



Global Investment Office | April 16, 2026

# Geo Policy Pulse

## 2026's Global Elections

Our new quarterly periodical focuses on the cross section of geopolitics and markets. In this report, we cover the policy, market and economic implications of 2026's global elections.

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### Top Investment Takeaways

- **Global:** A shifting multipolar world and greater protectionism are reorienting trade and economic relationships. Global elections add key inflection points, with subsequent policy shifts creating new investment risks and opportunities, and outcomes altering the trajectory of fiscal, regulatory and investment policy.
- **US:** Housing, health care, energy and broader affordability continue to be top issues and opportunities, while defense and strategic resource access are secular trends likely to remain in focus.
- **Japan:** The spike in Japanese yields reflects Prime Minister Sanae Takaichi's plan to increase fiscal spending and challenge China after a strong electoral win. While risks to Japan's economy have risen with the oil shock, it could also deepen US-Japan energy, defense and critical-mineral coordination, underscoring Takaichi's national security emphasis.
- **Latin America:** Latin American equities could benefit from a weaker US dollar, but the global oil shock adds a notable headwind. If Brazil's and Colombia's election results are favorable from a US perspective, both countries could see improved relations with the US, including expanded investment and trade.
- **Brazil:** A rightward shift in Brazil's election could validate its strong equity performance and push down rates through a mix of greater fiscal consolidation and deregulation.
- **Colombia:** A pivot away from President Petro's agenda would prompt conservative-led fiscal consolidation, easing inflation pressures and strengthening US trade and defense ties. A continuation of leftist policies risks sustained inflation and higher rates.
- **Peru:** Persistent political fragmentation and instability remain key risks, with the election outcome likely hinging on the perceived ability to govern effectively. A center-right outcome could support mining and infrastructure investment, while continued coalition fractures could hinder reform and dampen investor confidence.

- **Israel:** Opportunities exist among Israeli defense and tech stocks, which have driven equity market performance. Signs of hope in the form of geopolitical green shoots are emerging, and diplomatic, economic and defense ties in the region are strengthening as the Iran war continues.

A rebalancing of trade and economic relationships is emerging against the backdrop of an increasingly multipolar world. This reorientation of the global order underscores the importance of geopolitics as one of our four policy pillars—along with trade, taxes and fiscal policy, and deregulation—while the “multipolar world” fosters new investment risks and generates domestic and international opportunities. These considerations help inform the construction of Morgan Stanley Wealth Management’s proprietary thematic investment portfolio, as does critical policy analysis of the rapidly changing geopolitical landscape.

In this report, we discuss the policy, market and economic implications of 2026’s global elections. Elections are often key inflection points for investors, with considerations extending beyond the ballot box. Global elections and the subsequent shifts driven by regime change—from fiscal and industrial policy to trade, technology and more—shape economies and markets.

In the US, the Republican Party is likely to lose its congressional majority in the midterms, which could constrain President Trump’s lightning-speed agenda. In Latin America, political winds are forming that could drive procyclical policy, while the Japanese election may catalyze increased fiscal stimulus. Israel’s election comes amid profound volatility, but also significant regional change, as diplomatic, economic and military ties are evolving quickly.

The elections of 2026 will have sweeping ramifications for global policymaking and are critical for investors to monitor, as outcomes could notably alter the trajectory of fiscal priorities, regulatory environments and cross-border capital flows across key markets (see Exhibit 1).

**Exhibit 1: 2026 Elections Are Especially Consequential**

Country	Election	Date	What’s at Stake?
Japan	General	Feb. 8	Full Lower House control and conservative mandate for PM Takaichi
Peru	General	April 12	Conservative candidates lead amid political instability; likely June runoff election
Colombia	General	March 8 / May 31	Referendum on left-leaning policies, with US pressure in the background
Brazil	General	Oct. 4	Lula’s potential fourth term amid US-China spheres of influence
Israel	Legislative	On or before Oct. 27	Knesset control; referendum on PM Netanyahu after Middle East tensions
US	General	Nov. 3	GOP congressional control; Referendum on Trump

