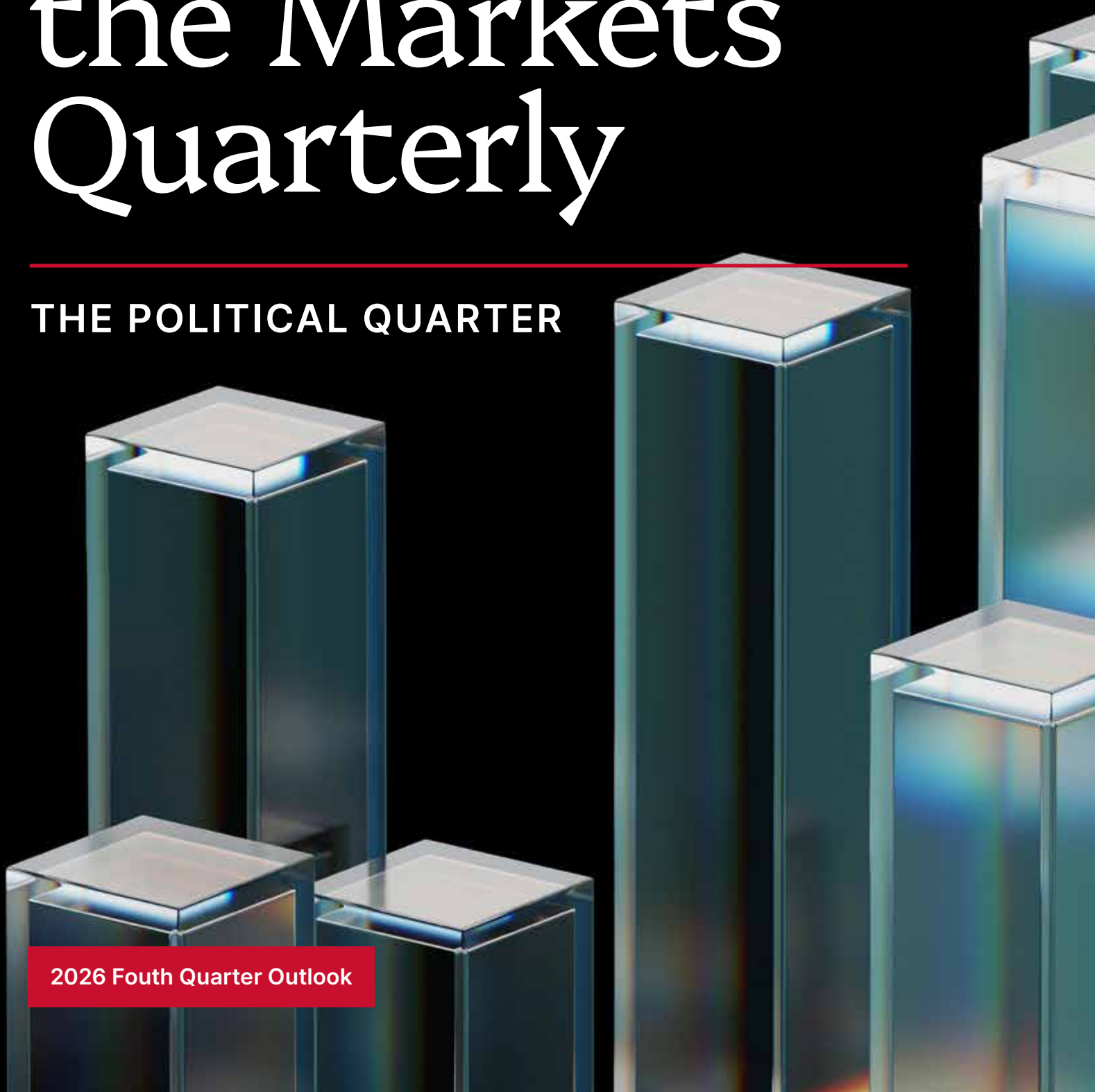
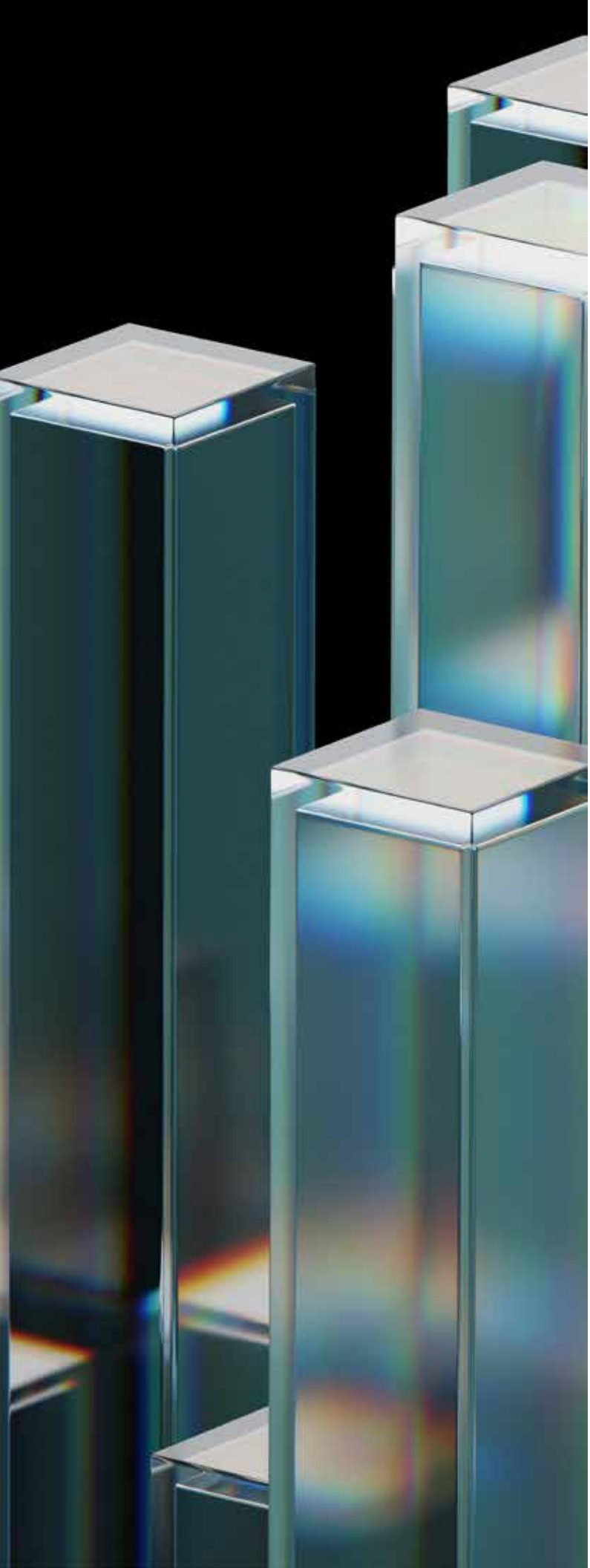
BBH

Mind on the Markets Quarterly

THE POLITICAL QUARTER



2026 Fouth Quarter Outlook



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How might the 2026 US midterms influence financial markets?

Elias Haddad with special contributions from Sean Speegle

The US midterm elections will be held on Tuesday, November 3. The outcome of these elections will determine how much legislative room President Donald Trump has during the final two years of his term.

Any change in congressional control could potentially trigger a more aggressive 'lame-duck' session – the period between election day and the sitting of the next Congress on January 3, 2027.

History is firmly against the president's party. In the 23 midterm elections from 1934 to 2022, the president's party lost House of Representatives (House) seats 87% of the time and Senate seats 65% of the time.[1] This translates to an average loss of 27 House seats and three Senate seats, largely reflecting turnout dynamics. Opposition supporters are usually more motivated to vote than the president's supporters while swing voters often seek to curb the party in power.

House race

Current split: 218 Republicans, 214 Democrats, 1 independent, 2 vacant.

All 435 House seats are contested, with 218 seats needed for a majority.

The Cook Political Report rates 21 House seats as likely toss-ups with Democrats needing a net gain of four seats to take control of the House. The Generic congressional vote shows Democrats have averaged a roughly six point lead in the past three months putting them around the historical range typically associated with winning the House.

