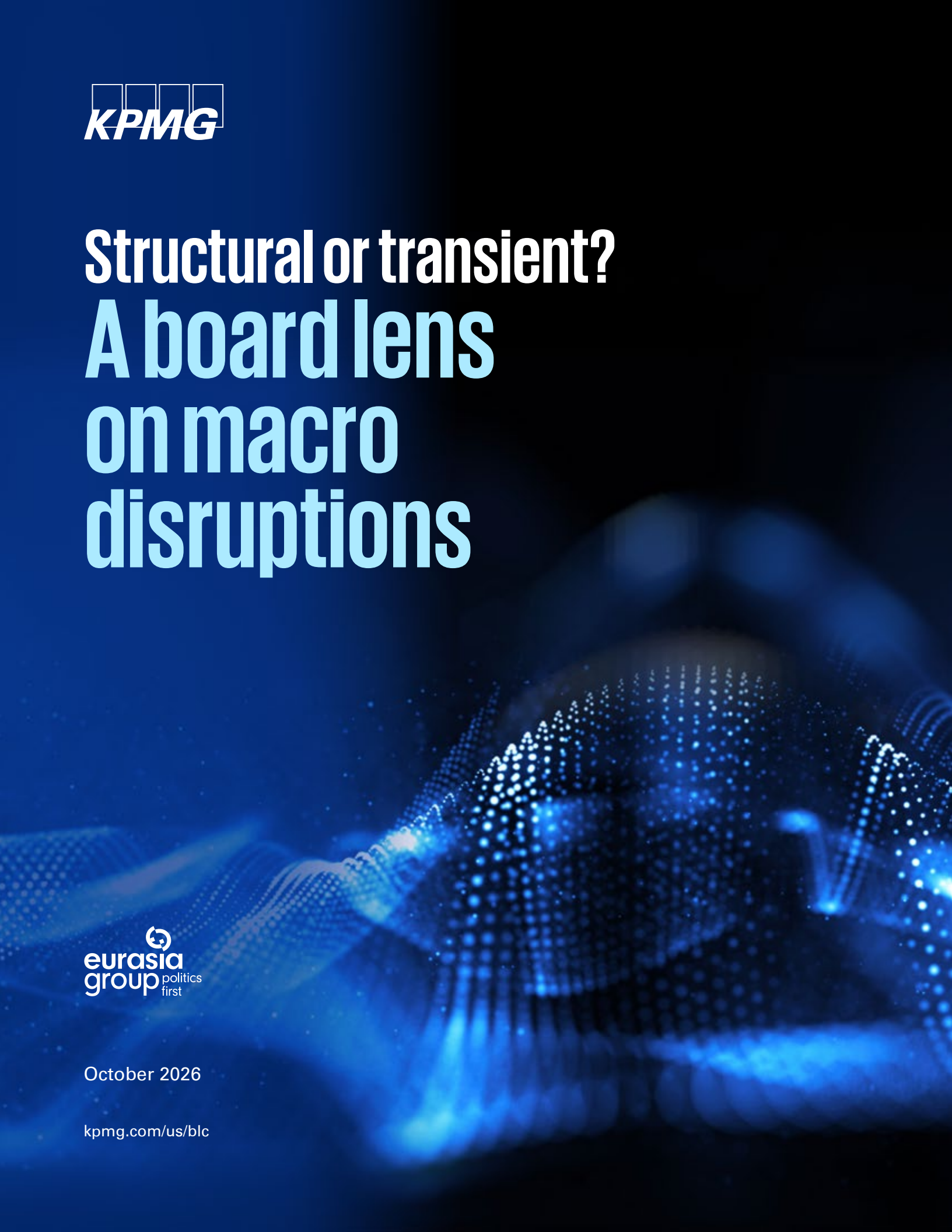
KPMG

Structural or transient?
A board lens on macro disruptions



eurasia group politics first

October 2026

kpmg.com/us/blc

No return to normal

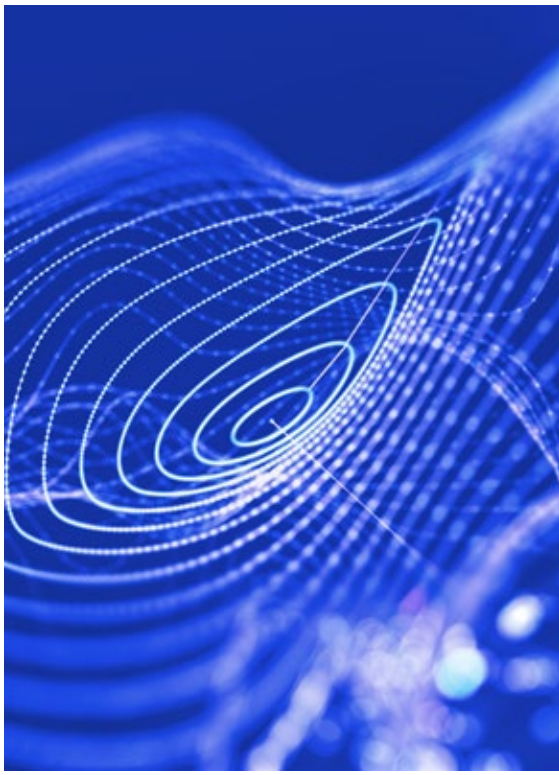
The global operating environment to which companies have been accustomed for the last three decades no longer exists and is not returning. We are now in a period of structural geopolitical and geoeconomic transition that is compounding, not correcting. The result, what Eurasia Group describes as the "G-Zero" world, isn't a temporary deficit in global coordination or leadership; it is a prolonged cycle where our institutions, leaders, and policies are structurally misaligned with the challenges we face. The effects will vary by sector, geography, and business model, but no globally exposed company is immune.

A central question for companies is no longer whether geopolitical disruption will affect their business; it is whether their strategy is suited to a more volatile global operating environment. This uncertain world is creating a churn of evolving risks and interdependencies—some structural, some temporary—that many companies did not anticipate when setting their strategies. Indeed, in a KPMG Board Leadership Center survey of directors, 80% said it is very likely (31%) or somewhat likely (49%) that their company's strategy will require significant adjustment over the next 1-2 years.[1]

A key challenge facing companies and their boards is discerning **structural changes** that durably reshape the operating environment from **transient disruptions** that are significant but temporary. The distinction is a useful diagnostic lens but not always clear-cut. Structural shifts can increase the frequency or severity of temporary shocks, while transient disruptions can be symptoms of structural changes. Some transient shocks can ultimately catalyze other structural shifts.

A key challenge facing companies and their boards is discerning **structural changes** that durably reshape the operating environment from **transient disruptions** that are significant but temporary.