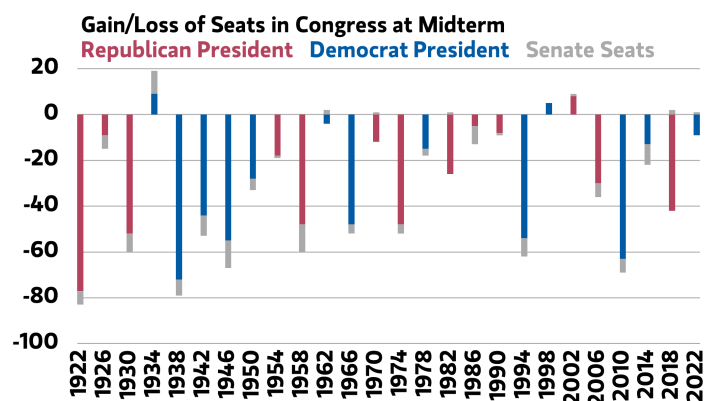
Source: Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

US Midterms

**What’s Happening?**

Republicans risk losing full control of Congress. The potential for a Democratic-led House of Representatives, Senate or both could slow President Trump’s lightning-fast agenda. A flip in House control is likely, given falling presidential approval ratings and a Democratic advantage in the generic congressional ballot. The ballot—a polling question that asks voters which political party they plan to vote for—is typically indicative of down-ballot party performance. Historically, the sitting president’s party has lost an average of 30 seats in the House and four in the Senate in midterm elections since 1922. The narrow 53–47 Senate Republican majority pressures Republicans in 2026 as well, but we expect the GOP to retain control of the chamber (see Exhibit 2).

**Exhibit 2: The Sitting President’s Party Historically Loses Seats During Midterms**



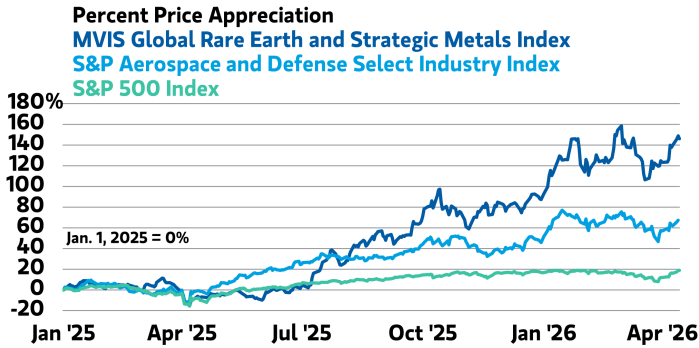
Source: Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

**Key Policy Issues and Investment Implications**

- **Campaign Trail:** Affordability, exacerbated by higher gas prices at the pump, remains a top voter issue. We expect affordability-related policies to be enacted ahead of the election in a bid to address gasoline, housing, health care and energy costs. While strong tax returns generated from One Big Beautiful Bill Act (OBBBA) tax cuts were expected to create a short-term boost for the consumer, related gains have been nearly offset in full due to the sustained energy crisis, creating additional issues for legislators to address come campaign season.
- **National Security Focus:** We expect the Trump administration to continue asserting its sphere of influence over the Western Hemisphere, the Middle East and the Indo-Pacific region. Should the US remain in a sustained conflict in the Middle East, however, we believe weakening approval for the conflict would further favor Democrats’ election prospects. Elevated US influence and military positioning across the globe support US defense, energy and precious metals performance (see Exhibit 3).

**Political Implications:** Heightened political gridlock is likely if Democrats take control of the House. In this scenario, legislation would probably require greater bipartisanship and heavy compromise. Trump might turn to greater unilateral action through executive orders, regulations, and trade and foreign policy that could drive headline market risk.

**Exhibit 3: Defense Stocks and Rare Earth Miners Continue to Outperform**



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

Japan

**What's Happening?**

Prime Minister Takaichi's Liberal Democratic Party (LDP) achieved a two-thirds supermajority in the Lower House in the Feb. 8 election, the largest post-war victory for a single party in Japan. This cements a clear political mandate for Takaichi, who is pursuing a reflationary growth agenda emphasizing responsible fiscal spending to support real household consumption, national defense and strategic investment.

