

FSLN VIEWPOINTS

Navigating policy and market uncertainty

December 2025

Volatile markets and geopolitical instability continue to complicate the operating environment for global financial institutions. Boards and senior executives of these institutions are confronting this uncertainty by strengthening resilience through effective risk management, operational discipline, and strategic communication. They are also identifying ways to capture the opportunities that may emerge amidst turbulence.

On October 8 and 9 in London and on October 28 in New York, board directors and senior executives from leading financial institutions gathered to discuss how organizations are dealing with radical uncertainty and to assess the implications of political and market volatility for financial institutions and their boards. Participants also discussed the state of artificial intelligence adoption in financial services and how to maximize value from emerging technologies; a companion *ViewPoints* focusing on that topic is available [here](#).

This *ViewPoints*¹ explores the following topics that emerged from these meetings and related conversations:

[Economic and geopolitical volatility is creating a complex operating environment for financial institutions](#)

[Financial institutions are prioritizing fundamentals and transparent communication](#)

For a list of participants, please see page 10.

Economic and geopolitical volatility is creating a complex operating environment for financial institutions

Against a backdrop of global conflicts and rising tensions, the world's largest economies present both the greatest growth prospects and the greatest uncertainty for financial institutions, participants said. Unpredictable shifts in US policy and geopolitical tensions between the United States and other markets, notably China, continue to affect strategic and operational planning. A director noted, *"Right now, geopolitics is trumping everything—pun intended. The shifts in financial markets are so significant that even some of our own strategic initiatives have taken a back seat."* The US economy, which continues to outperform and offer the most attractive investment opportunities, still faces some potential headwinds, as does China's growth. Participants described some of the challenges to financial institutions' global operations:

- **Accelerating economic nationalism.** A participant predicted that soon, *"you could see a world that is quite different from where we are today. Until five to ten years ago, everything seemed to be moving in generally quite a global direction. Now we've got a movement going back the other way to nationalism and protectionism. So where does that get you to in five or ten years' time? And does that mean anything different for organizations, for global businesses?"* Participants suggested we could be entering a more fragmented global economy, in which traditional alliances and norms no longer apply, a *"more multipolar world,"* one that is *"the opposite of a rules-based system."*
- **A changing role for the United States and the dollar.** *"There are big shifts in the world order, in terms of relooking at supply chains and where you want to make investments. For example, Canadian companies that are very dependent on the US are now saying, 'We need to look elsewhere,'"* one director noted. Uncertainty around tariffs and broader US economic policy is calling into question the safety of dollar-denominated assets and the privileged role of the US dollar in the global economy. A participant said, *"I'm certainly going to focus a bit more on thinking about assets in nondollars because the US dollar has already depreciated 5–7%. You need to have a strategic conversation about how you are thinking about*

"The shifts in financial markets are so significant that even some of our own strategic initiatives have taken a back seat."

— Director

currency risk and the specific impacts of tariffs on your business and your suppliers.”

- **Regulatory fragmentation.** According to EY’s 2025 *Global Financial Services Regulatory Outlook*, firms should expect “further fragmentation of regulatory regimes as policymakers prioritize their own countries’ interests in response to global issues, instead of prioritizing international cooperation at the outset.”² One participant reflected on the growing divergence in global regulatory approaches, noting, *“What I see, and this applies to both AI and climate regulation, is the EU, the US, China increasingly heading in separate directions. Over the next three to five years, this divergence will become very real, with each region burrowing in, hardening its stance, and developing its own standards—standards that are not necessarily compatible.”* Another said, *“In the US, there is a push toward simplification and principles-based regulation, while Europe continues to rely on rigid, rules-based systems. That difference matters for growth.”* One European director said that difference was why *“we see 300 billion euros invested in the US each year ... There’s no investment opportunities in Europe.”*

The US remains the most attractive market despite constant policy shifts and political uncertainty

Despite the shadows cast by policy and political uncertainty, the United States remains the most attractive market. The depth, liquidity, and relative stability of US financial markets and the dynamism of the economy have led US equities and debt markets to outperform global peers. As one participant put it, *“The US economy, treasuries, and the US dollar are like the cleanest dirty shirt in the closet—they look good relative to other economies.”* But there are structural weaknesses in the US economy that could undermine its market advantage if they remain unaddressed—a possibility given the current political situation. Participants discussed the forces that could either buttress or weaken the US market:

