

Bi-Weekly Geopolitical Report

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Blocs, Spheres, Empires, and Colonies

We at Confluence have long tracked how voters in the United States are increasingly recoiling at the costs of global hegemony, i.e., the US's traditional role as the big, dominant country that provides international security, order, and the reserve currency.

We've shown that as voters became angry at the social and economic costs of hegemony, US leaders adopted more populist, nationalist, and isolationist policies in realms ranging from foreign relations and trade to immigration and fiscal policy. In recent years, we've noted how the US's pullback from global leadership has encouraged increasingly powerful adversary countries such as China, Russia, and Iran to assert themselves, raising tensions and prompting the countries of the world to fracture into relatively separate geopolitical and economic blocs.

Our analysis indicated that this global fracturing would have multiple economic impacts, such as higher and more volatile price inflation, which called for specific investment adjustments. Nevertheless, we showed that the evolving US bloc was generally attractive for investors, since it consisted mostly of today's rich, highly industrialized, technologically advanced liberal democracies and a few closely related emerging markets.

In our view, US hegemony has always had elements of imperialism, but they were

cloaked by a preference for "soft power" over "hard power" (for a comparison of the two concepts, see Table 1 on the next page).

In this report, we show how President Trump is shifting US foreign policy toward something that looks more like unveiled, unapologetic imperialism more heavily based on hard power. Further, we see the president as nudging the US bloc toward something more akin to the European colonial systems of the past, just as China and even Russia are arguably trying to do the same in their own regions. This is a big topic, so we can't examine all the resulting issues in this one report. Nevertheless, this change, if fully implemented, will likely have major implications for global politics, economic relations, asset returns, and investment strategies, so it's important to take a first cut at the analysis now.

Some Definitions

In the year since President Trump's second inauguration, we and many other analysts have been working hard to understand what his foreign policy goals really are. [We've explored the possibility that he wants a system of regional "spheres of influence," with the US sphere centered on the Americas and a few outposts in Europe, the Middle East, and the Indo-Pacific region.](#)

We entertained the possibility that his goal is merely to pressure other countries to behave more cooperatively within the world's previous geopolitical structure. We even wondered if he simply wanted better relations with other leaders with whom he shares a personal or political affinity. Now

that we have enough information to suggest that his goals touch on issues such as spheres of influence, imperialism, and

colonialism, we need to make sure our readers know what is meant by those terms:

Table 1

The Spectrum of Power: Hard Power to Soft Power		
Hard Power (Less agency for other side)		Soft Power (More agency for other side)
Power Type 1: Coercion	Power Type 2: Payment	Power Type 3: Attraction
Use or threat of military attack	Outright purchase (Alaska, etc.)	Attractive ideology
Use or threat of sabotage	Contractual pmts for basing rights	Political stability
Use or threat of assassination	Bribery	Economic prosperity
Use or threat of property seizure		Reassuring alliances
Use or threat of export dumping		Respectful treatment
Use or threat of trade barriers		Low barriers to trade and capital

Spheres of Influence. We generally see a sphere of influence as a relatively informal, tenuous type of control over foreign nations, typically in a particular geographical area. The “influence” in that region may be relatively great or small, but a key idea is that other powers recognize and respect the dominant country’s exclusive right to exercise its influence within its sphere. Therefore, in theory, a global system of spheres of influence can potentially be stable and peaceful.

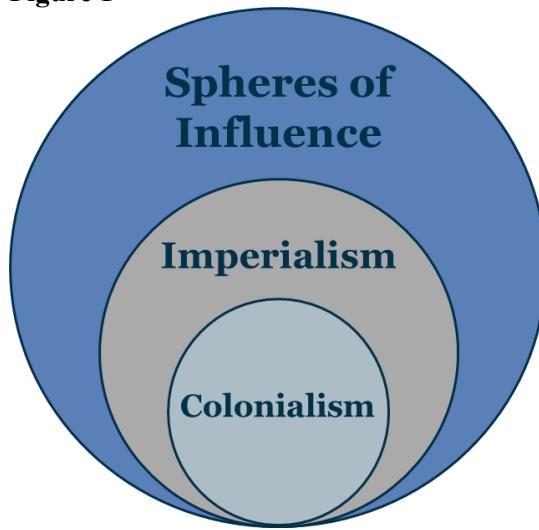
Imperialism. We see imperialism as a system of greater control over foreign countries through military, diplomatic, and economic power. Under imperialism, the imperial country doesn’t necessarily own or exercise complete political control over each subject nation, but it may. It can exercise its control via soft power, based on attraction and affinity, or hard power, based on coercive military or economic force. Many nations have been subjugated by an empire for economic reasons, but some have been brought into the imperial fold for other

