STRATOS
Research

The Geoeconomic fracture: financial market resilience amidst escalating US-China tariff regimes and supply chain weaponization

A commentary on de-risking strategies, commodity volatility, and systemic financial risks in the post-trade war era

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Abstract:
This paper examines the profound geoeconomic fracture triggered by the escalating US-China tariff regimes and the weaponization of global supply chains in the post-Trade War era. Tracing the evolution of US trade policy from the Trump 1.0 tariffs through the Biden "small yard, high fence" approach to the aggressive "total tariff war" of Trump 2.0 — which culminated in cumulative effective rates of 145% in April 2025 before being partially rolled back to roughly 47.5% under the Geneva agreement of May 2025 — the analysis highlights how bilateral confrontation has dismantled Bretton Woods norms of multilateralism, fragmented global trade and generated significant macroeconomic costs for both economies and third-party nations. The study evaluates China's robust industrial counter-strategies, including "Made in China 2025", the "dual circulation" model and the multi-phase Big Fund semiconductor initiative, which have materially advanced technological self-sufficiency. It then assesses the resulting financial market repercussions: heightened volatility in equity and bond markets, sovereign and corporate debt re-pricing, shifts in investor asset allocation toward safe-haven instruments and persistent systemic stress indicators. Further, the paper analyses the strategic weaponization of critical minerals, energy security risks (particularly around the Strait of Hormuz) and divergent sectoral performance, most notably China's dominance in New Energy Vehicles. Finally, it weighs the limits of de-risking versus outright decoupling and explores the emerging role of digital assets in financial stability. The analysis concludes that a multipolar world order demands a fundamental redefinition of financial strategy, one that systematically incorporates geopolitical risk premiums, prioritises resilience over pure efficiency and recognises China's deepening economic and technological hegemony.

1. The shifting sands of global trade policy: from engagement to zero-sum competition

1.1. The continuity and escalation of US tariff doctrines against Beijing

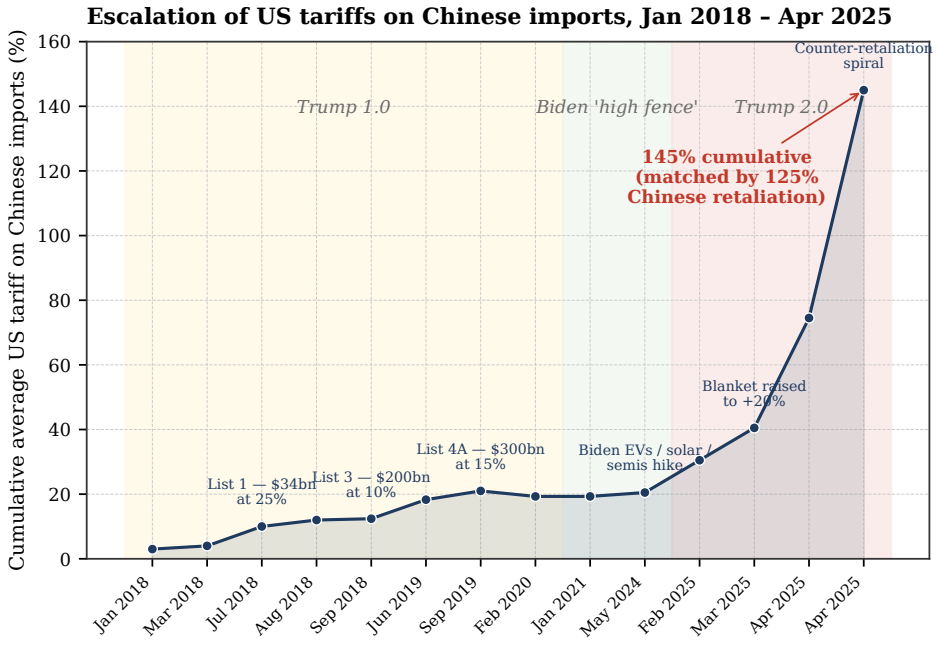
The trajectory of US trade policy towards China has transitioned from an initial posture of economic engagement to a confrontational, zero-sum competition, characterized by a persistent and escalating tariff regime. The foundational objectives of the Trump 1.0 tariff strategy, initiated in 2018, were multi-faceted: protection of domestic industries against perceived unfair foreign competition, incentivization of manufacturing relocation and a strategic reduction of dependency on foreign supply chains, with China as the primary target [11, 29]. This phase saw the implementation of a series of tariffs, beginning with duties on solar panels and washing machines in February 2018, followed by tariffs on steel and aluminum in March 2018 [11]. Subsequently, a 25% tariff was imposed on $34 billion of Chinese goods in July 2018, expanding to an additional $16 billion in August and a 10% duty on $200 billion in September of the same year [11]. These measures were escalated in June 2019, with the 10% tariff increasing to 25% and a new 15% tariff applied to $300 billion of Chinese imports in September 2019, which was later reduced to 7.5% in February 2020 [11]. These actions were legitimized through recourse to Sections 201, 301 and 232 of US trade law, granting the executive branch broad powers to impose tariffs based on threats to national security and economic emergencies [38]. Despite an apparent de-escalation with the "Phase One" agreement in January 2020, many of China's commitments, particularly regarding increased purchases of American goods, remained unfulfilled [11].

The Biden administration, while adopting a multilateral approach, maintained the core of these tariffs and recalibrated the strategy towards "small yard, high fence" and "de-risking" [24, 38]. This approach focused on imposing stringent restrictions on a narrow set of sensitive technologies, such as advanced semiconductors, artificial intelligence (AI) components and supercomputing capabilities, while ostensibly preserving broader economic exchange [24]. The administration significantly expanded the Entity List, adding over 200 Chinese companies, thereby severely limiting their access to US-origin products without specific licenses [38]. Furthermore, it collaborated with key allies including Taiwan, Germany, Japan and the Netherlands to implement rigorous export controls on critical components essential for advanced semiconductor manufacturing [24]. Supplementary tariffs were also introduced on specific products, including solar panels, electric vehicles (EVs) and critical minerals, aimed at impeding China's technological advancement in strategically vital sectors [11].