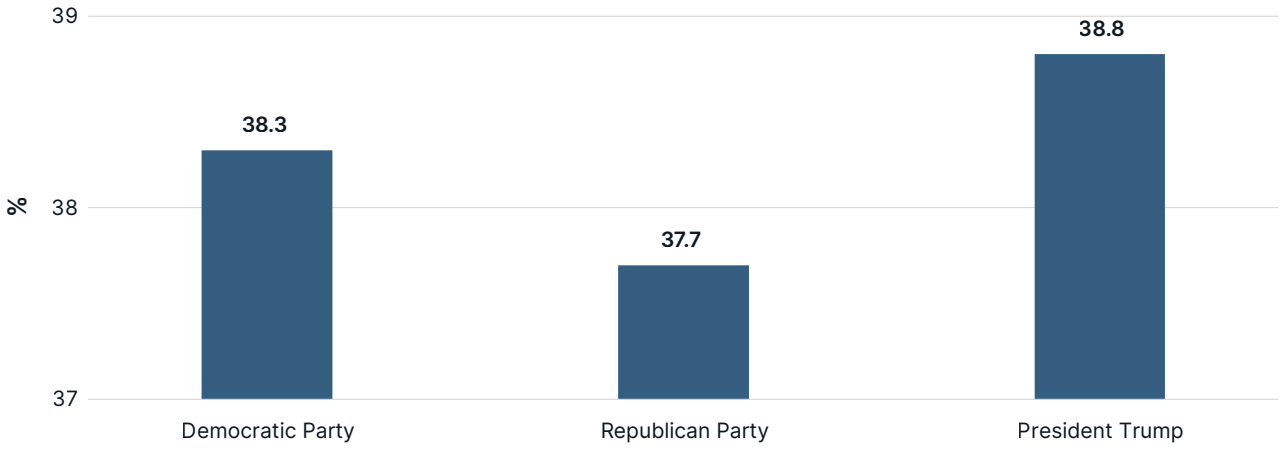
Senate race

Current split: 53 Republicans, 45 Democrats, 2 independents that caucus with Democrats.

35 of the 100 Senate seats are up for election. It takes 51 seats or 50 seats plus the vice presidency for a majority. The Cook Political report currently rates six Senate seats as toss-ups (Alaska, Iowa, Maine, Michigan, Ohio, and Texas) with Democrats needing a net gain of four seats to flip the Senate.

The electoral map is challenging for the Democrats as they must not only defend the toss-up in Michigan but also pick-up four Republican-held seats to secure an outright majority. That's within reach as Polymarket odds of the Democratic Party controlling the Senate surged in September from a low near 50% to as much as 65%. Still, Democrats are hardly riding a wave of affection, with a favorability rating on par with Trump's **(Chart 1)**.

Chart 1 - Favorabililty rating



Source: Real Clear Polling.

1 https://www.presidency.ucsb.edu/statistics/data/seats-congress-gainedlost-the-presidents-party-mid-term-elections

Gridlock with blue risks

Our base case scenario is a Democratic House and Republican Senate, although the tide has turned towards Democrats taking both chambers. A divided government would constrain President Trump's tax and spend agenda. Trade, foreign policy, regulation, and executive action would remain largely under White House control, while a Republican Senate would preserve President Trump's ability to confirm judges, and other senior officials like Fed governors.

If Republicans lose both chambers, a scenario that is no longer a long shot, the Trump administration would face greater congressional oversight, while a Democratic Senate would block Trump's nominees to the Fed, judiciary, and regulatory agencies.

Reconciliation 3.0

The next fiscal catalyst is already in view. On July 22, the House passed a fiscal year 2027 budget resolution centered largely on military spending dubbed the 'SAVE and Protect America Act' or commonly referred to as 'Reconciliation 3.0'. This would be the third budget resolution under the current Trump administration following the 2026 'Secure America Act' and the 2025 'One Big Beautiful Bill Act' (OBBBA).

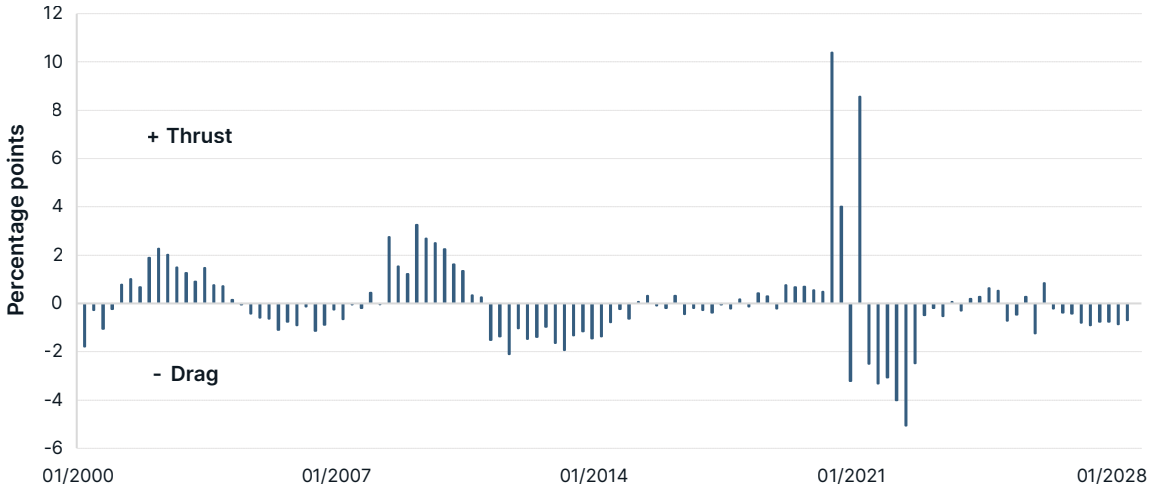
September and October will be the critical window for getting Reconciliation 3.0 through Congress and on President Trump's desk before the November 3 midterms. The timetable is tight given that House and Senate Republicans still need to agree on the package's size and composition. Any delay would likely push its passage into the lame-duck session, when the current 119th Congress remains in place until January 3 and the incentive to front-load unfinished fiscal priorities could become stronger if Republicans lose control of Congress.

The House Republican blueprint for Reconciliation 3.0 allows up to $95 billion of primary deficit increases over the 2027-2036 period. The package could end up being larger if Congress moves closer to the President's $350 billion defense funding request. That would still be a fraction of the $3.4 trillion OBBBA but larger than the $69.5 billion Secure America Act.

If reconciliation 3.0 moves closer to the President's $350 billion request, the Congressional Budget Office estimates the funding would add roughly 0.3% of GDP to federal spending at its peak in 2028 and 2029 before fading sharply thereafter.

As such, the fiscal impulse is negligible, with the broader fiscal stance still expected to remain a modest drag on growth over the next couple of years **(Chart 2)**. That won't shift the dial on Fed funds rate expectations but at the margin skews the risk in favor of a dovish Fed repricing, which would be a cyclical headwind for the US dollar.

Chart 2 - US fiscal stance (contribution to real GDP growth)



Source: Brookings, Hutchins Center Fiscal Impact Measure.

A trip down memory lane

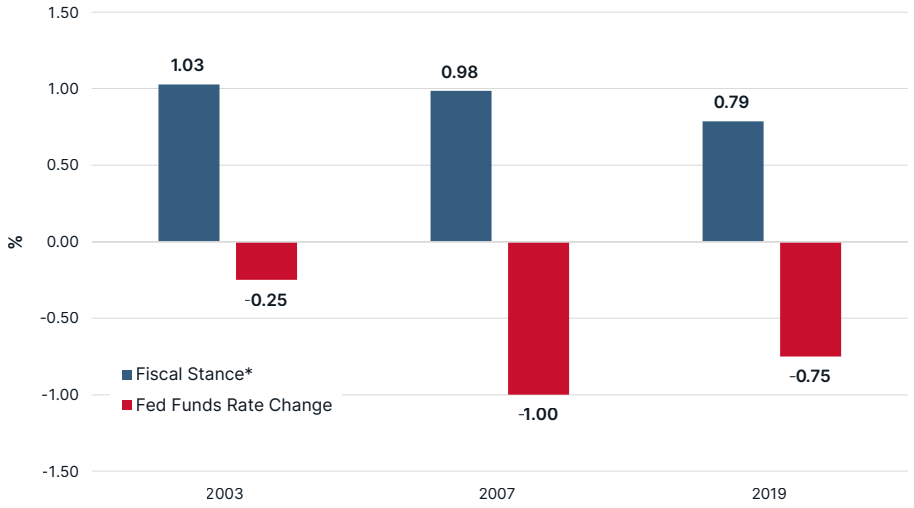
The four midterm election scenarios outlined below each have a historical parallel, with one notable exception. The main lesson is that political gridlock does not always translate into fiscal gridlock. The interaction with Fed policy and the US balance of payments ultimately shaped the direction of the dollar and stocks.