This collaboration between the KPMG Board Leadership Center (BLC) and Eurasia Group examines a number of macro forces reshaping the global business environment, and offers keys to having more robust boardroom conversations about calibrating strategy and risk through the prism of structural versus temporary change, and the gray area in between.



Geopolitical fragmentation and rising national security concerns

The G-Zero world reflects durable changes backed by enduring forces in domestic politics, technology, economic policy, and the distribution of global power. Today, the US is relying more heavily on unilateral and transactional leverage than it did a decade ago, testing institutional constraints that once guaranteed predictable market access. China is pursuing a parallel system of trade, investment, and technology rather than integrating into a Western-led order. Meanwhile, a group of middle powers, such as Brazil, European Union (EU), the Gulf states, and India, are prioritizing strategic autonomy shaping regional and global partnerships based on evolving national interests.

Cutting across these developments is an expanding realm of what states perceive as national security concerns. Economic dependencies, technology, and critical supply inputs (e.g., semiconductors, pharmaceuticals, and rare earths) are increasingly viewed as strategic vulnerabilities. Governments are responding with more restrictive trade policies, industrial policy, and efforts to reorganize supply chains along political rather than commercial lines. Decoupling

[1] KPMG Board Leadership Center Quarterly Webcast, "Calibrating the Board's Engagement in Strategy," April 23, 2026.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS043714-3A

and fragmentation aren't just disrupting trade flows, they're creating protracted regulatory uncertainty that will vary by sector, and in areas like artificial intelligence (AI) and energy, in which companies increasingly face an either-or choice between US and Chinese regulatory environments with no middle ground.