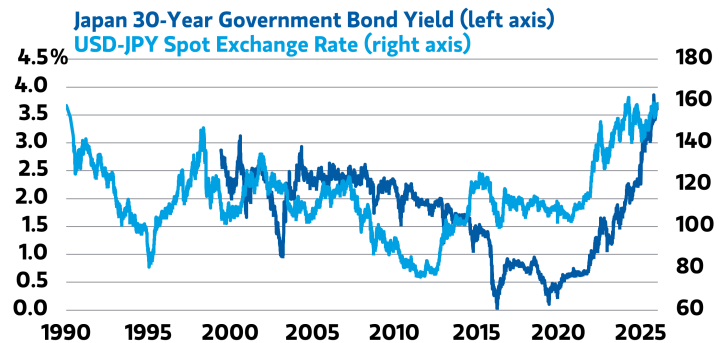
**Key Policy Issues and Investment Implications**

- **Japan Fiscal and Macro Policy:** Japan's sustained inflationary environment after years of deflation has driven Japanese yields to multidecade highs. Takaichi's victory could open the door to more expansionary fiscal measures, including potential tax relief and stimulus, which could boost fiscal pressures amid energy shock concerns. This would be at odds with policy from the Bank of Japan, which has been hiking rates since 2024. Furthermore, while the Japanese yen's historic weakness could pressure inflation upward through higher import costs, higher rates also raise the risk of carry trade unwinds, which could tighten global liquidity and weigh on US tech stocks (see Exhibit 4). For now, the Japanese equity market appears to view the election result positively.

- **National Defense and Japan-China Tensions:** Takaichi's rhetoric on Taiwan escalated tensions with China, which has imposed export controls on select critical minerals. Japan's defense budget has risen to approximately ¥9 trillion, or roughly \$58 billion, as part of a broad, multiyear military build-up in response to regional threats. At the same time, Japan has further relaxed longstanding restrictions on lethal weapons exports, fostering potential for greater participation in global defense supply chains. Japan-US alignment on strengthening national defense was showcased through Takaichi's US visit in March, boosting sectors related to physical assets and resources, including energy, defense and minerals.

**Political Implications:** Takaichi's victory strengthens the near-term outlook for policy continuity and fiscal support, which could reinforce incumbency advantages heading into future elections. However, the durability of this political strength will hinge on the interaction of inflation, energy shocks and fiscal sustainability.

**Exhibit 4: Japanese Yields and Currency Have Reacted to Potentially Greater Fiscal Expansion**



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

Latin America

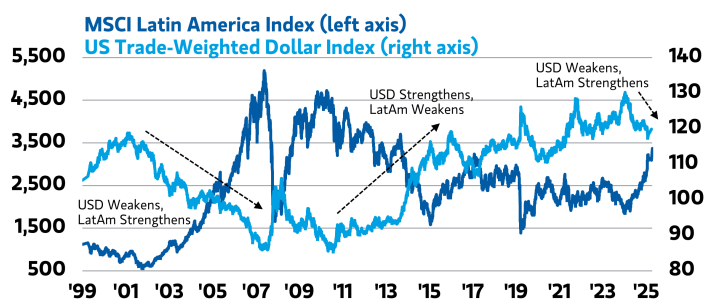
**What's Happening?**

In 2025, elections in Argentina, Bolivia, Chile and Ecuador delivered significant rightward political shifts, and upcoming election cycles in Brazil, Colombia and Peru could follow these trends. The shifts were largely motivated by economic dissatisfaction and public safety concerns; as these persist, they could result in further recalibration of foreign policy and closer geopolitical alignment with the US. Although a prolonged oil shock could add economic headwinds for the region, the macro and thematic trends are mostly intact, supporting a positive outlook:

## GEO POLICY PULSE

- **Regional Elections:** A rightward electoral shift across the region in 2026—with elections in Brazil, Colombia and Peru—could result in pro-growth economic reform accompanied by greater fiscal transparency and credibility. The potential shift may also drive closer alignment with the US, reinforcing investment flows to strategic resource sectors, although outcomes will remain highly dependent on domestic policy execution and external conditions.
- **Favorable Macro Environment:** Latin America remains sensitive to the US dollar. A weakening dollar since early 2025 has supported Latin American equities, many of which are export-oriented, partly by pushing commodity prices denominated in the dollar higher (see Exhibit 5). The dollar's rise since the start of the Iran war, however, constrained Latin American equities. Furthermore, the pace of expected monetary policy easing across the region could be tempered due to inflation concerns, weighing on the potential for strong growth. That said, a robust rightward political shift could create longer-run policy tailwinds, supporting a procyclical trend.