1. Republicans hold the Senate. Democrats flip the House. This would echo the 2018 midterms characterized as the "blue wave" election. Over 2019, both fiscal and monetary policy loosened **(Chart 3)**, supporting a nearly 30% gain in the S&P500 while the dollar was mixed **(Chart 4)**.

2. Republicans retain Congress. The closest precedent is 2002, when the post-9/11 "rally around the flag" effect helped President George W. Bush's party defy the usual midterm losses. Over 2003, fiscal policy loosened sharply while the Fed delivered a final 25bps cut to 1.00% **(Chart 3)**. The S&P 500 gained over 26% by the end of 2003 **(Chart 4)**, while low rates and a widening twin deficit (current account and budget balance) dragged the dollar lower **(Chart 5)**.

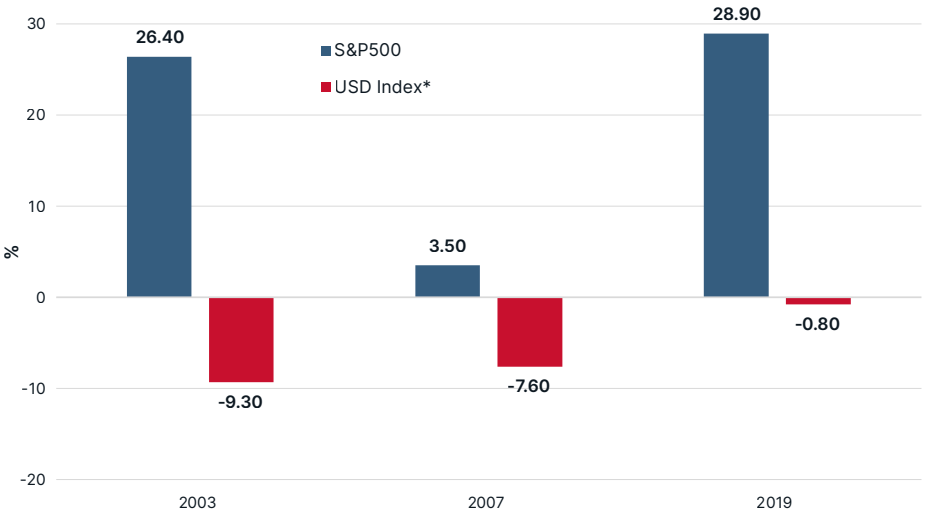
3. Democrats flip Congress. This would resemble 2006, when Democrats took both chambers amid mounting opposition to the Iraq war. Over 2007, fiscal policy loosened while the Fed slashed rates by 100bps as housing and credit strains intensified **(Chart 3)**. The S&P500 extended its post dot com bull market with a modest 3.5% gain by end-2007 before the global financial crisis sent stocks tumbling **(Chart 4)**.

Chart 3 - US fiscal & monetary policy in year after midterms



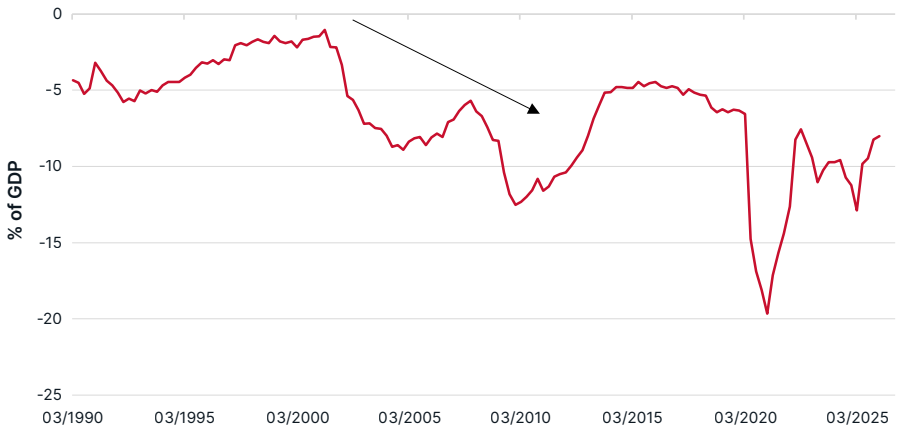
*1-year change in the cyclically adjusted primary budget balance.
*Source: IMF.

Chart 4 - S&P 500 & USD performance in year after midterms



* US Fed Trade Weighted Nominal Broad Dollar Index. Past performance does not guarantee future results.
Source: Bloomberg.

Chart 5 - US twin deficit (current account + budget balance)



Source: Bloomberg.

Meanwhile, the widening US twin deficit helped drag the dollar to fresh lows **(Chart 5)**.

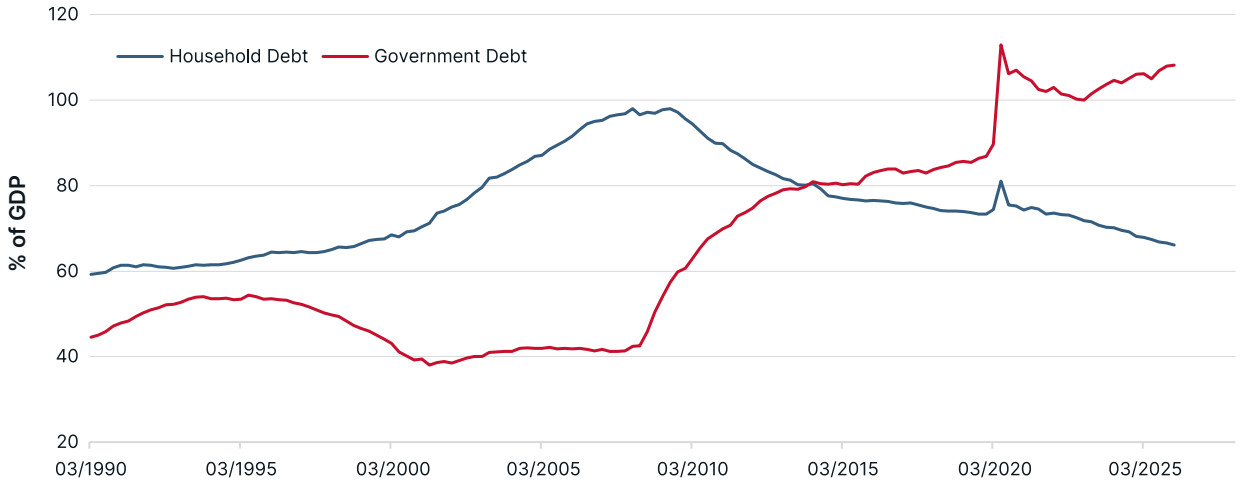
4. Republicans keep control of House and Democrats flip the Senate. Polls suggest this scenario is highly unlikely, and historically unprecedented at a midterm under a Republican president.