The consequences are tangible and immediate. Investment is increasingly conditioned on political alignment. Critical minerals have become a front line of great-power competition. Supply chains traverse increasingly unstable fault lines. The closure of the Strait of Hormuz, for example, demonstrated how quickly conflict at a strategic chokepoint can affect shipping, energy costs, inflation, and growth across energy-dependent economies.

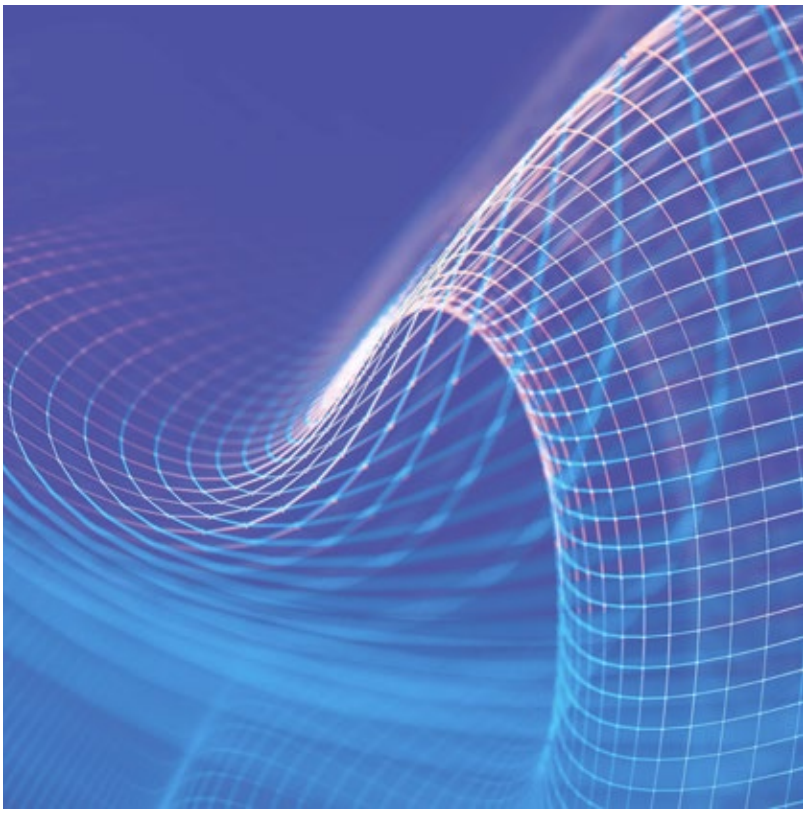
These disruptions are occurring against the backdrop of weaker economic buffers, making it harder for companies to respond. Successive shocks—from the COVID-19 pandemic and Russia's invasion of Ukraine to the Strait of Hormuz disruption—have reduced governments' fiscal headroom and made inflation harder to manage, posing a challenge to central banks' credibility. It is now harder for the global economy to absorb major shocks than it was at the start of the decade, leaving companies with less time to respond.

Understanding the duration and trajectory of geopolitical or geoeconomic disruption is critical to strategic planning and execution and determining how to prepare.

Short-lived disruption or durable change?

Broadly speaking, **transient disruptions**, such as logistics shocks, a short-cycle political crisis, or a bout of currency weakness, are self-contained. These phenomena may occur at random or follow a cyclical pattern, but they will typically resolve without altering the underlying operating environment as economic or political actors adjust. **Structural disruptions** become entrenched and lead to path-dependent, one-way change. They exert a lasting influence on the operating environment. Structural change occurs when taking an alternate path is especially costly or difficult, when rules or institutions change because of the disruption, or when a disturbance is rooted in a long-term change in society, like rising rates of education or urbanization.

In practice, transient and structural disruptions overlap and interact, and classification is not always static. A transient disruption may be a symptom of a structural vulnerability, accelerate an existing shift, or become a structural change through policy and behavioral response. Structural trends can also increase the frequency or severity of temporary disruptions. A more fragmented world, for example, raises the risk of miscalculations and regional conflict; increasingly severe and unpredictable weather events strain budgets and planners; and rapid technological developments challenge governments to keep up.



© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS043714-3A

The following examples illustrate the distinction between transient and structural disruptions in practice, across a range of macro-issues.