- **Tariffs and trade policy.** Participants discussed two related concerns: the delayed but inevitable economic impact of tariffs and the persistent uncertainty surrounding trade policy. The economic impact of tariffs has been muted so far, as many companies initially cushioned the blow by stockpiling inventory ahead of tariffs or

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— Participant

absorbing costs within their margins, but participants warned that this is not sustainable. One executive said, *“Companies will stop taking this on margin and pass it to consumers ... Or, they’ll continue to absorb it, but they’ll cut costs in forms of layoffs or hiring freezes.”* Another executive warned, *“Tariff policy, uncertainty, and immigration policy bring headwinds to the economy, with more expected in the coming months and years. While there has been some complacency about tariffs due to the economy’s apparent resilience, there is more pain to come.”*

While tariffs imposed under the International Emergency Economic Powers Act (IEEPA) are under court review, a ruling against them may not prevent new measures, given that there are a range of authorities through which the president can impose tariffs. One executive observed, *“As long as Trump is in the White House, we will have tariff uncertainty. He loves them and sees them as both a means to an end and an end in themselves.”* This kind of uncertainty makes strategic planning very challenging. One executive observed, *“It’s difficult to predict, especially when big shifts can happen overnight, like tariffs on India suddenly going to 50%. When you look out three, four, or five years, you have to caveat your projections based on today’s world, knowing that things can change unexpectedly.”*

- **Investment in AI and other technology.** The surge in technology investment is bolstering the US economy as companies across sectors invest heavily in digitalization, automation, and above all, artificial intelligence. Participants cautioned, however, that the AI-driven investment boom may be masking weakness in the broader US economy. Heavy capital expenditures tied to AI could prove unsustainable if growth expectations falter. A financial executive commented, *“If you didn’t have the capex driven by AI ... the equities market would look quite different.”* Another participant warned, *“Most of the gains are coming from companies that benefit from AI investment. There will be a reckoning, but I don’t know when.”*
- **Structural weaknesses.** One participant said, *“Deficits of 6–7% when we are not at war and the economy is growing is not a good picture, especially when the historical average is around 4%. To deal with that, you have to either raise taxes or address the cost of healthcare and social security. None of those options are popular ... so members of Congress will keep dancing as long as the music*

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— Participant

plays.” The decline in the US working-age population is another structural problem, and one that is likely to be exacerbated by immigration restrictions. These factors are leading some investors to hedge their exposure to US markets and dollar-denominated assets.

China remains a locus of growth, but the country also presents geopolitical and economic risks

China offers both opportunities and risks. Indeed, one participant reported that their firm’s whole approach to geopolitical risk comes down to their approach to China: *“The main aspect of how we think about geopolitical risk is our strategy around managing China. Our strategy and process around China have been the key to risk assessment for the last five years.”*

As the world’s second-largest economy, China’s importance as a potential locus of growth cannot be understated. A participant observed, *“The Chinese continue to prove how good they are at growing infrastructure. Look at the money that’s now going into China—I think you’ll see growth.”* Another participant said, *“Where our business has grown the most is our international institutional clients wanting access to China. They see the most opportunity there.”*

But geopolitical tensions and questions about China’s economic stability have led many financial institutions to limit their exposure and pivot to more liquid, short-dated positions in the country. *“Generally, a lot of our very large clients are trying to trim exposure to China. Not because there aren’t really good economic reasons to be there, but there is a lot of political risk ... In Washington, the focus on how US institutions invest in China is not going away.”* Another participant said, *“There’s so much unknown as these two superpowers continue to compete, so we are adjusting portfolios to be more short-term focused and adaptable.”*

Private credit is reshaping market dynamics and risk profiles

The growing scale of private capital in credit and insurance is another source of uncertainty for financial institutions. One participant noted that while *“regulated-sector banks are safer than ever,”* the movement of financing activity out of banks into private markets could create new risks: *“Is it enough to be systemic? No. Is it enough to be a fiduciary risk? Absolutely ... Some well-known names in private credit are not managing risk well.”* Limited regulatory oversight and opacity around asset values

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adds to risk in that space. Recent failures in companies funded by private credit prompted Jamie Dimon to warn, “When you see one cockroach, there are probably more.”³