The re-emergence of "Trump 2.0" has ushered in an even more aggressive and expansive tariff doctrine, characterized by a proposed "total tariff war." This framework, rooted in an "America First" and "Make America Great Again" ideology, has placed tariffs at the epicenter of both domestic and international economic policy [29]. The second Trump administration has justified new tariff waves based on issues such as China's alleged role in fentanyl precursor distribution, persistent intellectual property theft and forced technology transfers [10]. Key actions in early 2025 included a 10% tariff on all Chinese products (February 4), a 25% tariff on Chinese steel and aluminum (March 12), an increase to a 20% blanket tariff on all Chinese imports (March 4), reciprocal 34% tariffs (April 2) and a 25% tariff on automobiles (April 3), culminating in a cumulative 145% rate on China after the April 9–10 retaliation spiral [10, 11]. This expanded toolkit leverages legislative mechanisms such as Section 338 of the Tariff Act of 1930, Section 232 of the Trade Expansion Act of 1962, Sections 301 and 122 of the Trade Act of 1974 and the International Emergency Economic Powers Act of 1977 [10]. China responded both with proportional retaliation and by filing a formal complaint with the WTO Dispute Settlement Body (case DS638) on 8 April 2025 [41].

A crucial inflection point came on 12 May 2025, when the so-called *Geneva Agreement* between US and Chinese trade officials converted the cumulative bilateral tariff increases enacted during April back to a uniform additional rate of 10%. As a result, the average US tariff on imports from China fell from 127.2% to 51.8%, and currently stands at approximately 47.5%, while China's average tariff on US exports stabilised at 31.9% [11]. The 145% peak therefore represents a transient extreme rather than a steady state; nevertheless, the post-Geneva equilibrium remains roughly an order of magnitude above the pre-2018 baseline and continues to define the operating environment for global trade.[1]

The cumulative trajectory of these layered tariff actions is summarised in Figure 1, which traces the average effective US tariff rate on Chinese imports from the first 2018 measures through the April 2025 retaliation spiral. The visual chronology makes plain how the Biden administration largely preserved the Trump 1.0 baseline before the Trump 2.0 escalation pushed cumulative rates from roughly 20% to 145% in less than three months.



Sources: USTR action timeline; PIIE 'US-China Trade War Tariffs' tracker; Italian MAECI Transatlantic Forum (2025), §1.1 of paper.

Figure 1: Escalation of cumulative average US tariffs on Chinese imports, January 2018–April 2025. The chronology covers the Trump 1.0 phase (List 1–4 actions under Sections 201, 232 and 301), the Biden "small yard, high fence" recalibration with targeted hikes on EVs, solar and semiconductors, and the Trump 2.0 escalation that culminated in the 145% cumulative peak in April 2025. The Geneva Agreement of 12 May 2025 subsequently brought the US average rate back to about 47.5%.

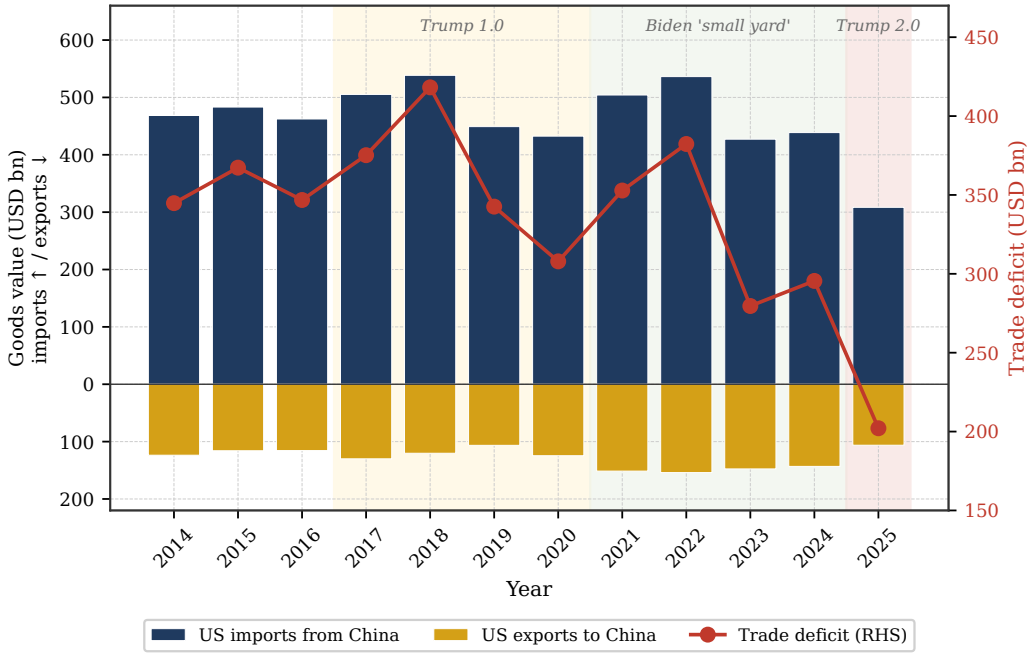
The quantifiable impact of these layered tariff actions on overall US-China trade volumes is significant. According to the U.S. Census Bureau, the total value of US imports from China decreased to approximately $438.7 billion in 2024 and the bilateral goods trade deficit fell to $295.5 billion — its lowest reading since 2009 [34]. The collapse intensified in 2025: imports plunged a further 30% to roughly $308.4 billion, while the bilateral deficit shrank to $202.1

[1]Throughout the paper, full-year 2025 figures rely on definitive releases by national statistical agencies (U.S. Census Bureau, China General Administration of Customs, CAAM) finalised in January–February 2026. Q1 2026 figures are spot or year-to-date observations as of early April 2026; full-year 2026 references are official forecasts (e.g. CAAM, EIA STEO) and are clearly identified as such in the relevant captions and citations.

billion, a 31.6% year-on-year contraction [26, 34]. Despite this compression, China still ranks among the top three trading partners for the United States. At the same time, the federal fiscal position has deteriorated sharply: total US public debt rose to roughly $37.6 trillion at the end of fiscal year 2025 (about 122% of GDP), with an annual budget deficit of $1.8 trillion — the fourth consecutive year above that threshold — underscoring the complex interplay between trade policy, fiscal health and economic interdependency [37].

Figure 2 translates this narrative into the bilateral trade flows reported by the U.S. Census Bureau. The chart highlights how the Trump 1.0 tariffs initially compressed but did not reverse the structural imbalance, how trade flows partially normalised under the Biden administration, and how the Trump 2.0 escalation triggered an abrupt 30% collapse in US imports from China in 2025 — the sharpest annual contraction since the 2009 global financial crisis.