Beyond the midterms

Regardless of the midterm outcome, the US fiscal trajectory will not improve. Under current policies, the Congressional Budget Office (CBO) projects the primary budget deficit (overall budget balance excluding interest expense) to average -2.1% over the next ten years, pushing public debt to a record 120% of GDP by 2036.[2]

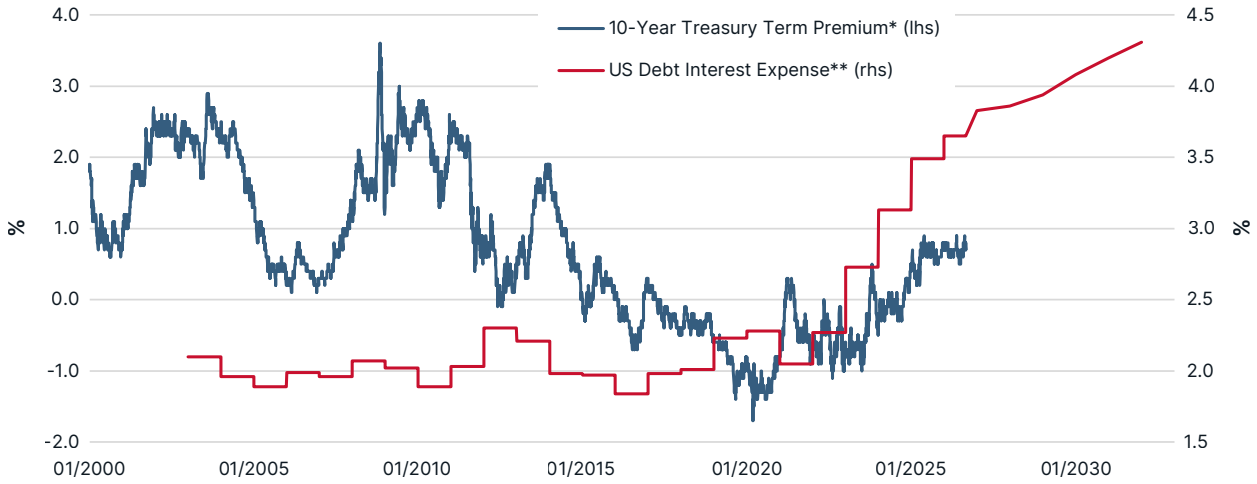
Perversely, rising US public sector borrowing is helping to offset the demand drag from household deleveraging and sustain private consumption **(Chart 6)**. But the support comes at a cost. Rising interest expense and heavier Treasury issuance are poised to lift the term premium, the compensation investors require for holding long-dated Treasuries **(Chart 7)**. If higher yields increasingly reflect fiscal risk rather than stronger US growth, a structurally weaker dollar could become the relief valve to worsening US fiscal credibility.

Chart 6 - US government debt compensate for household deleveraging



Source: Fed Flow of Funds.

Chart 7 - Worsening US fiscal credibility



Source: *Adrian Crump & Moench. **IMF.

2 https://www.cbo.gov/publication/62184

Q4 event risk watch

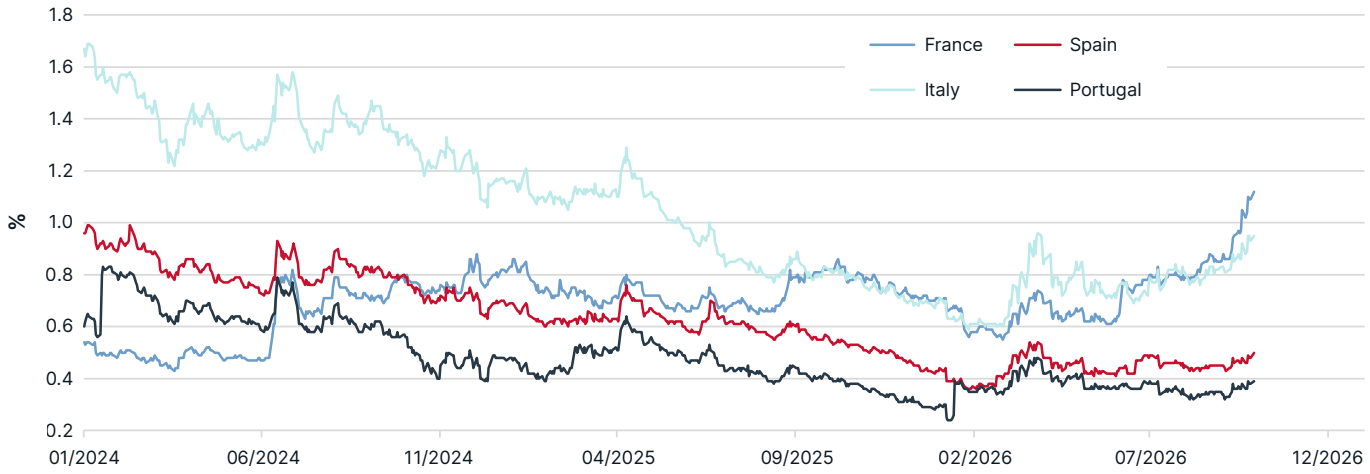
The US midterms are not the only political event risk in Q4. Several other key flashpoints could stir markets.

– **France 2027 budget on October 6.** A rollover of the 2026 budget is the most likely outcome given the limited appetite for compromise before the presidential election on April 18, 2027. That could push the deficit from around 5.1% of GDP in 2026 to roughly 6.0% in 2027, taking France further away from its European Commission commitment to bring it below 3% by 2029. Regardless, France's worsening fiscal credibility remains country-specific and not systemic as Eurozone periphery bond yields spreads to Germany are contained, limiting the drag on EUR **(Chart 8)**.

– **Brazil presidential and congressional elections. First round on October 4 with a likely runoff on October 25.** Incumbent leftist President Luiz Inácio Lula da Silva of the Workers' Party (PT) and rightist Senator Flávio Bolsonaro of the Liberal Party (PL) are locked in a dead heat in a runoff scenario.

Bolsonaro's plan for faster fiscal repair and lower taxes would add to the positive BRL outlook, already underpinned by Brazil's attractive carry and strategic exposure to commodities linked to energy, AI, and defense. Meanwhile, Lula's greater tolerance for rising debt will likely slow the appreciation in BRL. Brazil's gross public debt has risen from 71.7% of GDP when Lula took office in January 2023 to 82.5% of GDP in July 2026, the highest since 2021 **(Chart 9)**.

Chart 8 - 10-year bond yield spread vs. Germany



Source: Bloomberg. As of September 28, 2026

Chart 9 - Brazil gross government debt % of GDP

Source: Secretaria do Tesouro Nacional.

– **Israel legislative election on October 27.** A party bloc requires 61 of the 120-seat Knesset to form a stable government. Polls show both the Netanyahu bloc and the anti-Netanyahu bloc led by Gadi Eisenkot falling short of a majority. However, the Eisenkot camp could cross the 61 seats threshold with support from the Arab parties.

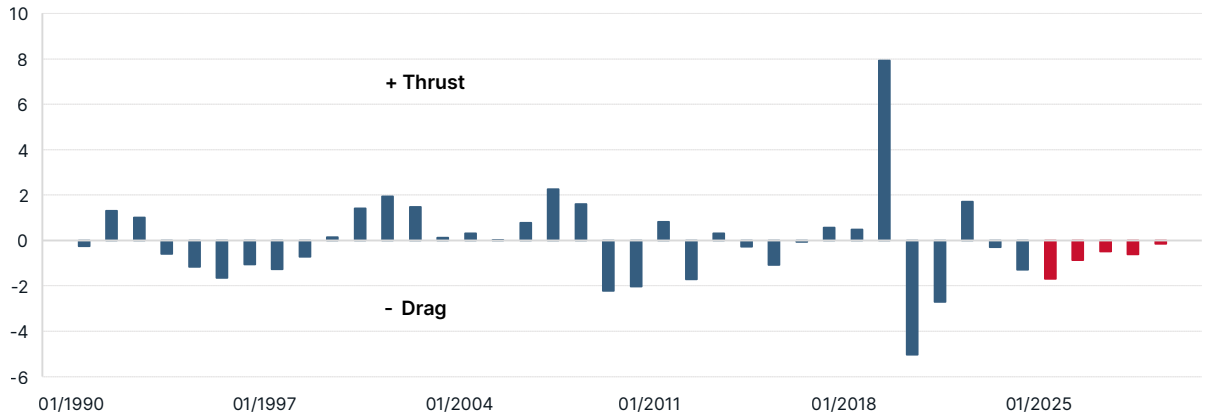
  A Netanyahu bloc victory would revive the judicial overhaul, raising concerns about the rule of law and political stability, and weigh on ILS. A centrist government would likely reduce institutional and geopolitical risk and support ILS.

– **UK autumn budget on October 28.** UK Chancellor John Healey has pledge to build a solid fiscal "buffer against uncertainty" in the Budget. That points to a mix of tax rises and spending cuts as higher borrowing costs are estimated to have halved the government's fiscal headroom to around £12bn. The prospect of tighter UK fiscal policy leaves GBP vulnerable to a dovish repricing in Bank of England rate hike expectations **(Chart 10)**.