One executive pointed out that risk in private credit markets can find its way back to regulated banks: *“Private credit sounds wonderful because it shifts riskier loans that used to sit on banks’ balance sheets with runnable deposits to private credit firms with long-dated assets. So far, so good. But lo and behold, banks come back in the game because they provide leverage for those loans, so it’s back on the banks—now we own similar underlying exposures on lower loan-to-value.”*

An executive cautioned, *“We all felt good in 2006 about triple-A mortgages. So that is really the question raised by the recent failures: has the industry lost its underwriting standards as it’s gotten more competitive? Our view is not yet, but it is a fear.”* Boards are responding by reviewing processes and stress-testing exposures. *“Having cockroaches come out every once in a while is a great reminder and warning to double-check risk management—especially when it happens to someone else,”* one executive said.

Financial institutions are prioritizing fundamentals and transparent communication

This environment demands a shift in mindset in the boardroom. *“We’re in a volatile, uncertain, complex and ambiguous world right now, and this is difficult for a lot of boards. But you need to get comfortable with being uncomfortable, and take a posture on the board that says, ‘We’ve got choppy waters right now, we definitely need all hands on deck.’ Everyone has to be actively thinking this through, because no one’s got the playbook for this. No one has the answer.”* A director remarked, *“You’re planning on a direction of travel, but nobody knows what Trump’s going to do tomorrow, let alone whether he’ll follow up on what he just said yesterday.”* Rather than waiting for clarity, leaders recommend focusing on fundamentals, conducting more rigorous scenario planning, and being transparent with investors.

Building resilience and stability by focusing on business fundamentals

As geopolitics have become increasingly important to business,

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— Executive

particularly for large financial institutions working across borders, participants stressed the importance of focusing on “*controlling what you can control*.” That includes a renewed focus on fundamentals: liquidity, capital, and costs, which are levers within management’s control even in an unpredictable environment. Participants highlighted the following areas to focus on:

- **Helping customers build financial resilience.** Many companies have taken steps to strengthen their financial position and operational stability. They are looking for banks and other financial institutions to support them as they boost cash reserves, and manage their debt profile, including secure new credit lines and financing binds to avoid volatility in debt markets. One executive admitted that during the easy-growth years, “*We forgot the basics in how to do things like managing our costs, Capex, etc.*” but said, “*Now, we are back to basics.*” One executive encouraged financial services providers to “*be creative about access ... [corporate clients] need liquidity, innovative approaches to credit lines if they are required on short notice, and advice on balance sheet structure.*” Corporate clients will turn to trusted partners when a crisis emerges. One executive reflected, “*[In a past role] I worked with 24 banks, and there were two people—not two institutions; two people—that I trusted. I trusted them because they gave me advice that was right for my company, not right for the bank ... Trust is attached to a person, not a company or institution.*”
- **Adjusting risk appetite.** Some financial institutions are adjusting their risk appetite and capital planning. One director noted, “*You need to be financially resilient. Typically, we operate at a certain level of capital, but given the uncertainty, you shouldn’t be at the lower end of that range. You just don’t know what’s going to happen from an economic perspective.*”
- **Maintaining strategic investment in the face of uncertainty and investor pressure.** While recognizing the wisdom of conserving capital, some organizations are pressing ahead with strategic investments even as investor expectations shift. One executive explained, “*We’re doubling down on [research and development], technology initiatives tied to data, and [mergers and acquisitions] ... We don’t want to delay serious strategic decisions. This is challenging because investors have shifted their focus back to cash flows and [return on invested capital], whereas previously they prioritized growth.*”

“Trust is attached to a person, not a company or institution.”

— Executive

- **Expanding scenario analysis and risk management.** Boards and management teams are turning to ever more detailed scenario analysis to navigate a broader range of potential outcomes:

“Strategically, the horizon is hard to predict. We’re not just looking for one black-swan event. We’re looking at multiple plausible worlds, each with relatively even probabilities,” shared one director. Another director observed, *“What we are doing now is scenario planning to death. In the past, we did only upside and downside scenarios. Now we are doing like three and five degrees of uncertainty and risks on both sides, and asking, ‘What are the implications for liquidity, for cyber risk, for economic capital, for credit risk, for every type of risk?’”* But even detailed scenario planning may not bring clarity to decision making: *“You can easily produce 10,000 scenarios, but which one should I be concerned about? Which are the ones that my organization should be focusing on?”*

