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GEOECONOMICS – Has geopolitics tamed markets?

It may appear surprising that the spectacular abduction by the United States of Nicolás Maduro – a flagrant violation of the United Nations Charter – has unleashed only the faintest of financial shockwaves. Not only did markets easily absorb this event, they immediately wanted to know what would happen next. There has been no massive flight to safe assets, no financial dislocation, no lasting pressure on oil.

Yet this disconnect between the real geopolitical gravity of the event, global feelings about it and the modest financial reaction is the result of neither pure blindness nor total irrationality. It is even becoming a stylised fact of contemporary capitalism: **geopolitics is no longer seen as an anomaly but rather a permanent condition**. However, when risk becomes structural and endogenous, markets change not only what they price in but also how they prioritise events.

Paradigms according to Thomas Kuhn

In The Structure of Scientific Revolutions[1], Thomas Kuhn explains that **scientific communities operate on the basis of shared mental and interpretative frameworks common to multiple domains, otherwise known as paradigms**. In reality, it's these frameworks that define what is normal, what is an anomaly (that which cannot be explained) and what deserves to be shared (and will gradually become the consensus view). We aren't usually consciously aware of the paradigm within which we live: we're "inside it, but unaware of the nature or height of the ceiling…".

As long as anomalies remain manageable, the paradigm survives. Only when anomalies accumulate does a paradigm shift become possible. Such a shift will occur by means of a dawning awareness, whereby we realise that our explanatory frameworks no longer explain reality, as well as sudden threshold effects, when certain events act as accelerators.

In fact, a new paradigm doesn't appear in one fell swoop: first there is an intervening period characterised by radical uncertainty and thus also, unfortunately, widespread anxiety. These intervening periods correspond to what Antonio Gramsci described as a system's "organic crisis" – a political moment conducive not only to political aberrations but also to "saviour" figures.

When it comes to the dangers of intervening periods, literature is often as perceptive as political theory. For example, Paul Valéry saw exactly how the "need for dictatorship" emerges well before dictatorship itself, emphasising the importance of these moments of historical fatigue, when authoritarian powers appear to offer as much a psychological solution as a political one. Before attacking institutions, dictatorship establishes itself first in hearts and minds. "It is a question of order and public safety; these objectives must be achieved as soon as possible, by the shortest route, and at any cost."[2]

A paradigm shift in the financial world's perception of geopolitical risk

In reality, markets are neither myopic nor omniscient. However, just like scientific communities, **they interpret events from within a given framework of beliefs**. And that framework is changing.

In reality, **international finance operated for a long time within a paradigm whereby geopolitics was seen as an external shock**, at

[1] *The Structure of Scientific Revolutions*, T. Kuhn, *University of Chicago Press.*

[2] Paul Valéry, The Idea of Dictatorship (free translation from the 1924 text published in *Regards sur le Monde Actuel*).

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least for those countries considered the most advanced. The latter saw geopolitics as a rare event, a shock that only temporarily disrupted a fundamentally stable economic order. Moreover, that's precisely how the Fed defines geopolitics[3] in its Geopolitical Risk Index[4], which refers to the idea of a "normal course of international relations". This paradigm translated into models of "rare disasters" and an event-based reading of geopolitical risk in which wars, revolutions and coups d'état were seen as recognised breaking points, seemingly reserved for catching-up countries, or considered exceptional for advanced countries.

The paradigm that is now fading is the paradigm of "normalisation", which is imprinted on the tools of economic forecasting, built on the idea of cycles. At bottom, this paradigm is based on our approach to democracy after the Second World War, and the idea that opening up trade and finance would necessarily strengthen the middle class, which would naturally aspire to greater democracy and fewer wars (both questionable notions). Much economic analysis "proved" this, in reality taking the mental path of Montesquieu's *doux commerce*. Here again, we ought to have listened to artists' intuitions: in *The World of Yesterday*, Stefan Zweig recounts how the chief error of Vienna's bourgeoisie was that they had failed to believe in the reversibility of "civilisation", believing that "the wall of their wealth protected them from barbarity". It was already known that there was no correlation between a high GDP, aspirations to democracy and some system or other of moral rules.

What international finance is now experiencing, then, is the collapse of its conceptual framework for geopolitical risk. Since the global financial crisis, the increased use of sanctions, the rise to power of anti-establishment parties in longstanding democracies and the prospect of a return to major systemic wars, geopolitics has shifted within investors' perceptions, becoming an endogenous component of how the economic world works.