**Exhibit 5: Latin American Equities Remain Highly Sensitive to the US Dollar**



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

## Brazil

### What's Happening?

Brazil's Oct. 4 election is perhaps the most consequential in the region. President Luiz Inacio Lula da Silva is seeking a historic fourth term, with resilient approval ratings amid pressure from President Trump. Former President Jair Bolsonaro's son, Senator Flavio Bolsonaro, is Lula's main challenger, with polling between the two remaining tight. A runoff, which has occurred in every election since 2002, is expected. From a macro perspective, restrictive monetary policy caused the central bank to combat persistent inflation by raising interest rates to 20-year highs in 2025. Morgan

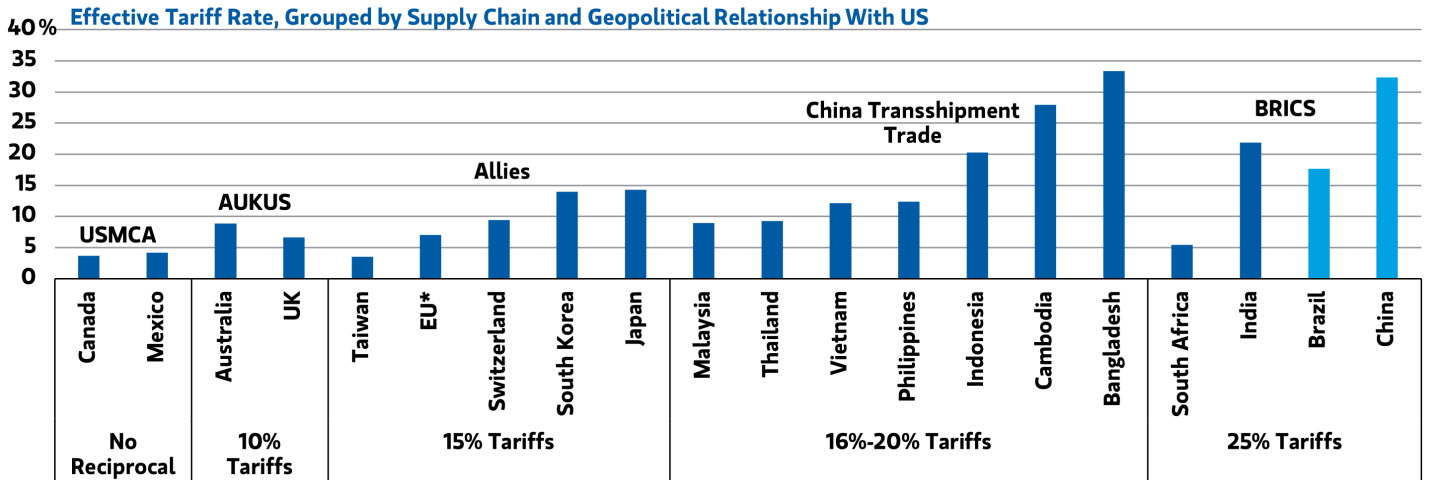
Stanley & Co. economists, however, expect 275 basis points of cuts from the Central Bank of Brazil in 2026, in addition to the 25-basis-point cut in March, as inflation and growth moderate. The election outcome will be key for policy direction, with a Lula victory implying greater policy continuity and a Bolsonaro victory potentially signaling a shift toward a more market-oriented framework.

