

Whither Global Financial Markets?¹

Good morning! Shri Amarjeet Singh, Whole Time member, SEBI, Shri Shamsher Singh, Chairman, FIMMDA, Shri Pareed Sunil, Chairman, PDAI, esteemed panelists and distinguished guests. I feel honored to be invited to speak at the FIMMDA-PDAI conference in this lovely tulip city of Amsterdam. May our Indian Financial markets also blossom like the beautiful tulips.

I have chosen the title “Whither Global Financial Markets?” with a question mark at the end for my address today. I wish I myself knew the answer to this question. However, I shall make a sincere attempt to analyse the question, draw upon the past and present, and make an intelligent guess about the future. Finally, I will try to dwell upon how best we can navigate the future.

In the last 5-6 years, the world has had to deal with a pandemic, the unending Russia-Ukraine war, aggressive interest rate hikes by central banks followed by some cuts, trade and tariff wars, the US-Israel war against Iran with involvement of Hezbollah, Hamas, Houthis and many more smaller groups, declaration of ceasefires and negotiations, and simultaneous blockades of international waterways. As I speak, the situation is fluid and we don't know what is in store for the world tomorrow.

No wonder, global markets have been oscillating between euphoria and despair and many combinations of the two. All markets have responded more to geopolitical and geo-economic developments and tweets and fake news than to fundamentals.

2. Weaponisation of Geography

We are already familiar with weaponisation of US dollar, SWIFT, trade and tariffs. The latest in this sequence is what I call the weaponisation of Geography. Countries are increasingly taking advantage of their positioning on the globe to influence global affairs. Consider the following:

- USA is largely separated from the rest of the world by vast oceans. This gives it a sort of geographical immunity from attacks by its competitors and foes. This, together with military and technological might, forms the base for the superiority it enjoys in global affairs.

¹ Special address delivered by Shri Radha Shyam Ratho, Executive Director, Reserve Bank of India in the 25th FIMMDA - PDAI Annual Conference 2026 held in Amsterdam on May 01, 2026.

- Europe's geographical proximity to Russia is a major vulnerability. Although western Europe is more developed than Russia, its dependences on Russia for energy, and USA for security are major handicaps.
- Countries in the Middle East are mid-way between Asia on the one hand and Europe and USA on the other hand. Their geographical positioning gives them leverage over global shipping and air routes.
- Russia, China and India have their own strengths because of their size and resources.

The best manifestation of weaponisation of geography is currently the Strait of Hormuz which is being blocked by both Iran and USA. During the last few weeks, there has also been a fear that the Bab Al-Mandeb strait that connects the Red Sea with the Gulf of Aden may be closed. If the Strait of Hormuz, which at its narrowest point is 21 nautical miles wide, can be closed forcefully, then the Strait of Malacca which at its nearest point is only 1.5 nautical miles wide can be an easy target.

Stretching the idea a bit, closure by a country of its airspace cannot block air routes. However, it can cause inconvenience and increase costs as aircrafts have to take circuitous routes. Closure of airspace has more of nuisance value, but who knows, someday some country may attempt to monetize it.

Going ahead, weaponisation of Geography is likely to become more common, along with all the other weaponisations, and will cast a major influence on financial markets.

3. Geopolitics, Geo-economics, Geography and Financial markets

Between January 2025 and April 2026, financial markets have operated under a dense cloud of uncertainty, with geopolitics - particularly tariffs, strategic rivalry, and conflicts - dominating the narrative. The erratic nature of events and uncertainty surrounding them have disrupted business calculations, dampened investor sentiment, and heightened volatility across asset classes.

In my view, a notable shift has been the erosion of mutual trust among the countries of the first world. Perceived unilateralism, diplomatic friction, and instances of public disrespect by the USA toward partner nations have strained relationships. The Greenland issue has further amplified unease in Europe. Simultaneously, attacks on

venerable institutions such as the Federal Reserve have raised concerns about policy independence and governance credibility.

Europe has, in response, increasingly charted a more autonomous course. Key economies including France, Spain, and Italy have shown greater willingness to diverge from the US position on trade, defence and energy security. Even close partners of USA like Canada have experienced friction on trade and regulatory issues. In my opinion, this reflects a broader realignment in the first world away from the USA.

Meanwhile, countries of the Middle-East have suffered badly due to the war. The longstanding US security assurances have appeared less reliable, prompting the Middle-Eastern countries to make efforts towards diversifying strategic partnerships. They are also having to realign their trade with various countries.

Again, in my view, amid such geo-political and geo-economic fragmentation, China and Russia may have emerged as the key beneficiaries, leveraging energy trade, currency arrangements, and geopolitical positioning. India, too, has gained strategically benefiting from its growing importance as a balancing power in a multipolar world.

Geopolitics and geo-economics are increasingly shaping - and are simultaneously being shaped by - strategic competition in artificial intelligence (AI), renewable energy, and next-generation technologies. Nations are prioritizing technological sovereignty, with the US, China, and Europe investing heavily in AI capabilities, semiconductor supply chains, and data control frameworks. Trade restrictions and export controls on critical technologies have intensified this race. There is the growing possibility of an **AI divide** emerging among nations. Many countries are fearful that they may be left behind among the AI have-nots. In parallel, the transition to renewable energy has become a geopolitical lever, as countries compete for access to critical minerals and battery technologies. This has spurred new alliances and supply chain realignments. Ultimately, technological leadership is now inseparable from national security, economic resilience, and global influence. The re-emergence of tariffs and industrial policy also marks a significant turning point. Countries are increasingly supporting domestic industries, incentivising local manufacturing, and rethinking trade dependencies.