– **Japan extraordinary Diet session in early October and 2027 Budget approval in late December.** The Diet session will focus on the proposal to cut the food consumption tax rate from 8% to 1% for two years from April 2027 and how the government will cover the estimated ¥4 trillion annual revenue shortfall.

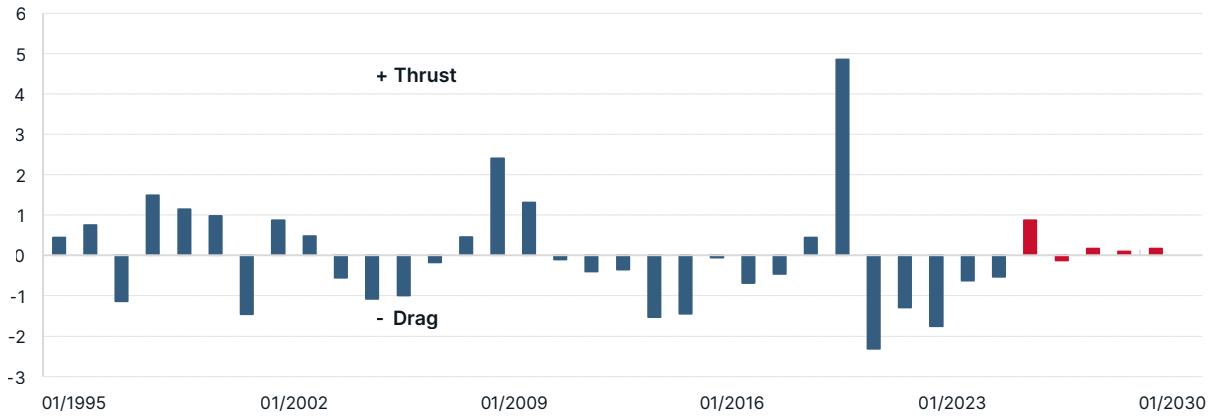
  Meanwhile, Ministries have requested a record ¥143.1 trillion (21% of GDP) for the fiscal year starting in April 2027, while the government aims to cap new JGB issuance below ¥40 trillion. Breaching the ¥40 trillion cap would deepen fiscal concern and undermine JPY. If it holds, Japan's favorable currency mix of loose fiscal policy **(Chart 11)** and tight monetary policy would bode well for JPY.

Chart 10 - UK fiscal stance (1 year change in cyclically-adjusted primary budget balance, % of GDP)



Source: IMF. Red bars are forecasts from 2026.

Chart 11 - Japan fiscal stance (1 year change in cyclically-adjusted primary budget balance, % of GDP)



Source: IMF. Red bars are forecasts from 2026.

EMERGING MARKETS IN THE NEWS

The semiconductor boom and its MSCI EM index implications

Insights from Julian Bolton

The semiconductor boom has materially altered the composition and profile of the MSCI EM Index. What does this mean for wider markets?

To assess the implications of the semiconductor boom, it is useful first to examine the construction of the MSCI Emerging Markets (EM) Index using a free float-adjusted market capitalization (FFAMC) methodology.

Under this approach, MSCI calculates a company's FFAMC by taking its investable market capitalization and applying the Foreign Inclusion Factor (FIF), which reflects the proportion of shares available to foreign investors.

This adjustment is particularly relevant in emerging markets, where strategic ownership, government holdings, controlling shareholders, and foreign ownership restrictions can limit the portion of listed shares accessible to international investors.

Individual constituent weights are then determined by comparing each stock's FFAMC against the aggregate FFAMC of the index. Country weights are derived from the sum of each country's constituent-level FFAMC relative to the total index market capitalization.

This methodology can leave the index vulnerable to significant concentration when a group of companies materially outperforms the broader benchmark. The recent semiconductor rally has increased the market capitalizations and FFAMC of several large constituents, thereby increasing their respective weights in the MSCI EM Index.

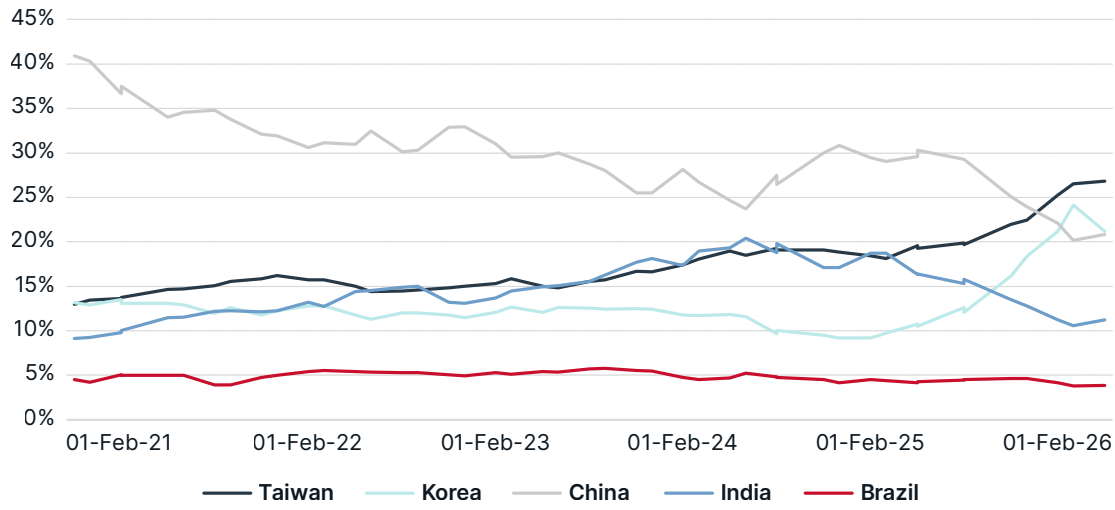
Semiconductors shaping emerging markets

As of August 21, 2026, the MSCI EM Index had a FFAMC of $12.36T,[1] with three semiconductor-related companies representing a substantial share of the benchmark: Taiwan Semiconductor Manufacturing Company (TSMC), Samsung Electronics, and SK Hynix.

Together, these companies account for more than 28% of the index. Their influence also contributes to sizable country weights, with Taiwan at 26.8%, South Korea at 21.2%, and China at 20.8%, collectively representing nearly 69% of the overall index. Taiwan and South Korea generally have higher effective investability than China, playing a role in their index weights relative to the size of their economies.

This marks a notable shift from five years ago. Although the index was then heavily weighted toward China, concentration at the individual-security level was lower, with no single holding representing more than 6.5% of the benchmark. Since then, China's index weight has declined significantly, while TSMC has become an increasingly dominant constituent.

Chart 1 - MSCI EM Index top 5 country weights



1 All figures sourced from MSCI

Chart 2 - Current top 5 constituents by weight

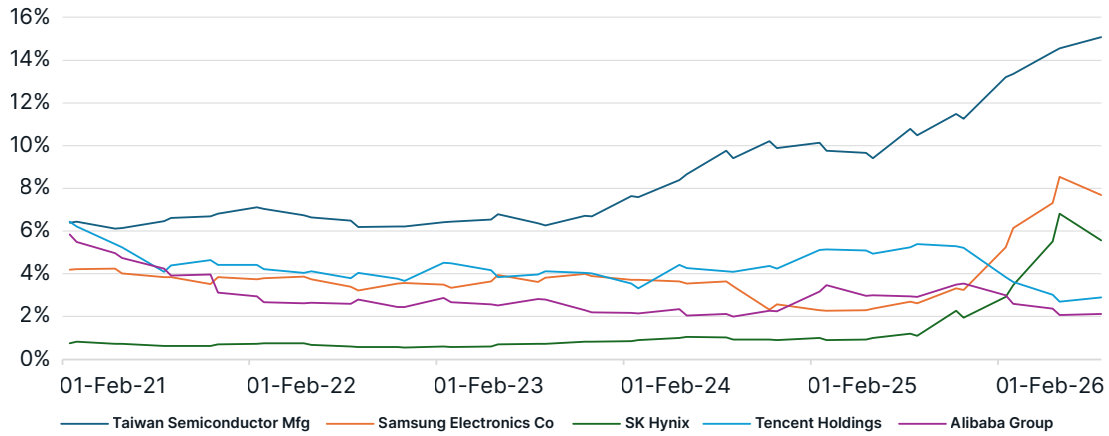


Chart 3

NAME	FIF	COUNTRY	SECTOR	MARKET CAP (M US$)	WEIGHT
TAIWAN SEMICONDUCTOR MFG	0.95	TAIWAN	Information Technology	$ 1,863,193	15.08%
SAMSUNG ELECTRONICS CO	0.80	KOREA	Information Technology	$ 949,744	7.69%
SK HYNIX	0.78	KOREA	Information Technology	$ 689,310	5.58%
TENCENT HOLDINGS LI (CN)	0.68	CHINA	Communication Services	$ 359,045	2.91%
ALIBABA GRP HLDG (HK)	0.88	CHINA	Consumer Discretionary	$ 262,656	2.13%
Data as of 8/21/2026					**33.37%**