### Key Policy Issues and Investment Implications

- **Trade Shifts:** Brazil and China have expanded their economic engagement, with each facing among the highest US effective tariff rates (see Exhibit 6). Trade between the two countries, centered on soybeans and oil, reached a record in 2025. While a US-Brazil trade agreement remains elusive, the European Union (EU) and Mercosur—a group of Latin American countries including founding member Brazil—have signed a historic free trade agreement accounting for 25% of global GDP, further reshaping the trade landscape. The election outcome will be a key factor in Brazil's trade policy, with Lula likely to sustain deeper engagement with China and multilateral blocs. In contrast, a Bolsonaro-aligned administration could tilt more toward the US and bilateral trade frameworks.
- **Fiscal Sustainability:** Government spending has pressured Brazil from a fiscal standpoint, with elevated yields helping to drive interest costs as a share of GDP to almost 10%, the highest in the region. Investors are watching the election outcome closely: A Bolsonaro victory could bring higher policy uncertainty, but also a market-friendly mix of fiscal consolidation, deregulation and increased commodity exports, pushing down rates. A Lula victory would likely enhance policy clarity, but with greater fiscal expansion and concerns about long-term fiscal sustainability. Prospects for market-friendly policy change and other macro tailwinds have been reflected in Brazil's outperformance of the S&P 500 Index since early 2025.

**Political Implications:** As the election approaches, investors remain highly sensitive to the increasing political uncertainty that may emerge. The tug of war between the top voter concerns of public safety and the economy is stark. While Lula may be viewed as stronger on the economy, and he has expanded fiscal support through social programs, infrastructure spending and tax reform, Flavio Bolsonaro is seen as stronger on public safety and security. The candidates' fiscal policy proposals are the primary market focus.

Exhibit 6: Brazil Has Expanded Trade With China, as Both Face High US Tariffs



\*EU composed of Ireland, Belgium, France, the Netherlands, Germany, Italy and Spain.  
Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of March 25, 2026

Colombia

What's Happening?

With President Gustavo Petro constitutionally barred from reelection, the 2026 race is shaping up as a referendum on his progressive agenda. Leftist candidate Senator Iván Cepeda represents policy continuity, while the opposition is split between hard-line conservative Abelardo de la Espriella and center-right candidate Paloma Valencia, increasing the likelihood of a runoff. The fragmented right raises the importance of coalition-building, with a unified conservative front likely able to mount a credible challenge. All three candidates are expected to run on May 31, and if none achieves 50% of the vote, which is likely, the top two candidates will advance to a June runoff.

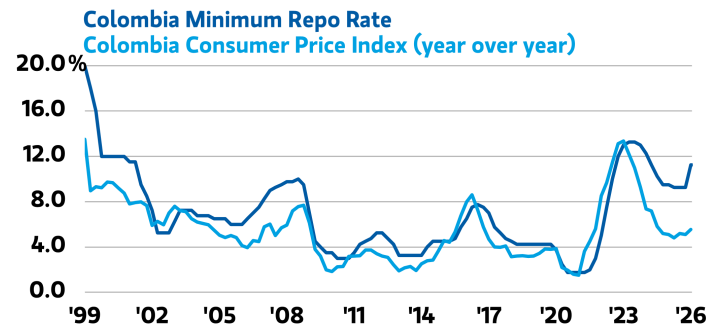
Key Policy Issues and Investment Implications

- **Disinflation Cycle:** Elevated fiscal spending has slowed Colombia's disinflation process, with renewed price pressures following a 23% minimum wage increase. In response, the country's central bank has turned more hawkish, delivering 100-basis-point hikes in each of the past two meetings after cutting by 400 basis points since late 2023. A victory for center-right candidate Valencia could mean greater fiscal consolidation and probusiness reforms, while a continuation of Petro-style reform could widen fiscal deficit risks, keep inflation sticky and further pressure policy rates. Importantly, Colombian CPI has already begun to reverse course after falling 7.8% from its recent peak of 13.3% in March 2023 (see Exhibit 7).

- **Manageable Tariff Framework:** The US and Colombia remain at odds over immigration, crime and drug trafficking issues. The US is Colombia's largest trade partner, and despite a 10% headline tariff, agricultural carve-outs have reduced the effective tariff rates to 2.8%. Should Valencia prevail, tariff rates could be reduced and US-Colombia trade and defense ties could strengthen.