One director stressed that while there are lots of exogenous factors that cause concern, ultimately, boards should *“worry about what you can control ... As a board, when we look at where we think the risks are, we ask, What do we have control over and what don’t we? If it’s global market risk or a specific issue like private credit, you stress that.”* Effectively managing risk in this environment requires discipline, especially as markets continue to outperform expectations. *“The way to stay out of trouble is disciplined underwriting,”* one executive said. *“The worst lending decisions happen in good times.”* A director summarized, *“You can’t control politicians; you can’t control the markets. You can only control what you can control.”*

- **Staying vigilant for potential opportunities.** While uncertainty is rarely seen as positive for business, volatility in markets does create some upside for select financial institutions. *“The volatility has created both winners and losers: it’s been tough for [initial public offerings] and capital market issuance, and not great for M&A, but phenomenal for trading businesses. That’s where being a diversified financial institution really pays off.”* Similarly, while initial caution meant a slowdown in investment early in the year, many firms are now seeing an uptick in activity, including around mergers and acquisitions. Institutions that remain disciplined and agile are better positioned to manage risk and capture gains where they arise. One participant said, *“Uncertainty driven by geopolitics and policy drives a huge amount of opportunity, but you have to be in the right place*

“You can’t control politicians; you can’t control the markets. You can only control what you can control.”

— Director

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— Participant

at the right time.”

Communicating clearly and openly with stakeholders

“In a time of uncertainty, the world craves clarity,” one participant emphasized. *“You need to be able to clearly articulate your investor proposition,”* another observed. Achieving clarity is partly a matter of simplifying communications: *“Simplicity and clarity are key in [handling] uncertainty.”* As an example of simplification, one participant said that their firm had recently reduced the number of externally available metrics for assessing their capital strategy from 60 to just four.

Investors may be willing to grant companies more flexibility in their planning and forecasting in the current environment. One executive noted that the “Liberation Day” tariffs announced in April of 2024 *“gave a lot of companies an opportunity to put the word ‘uncertainty’ front and center, since investors recognize that you can’t make predictions about your business when tariffs change so rapidly.”* While this year’s earnings guidance may remain broadly stable, the executive continued, *“Looking out three to five years, you have to acknowledge that things might change dramatically,”* allowing companies to provide a broader range of guidance.

Transparency in internal communications between the board and management is crucial as well. Participants encouraged *“radical honesty”* from management, with the expectation that the board will provide a *“consistent flow of real business advice on challenges,”* not react negatively. A challenging, uncertain operating environment also requires diligence around roles and expectations: *“You’ve got to have a balance between the role of the board and the role of the executive. Sometimes the crossover can get intrusive. In your desire to look at scenario analysis, you cannot get in the ditch and stop them digging.”*

Board directors and executives expect continued volatility, driven by policy and geopolitical instability, with unknown market and economic consequences. They maintain that financial institution leaders cannot let themselves be paralyzed by this environment. Instead, they must focus on what can be controlled and maintain discipline and vigilance around risk management while being ready to seize opportunities as they arise and continuing to make strategic investments.

Meeting Participants

The following individuals participated in the meetings or related conversations:

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About this document

The Financial Services Leadership Network (FSLN) is a group of financial services board members, executives, stakeholders, and other subject matter experts committed to addressing pressing problems and enhancing trust in financial markets. The network is organized and led by Tapestry Networks with the support of EY as part of its continuing commitment to board effectiveness and good governance.

ViewPoints is produced by Tapestry Networks to stimulate timely, substantive board discussions about the choices confronting audit committee members, management, and their advisers as they endeavor to fulfill their respective responsibilities to the investing public. The ultimate value of *ViewPoints* lies in its power to help all constituencies develop their own informed points of view on these important issues. Those who receive *ViewPoints* are encouraged to share it with others in their own networks. The more board members, members of management, and advisers who become systematically engaged in this dialogue, the more value will be created for all.

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Endnotes

¹ *ViewPoints* reflects the network's use of a modified version of the Chatham House Rule whereby comments are not attributed to individuals or corporations. Quotations in italics are drawn from conversations with participants in connection with the meeting.

² Adeline Cheng et al., [*2025 Global Financial Services Regulatory Outlook*](#), (London: EYGM, 2025), 4.

³ Jim Edwards, "[Jamie Dimon Issues Private Credit Warning: 'When You See One Cockroach, There Are Probably More,'](#)" *Fortune*, October 15, 2025.