purposes, such as national security. As noted in our introduction, we think the US’s global hegemony from the late 1940s to the 2010s was essentially imperial, even if its basis in soft power discouraged US officials and citizens from admitting the fact.

Colonialism. Finally, we see colonialism as an economic and political relationship in which the mother country exercises political control over foreign lands to use them as guaranteed markets and/or sources of raw materials or industrial inputs (see Figure 1, next page). Classic colonialism typically involved the mother country owning and tightly controlling the colony, but modern sensibilities are different. We assume that “neo-colonialism” aims at the same economic goals but is exercised more subtly and implicitly. In any case, we see all colonial and neo-colonial systems as bearing the hallmarks of empire, but not all subject nations in an empire are colonies or neo-colonies. The best archetype of a classical colonial system is probably the British system from the 1600s to the 1800s. Other

examples were the French, Spanish, Dutch, and German colonial systems in roughly the same period. One important consideration is that these archetypal colonial systems were generally global rather than regional. The best example of a regional colonial system is probably the Soviet Union from 1918 to 1991.

Figure 1



Are Imperialism and Colonialism “Bad?”

Many observers instinctively use the terms “imperialism” and “colonialism” as pejorative, and indeed they probably are bad for the subject nations. However, for purposes of this report, we use the terms only **descriptively** — to better understand the evolving US policy’s political, economic, and investment implications.

Indeed, one could argue that a country’s foreign policy should be judged strictly by whether it advances the interests of its people, including its working class. Past imperial or colonial systems, such as that of the British, may well have been positive for their own people and working classes. In any case, we have long argued that many people in the US endured significant social and economic burdens under the country’s previous system of limited, soft-power

imperialism, and that was especially the case for the working class. Many social and economic elites in the US will likely be repelled by the move to a foreign policy driven more by hard power and neo-colonialism, but the working class and other social groups may well embrace it on the theory that it can’t be any worse than the previous system. The new foreign policy, therefore, may have staying power and lead to a lasting shift in the global investment environment. This report represents our effort to understand that new environment and what it means for investment strategy.

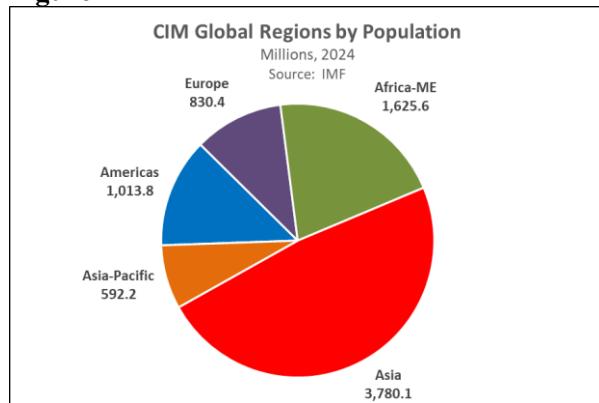
The New US Foreign Policy

Given President Trump’s often sharp rhetoric, punishing initiatives, and focus on economic and commercial interests *viz-a-viz* other countries, we think it’s accurate to say the administration is seeking to shift US foreign policy toward something that more closely resembles ***hard-power imperialism coupled with neo-colonialism***. [In this system, military and other types of force are used more explicitly to advance US interests, as in the US seizure of Venezuelan President Maduro in January 2026.](#) In economics, a key aim is to bring more industrial production back to the US, but Washington would have some degree of explicit or implicit control over other countries to ensure they serve as captive markets or as sources of raw materials or industrial and technological components. Many of these goals can be seen in the [various trade deals the administration has reached with other countries](#) over the last year, and in its market interventions and [subsidization programs to boost the domestic production of critical minerals and advanced semiconductors](#).