Trade, tariffs, and the redefinition of global commerce

The US administration's use of tariffs reflects a durable political consensus, across both parties, that the free trade compacts underpinning globalization no longer serve US interests. The US is not alone. Trade tensions between China and the EU are rising. Developed and developing markets are hardening industrial policy and responding to trade disputes with targeted countermeasures. Tariff rates at any given moment are negotiable and will fluctuate. By default, this makes any given tariff transient. However, the broader shifts in global commerce are structural.

A future US administration of either party is unlikely to wholly restore pre-2016 trade norms. The direction of travel is toward greater fragmentation that results in an environment characterized by higher baseline tariffs, bilaterally managed trade relationships, and trade policy's use as an instrument to exert geopolitical leverage.

For companies, the assumptions at stake may include market access based on World Trade Organization-era rules, supply chain economics dependent on stable tariff regimes, pricing models with limited capacity to absorb sustained higher input costs, and competitive positioning in markets now exposed to retaliation. The question then becomes whether the firm's strategy remains viable in a trading system that is more fragmented, politicized, and costly.

Demographics, labor, and immigration

Aging populations, falling birth rates, and restrictive immigration policy are converging to create a structural labor constraint across many advanced economies. In the US, net migration fell to roughly 410,000 in 2025, down from a peak of over 2.7 million annually under the prior administration.[2] That decline has lowered the near-term rate of job growth needed to keep unemployment stable, but it also weighs on long-term productive capacity.

Short-term fluctuations in labor markets are transient, while the underlying demographic trends and political constraints that prevent their reversal are not. Lower birth rates reflect decades of economic and social change, and life expectancies are rising due to improved healthcare and standards of living. Immigration is now among the most politically divisive issues in advanced economies, eroding support for policies meant to attract foreign talent.

Many companies built their strategies on assumptions related to workforce availability in labor-intensive and highly skilled sectors, wage models calibrated to looser labor markets, and talent strategies reliant on immigration. Today, the fundamentals have shifted, requiring that those assumptions be rethought. The longer-term question is whether firm strategy accounts for a persistently tighter labor market, including asking where talent will come from, what it will cost, and which parts of the business model are most exposed.

US risk premium

The US administration's foreign policy has accelerated changes in how the country is perceived and caused regulatory, reputational, and consumer-demand consequences for companies operating across markets.

Current policies and rhetoric may prove to be transient postures of a single administration. A future administration could re-emphasize traditional alliance frameworks and potentially restore some degree of predictability. However, it would be remiss to assume a full return to the prior environment. The US becoming a more unpredictable partner is a structural shift, and the impacts are significant: Non-US regulatory regimes are hardening, alliances are shifting away from US-centric architectures, and consumers are changing their behavior.

The affected assumptions include brand value in non-US markets, compliance systems built around US regulatory primacy, supply chain, and counterparty relationships based on a prior conception of US-anchored order and pricing power. As a result, it is increasingly critical to understand not just how to manage the current reputational environment but the extent, and business implications, of increasing hostility toward US identity/Made in America brand among some foreign consumers/markets/governments.

The yen under pressure

The yen hit near-four-decade lows in late July 2026, prompting Japan's Ministry of Finance and the US Treasury to undertake the first joint yen-buying intervention since 1998. The intervention and exchange rate dislocation are transient. The yen's persistent weakness may be structural. Such factors make sustained support for the yen through intervention alone challenging over the medium term.

[2] Congressional Budget Office, "The Demographic Outlook: 2026 to 2056," January 7, 2026.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS043714-3A

The assumptions implicated include input-cost projections for companies sourcing from Japan, competitive positioning relative to Japanese exporters, and hedging strategies calibrated to a narrower range of dollar-yen volatility. Responding does not require firm views on the exchange rate itself but questioning whether Japan-related plans, supply chains, and hedging strategies have been stress-tested against a durably weaker and more volatile yen.