**Political Implications:** Valencia's win in the conservative primaries lowers the probability of extreme outcomes for domestic equities. Public safety and organized crime remain major voter concerns, which is a factor that has traditionally strengthened conservative candidates. However, intraparty competition on the right between Valencia and De la Espriella risks splitting the conservative vote in favor of leftist Cepeda. From a market perspective, a Cepeda victory would likely signal continued regulatory intervention and a more state-led approach, while a conservative win could point to a more market-friendly policy mix, though institutional constraints may limit the pace of change.

Exhibit 7: Elevated Inflation Delays Monetary Easing in Colombia



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

## Peru

### What's Happening?

After a decade of political instability, featuring nine presidents in roughly 10 years, the 2026 election is a referendum on governability rather than any one political ideology. Conservative Keiko Fujimori holds a narrow lead over far-right candidate Rafael Lopez Aliaga, but with 35 candidates on the ballot, early results suggest no clear winner emerging, pointing to continued political fragmentation and a runoff election in June.

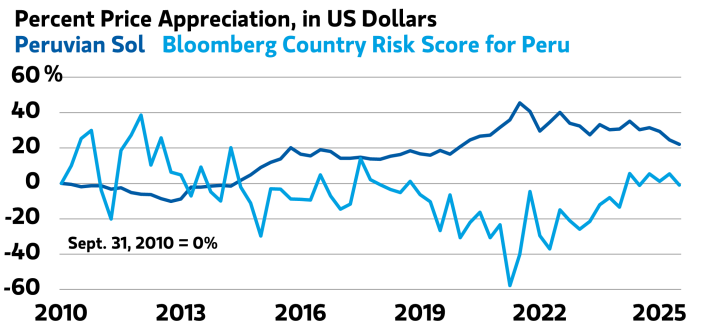
Notably, this election also coincides with the country's return to a bicameral Congress and a new Senate, adding complexity to an already fragile political system and increasing the importance of coalition-building. More broadly, it serves as a referendum on government corruption and low trust in institutions, and it highlights crime and public safety as core issues. As a result, the central question is less about ideology and more about which candidate can govern effectively and restore political stability.

### Key Policy Issues and Investment Implications

- **Policy Execution:** Peru's fragmented political system and weak institutional framework remain central risks for investors. The next administration is likely to face a divided Congress, raising the risk of legislative gridlock, cabinet turnover and continued executive-legislative conflict. Deep political division is likely to guide investors' focus away from campaign rhetoric and toward the government's ability to execute policy, maintain stability and avoid disruption, which have historically weighed on investment performance and confidence (see Exhibit 8).
- **Mining and Investment Climate:** Peru's mining sector accounts for roughly 10% of its GDP and a major share of exports and employment. Should Fujimori win, we expect support of mining investment to be a focal point, which should favor a more pro-investment stance. Resultant streamlined permitting, regulatory easing and closer alignment with private capital would likely support mining and infrastructure. In contrast, an Aliaga presidency could support populist ideology, increasing policy uncertainty and coalition fragmentation, which could weigh on the near-term investment environment.

**Political Implications:** The election highlights one of Peru's core political problems: fragmentation. A center-right candidate's victory could mean greater cohesion in the newly formed bicameral Congress and the pursuit of pro-growth policies. For markets, this could also lead to greater stability in headline macro data than in politics. That said, repeated governance shocks could still delay reforms, investment decisions and project approvals.

## Exhibit 8: Peruvian Sol Performs Well During Periods of Political Stability



Note: The Bloomberg Country Risk Score measures a country's overall risk across financial, economic and political sectors relative to the performance of other emerging and developed countries.  
 Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

## Israel

### What's Happening?

Israel's next Knesset (parliament) elections are expected to be called by the fall of 2026. Prime Minister Netanyahu's Likud party still falls short of a Knesset majority, heightening the need to partner with other, nontraditional parties to form a coalition. While the war with Iran has become the dominant political issue, voter concerns around the cost of living and military conscription remain salient. The election outcome will likely hinge on how security dynamics evolve, but coalition composition will be key for policy direction, particularly regarding spending and domestic reforms.