Implications for passive and active managers

For passive investors, the implications are largely mechanical. A passive strategy designed to track the MSCI EM Index must replicate the benchmark's constituent weights. If TSMC rises from 10% to 15% of the index due to share-price appreciation, the manager's required exposure increases in line with the benchmark, and new inflows must be allocated at the higher weighting. In most cases, the increase in exposure occurs organically as the security appreciates within the portfolio.

For active managers, the chip stock rally presents a more complex portfolio construction challenge. While active managers are not required to hold benchmark constituents at index weights, the larger the securities' weightings become, the more consequential it is to be underweight.

For example, assume TSMC represents 10% of the index, but an active manager believes the valuation is excessive and allocates only 5% of the portfolio to the stock.

If TSMC subsequently rises to 15% of the index, the manager's underweight position becomes more pronounced and may result in meaningful relative underperformance. Active managers must therefore decide whether to increase exposure despite valuation concerns or maintain their position and accept greater potential for tracking errors.

A second challenge can emerge in a momentum-driven market when a fund is subject to single-name concentration limits. If a fund limits exposure to any individual security at 10% and TSMC appreciates from 10% to 15% of the portfolio, the manager may be required to reduce the position.

Although this crystallizes profit and loss (PnL), it may also constrain the fund's ability to participate in further upside, even if the portfolio manager remains bullish on TSMC.

The same dynamics would operate in reverse during a semiconductor correction. If semiconductor stocks underperform and their index weights decline, passive funds would see their exposures fall with the benchmark and new inflows would be allocated at lower weights. Active managers that had maintained underweight positions would likely benefit on a relative basis, assuming the underweights were concentrated in the securities most affected by the downturn.

Conclusion

The semiconductor boom has materially altered the composition and profile of the MSCI EM Index. Although the benchmark is designed to represent approximately 85% of the FFAMC in each EM-classified country, its current composition has become increasingly influenced by a narrow group of semiconductor-related companies.

— For passive managers, this concentration is a structural feature of benchmark replication and must be reflected in portfolio exposures.

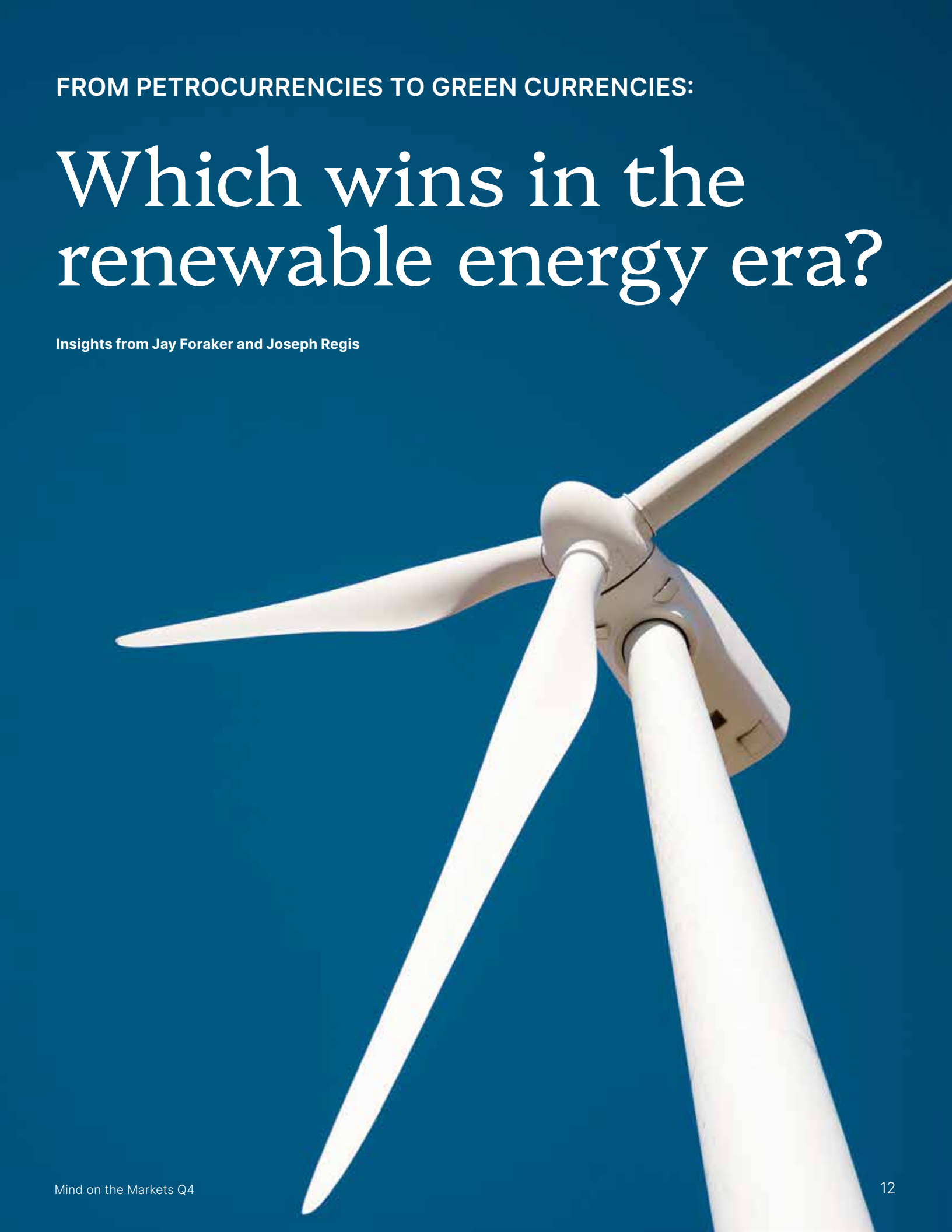
— For active managers, it creates a more difficult trade-off between valuation discipline, benchmark awareness, and tracking-error management. As semiconductor weights increase, deviations from the benchmark become more consequential; if the rally continues, underweight positions may be costly, while in a reversal they may provide meaningful relative protection.

References to specific securities are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations.

FROM PETROCURRENCIES TO GREEN CURRENCIES:

Which wins in the renewable energy era?

Insights from Jay Foraker and Joseph Regis



The 2026 Iran War and the resulting disruption of energy flows through the Strait of Hormuz have hastened a transition that was already underway.

With approximately 20% of global oil and liquified natural gas (LNG) supply disrupted, oil prices rose above $120 per barrel and global energy prices are projected to increase by roughly 24% during 2026.[1]

What began as an energy security crisis is increasingly becoming a catalyst for faster investment in renewable energy, energy storage, and electrification.