The Red Sea rerouting

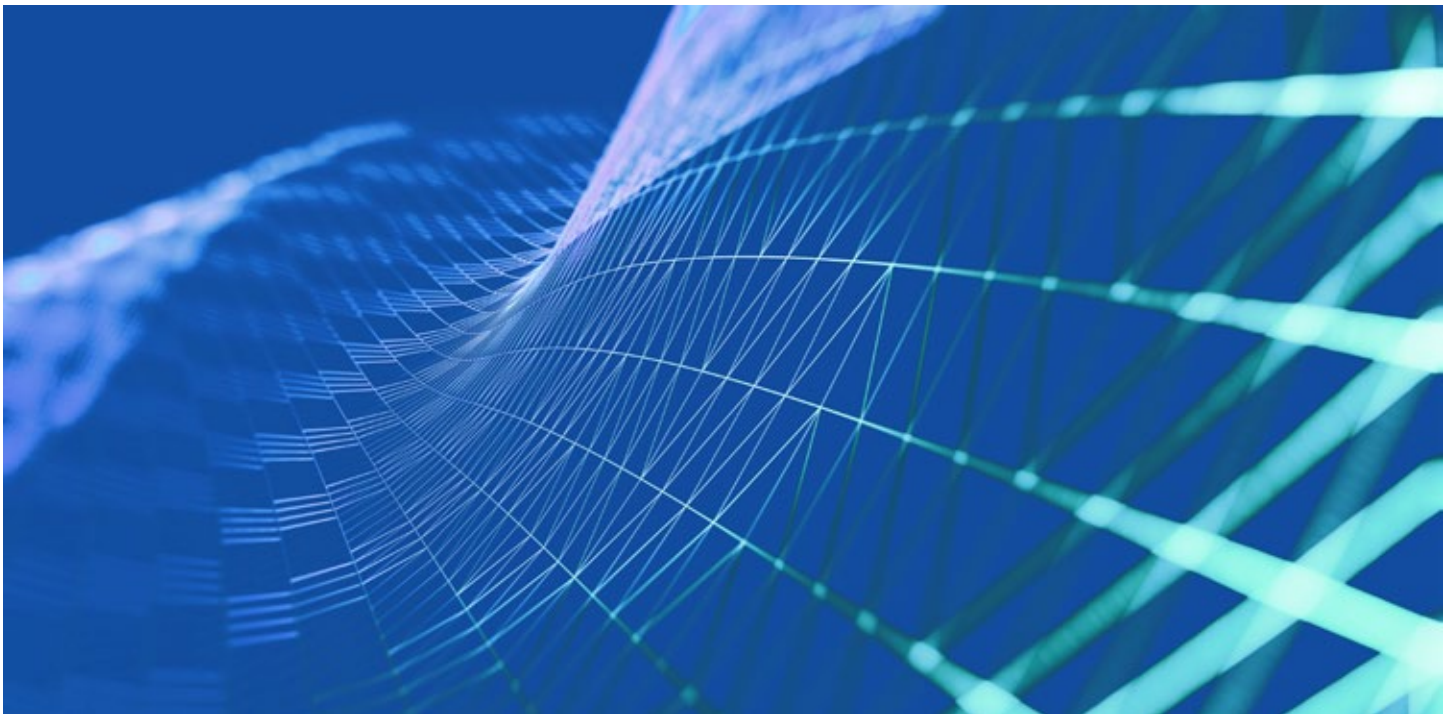
Houthi attacks on commercial shipping in the Red Sea in 2023 and 2024 led major carriers to reroute vessels around the Cape of Good Hope, lengthening transit times and increasing freight costs. The logistics shock and elevated freight rates were transient and largely resolved as the security environment improved. Nevertheless, the episode exposed a structural vulnerability: A nonstate actor, backed by a regional power, was able to disrupt a critical trade route for months, while global powers struggled to restore reliable passage.

The disruptions to the Red Sea broke long-standing assumptions, including supply chain routing built around uninterrupted Red Sea access, freight costs calibrated to predisruption norms, and inventory strategies built for just-in-time logistics. The relevant issue now is not whether to predict the next closure; it is whether management has assessed the company's dependence on critical chokepoints and whether the strategy provides sufficient resilience if access is disrupted again.

AI: The ultimate structural disruption?

The structural implications of AI for the economy stand to be historic and continue to unfold as a generational, transformational shift that will fundamentally reshape operating models, decision-making processes, and competitive dynamics across industries. For organizations, AI will test strategy in at least two critical areas. First and foremost are culture, workforce, talent, and people issues—including change management, workforce empowerment, skills development, and cultural transformation. Second, how will AI impact strategic execution and enhance productivity, efficiency, and decision quality in areas such as sales, customer service, supply chain optimization, product innovation, workforce management, and research and development?

