

Geopolitical Advisory

# Half-time: What will define H2 2026?

July 2026



As we head into the summer, the second half of 2026 looks set to be defined less by any single crisis than by continuing geopolitical shifts across multiple arenas.

The simmering conflict in the Gulf continues. US politics is entering an important phase as we approach the midterms. Across Europe, populist sentiment is increasingly setting the national agenda, as the EU continues to double down on Made in Europe. Running through all of this is a steady erosion of trust between traditional partners that is pushing countries to hedge, diversify and act in their own self-interest.

## What to watch?

- 1. Path of the Iran conflict.** As Tehran and Washington seek to preserve leverage, can escalation be contained and Hormuz kept open? And as Gulf and Asian powers hedge against a less predictable US, how will regional alignments evolve?
- 2. Peak Trump.** With Greenland and Cuba back on the agenda, and the US mid-terms likely to change the power balance in Congress, do we see even more volatility ahead?
- 3. China's power play.** With three US-China leader meetings in H2, including a September state visit to Washington, and looming decisions on rare earths, tariffs, tech controls and Taiwan, can stability be maintained without unacceptable concessions on either side?
- 4. European populists shape the agenda.** As Europe contends with China's aggressive export drive fiscal strains, a need to fund its security, and with France's presidential election in early 2027 fast approaching how does the populist narrative shape European unity and the agenda?
- 5. Ukraine, Russia and the future security order.** As NATO readiness is tested by US troop withdrawals, and the war moves closer to ordinary Russians - with Moscow targeting a summer offensive in the Donbas to set the line of control for any negotiation – does Putin see Trump as his best chance for a deal thereafter? Or if the summer offensive stalls, will Putin consider further escalation?

*Lord Sedwill, Chair of Geopolitical Advisory, Rothschild & Co*



*Gulf War 3 isn't over. That, and the elections ahead from the US midterms to France in 2027, point to a sustained volatility, in which national agendas are likely to harden around self-interest."*

## Peak Trump?

Where is the United States heading over the next six months? Have we passed peak Trump? Whatever your view on that, Trump will remain a formidable presence in American politics. As we move past the Republican primaries, the leverage will shift.

Even if the House and Senate flip, for all that, the practical consequences are smaller than the headlines imply. Much of what the Administration has done to date has been achieved through executive authority, so a weaker hand in Congress does little to change the direction of travel. Likewise, at the Federal Reserve, Chair Warsh will guard the institution's independence so, for all the noise, expect no dramatic change of course.

On Iran, nothing durable is yet in place, so watch what actually happens on the ground rather than any 60-day diplomatic clock.

**Mick Mulvaney, Rothschild & Co Senior Adviser**



*“Irrespective of the mid-terms, for business the policy direction is likely to prove more durable than the election cycle suggests.”*

## Middle East, what next?

The MoU is extremely fragile, but both sides still need it: for Washington, to keep Hormuz open and avoid a prolonged Middle East war ahead of the midterms; for Iran, to consolidate, restore cash flow and preserve the gains it secured during the war. But Hormuz has become the main arena for renewed confrontation. Iran wants to preserve its leverage over the strait, which some IRGC commanders believe the MoU has diluted. The 7-9 July exchange of strikes shows that both sides are willing to use coercion to protect their leverage and enforce their red lines.

Tehran may have concluded that aggression, not restraint, generated its leverage in the first place. Washington's response — strikes on military, port and energy infrastructure, alongside the revocation of an oil-sales waiver — shows it will not tolerate Iranian attempts to rebuild leverage through coercion. The question now is whether brinkmanship, miscalculation and unilateral retaliation push the parties back towards full-scale war, or whether the conflict settles into managed instability as negotiations continue.

For the Gulf states, the MoU remains a bad agreement that ended a worse war. It leaves Iran's missile and UAV arsenals and support for regional militias unresolved, while the latest escalation shows that Gulf infrastructure and US facilities remain exposed. The likely GCC response is still accommodation rather than confrontation, but with greater concern that the MoU will produce prolonged grey-zone instability rather than a durable settlement.