Figure 3 — US-China bilateral goods trade and trade deficit, 2014-2025



Source: U.S. Census Bureau, Foreign Trade Division — Trade in Goods with China (c5700, accessed Apr 2026).

Figure 2: US–China bilateral goods trade and trade deficit, 2014–2025. Bars show US imports from China (above the zero line) and US exports to China (below). The red line tracks the resulting trade deficit on the right-hand axis. The three coloured bands identify the Trump 1.0 (2017–2020), Biden (2021–2024) and Trump 2.0 (2025) policy phases.

1.2. China's industrial counter-strategy and resilience building

In response to sustained external pressure and a long-term strategic vision, China has vigorously pursued an industrial counter-strategy focused on technological self-sufficiency and economic resilience. At the core of this strategy lies the "Made in China 2025" initiative, launched in 2015, which explicitly aims to achieve 70% domestic production of strategic components within critical industries [38]. This ambitious target underscores a national commitment to sever reliance on imported technologies, particularly in high-tech sectors.

Further bolstering this drive for self-reliance is the "dual circulation" strategy, articulated by President Xi Jinping. This framework emphasizes strengthening domestic demand and supply chains as the primary engine for economic growth, while simultaneously leveraging international trade and investment. The goal is to build a robust internal market capable

of withstanding external shocks and reducing vulnerabilities to geopolitical leverage [29].

A pivotal element of China's technological push, particularly in semiconductors, has been the China Integrated Circuit Industry Investment Fund, commonly known as the "Big Fund." Structured in three phases — Big Fund I (2014–2019), Big Fund II (2019–2024) and Big Fund III (2024–2039) — this massive state-backed investment vehicle is designed to accelerate domestic semiconductor research, development and manufacturing capabilities [38]. The impact is already evident: Semiconductor Manufacturing International Corporation (SMIC), China's leading foundry, has tripled its revenues and doubled its capacity, emerging as the third-largest foundry globally [38]. The Big Fund III, launched in 2024, is specifically targeted at moving beyond mere technological self-sufficiency toward leadership, fostering new growth sectors, creating employment and generating sustainable profits to address internal economic challenges, including public debt [38].

These strategic industrial planning efforts are crucial for China to maintain economic legitimacy amidst an observed structural economic slowdown. By diversifying its growth drivers and insulating critical sectors from external vulnerabilities, Beijing aims to sustain prosperity and stability, even in an increasingly fragmented global economic order [24, 29]. The same logic of strategic-sector self-sufficiency extends beyond semiconductors and NEVs into the space-technology domain, where the renewed Sino-American competition for lunar exploration and orbital infrastructure has become an additional theatre of dual-use industrial rivalry [18].

1.3. Global trade fragmentation and the breakdown of Bretton Woods norms

The escalating tariff regimes and protectionist measures adopted by the United States fundamentally undermine the multilateral trade architecture established under the Bretton Woods institutions, particularly the principle of non-discrimination among trading partners. The application of aggressive bilateral tariffs deviates sharply from the post-World War II consensus for reduced tariffs and open markets [24, 42].

The economic ramifications of this fragmentation are substantial and globally pervasive. The International Monetary Fund's *World Economic Outlook* of April 2025 revised global growth projections markedly downward, lowering the forecast for 2025 from 3.3% to 2.8%, with the contraction explicitly attributed to "effective tariff rates at levels not seen in a century" and the surrounding policy uncertainty [21]. The IMF also cut US GDP growth by 0.9 percentage points to 1.8% and Chinese growth by 0.6 percentage points to 4.0%, while the World Trade Organization independently estimated that global merchandise trade growth would be more than halved from 3.8% in 2024 to roughly 1.7% in 2025 [21, 42].

For the United States, recent analyses indicate that while tariffs may generate substantial fiscal revenue over the next decade, this comes at a significant cost in terms of consumption, investment and employment. The IMF estimates that the tariff package alone shaved roughly 0.4 percentage points off projected US growth in 2025, on top of broader policy-uncertainty effects [21]. Disposable household income is expected to decline measurably as the burden of higher import costs is gradually passed through to consumers [6].

China, too, faces considerable economic headwinds. The IMF cut Chinese growth to 4.0% for 2025, a 0.6-percentage-point downgrade, with inflation revised down by 0.8 percentage points, indicating intensifying deflationary pressures stemming from the tariff shock and weak domestic demand [21].

Beyond the bilateral impacts, global economic stability is jeopardised. The fragmentation of trade policies places significant pressure on third-party economies, notably within the European Union, which find themselves caught between the escalating economic manoeuvres of the United States and China [3, 24]. This dynamic forces difficult strategic choices upon these nations, compelling them to re-evaluate their economic and trade relationships with

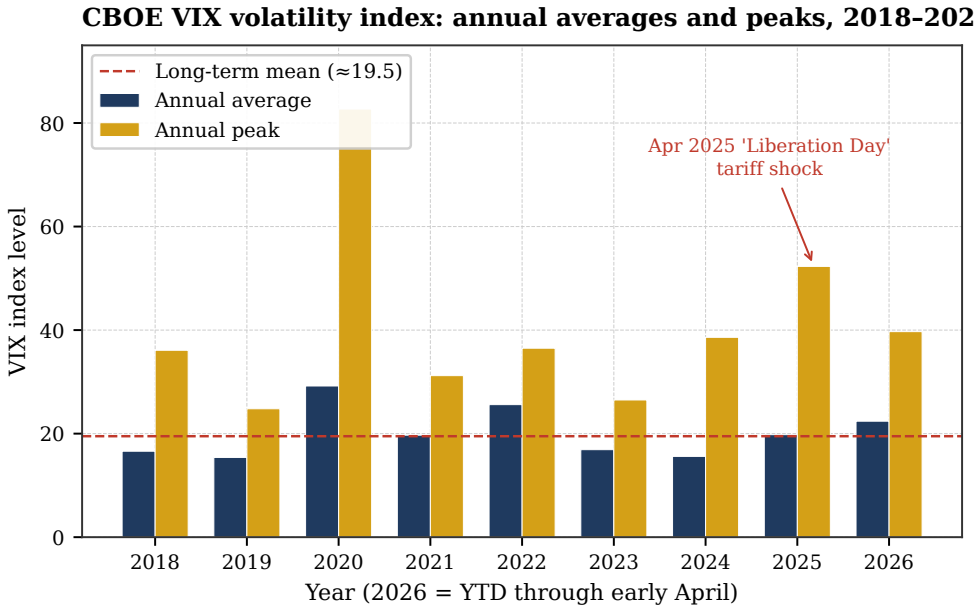
both Washington and Beijing, while also scrutinising their own industrial vulnerabilities [3]. The cumulative effect is a more volatile, inflationary and less predictable global trade environment, challenging the conventional wisdom of globalisation and fostering a new era of geoeconomic competition [42].