The Ukrainian watershed: from geopolitical event to geoeconomic regime

The war in Ukraine serves as an analytical tipping point for discerning markets' relative indifference to politically spectacular but financially "non-convertible" events, such as Maduro's abduction.

Unlike other conflicts, the invasion of Ukraine was not seen as an isolated shock, **thus sparking awareness of a change of geoeconomic regime**. In fact, the ground had already been prepared by a series of consensus-shattering events such as Brexit and Trump's first election win, as well as the start of a hegemonic power struggle between the United States- and China, from 2017 onwards, and pressure around Huawei. With the war, though, a threshold of perception was crossed. Hegel describes this phenomenon as the trigger for historical "leaps", where changes in global perception have many self-fulfilling consequences.

A number of macro-financial studies converge on this analysis according to which the war in Ukraine served to accelerate awareness. Not only did it change prices; more importantly, it changed **the very structure of expectations**[5], in particular by **directly activating central macroeconomic channels.** Shocks to energy and agricultural commodities had a measurable and lasting impact on inflation, terms of trade and monetary policy. Moreover, the war marked a **qualitative shift in the use of sanctions**. The decision to freeze the assets of Russia's central bank served as a precedent, transforming perceptions of sovereign and reserve risk. Several studies also highlight the fact that this episode **catalysed thinking on financial and monetary fragmentation not as an outlier but as a structural variable of the international system**[6]. Lastly, the shock of the war **triggered learning about rare disasters**. Some studies[7] show that when agents upgrade the probability of major disasters, these beliefs can persist for a long time, even if the conflict de-escalates (an effect known as hysteresis, already observed in savings behaviours). **Geopolitics then shifts from the "tail end of the distribution" to become a simple fact of life.**

It is this that sheds light on the current paradox: **the more tightly geopolitics is integrated as an endogenous regime, the more each event tends to be interpreted as a marginal variation rather than a structural discontinuity. In other words, Ukraine raised the "normal" level of risk, making it harder to identify the decisive event.** Trump's re-election, JD Vance's speech in Munich, orchestrated trade tariff disputes and the multiple "Trump shocks" have also contributed significantly

[3] *"We define geopolitical risk as the risk associated with war, terrorism, and tensions among states that affect the normal course of international relations. Geopolitical risk captures both the risk that these events materialize, and the new risks associated with an escalation of existing events."*

[4] Caldara, Dario and Iacoviello, Matteo (2022), "Measuring Geopolitical Risk", *American Economic Review*, Volume 112 No. 4, April 2022, pp. 1194−1225.

[5] Aizenman J. et al. (2023), "War Shocks, Commodity Prices, and Global Spillovers", *NBER Working Papers*.

[6] Fernandez-Villaverde J., Mineyama T. and Song D (2024), "Geopolitical Fragmentation and the Macroeconomy", *NBER Working Papers*.

[7] Wachter J. (2025), "Learning with Rare Disasters", *Quantitative Economics*.

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to this phenomenon of habituation – including to the dystopian and the grotesque… In reality, markets – and we along with them – suffer from the "boiling frog" syndrome, like the frog in gradually heating water who fails to perceive the growing danger.

In the language of Thomas Kuhn, the war in Ukraine and Trump's re-election have accelerated the paradigm shift: **markets are no longer looking for the next shock but rather the next event that could upend the growth regime or financial equilibria**. As long as an event – however spectacular it might be – does not change central channels, the "financial plumbing" or the overall growth trajectory, the shock can be absorbed. For risk departments, then, **the challenge lies less in predicting the next crisis than in classifying each event by its "financial convertibility":** convertibility in terms of performance (growth, inflation, real rates and cash flow) and macroeconomic flows (growth, energy, commodities, shipping routes, sanctions on critical goods, dominant value chains, etc.); in terms of systemic risk (dollar access, capital controls, collateral risk, etc.); and in terms of institutions (instances of lost confidence and regulatory instability).

Seen from this perspective, **Maduro's abduction is not so much a "new shock" as a threshold test: it questions the system's ability to distinguish between geopolitical noise baked into expectations and a regime shift**. The fact that markets have remained calm does not detract from the gravity of the event; it merely confirms that the paradigm has shifted since Ukraine.

