10.0%)               | 1.6%     | 4.1%     | 11.7%     |
| Hungarian Uprising                  | 10/23/1956 | (2.1%)                | (2.8%)   | (1.3%)   | (11.7%)   |
| Suez Crisis                         | 10/29/1956 | (4.4%)                | (3.6%)   | (0.0%)   | (11.6%)   |
| Cuban Missile Crisis                | 10/16/1962 | 5.1%                  | 14.1%    | 20.7%    | 27.8%     |
| Kennedy Assassination               | 11/22/1963 | 6.8%                  | 11.9%    | 15.5%    | 23.2%     |
| Gulf of Tonkin Incident             | 8/2/1964   | (1.6%)                | 1.9%     | 5.3%     | 2.7%      |
| Six-Day War                         | 6/5/1967   | 3.3%                  | 5.9%     | 7.5%     | 13.5%     |
| Tet Offensive                       | 1/30/1968  | (3.8%)                | 5.1%     | 5.2%     | 10.2%     |
| Penn Central Bankruptcy             | 6/21/1970  | (0.1%)                | 7.2%     | 16.8%    | 28.6%     |
| Munich Olympics                     | 9/5/1972   | (1.0%)                | 5.7%     | 2.3%     | (5.8%)    |
| Yom Kippur War                      | 10/6/1973  | (3.9%)                | (10.7%)  | (15.3%)  | (43.2%)   |
| Oil Embargo                         | 10/16/1973 | (7.0%)                | (13.2%)  | (14.4%)  | (35.2%)   |
| Nixon Resigns                       | 8/9/1974   | (14.4%)               | (7.0%)   | (2.8%)   | 6.4%      |
| Reagan Shooting                     | 3/30/1981  | (0.9%)                | (1.8%)   | (14.0%)  | (16.4%)   |
| Continental Illinois Bailout        | 5/9/1984   | (3.1%)                | 1.0%     | 6.4%     | 12.8%     |
| 1987 Stock Market Crash             | 10/19/1987 | 8.1%                  | 10.9%    | 14.7%    | 22.9%     |
| Iraq's Invasion of Kuwait           | 8/2/1990   | (8.2%)                | (13.5%)  | (2.1%)   | 10.1%     |
| Soros Breaks Bank of England        | 9/16/1992  | (2.5%)                | 3.0%     | 6.8%     | 9.9%      |
| First World Trade Center Bombing    | 2/26/1993  | 1.7%                  | 2.0%     | 4.0%     | 4.7%      |
| Asian Financial Crisis              | 10/8/1997  | (3.7%)                | (1.8%)   | 14.1%    | (1.5%)    |
| U.S.S. Cole Yemen Bombing           | 10/12/2000 | 2.7%                  | (0.9%)   | (11.3%)  | (19.6%)   |
| U.S. Terrorist Attacks              | 9/11/2001  | (0.2%)                | 2.5%     | 6.7%     | (18.4%)   |
| Iraq war started                    | 3/20/2003  | 1.9%                  | 13.6%    | 18.7%    | 26.7%     |
| Madrid Bombing                      | 3/11/2004  | 3.5%                  | 2.7%     | 1.5%     | 8.4%      |
| London Subway Bombing               | 7/5/2005   | 3.3%                  | 1.8%     | 5.3%     | 5.5%      |
| Bear Stearns Collapses              | 3/14/2008  | 3.6%                  | 5.6%     | (2.8%)   | (41.5%)   |
| Lehman Brothers Collapses           | 9/15/2008  | (16.3%)               | (26.2%)  | (34.8%)  | (11.7%)   |
| Boston Marathon Bombing             | 4/15/2013  | 6.3%                  | 8.4%     | 9.7%     | 17.9%     |
| Russia annexes Crimea               | 2/20/2014  | 1.5%                  | 2.6%     | 8.0%     | 14.7%     |
| BREXIT                              | 6/24/2016  | 6.5%                  | 6.2%     | 11.0%    | 19.7%     |
| Bombing of Syria                    | 4/7/2017   | 1.8%                  | 3.1%     | 7.6%     | 12.8%     |
| North Korea Missile Crisis          | 7/28/2017  | (1.1%)                | 3.6%     | 14.8%    | 13.4%     |
| Saudi Aramco Drone Strike           | 9/14/2019  | (1.4%)                | 5.4%     | (8.8%)   | 12.5%     |
| Iranian General Killed In Airstrike | 1/3/2020   | 1.9%                  | (23.1%)  | (4.2%)   | 14.4%     |
| U.S. Pulls Out of Afghanistan       | 8/30/2021  | (3.7%)                | 2.8%     | (4.9%)   | (12.0%)   |
| Russia invades Ukraine              | 2/24/2022  | 5.9%                  | (7.2%)   | (2.1%)   | (7.1%)    |
| Hamas attacks Israel                | 10/7/2023  | 1.3%                  | 10.6%    | ?        | ?         |
| Iran attacks Israel                 | 4/13/2024  | ?                     | ?        | ?        | ?         |
| Average                             |            | (1.2%)                | 0.1%     | 2.0%     | 2.1%      |
| Median                              |            | (0.9%)                | 2.5%     | 4.0%     | 7.4%      |
| % Higher                            |            | 43.6%                 | 64.1%    | 57.9%    | 63.2%     |

Source: Carson Investment Research, S&P Dow Jones Indices, CFRA, Strategas 04/21/2024  
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