2. Financial market reactions: volatility, asset pricing and systemic stress indicators

2.1. Heightened market volatility driven by policy uncertainty

The current geopolitical and trade policy uncertainties have undeniably translated into heightened volatility across global financial markets. Early April 2025 saw an acute increase in financial market tensions, particularly marked by a surge in equity price volatility and a downturn in private bond prices [6]. This instability is quantitatively reflected in key market volatility indices. The VIX index, a measure of expected stock market volatility, and the MOVE index, which tracks bond market volatility, have both registered significant spikes, often directly correlating with announcements of new tariffs or geopolitical escalations [6, 13]. For instance, in early 2026, US 2-year Treasury yields increased by 4 basis points to 3.936%, reaching near an eight-month high, reflecting a potent mix of inflation concerns and increased market jitters stemming from the unpredictable "Trump 2.0" policy framework [8].

Figure 3 provides a long-run perspective on equity-market stress through the lens of the CBOE VIX index. While annual averages have tended to revert towards the long-term mean of roughly 19.5, the annual peaks tell a different story: the April 2025 "Liberation Day" tariff announcement triggered the highest single-day VIX print since the 2020 pandemic shock, with the index briefly exceeding 52. The persistence of elevated peaks across 2024 and into 2026 corroborates the paper's argument that policy uncertainty has become a structural — rather than transient — driver of market volatility.



Source: Cboe Global Markets via FRED (VIXCLS, daily closes).

Figure 3: CBOE VIX volatility index: annual averages and intra-year peaks, 2018–2026 (2026 is year-to-date through early April). The dashed line marks the long-run mean of approximately 19.5. The April 2025 spike reflects the immediate market reaction to the Trump 2.0 reciprocal-tariff announcement.

Moreover, the period has witnessed observable trends in equity risk premiums. While these premiums have increased in the United States since November 2024, they have paradoxically decreased in the Eurozone, though remaining below their long-term averages in both

regions [6]. The announcement of new tariffs in early April 2025, which amplified fears of a deteriorating global economy, led to a considerable correction in major equity indices, a downturn that partially subsided in subsequent weeks [6]. In the bond market, risk premiums for non-financial corporate bonds have also risen. During periods of elevated tension, concerns over increasing insolvencies among weaker companies resulted in reduced market liquidity and a substantial widening of credit spreads, particularly pronounced in the high-yield segment where spreads had previously been significantly compressed [6]. The speculative nature of some financial flows further exacerbates this volatility, creating a feedback loop where policy uncertainty drives speculative activity, which in turn amplifies market fluctuations [32].

2.2. The re-pricing of sovereign and corporate debt

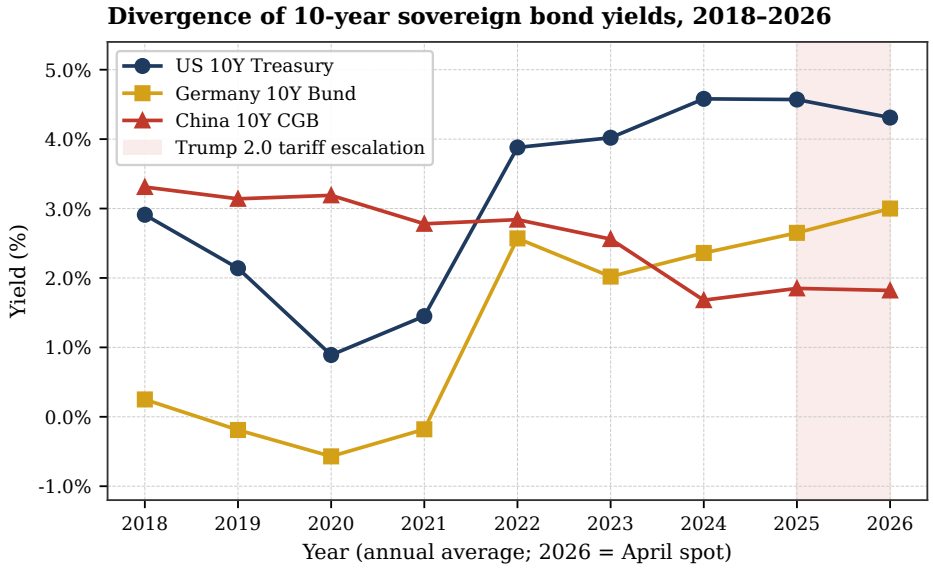
The tumultuous economic climate has initiated a significant re-pricing of both sovereign and corporate debt instruments. In the sovereign bond markets, particularly within the Eurozone and the United States, persistent upward pressure on yields has been observed at critical junctures coinciding with trade and geopolitical escalations [6, 8]. Notably, the yield differential between Italian and German 10-year government bonds, while exhibiting increased volatility, had reduced compared to the previous autumn, suggesting that underlying Eurozone liquidity conditions remained comparatively stable despite external shocks [6]. However, the broader trend underscores a market increasingly demanding higher compensation for holding sovereign debt amidst an environment of rising perceived risk.

Liquidity conditions across these markets have remained generally robust, even with an observed decrease in trading volumes in April 2025 following the initial tariff announcements [6]. This suggests that while investor caution heightened, outright illiquidity was largely averted. The financial community's response to speculation and hedging activities warrants closer scrutiny. Speculative flows, often driven by anticipatory trading around policy shifts, have been identified as a factor that can intensify market volatility, leading to more pronounced price swings and requiring sophisticated hedging strategies from institutional investors. The combination of fiscal pressures, particularly highlighted by the continuous increase in G7 deficits [39], alongside the erraticism of policy, contributes to an ongoing re-evaluation of sovereign credit risk and, by extension, the fundamental pricing of government bonds. This re-pricing mechanism is a critical indicator of underlying systemic stress, forcing market participants to adjust their asset allocations and risk models in real-time.