While such policies may strengthen domestic resilience, they also risk fragmenting global trade and reducing overall global efficiency and growth. Over time, this may cause structural inflationary pressures and complicate the task of monetary authorities worldwide.

These developments also make it difficult for countries adopting the Chinese and East Asian export-led model of growth. Friend-shoring and near-shoring may prevent relocation of supply chains based just on cost advantages. It is likely that regional trade agreements (RTAs) would be the preferred mechanism, unlike the erstwhile GATT and WTO based regimes.

For financial markets, this implies not just a higher and more persistent risk premium. Going ahead, volatility may not be episodic but structural. Correlations across asset classes may behave differently, and traditional diversification strategies may need to be revisited. Therefore, markets have to, henceforth, think more in terms of uncertainty premium rather than just risk premium.

4. The changing Currency Landscape

Opinion is sharply divided regarding the future of the US Dollar as the global reserve currency. It is interesting to note that Barry Eichengreen compares the dollar and its future, not with its predecessor, that is the British Pound Sterling, but with the Roman Denarius. He explains that the Roman Denarius was the first global currency. However, as the Roman State aged, its democratic institutions gave way to rule by one man. Under Emperor Nero, the debasement of the Roman Denarius was complete. Eichengreen feels that a similar fate awaits the US dollar. In contrast, experts such as Eswar Prasad believe that the lack of an alternative will prolong the rule of the dollar. Meanwhile, regional currency arrangements and efforts at internationalisation by several countries continue.

5. Mag- 7 vrs the Rest

The inexorable march of the Mag – 7 stocks in the US, along with AI and frontier technology stocks in other countries, appears unstoppable. While billion of dollars have been invested into frontier technologies such as AI, quantum computing and blockchain, and there appears to be enormous potential, meaningful returns by way

of hard cash flows are yet to be realised. This is even while stocks in most other sectors have shown a lacklustre performance over the last few years.

6. The Re-emergence of Commodities

During my time in the dealing room almost three decades back, commodity trading was considered boring as commodities often had years of slow sideways movement with low volatility. However, developments in recent years and the rising volatility have now made commodity trading exciting.

Energy benchmarks such as Brent crude respond every minute to geopolitical tensions and supply-side risks. Copper prices have hit record highs due to energy transition demand (EVs, grids, AI, etc), supply constraints and trade policy risks. Copper is also acting as a pro-cyclical “growth proxy” asset, benefiting from structural themes while being sensitive to macro cycles. Aluminium has rallied on energy costs, supply disruptions, low inventories and defence/industrial demand.

7. Rare Earths

Particularly interesting are the Rare earths and critical minerals whose prices are driven by strategic stockpiling, export controls, and energy-transition demand, with rising resource nationalism and supply-chain fragmentation clouding the picture. In rare earths, vulnerabilities are associated with concentrated supply sources. China continues to maintain a dominant position in global rare earth supply chains, reinforcing its strategic importance. Several advanced economies have initiated diversification strategies and investments aimed at enhancing supply chain resilience.

8. Precious Metals

Precious metals such as gold and silver have had a stellar run until recently. Increasing uncertainty is the single most important factor that has contributed to the steep increase in gold prices. In recent months, structural inflows into gold exchange-traded products indicate a shift from tactical hedging against inflation to long-term strategic allocation.

9. Alternative Assets

In recent years, institutional participation in alternative asset classes, including cryptocurrencies such as Bitcoin and Ethereum, has gained increasing momentum. Alternative assets are seen as diversification bets, even while they retain their elevated price volatility characteristics.

10. Whiter Financial Markets?

Now let me try to answer the question I had started the speech with “Whither financial markets?” It is easy to see that risks that can be measured, modelled and mitigated are becoming less important. Rather uncertainty is exponentially increasing. Economic and financial factors are becoming less important. Political, geographical and strategic factors are becoming more important by the day. This is so far as market movements in the short to medium-run are concerned.

Secular forces such as demographic trends, institutional changes, climate deterioration and technological advancements work steadily in the background to influence economic outcomes. Over the long-run, these secular forces exert lasting influence on markets. However, the short-run factors also have the potential to cause shifts in the secular patterns.

In my opinion, there is a general breakdown of established international norms and practices everywhere. With that the trust between citizens and economic agents of different nations has eroded sharply. Cross-border contracts no longer have the same sanctity as before. International business dealings are being looked at with suspicion and have become risky. There is a marked shift towards countries looking inward. As a result, global trade, global growth and global welfare are likely to suffer. Therefore, we are sliding down from a global equilibrium to many less-than-optimum national equilibria.

However, international disentanglement is not easy, and this itself could be the basis for more uncertainty. Markets will be at a loss to decide whether to focus more on domestic factors or international factors and short-run factors or secular forces. Therefore, in all asset classes, erratic and volatile moves will be the norm.

11. Conclusion

So what should we do? While we know that tweets, rumours and fake news will have a greater effect in the short term, it will be very difficult to strip out the short-term trends from the long-term secular trend. In my opinion, perhaps it is time to go back to the basics. In equities, one can focus on earnings growth of companies; in bonds, on the growth-inflation dynamics; in commodities, on demand and supply factors; and in currencies, on the relative strength of countries. The better the depth of the analysis and the more prescient the forward-looking estimates, the better will be our decisions and the associated outcomes.

I know that all this is easier said than done. Therefore, all the very best to all the traders and dealers gathered here.

Thank you, Namaskar and Jai Hind