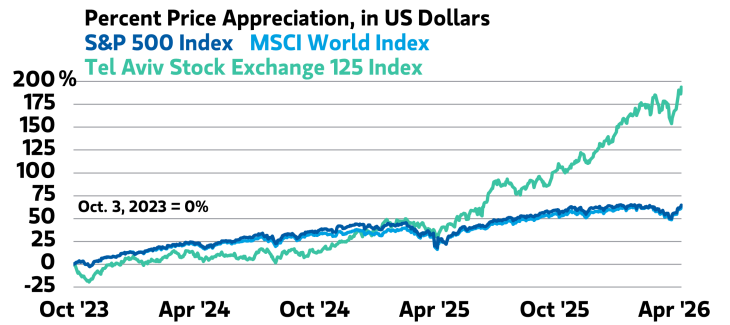
### Key Policy Issues and Investment Implications

- **US-Israel Relations:** Strong US-Israel ties remain central to Israel's policy framework, reinforced by joint operations in Iran that have deepened military and intelligence cooperation. The relationship also creates political tailwinds for Netanyahu, supporting his ability to form a governing coalition. While security risks related to Gaza and southern Lebanon persist, emerging diplomatic initiatives could offer a potential pathway to de-escalation.
- **A New Middle East:** The region remains volatile after years of conflict, with the war in Iran representing a key wild card and underscoring vulnerabilities around critical chokepoints such as the Strait of Hormuz. At the same time, tentative signs of increased defense, economic, technological and diplomatic cooperation between Israel and its Persian Gulf neighbors could support a gradual deepening of the Abraham Accords. Israeli equities have reflected this more constructive outlook, as the defense, technology and financials sectors have outperformed global benchmarks by roughly 130% in US dollar terms since October 2023 (see Exhibit 9).

## GEO POLICY PULSE

**Political Implications:** Israel's upcoming election comes amid public polarization and an intense regional conflict framed as existential. Our base case for a Netanyahu victory would likely reinforce a security-first policy framework, with continued military engagement, elevated defense spending and deeper US-Israel strategic alignment, alongside a coalition-dependent domestic agenda. In contrast, a loss could usher in a more fragmented or centrist-led coalition, potentially prioritizing de-escalation and domestic economic concerns, though core security policy and US alignment would remain broadly intact.

### Exhibit 9: Israeli Stocks Have Outperformed Global Stocks Despite Regional Tensions



Source: Bloomberg, Morgan Stanley Wealth Management Global Investment Office as of April 14, 2026

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For index, indicator and survey definitions referenced in this report please visit the following: <https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions>

### Glossary

**Volatility** This is a statistical measure of the dispersion of returns for a given security or market index. Volatility can either be measured by using the standard deviation or variance between returns from that same security or market index. Commonly, the higher the volatility, the riskier the security.

### Risk Considerations

**Investing in foreign markets** entails greater risks than those normally associated with domestic markets, such as political, currency, economic and market risks. **Investing in currency** involves additional special risks such as credit, interest rate fluctuations, derivative investment risk, and domestic and foreign inflation rates, which can be volatile and may be less liquid than other securities and more sensitive to the effect of varied economic conditions. In addition, international investing entails greater risk, as well as greater potential rewards compared to U.S. investing. These risks include political and economic uncertainties of foreign countries as well as the risk of currency fluctuations. These risks are magnified in countries with **emerging markets and frontier markets**, since these countries may have relatively unstable governments and less established markets and economies.

**Equity securities** may fluctuate in response to news on companies, industries, market conditions and general economic environment.

**Bonds** are subject to interest rate risk. When interest rates rise, bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which is the risk that the issuer will redeem the debt at its option, fully or partially, before the scheduled maturity date. The market value of debt instruments may fluctuate, and proceeds from sales prior to maturity may be more or less than the amount originally invested or the maturity value due to changes in market conditions or changes in the credit quality of the issuer. Bonds are subject to the credit risk of the issuer. This is the risk that the issuer might be unable to make interest and/or principal payments on a timely basis. Bonds are also subject to reinvestment risk, which is the risk that principal and/or interest payments from a given investment may be reinvested at a lower interest rate.

**High yield bonds (bonds rated below investment grade)** may have speculative characteristics and present significant risks beyond those of other securities, including greater credit risk, price volatility, and limited liquidity in the secondary market. High yield bonds should comprise only a limited portion of a balanced portfolio.

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RS11776345469206 04/2026