2.3. Resilience of Chinese sovereign bonds and the role of managed RMB depreciation

A notable counterpoint to the re-pricing pressures observed in Western sovereign debt markets is the demonstrated resilience of Chinese government bonds. As of April 8, 2026, the yield on China's 10-year government bond has remained exceptionally stable, trading steadily around 1.81–1.82% [30]. This level represents a modest decline of approximately 6–7 basis points over the past month and remains well below its year-ago reading, even as global geopolitical and trade tensions have intensified [30].

The cross-country picture is shown in Figure 4, which compares the 10-year sovereign yield trajectories of the United States, Germany and China between 2018 and 2026. The divergence is striking: while US Treasuries climbed from roughly 0.9% in 2020 to 4.31% in early 2026 and German Bunds rose to nearly 3%, Chinese government bonds have moved in the opposite direction, declining from 3.31% in 2018 to a record low of 1.82% in April 2026. The resulting negative spread of nearly 250 basis points between Chinese and US 10-year yields is one of the clearest quantitative signals of the structural decoupling between the two financial systems.



Sources: FRED (DGS10, IRLTLT01DEM156N, IRLTLT01CNM156N); Deutsche Bundesbank; TradingEconomics (Apr 2026 spot).

Figure 4: Annual averages of 10-year sovereign bond yields for the United States, Germany and China, 2018–2026 (2026 = April spot). The shaded band marks the Trump 2.0 tariff-escalation window. The divergence between Chinese yields (declining) and US/German yields (rising) reflects opposing monetary policy stances and divergent investor positioning across the geoeconomic fracture.

This stability stands in sharp contrast to the upward pressure on US and Eurozone yields during the same period and reflects several structural and policy factors. First, the People's Bank of China (PBOC) has maintained an appropriately accommodative monetary stance — through reserve requirement ratio (RRR) cuts and targeted liquidity injections — prioritising domestic growth stabilisation over aggressive tightening. Second, strong domestic institutional demand, particularly from banks and insurance companies seeking high-quality CNY-denominated assets, has provided a robust bid for government bonds, insulating the market from external volatility [20].

Crucially, Beijing's approach to RMB management has been deliberately calibrated to support this bond-market resilience. Rather than pursuing competitive devaluation as a primary retaliatory tool, the PBOC has engineered a gradual and orderly depreciation of the renminbi against the US dollar. During the peak tariff escalation in April 2025, the central bank adjusted its daily fixing mechanism in a measured manner, setting the USD/CNY midpoint only modestly weaker, and explicitly signalled that sharp devaluation was not part of its toolkit [9, 16]. Official statements have repeatedly emphasised that "China neither needs nor intends to gain trade competitiveness through currency depreciation," underscoring a preference for exchange-rate stability at a "reasonable and balanced level" [33].

This managed depreciation serves a dual purpose. On the one hand, it partially offsets the price competitiveness loss inflicted by cumulative US tariffs (reaching 145% at their April 2025 peak before easing under the Geneva agreement to roughly 47.5%), thereby cushioning export-oriented sectors without triggering destabilising capital outflows. On the other hand, by avoiding abrupt currency moves, the PBOC prevents speculative attacks on the renminbi that could force emergency bond sales or liquidity drains. The resulting negative yield spread between Chinese (1.82%) and US 10-year Treasuries (4.31%) has actually reinforced the perception of Chinese sovereign debt as a relative safe haven within the onshore market, attracting both domestic and selective offshore flows [23].

In quantitative terms, Chinese government bonds have delivered stable total returns with significantly lower drawdowns than many global sovereign peers since the onset of the re-

newed trade conflict, highlighting their role as an effective diversifier in a geoeconomically fragmented environment [20]. This resilience underscores the PBOC's capacity to coordinate exchange-rate and bond-market policies in pursuit of financial stability, even amid the most severe US-China tariff confrontation since 2018.

2.4. Asset flows and investor behaviour in response to geopolitical stress

Investor behaviour and asset allocation strategies have demonstrated distinct patterns in response to the prevailing geopolitical and economic instability. Following significant trade policy announcements, fund flow data consistently reveal a discernible shift towards more conservative assets. Specifically, there has been a notable concentration of inflows into money market and bond funds, signalling a flight to perceived safety and liquidity as investors seek to protect capital amidst uncertainty [6]. Conversely, immediate outflows, albeit contained, were observed from other segments of the market immediately after the initial announcements of new US tariffs [6].

Interestingly, despite the broader macroeconomic turbulence, sustainable and Environmental, Social and Governance (ESG) mandated funds continued to attract net subscriptions [6]. This suggests a growing investor conviction in the long-term resilience and ethical underpinnings of such investments, even when confronted with short-term market volatility. Exchange Traded Funds (ETFs), both equity and bond-based, also recorded net subscriptions, partially attributed to the launch of new initiatives by Italian firms and groups [6]. The structural liquidity profile of ETFs allows them to absorb initial market shocks more efficiently, providing a mechanism for investors to adjust exposure with relative ease. This rotation towards more defensive and thematic exposures is corroborated by multi-asset strategists, who in late 2025 maintained a cautiously neutral stance on global equities while overweighting gold, government bonds and selected emerging-market debt as a hedge against the dual shock of trade fragmentation and geopolitical risk [27]. Furthermore, the share of Italian bonds held by resident and Eurozone funds continued to increase in the second half of 2024, indicating a degree of regional asset stickiness and confidence within the European fixed income space, contrasting with the more volatile international landscape [6]. These observable shifts in asset flows underscore a strategic recalibration by institutional investors, prioritising capital preservation and thematic investments resilient to geopolitical disruption.