### What to watch - three main scenarios:

- Managed instability while talks continue - medium to high probability
- Negotiations fail and escalation resumes - medium probability
- A narrow nuclear agreement is reached - low to medium probability

**Emile Hokayem, IISS, Director of Regional Security and Senior Fellow for Middle East Security**



*“The US–Iran MoU has ended a damaging war, but it has not created a stable peace. It is a fragile freeze that has bought time, not stability: a 60-day diplomatic window that leaves the core drivers of conflict unresolved.”*

| Entry into force                          | US commitments   | Iran's commitments   |
|---|--|--|
| <b>Upon signing of MoU</b>                | <ul style="list-style-type: none"><li>• Terminate military operations</li><li>• Remove naval blockade within 30 days</li><li>• Remove forces from Iran's 'proximity' within 30 days</li><li>• Develop plan for US\$300bn reconstruction and economic development of Iran</li><li>• Refrain from imposing new sanctions</li><li>• Refrain from deploying additional forces in the region</li><li>• Issue waivers for the export of Iranian crude oil, petroleum products, derivatives and associated services</li></ul> | <ul style="list-style-type: none"><li>• Terminate military operations</li><li>• Ensure safe passage of commercial vessels with no charge for 60 days</li><li>• Reinstate traffic of commercial vessels within 30 days</li><li>• Maintain status quo of Iranian nuclear programme</li></ul> |
| <b>Upon implementation of MoU</b>         | <ul style="list-style-type: none"><li>• Make the frozen or restricted funds and assets of Iran fully available for its use</li></ul>   |  |
| <b>Upon conclusion of final agreement</b> | <ul style="list-style-type: none"><li>• Finalise mechanism for implementation of US\$300bn plan within 60 days</li><li>• Terminate all types of sanctions against Iran</li></ul>   |  |

MoU = memorandum of understanding  
Source: IISS analysis

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## Fortress Europe?

As Europe confronts China's export drive, with a trade deficit running at close to €1bn a day, the direction of EU policy is increasingly moving towards a more defensive "Fortress Europe" – more protective of its own competitiveness and increasingly willing to intervene to defend it, although fearful of China's retaliation.

The backdrop for Europe is a set of global imbalances that haven't gone away: Europe is still exporting its savings, the US is still leaning on foreign capital to finance its current account deficit, and that circular flow is what keeps the whole system turning. The problem for Europe is that despite all that saving, it can't get the capital to work productively at home, and the momentum behind deeper integration - the thing that would actually fix that - is fading rather than building. At the same time, Europe is seeking strategic autonomy, with spend on defence, energy, AI, critical minerals and supply-chain resilience, to reduce dependence on US and Chinese supply chains, at a time when the fiscal envelope is tight and a shift in populist politics.

### What to watch:

- Two German regional elections in September, where the AfD could win, and then the French presidential race in 2027, where Le Pen could take the Élysée, could lead to more nation-first governments in the largest Western European economies which could play out in the bond markets

**Melissa Davies – Chief Economist, Rothschild & Co Redburn**



*“More populist governments in the larger Western European countries will impact the trajectory of European decision making. Fiscal concerns could play out in the bond markets as a more nation-focused policy approach could take hold in the EU.”*

A concerted European move to exert control over supply chains in strategic sectors, alongside a growing distrust of the US and concerns about external dependencies, is being reflected in a range of initiatives from a “Made in Europe” industrial agenda to the recent technology sovereignty measures, but the core question of what counts as European remains unclear.

As economic security becomes synonymous with national security, the concepts of trusted capital and European champions to compete and reduce dependencies are now themes in policy debates. This comes at a moment when Europe needs to mobilise significant private capital to accelerate energy independence, defence and industrial transformation with a noticeable shift in the European Commission's mindset on engaging strategically with investors.

### What to watch:

- Who qualifies as European and on what terms? As different criteria emerge in political debate and legislation, and new merger guidelines hint at a more permissive environment for European consolidation, the right local profile is becoming increasingly important.
- Whose capital is trusted? Europe has expanded its toolkit from foreign subsidy regulations to enhanced investment screening measures. As political influence plays a greater role, expect more friction in M&A and a need to get the politics and partnerships right.

**Nicola King, Co-Head of Geopolitical Advisory**