Administration officials want the new US neo-colonial system to be centered on the Western Hemisphere, apparently because

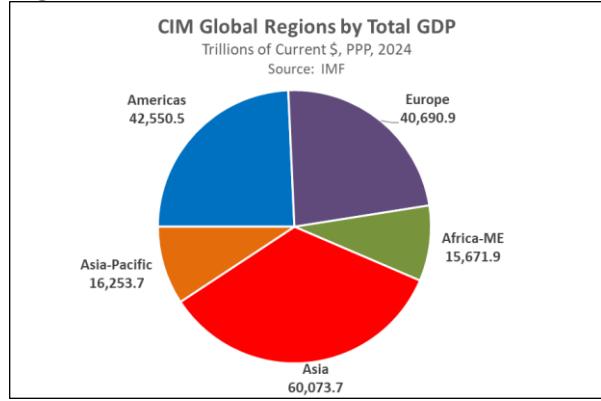
they prefer short, easily defensible supply lines. The problem, as we see it, is that there are many key markets, minerals, and industrial or technological inputs that currently are most available outside the Western Hemisphere. For example, the Americas are home to just 13% of the world's population, meaning 87% of global consumers and potential workers are outside the region (see Figure 2).

Figure 2



Likewise, when adjusted for the purchasing power of their currencies, the Americas account for only about 24% of global gross domestic product, or GDP (see Figure 3). Europe accounts for another 23% of global GDP, and Asia accounts for 34%, making them key potential markets.

Figure 3



We calculate that Africa and the Middle East, as one region, account for about 9% of

global GDP by purchasing power parity, while the Asia-Pacific region accounts for a similar amount. In sum, global population and market dynamics suggest it would be counter-productive for the US to focus too strictly on the Western Hemisphere as its core area of economic interest, at least in the near term.

Similarly, many critical minerals are most available in Africa or the Asia-Pacific region (see Figures 4 and 5). Also, the most advanced computer chips are currently produced almost exclusively in Taiwan. Finally, the US may have other reasons to control countries outside its own region, either for particular industrial purposes (such as keeping especially dirty industrial operations far from US shores) or for national security purposes.

Figure 4

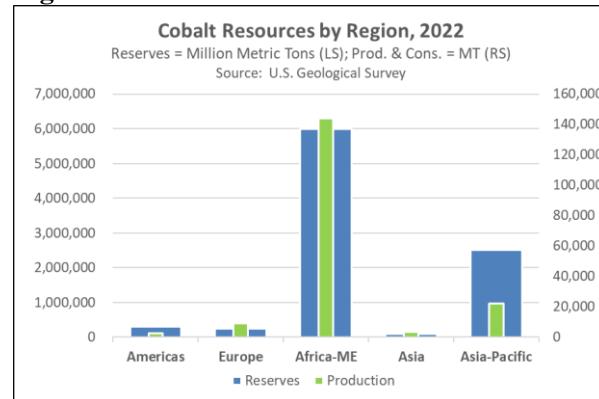
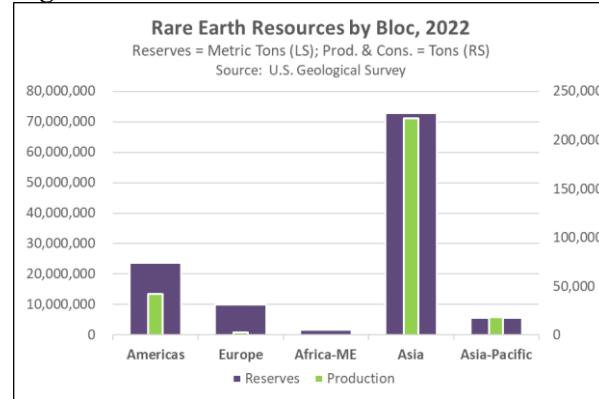


Figure 5



In sum, the administration may hope to eventually source all key minerals and industrial inputs from the Americas, but for the time being, we believe that any evolving US neo-colonial system would have to be broader than that, extending out in the Pacific Ocean to places like Japan, South Korea, Taiwan, and the Philippines, and across the Atlantic to at least some countries in Europe, the Middle East, and Africa.