3. Weaponization of supply chains: energy, commodities and critical minerals

3.1. The strategic importance of critical mineral control

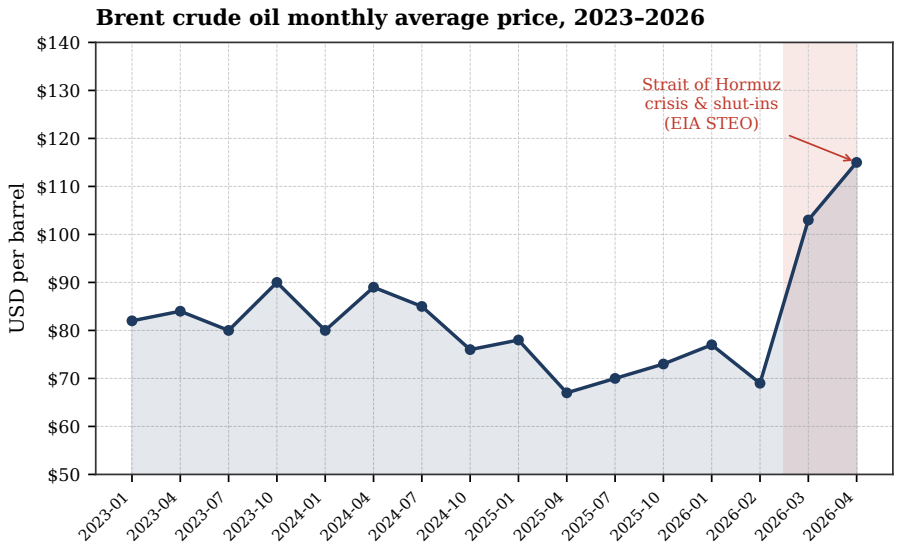
The control of critical minerals has emerged as a potent instrument of geoeconomic power, directly impacting advanced technological industries worldwide. Materials essential for cutting-edge technologies, such as rare earth elements, lithium, cobalt and graphite, are indispensable for the production of semiconductors, electric vehicle batteries and defence applications [24, 38]. The United States has enacted stringent export controls aimed at limiting China's access to advanced semiconductor manufacturing items, effectively weaponising technology supply chains [38].

China, in turn, possesses a commanding position in the supply chain of many of these critical minerals, particularly in their refining and processing stages. In February 2025, in response to the first wave of Trump 2.0 tariffs, China announced immediate export controls on tungsten, tellurium, bismuth, molybdenum and indium products, demonstrating its willingness to use this leverage [41]. This overwhelming control allows China to exert significant influence over global manufacturing. The financial implications are profound: any restrictive actions by Beijing on critical mineral exports could lead to sharp price increases, substantial disruptions in industrial production and a direct impact on the valuations of industrial stocks globally, especially those in the automotive, electronics and aerospace sectors heavily reliant on these inputs [12]. This dynamic transforms critical minerals from mere commodities into strategic assets, with their availability and control shaping national security and economic competitiveness.

3.2. Energy security and maritime risks in escalating conflicts

The persistent geopolitical instability in the Middle East, particularly the heightened tensions surrounding the Strait of Hormuz, has profoundly impacted global energy security and, by extension, financial markets. This vital chokepoint, through which approximately one-fifth of the world's oil supply passes, has been a recurring flashpoint. According to the U.S. Energy Information Administration's April 2026 *Short-Term Energy Outlook*, Brent crude averaged $103/barrel in March 2026 and is projected to peak in the second quarter at $115/barrel before easing as production shut-ins gradually abate [36]. The EIA estimates that Iraq, Saudi Arabia, Kuwait, the UAE, Qatar and Bahrain collectively shut in 7.5 million barrels per day of crude oil production in March 2026, rising to a projected peak of 9.1 million barrels per day in April — arguably the largest physical supply disruption since the 1970s energy crisis [1, 36]. Such disruptions generate immediate and cascading effects on global inflation, industrial output and broader financial stability, compelling central banks to navigate complex policy trade-offs.

The price dynamics of the current Hormuz crisis are visualised in Figure 5, which charts monthly average Brent crude prices from 2023 through April 2026. After a long deflationary phase that brought Brent to roughly $67/barrel in early 2025 — driven by OPEC+ production discipline and weak Chinese demand — the escalating Iran–US confrontation produced an abrupt re-pricing in March–April 2026.



Sources: FRED DCOILBRENTEU (Europe Brent spot); U.S. Energy Information Administration, Short-Term Energy Outlook (Apr 2026).

Figure 5: Brent crude oil monthly average price, January 2023–April 2026. The shaded area highlights the spike triggered by the Strait of Hormuz crisis and the associated production shut-ins along the Persian Gulf.

Amidst these vulnerabilities, China has strategically insulated itself from potential Hormuz disruptions. Through a combination of aggressive renewable energy deployment and alternative energy sourcing, including direct supply channels with Iran, China has reduced its reliance on crude imports via the Strait of Hormuz to an estimated 6–7% by early 2026 [2]. Beijing's provision of advanced military technology, such as supersonic missiles, to Iran can be interpreted as a strategic move to indirectly bolster Iran's capacity to threaten the Strait, thereby projecting Chinese influence and potentially leveraging global energy markets to its advantage, even without direct military involvement [17, 22].

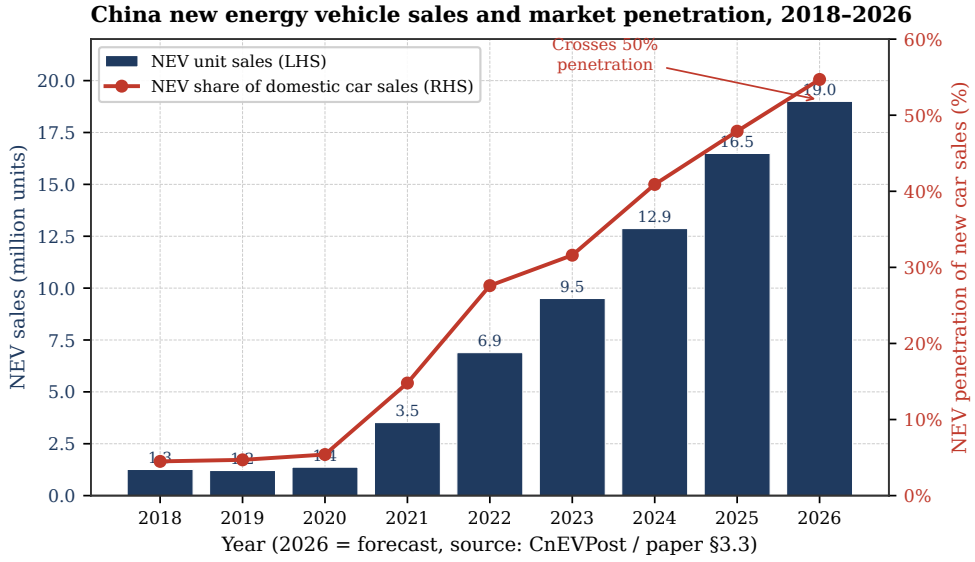
A further complicating factor is the growth of the "dark fleet" or "shadow tankers." These vessels, operating with obscured ownership and disabled transponders, facilitate the movement of sanctioned oil, notably from Russia and Iran, effectively bypassing international sanctions and regulations [25, 40]. An estimated 16% of the global crude fleet is already operating under such conditions, creating a growing blind spot in global shipping transparency [25]. While enabling sanctioned nations to maintain oil revenues, this dark fleet introduces significant risks to maritime safety, environmental protection and insurance markets. For China, these "shadow" networks offer a critical avenue for securing discounted energy supplies, further insulating its economy from Western-imposed sanctions and geopolitical leverage [4]. The ability to source energy independently from volatile regions and circumvent international strictures provides China with a significant strategic advantage in a fragmented global energy landscape.