Maduro's abduction: major event, marginal information

The Maduro affair perfectly illustrates the contemporary hierarchy of risks. Politically, it confirms the acceptance of direct power moves and the erosion of international law. But what about financially? Since Venezuela had already exited global economic circuits, the event altered the expected recoverable value of some assets without affecting either the short-term global energy equilibrium or overall growth trajectories. Pricing effects remain local. However, **the logic becomes more troubling when applied to the United States.** Despite mounting signals of institutional decline reinforced by this event – political polarisation, repeated budget crises, the attack on the Capitol, political violence, executive-legislative imbalance on the pretext of national security, etc. – US debt is still treated as a virtually risk-free asset.

This apparent indifference can be explained in a number of ways: confidence in institutional resilience among some actors; comparisons between the US economy and the rest of the world, particularly Europe; and the perception that political risk is slow to materialise.

However, one might also fear that the risk is shifting to less visible dimensions and, above all, that it could be masked by the role of constrained actors within the global financial architecture. The safe-haven status of US Treasuries introduces a structural upside bias, given that US debt is overwhelmingly held by constrained actors: banks subject to prudential ratios, insurers, regulated funds, central banks, etc. **This inelastic demand reduces price volatility and dampens risk signals.** Yale Budget Lab explores the links between the idea of a "safe harbour premium" and "shadow political risk", with an implicit safety premium estimated at 25−35 bps potentially masking institutional decline. But developments will not be linear: if this safe harbour premium disappears, the macroeconomic impacts will be quick to materialise[8].

Historical detour: when markets see and when they don't

Financial history is a valuable resource for understanding the disconnect between an event's political gravity and market reactions. Hitler's assumption of power is often cited as a moment when markets could have collapsed. However, German stock market indices priced in Nazism not as a moral abstraction, but rather on the basis of its economic consequences. Firms with ties to the Nazi party benefited, as they stood to profit from militarisation and government contracts[9].

The Munich Agreement of September 1938 is another intriguing illusory turning point. Politically, it marked a symbolic tipping point; financially, its impact was ambiguous. The work of Frey and Kucher[10] is enlightening here: markets gradually price in the idea of conflict but only shift decisively once war is seen as inevitable and state sovereignty and continuity of payments are threatened. **The spectacular political event is not the financially decisive event. The market looks for an economic "conversion" of the risk,** not a change in political regime or rhetoric, no matter how seismic.

A substantial body of literature on the world wars confirms all these points: **markets react mainly when events threaten a state's fiscal capacity, continuity of payments or monetary sovereignty,** and these historical precedents can shed light on the present (not by comparing events

[8] Yale Budget Lab (2024) – "Political Risks to the U.S. Safe Harbor Premium".
[9] Ferguson N. and Voth H.J. (2008), "Betting on Hitler: The Value of Political Connections in Nazi Germany", *Quarterly Journal of Economics,* 123.
[10] Frey B. S. and Kucher M. (2000), "History as Reflected in Capital Markets", *Explorations in Economic History*, 37.

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per se but by helping us think about transmission channels).

In many ways, US institutional risk resembles a slow drift akin to "pre-rupture" periods observed in history: accumulating signals, deepening political polarisation, declining statistical visibility, deteriorating early warning networks and the erosion of numerous rules – but without an event that can immediately be converted into financial risk. **The market knows the risk exists – that is, political risk is no longer a stable factor in US country risk – but it does not yet know how or when it will "convert" into financial risk.** This is exactly what Kuhn describes: anomalies are visible, discussed and quantified yet "absorbable". There is an awareness that the paradigm is breaking down but major events have yet to materialise.

Conclusion: calm does not equal naivety

Markets' calm in the wake of Maduro's abduction, like their continued tolerance of US institutional risk, is not a sign of blindness. Above all, it is a sign of a world where geopolitics has become a permanent backdrop and response thresholds have shifted. The central question is no longer "What's the next shock?" but "What event will force a shift in the financial paradigm?"

History suggests a cautious analysis: markets don't stay wrong for long, but they're often wrong at first. Yet it's precisely in this interval – between the accumulation of anomalies and the breakdown of beliefs – that the global financial system's deepest vulnerability lies…

In a way, Maduro's abduction is not just a major geopolitical event but a stress test of the current paradigm shift. In a world where geopolitics has become structural, markets can absorb a chronic dose of risk but only at the cost of growing difficulty in recognising the event that alters the risk distribution. Markets are not blind to geopolitics, but neither do they function as a moral barometer. **They need transmission channels and, above all, "conversion points".** The final paradox: a major geopolitical event will thus be structurally underpriced as long as it is not converted into financial risk.

The ensuing challenge for 2026 is to identify events that could serve as potential "conversion points" that transform geopolitical risk into financial risk – that is, events that genuinely shatter expectations. That will be the topic of our next geopolitics article.

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