A key consideration—particularly as AI model costs rise and "finding return on investment" fatigue sets in—is the extent to which AI dominates strategy discussions versus being one factor among others. How is management growing the business—defining markets and finding competitive advantage—in the pursuit of long-term value creation? In that context, how much of AI's promise will take hold, and what aspects will wane?



© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS043714-3A

Telling signs: Root causes and reactions

Two diagnostic steps help determine whether disruptions are structural or transient. First, determine the root causes. Random and cyclical triggers, such as sentiment shifts, policy adjustments, periodic cycles, or consumer fads, point toward transient. Deeply rooted, self-reinforcing forces point toward structural. Second, observe the reaction of those immediately downstream of the shift. Actors facing a transient disruption adjust tactics but leave strategy intact, often "looking through" the disruption while deferring investment decisions. Actors facing structural disruptions revise long-term expectations, change strategies, or fundamentally retool.

For example, a logistics firm with high fuel costs that sources heavily from the Middle East might consider how refiners and producers in the region are reacting to the US-Iran war. If these actors are hardening infrastructure and seeking to diversify export routes, that would signal they are planning for structural insecurity. The implication would be durably higher and more volatile fuel costs. On the other hand, if the actors closest to the disruption forgo major changes and give guidance on when they expect pre-war oil and gas exports to resume, that would be evidence they expect the disruption to be short-lived.

These are signals, not certainties. The more consequential discipline is recognizing when a disruption that presents as transient is symptomatic of something structural. For example, a specific tariff rate can reflect a permanent shift in trade politics, or a supply chain disruption can reveal a dependency that was never going to be sustainable.

Implications for board engagement in strategy

The days of setting a five-year strategic plan and revisiting it annually seem like a quaint concept in 2026. Dynamic oversight of strategic execution is increasingly important as volatility and disruption make long-term strategy more challenging to maintain without vigilant checks on execution. In its oversight role—helping to link strategy and risk, challenge assumptions, encourage pivots, and bridge strategy gaps that management might be missing—the board's understanding of the depth and temporal nature of disruptions is vital to determining whether the strategy (as a frame) needs to be changed or strategic execution needs to be calibrated (within the existing frame).

Process matters

The board should be in regular, strategic dialogue with management about changes in the external environment, including having a historical understanding of what structural factors drove past performance and whether those conditions are likely to persist or have fundamentally changed.

This ongoing conversation should be grounded in a structured process that enables the company to:

- **Screen global developments strategically.** Major geopolitical, policy, and market changes should be considered through a consistent strategic lens: Is this structural or transient? Is our exposure direct or indirect? Could it threaten the assumptions underlying our strategy? Incorporating these questions should not be improvised under pressure. They should be built into periodic board discussions to help prevent signals from getting lost in operational noise.
- **Move from identification to realignment.** Recognizing a structural shift is only the beginning. The board and management should have a shared understanding of how a potentially material disruption or development moves from monitoring to strategic discussion. Without such clarity, even well-identified risks can remain "monitoring" items long after they begin to challenge the company's strategic assumptions.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS043714-3A