3.3. Sectoral impacts: automotive and industrial recovery

The interplay of trade policies, technological advancements and geopolitical shifts has generated divergent performance across various industrial sectors. The automotive industry, particularly the New Energy Vehicle (NEV) segment, provides a stark illustration of this dynamic. China has established overwhelming dominance in the NEV market, transforming it into a significant economic weapon. According to the China Association of Automobile Manufacturers, NEV wholesale sales reached 16.49 million units in 2025, a 28.2% year-on-year increase, accounting for 47.9% of total Chinese passenger vehicle sales [15]. NEV exports doubled to 2.62 million units, while overall vehicle exports rose 21.1% to a record

7.1 million units, confirming China's status as the world's largest car exporter for the second consecutive year [15, 28]. CAAM forecasts NEV sales to reach 19 million units in 2026 (+15.2% year-on-year), pushing domestic NEV penetration to roughly 54.7% — a milestone that the original 14th Five-Year Plan had not envisaged before 2035 [14]. This hegemony extends to critical components, with Chinese battery manufacturers capturing the dominant share of the global market by early 2026 [38]. The implications for traditional European and American OEMs are severe, as they face intense competition from more affordable and technologically advanced Chinese alternatives, leading to significant market capitalization erosion for many legacy players [7].

The scale and pace of China's NEV expansion are illustrated in Figure 6. Annual unit sales have grown more than tenfold in less than a decade — from roughly 1.4 million in 2020 to 16.5 million in 2025 and a forecast 19 million in 2026 — while domestic NEV penetration is set to cross the symbolic 50% threshold a decade ahead of the original 2035 government target. This trajectory underpins the paper's argument that China's automotive dominance is no longer a future scenario but a present-day fact reshaping global capital flows and OEM valuations.



Source: China Association of Automobile Manufacturers (CAAM), definitive 2025 release (14 Jan 2026); 2026 = CAAM official forecast.

Figure 6: China new energy vehicle sales (left axis, bars) and share of total domestic passenger-car sales (right axis, line), 2018–2026. The 2026 figure is the official CAAM industry forecast. NEVs include battery-electric, plug-in hybrid and fuel-cell vehicles.

Conversely, the broader industrial and commodity sectors have shown a degree of resilience, albeit with varying trends. Goldman Sachs Research's 2026 commodities outlook indicated strong total returns in commodity indices throughout 2025, particularly driven by industrial commodities [19]. This suggests that underlying industrial demand, possibly fuelled by China's domestic infrastructure and strategic manufacturing, continues to provide a base for certain commodity markets despite geopolitical headwinds. However, trade policies aimed at industrial reshoring and friend-shoring face a formidable challenge in the reality of entrenched Chinese manufacturing capacity. While nations like the US seek to diversify supply chains, China's extensive and sophisticated industrial base, developed over decades, makes a complete decoupling economically impractical in the near to medium term [12]. As Bown observes in his 2026 stocktake of the second Trump trade war, "the easy bits of US-China supply chain decoupling now over, the hard-to-move parts remain" [12]. The result is a global industrial landscape characterised by uneven performance, strategic bottlenecks and a continuous tension between economic efficiency and geopolitical resilience.

4. Navigating future financial risk: de-risking vs. decoupling

4.1. Evaluating the success and limits of de-risking

The concept of "de-risking" — reducing systemic dependency on specific critical regions or suppliers without resorting to full economic decoupling — represents a complex balancing act for advanced economies. A prime example is the global reliance on Taiwan Semiconductor Manufacturing Company (TSMC), which produces over 50% of the world's semiconductors [24, 38]. A potential escalation of geopolitical tensions in the Taiwan Strait could have catastrophic consequences for global economic stability and national security, making de-risking a strategic imperative [24].

However, the implementation of de-risking strategies, such as US export controls on advanced semiconductors to China, presents its own set of challenges. While aimed at hindering China's technological advancement, these restrictions raise concerns among major US commercial actors in the semiconductor industry about potential revenue losses [38]. The feasibility of re-shoring or friend-shoring initiatives, designed to relocate production to domestic or allied territories, remains constrained by economic realities, including prohibitive costs, lack of skilled labour and the existing scale of Chinese manufacturing infrastructure [12]. Indeed, recent PIIE analysis of 2025 US import data shows that, while imports from China collapsed, imports from third countries (Vietnam, Taiwan, Mexico) rose 9%, highlighting that "moving supply chains out of China" is in many cases just relocation rather than genuine reshoring [12].

Paradoxically, China has also embarked on its own comprehensive de-risking journey. Initiatives like "Made in China 2025" and the "dual circulation" strategy are explicit attempts to reduce external dependencies, particularly in strategic sectors and bolster domestic industrial self-sufficiency [29, 38]. This mutual pursuit of de-risking by both the US and China, driven by national security considerations, risks inadvertently accelerating a broader economic decoupling. The success of de-risking hinges on its ability to create a more resilient and balanced interdependency without fragmenting global supply chains to an extent that triggers prohibitive economic costs and reduces overall global innovation.