The economic case for renewable energy has strengthened considerably. Higher fossil fuel costs, greater supply chain uncertainty, and a growing desire among governments to reduce external energy dependence have increased the attractiveness of domestic renewable generation. As a result, global energy-transition investment reached approximately $2.3 trillion in 2025, while more than twenty countries accelerated renewable development initiatives following the energy shock.[2]

Growth expectations for the renewable energy sector remain substantial. While the absolute value of fossil fuel production and consumption continues to rise globally (to 103 million barrels of oil per day, 568 billion cubic meters of LNG, and 9.2 gigatons of coal in 2025)[3], renewables are capturing an ever-growing share of energy consumption. This growth is particularly visible in the electric power sector, where renewables now account for the vast majority of new capacity additions globally, reaching 85-90% in recent years.[4]

According to the International Energy Agency (IEA), annual renewable capacity additions are expected to increase from 683 gigawatts (GW) in 2024 to nearly 890 GW by 2030, with solar and wind accounting for 96% of new capacity additions. Global renewable power capacity is projected to expand by nearly 4,600 GW between 2025 and 2030, approximately double the pace of deployment seen during the previous five-year period.[5]

Further, from a power generation perspective, renewables (particularly solar and wind) have the lowest marginal cost on a $/MWh basis which makes them the most cost-competitive form of new-build power generation. This solidifies a trend that has been in place since 2011, when both solar and wind energy generation first fell below natural gas power on a $/MWh basis.[6]

Which currencies benefit most from these trends? What makes a currency a potential winner?

In past decades, the currencies of countries with large endowments of oil resources and the ability to get these resources to market – either via domestic or multinational firms and/or partnerships became known as 'petrocurrencies.' Many such economies became net energy exporters to leading economies such as the US and Japan.

1 World Bank, Commodity Markets Outlook April 2026: https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099842304282633100

2 BloombergNEF https://about.bnef.com/insights/clean-energy/bloombergnef-finds-global-energy-transition-investment-reached-record-2-3-trillion-in-2025-up-8-from-2024/

3 McKinsey: Investing in the energy transition: Time to look at whole-system value; and International Energy Agency: Statistical review of world energy, World Energy investments 2025.

4 International Renewable Energy Agency (IRENA): Renewable Capacity Statistics 2026, https://www.irena.org/-/ media/Files/IRENA/Agency/Publication/2026/Mar/IRENA_DAT_RE_capacity_ statistics_2026.pdf

5 International Energy Agency, Renewable Energy Progress Tracker: https://www.iea.org/data-and-statistics/data-tools/renewable-energy-progress-tracker

6 Lazard: Levelized Cost of Energy Analysis – Version 19.0: https://www.lazard.com/media/kcfconhf/lazards-lcoeplus_vf.pdf

As energy supply and demand drivers evolve, future currency performance is likely to be influenced less by traditional oil production and increasingly by three factors that will characterize 'Green Currencies:'

1. Critical minerals endowment
2. Pace of the country's domestic energy transition
3. The country's ability to attract energy transition -related foreign direct investment (FDI)

As we examine these factors further we are excluding USD, EUR, and CNY, as the size and scale of their economies obfuscates the ability to isolate and observe the impact of sustainability and other 'green' factors. Further, this article does not address oil export-focused economies that would likely lose the most from the energy transition; the importance of their predicament notwithstanding.

1. Critical minerals endowment

As stated in the 2Q2026 BBH Mind on the Markets Quarterly, a country's commodity leverage – control of strategic commodities linked to energy, defense, and the AI sector – can strengthen its currency, helping to make it 'anti-fragile'.[7]

Resource endowment alone, however, does not position currencies as 'Green Currency' winners; in order to win, the respective economies must also position themselves into strategically important parts of sustainable energy supply chains.

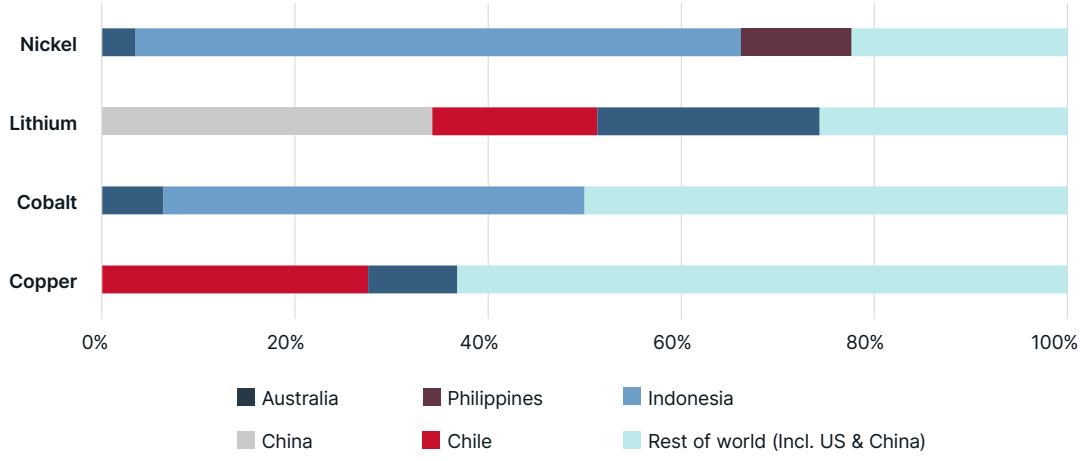
Clean energy technologies require significant quantities of lithium, copper, nickel, rare earth elements, graphite, and other materials. A high geographic concentration of these key minerals supports an economy's terms of trade, or economic competitiveness and wealth.

Economies that control major reserves and/ or production capacity may benefit from stronger export revenues and capital inflows. **Figure 1** shows endowment, or mined supply of energy transition metals by dominant countries. **Figure 2** details the predominant countries where refining of these key minerals occur.

Excluding China from **Figure 2**, other economies are endowed with critical minerals and play a lead role in bringing them to market globally through refining production. As such, their currencies have a Green Currency attribute and are poised to benefit from growing future demand of these minerals:

– Australian Dollar (AUD): Australia is the leading supplier of rare earth elements and cobalt, after China.

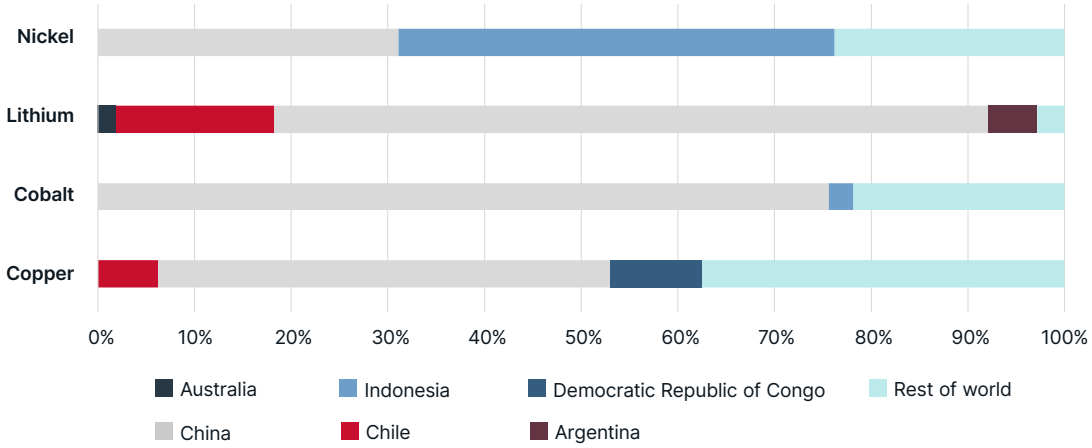
Figure 1 - Total mined supply for key energy transition minerals, 2025



Source: International Energy Agency (IEA) Global Critical Minerals Outlook 2026.

7 https://www.bbh.com/us/en/insights/investor-services-insights/mind-on-the-markets-quarterly-q2-worlds-collide.html

Figure 2 - Total refined supply for key energy transition minerals, 2025



Source: International Energy Agency (IEA) Global Critical Minerals Outlook 2026.

– Chilean Peso (CLP): Chile is a leading global producer and exporter of both lithium and copper.

– Indonesian Rupiah (IDR): Indonesia occupies a critical position in both the supply and production of nickel globally.

2. Pace of the country's domestic energy transition

Accelerating the transition to renewable energy can stimulate a domestic economy by promoting growth in new sectors. It can also shift an economy's energy dependence to a state of self-sufficiency.

As global energy demands continue to grow, regional conflicts and their impact on energy supply chain security have renewed focus on energy independence. One can look to the experience of South Korea, where its government resorted to extraordinary fiscal stimulus in March 2026 (of approximately 1% of GDP) to mitigate the shock caused by disruptions to energy supplies from the Iran war. South Korea is the world's fifth largest net importer of energy after China, the US, India, and Japan.[8]

Countries that can reduce reliance on imported fossil fuels through renewable or clean energy generation may improve their trade balances and become less vulnerable to future energy shocks.