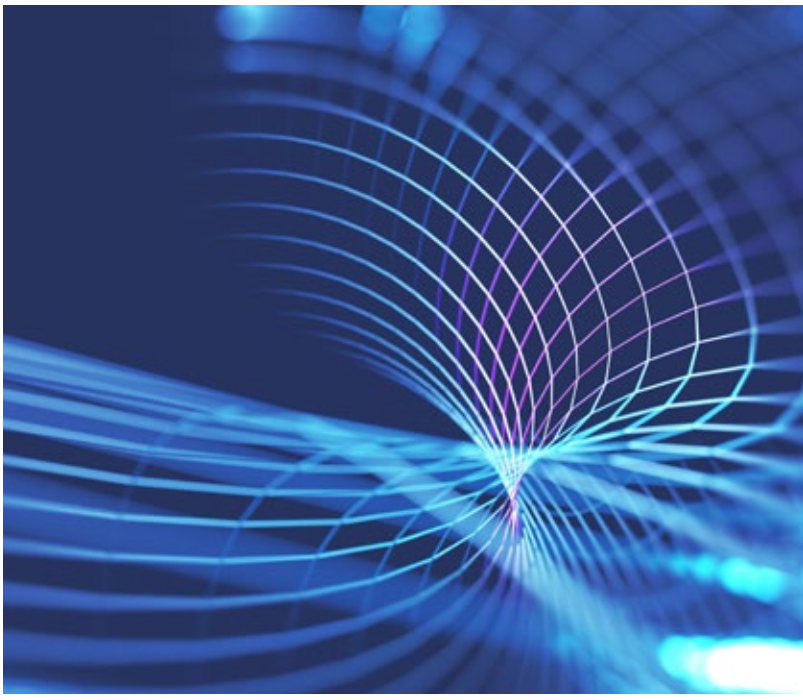
- **Use scenario planning before it's needed, underpinned by adaptability.** Scenario planning is not a crisis-response tool. It is most valuable when used before events that narrow a company's choices and the crisis arrives. It forces boards and management to consider plausible futures, map critical vulnerabilities, and explore strategic actions without having to predict a single future outcome. In an environment where the range of plausible futures has broadened, scenario planning is no longer an optional exercise; it is a requirement to convert geopolitical awareness into institutional readiness. And while scenario planning is essential to help expand leadership thinking about long-term strategy and to build the cognitive muscle to respond to change, it is important to recognize its limitations. Companies and boards are placing more emphasis on resilience, agility, and adaptability as the widening range of scenarios makes long-term planning more challenging and speculative.

Board engagement should also focus on how management is:

- **Stress testing the strategy:** If a structural shift renders underlying assumptions obsolete, incremental mitigation is not enough. Does the company need to reconsider markets, the business model, or its competitive positioning?
- **Revisiting the firm's risk appetite:** Structural shifts may require recalibrating the company's risk tolerance and whether existing limits and guardrails are still adequate.
- **Monitoring events for migration:** Transient risks can become structural. Is management monitoring whether that threshold is being crossed and adjusting accordingly?
- **Ensuring clarity of roles, responsibilities, and accountability:** Is management's process for assessing changes in the external environment and implications for strategy and risk keeping pace? Are roles, responsibilities, and accountability clear? Is management's reporting to, and dialogue with, the board robust?

Seeing beyond the headlines

Through the wide lens that it brings to the business, the board has a valuable role to play in helping position the company—with a robust process—to see beyond the headlines and the immediate severity of events. In a world of geopolitical fragmentation, expanding national security priorities, and recurring shocks—all intensified by the advance of AI—distinguishing transient volatility from structural change will be vital to robust strategy discussions and decision-making, where strategic assumptions, enterprise value, and major capital decisions are at stake.



© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. USCS043714-3A

About the KPMG Board Leadership Center

The KPMG Board Leadership Center (BLC) champions outstanding corporate governance to drive long-term value and enhance stakeholder confidence. Through an array of insights, perspectives, and programs, the BLC promotes continuous education and improvement of public and private company governance. BLC engages with directors and business leaders on the critical issues driving board agendas—from strategy, risk, talent, and sustainability to data governance, AI, audit quality, proxy trends, and more.

Learn more at kpmg.com/us/blc.

About Eurasia Group

Eurasia Group is the world's leading global political risk research and consulting firm. By providing information and insight on how political developments move markets, we help clients anticipate and respond to instability and opportunities everywhere they invest or do business. Our expertise includes developed and developing countries in every region of the world, specific economic sectors, and the business and investment playing fields of the future. Headquartered in New York, we have offices in Washington, DC, London, San Francisco, Sao Paulo, Singapore, and Tokyo, as well as on-the-ground experts and resources in more than a hundred countries. "Politics first" grounds our work: Politics is the lens through which we view the world, and we are committed to analysis that is free of political bias and the influence of private interests. www.eurasiagroup.net.

Contact us

kpmg.com/us/blc
T: 800-808-5764
E: us-kpmgmktblc@kpmg.com

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.

Learn about us: **kpmg.com**

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2026 KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization. USCS043714-3A