4.2. The role of digital assets in financial system stability

The burgeoning landscape of digital assets presents both innovative opportunities and emerging systemic risks to global financial stability. The rapid expansion of unbacked crypto-assets, such as Bitcoin, characterised by extreme price volatility, poses direct risks not only to individual investors but also potentially to the broader financial system due to increasing interconnections between the crypto ecosystem, traditional finance and the real economy [6]. As some financial operators reconfigure their business models to incorporate crypto-assets, the channels for risk transmission widen.

A critical area of concern lies with stablecoins, particularly those pegged to the US dollar. While representing a smaller segment of the digital asset market, with Tether and USD Coin being highly concentrated, their potential for systemic impact cannot be understated [6]. If dollar-pegged stablecoins were to achieve a systemic scale, a scenario could arise where an exceptional demand for US dollars could be triggered during periods of market stress or loss of confidence in the stablecoin issuers [6]. This demand could significantly impact global liquidity, create pressure on traditional financial institutions that act as reserve holders for stablecoins and potentially amplify financial crises. The lack of comprehensive regulatory frameworks and robust governance requirements for many stablecoin issuers further exacerbates these risks, including potential conflicts of interest [6]. Therefore, the cautious monitoring and effective regulation of digital assets, especially stablecoins, are paramount to mitigating potential threats to financial stability as their adoption grows.

4.3. Conclusion: redefining financial strategy in a multipolar world

The current geoeconomic fracture, characterised by escalating US-China tariff regimes and the weaponisation of supply chains, unequivocally demands a fundamental redefinition of financial strategy. The immediate financial prognosis points towards sustained market volatility, exacerbated inflationary pressures stemming from global supply chain fragmentation and an ongoing recalibration of sovereign risk models across both advanced and emerging economies [6, 21, 32]. The era of optimised global efficiency, predicated on seamless cross-border flows and interconnected supply chains, is rapidly giving way to a new paradigm where geopolitical resilience and strategic autonomy are paramount.

For financial institutions and institutional investors, this necessitates a critical strategic shift. The traditional calculus of risk and return must now consistently incorporate a robust geopolitical risk premium. Investment mandates must move beyond purely economic metrics to account for the increasing likelihood of state-imposed trade barriers, export controls and supply chain disruptions. This implies a diversification of credit and asset exposures, actively seeking to reduce concentrations in politically sensitive regions and industries. The increasing G7 deficits [39], coupled with the structural vulnerabilities highlighted by the IMF and the Banca d'Italia [6, 21], underscore the urgency of this recalibration.

The undeniable shift in global power dynamics sees China solidifying its position as a dominant economic and technological force. According to data released by the China General Administration of Customs, China posted a record goods trade surplus of $1.189 trillion in 2025 — the largest trade surplus ever recorded by a single country in nominal terms — with exports rising 5.5% to $3.77 trillion against essentially flat imports of $2.58 trillion [5]. This achievement, occurring *despite* cumulative US tariffs that briefly reached 145%, illustrates the structural resilience of the Chinese export machine and the effectiveness of the Belt and Road Initiative as a market-diversification tool: Chinese exports to the US fell 20% in 2025, but exports to Africa surged 26%, to Southeast Asia 13%, to the EU 8%, and to Latin America 7% [5]. Coupled with China's strategic energy independence from volatile chokepoints like the Strait of Hormuz [2] and its technological sovereignty in critical sectors such as New Energy Vehicles and semiconductors [15, 38], this evidence collectively positions Beijing at the forefront of the emerging multipolar world order. As the US, under the "Trump 2.0" doctrine, continues its inward-looking and protectionist policies and potentially disengages from long-standing alliances, it inadvertently cedes strategic ground, compelling global investors to adapt to a reality where non-dollar-denominated assets and resilient supply chains become increasingly attractive. The crucial need for investors is to actively price in these geopolitical risk premiums as an enduring feature of the financial landscape, rather than treating them as transient shocks. The future of global finance will be defined by strategic agility, diversification and a deep understanding of interconnected geopolitical and economic forces.

Appendix A. Note on sources and data

The empirical claims of this paper rely on a hierarchy of sources prioritising primary, institutional and peer-reviewed materials over media commentary.

Tariff and trade-policy chronology. The detailed sequence of US measures against China between January 2018 and May 2025 has been reconstructed using Chad P. Bown's tariff trackers at the Peterson Institute for International Economics [10, 11], cross-checked against the analytical chapters of the Italian *MAECI Transatlantic Forum 8th edition* published by the Centro Studi Americani [29, 38]. The Geneva Agreement of 12 May 2025 and the subsequent tariff trajectory are sourced from PIIE updates and corroborated by WTO documentation on case DS638 [41].

Macro-financial data. GDP and trade-growth forecasts are taken directly from the IMF's *World Economic Outlook* of April 2025 [21] and the WTO's *Global Trade Outlook* of April 2025 [42], rather than from second-hand asset-manager publications. US–China bilateral goods-trade flows for 2014–2025 are taken from the U.S. Census Bureau, Foreign Trade Division series *c5700* [34]. Federal-debt and deficit figures are taken from the GAO audit of the FY2025 Schedules of Federal Debt [37].

Sovereign-yield, volatility and commodity series. 10-year sovereign yields for the United States, Germany and China are taken from Trading Economics interbank quotes for the April 2026 spot, with longer-run series cross-checked against FRED [30, 31]. The CBOE VIX series is sourced from FRED (`VIXCLS`) [13]. Brent crude prices are sourced from FRED (`DCOILBRENTEU`) and from the EIA *Short-Term Energy Outlook* of April 2026 for the projected 2026 trajectory [35, 36].

Chinese automotive industry. All NEV and total-vehicle figures are taken from the official releases of the China Association of Automobile Manufacturers (CAAM), as reported by CnEVPost on 14 January 2026 (definitive 2025 release) and on the same date for the 2026 industry forecast [14, 15]. The $1.189 trillion 2025 trade surplus is taken from the China General Administration of Customs release of 14 January 2026 [5].

Limitations. Some elements of this analysis — in particular the spot rates of April 2026 and the EIA STEO Brent forecast — are intrinsically provisional and depend on the rapidly evolving Iran–US confrontation and on the duration of the Strait of Hormuz disruption. The 2026 NEV penetration figure is also a CAAM forecast rather than realised data. These caveats are flagged explicitly in the relevant figure captions. The tariff narrative reflects the situation as of 8 April 2026; subsequent US–China negotiations may alter the equilibrium described here.

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