We thus view the following currencies favorably from a Green Currency:

– Danish Krone (DKK): Denmark sourced 88% of its power from renewable energy sources in 2024, with a goal of 100% by 2030.[9]

– Norwegian Krone (NOK): Norway is unique in that it scores among the top three economies globally in two important categories: first, it has a high rate of electrification, with electricity supplying approximately 56% of its total energy, and second, its renewables penetration is significant, with renewables supplying over 70% of its energy needs.[10]

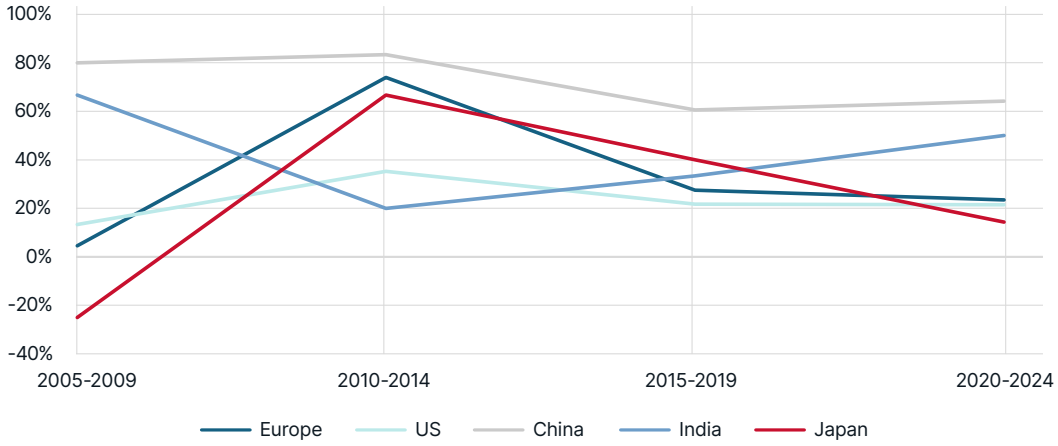
– Indian Rupee (INR): Economies that demonstrate the ability to shift their energy balance toward independence and reduce their reliance on external sources of energy will be in a stronger economic position in the future. India has successfully demonstrated this capability, by increasing its avoidance of fuel imports

8 2Q 2026, BBH Mind on the Markets Quarterly, https://www.bbh.com/us/en/insights/investor-services-insights/mind-on-the-markets-quarterly-q2-worlds-collide.html

9 Climate Council: "11 Countries Leading the Charge on Renewable Energy." https://www.climatecouncil.org.au/11-countries-leading-the-charge-on-renewable-energy/

10 REN21: RBE Tracker 2026 https://www.ren21.net/wp-content/uploads/2019/05/RBE-Tracker-2026-Final-01072026.pdf, and International Energy Agency, World Energy Balances 2023 and 2025, https://www.iea.org/data-and-statistics/data-product/world-energy-balances.

Figure 3 – % Change in avoided fuel imports through deployment of renewables



Source: Energy Institute (2026), Statistical Review of World Energy 2026, Energy Institute, London, pp 8-10.

at a more consistent rate than the US, China, and others since the early 2000s, through the use of renewables **(Figure 3)**. Further, its reduction in energy imports is expected to continue over the next twenty-five years, outpacing other major economies **(Figure 4)**.

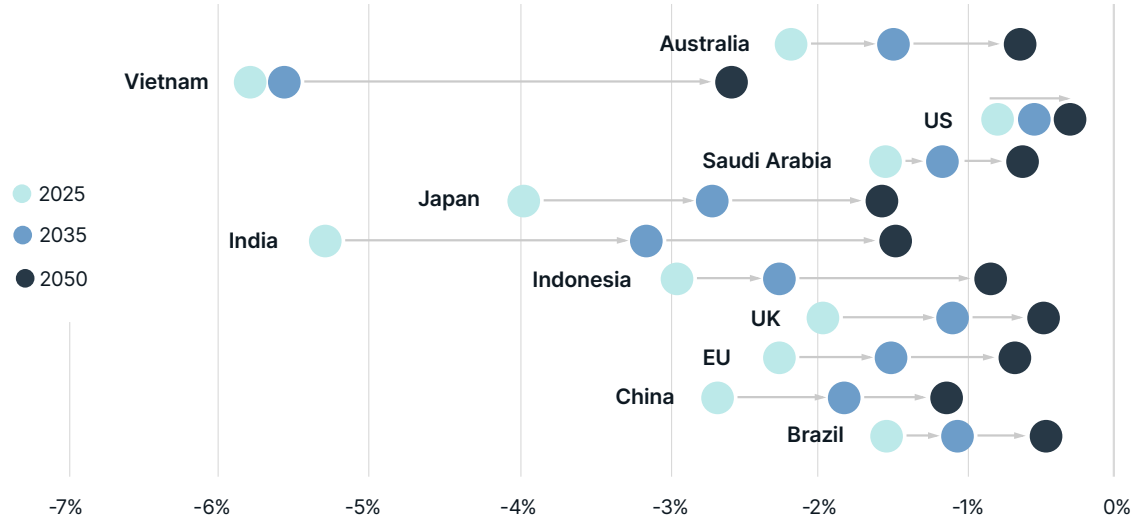
3. Ability to attract energy transition-related foreign direct investment (FDI):

Capital is increasingly flowing toward renewable infrastructure, battery development, grid modernization, and enhancement of critical mineral supply chains.

The ability to capture a portion of global investment capital flowing toward such projects would be supportive to a country's currency as flows into these sectors are trending upward.

Countries that prioritize sustainability-linked sectors in their domestic economies or taking a place in the global energy transition are poised to benefit. Industrial policy plays a key role, where governments may overtly drive their economies' energy transitions.

Figure 4 - Projected reduction of energy imports as % of GDP ($ real, 2025)



Source: BloombergNEF Trade Transition Scenario Tool, Sinoimex Global Trade Flow (GTF), GCAM.

Representative Green Currencies viewed favorably due to their potential for attracting investment related to the broader, global energy transition include:

— Australian Dollar (AUD): Has dedicated $2.7 billion to a critical minerals facility for domestic mining and processing projects. Its longer-term strategy, according to Stockholm Environment Institute (SEI) research group, is to deepen technology and skills investment for critical minerals supply chains with the US.[11]

— Chilean Peso (CLP): Government-backed lithium expansion strategy builds on aspects of previous industrial policies supporting its copper industry, including state majority control with public-private partnerships for new exploration, as well as royalty reforms to balance fiscal revenues with competitiveness and market predictability.[12]

— Indonesian Rupiah (IDR): Since 2022, Chinese firms have announced $15 billion in foreign direct investment (FDI) projects in Indonesia, mostly related to nickel. South Korea and Taiwan have also made battery-related investments in Indonesia.[13] Indonesia has also banned exports of bauxite ore to protect its bauxite processing and refining industry.[14]

Conclusion

The most significant consequence of the Iran energy shock may not be higher oil prices, but rather a faster global shift toward alternative energy sources.

As renewable deployment accelerates, countries with exposure to critical minerals, strong renewable-energy investment prospects, and pathways toward greater energy independence appear best positioned to benefit.

Conversely, economies whose growth models remain heavily dependent on fossil fuel production or carbon-intensive infrastructure could face increasing structural headwinds.

While these trends are likely to unfold over decades, recent geopolitical events may be accelerating their influence on currency valuations today. The trends described in this article will most likely usher in new economic winners, whose currencies will appreciate as the energy transition advances.

11 Stockholm Environment Institute (SEI): Green Industrial Policy: challenges and opportunities for a globally inclusive and fair energy transition. pp. 11. https://www.sei.org/publications/green-industrial-policy-challenges-opportunities-globally-inclusive-fair-energy-transition/

12 UNCTAD: Critical Minerals, Critical Decisions: Industrial Policy for the Energy Transition, pp 36-37. https://unctad.org/system/files/official-document/gds2025d5_en.pdf

13 McKinsey & Co.: The FDI Shakeup, p.33. https://www.mckinsey.com/mgi/our-research/the-fdi-shake-up-how-foreign-direct-investment-today-may-shape-industry-and-trade-tomorrow

14 SEI, p. 11.

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