Militarily, if the evolving US neo-colonial system must be broader than just the Western Hemisphere for the time being, the US will also necessarily have vital interests to protect beyond the Americas. Coupled with modern military technologies that allow countries on the other side of the planet to threaten the US with nuclear or conventional weapons, this ensures that the US armed forces also must retain their ability to project power globally for many years to come.

Consistent with his initial focus on the Western Hemisphere, President Trump in the first few months of his second term seemed prepared to gradually cut US defense spending. [Reports say he even directed the Pentagon to prepare for at least an 8% cut to the defense budget](#), which probably would have been doable if the US military prioritized hemispheric operations and reduced its global footprint. More recently, however, it appears that the administration has realized it will need to project power globally for some time to come, so the president in January 2026 [called for a massive 50% increase in the defense budget](#). Naturally, we think this will be positive for US defense stocks.

From Blocs to Colonial Systems?

How would this evolving system affect the global “bloc” system that we at Confluence have discussed so much in recent years? As

a reminder, we believe that the US’s growing reluctance to bear the costs of global hegemony has encouraged upstart challengers such as China, Russia, and Iran to become more aggressive. We believe the US’s hesitation and the growing assertiveness of these revisionist powers, especially China, have begun to fracture the world into relatively separate geopolitical and economic blocs. We have therefore developed a quantitative methodology to predict where any of almost 200 countries will end up in terms of a five-bloc system (see the table on the next page for a list of representative countries in each bloc).

In the near term, we think the new US system may largely overlap the current US bloc. After all, the US will likely need time to shift its relationships with different countries. At the same time, other countries will need time to analyze and understand the new US policy, develop alternative policies of their own, and adjust the political and economic relations with other nations. It will take time for the US to draw favored countries tighter into the US neo-colonial system and to reduce or sever ties with countries that it no longer prioritizes. It wouldn’t surprise us if this process takes many years.

Importantly, while the bloc system implies a relatively static, stable grouping of countries, the evolving neo-colonial system could be more fluid. In fact, we think a new, tension-filled “Great Game” may emerge, where China and other countries tussle with the US to bring key countries into their system. In fact, we argued in one of our earliest reports on today’s geopolitical blocs that China is already trying to build its own imperialist and neo-colonial system, at least in the Indo-Pacific region and perhaps globally. This would be consistent with General Secretary Xi’s often-stated goal of

creating a “community of shared future” among nations and cementing them to China via economic programs such as the Belt and Road Initiative. Xi seeks to build up Chinese industry and make it more self-sufficient, all while locking up preferential access to key

natural resources abroad. As he continues to do so, the US and China are likely to compete ever more bitterly to bring key foreign countries and their resources into their own system.

Table 2

Representative Countries in Confluence's Projected Geopolitical and Economic Blocs, 2024

US-Led Bloc	US-Leaning Bloc	Neutrals	China-Leaning Bloc	China-Led Bloc
United States	Malaysia	United Arab Emirates	India	China
United Kingdom	Mauritius	Algeria	Indonesia	Russia
Canada	Tuvalu	Tunisia	Solomon Islands	Belarus
Germany	Nepal	Lebanon	Saudi Arabia	Iran
France	Qatar	Ukraine	Azerbaijan	Iraq
Italy	Oman	Serbia	Kyrgyzstan	Kazakhstan
Sweden	Egypt	Vietnam	Djibouti	Uzbekistan
Finland	Libya	Cambodia	Nigeria	Turkmenistan
Poland	Ghana	Maldives	Zimbabwe	Tajikistan
Israel	Senegal	Sri Lanka	Mali	Pakistan
Japan	Malawi	Kenya	Zambia	Myanmar
Australia	South Africa	Tanzania	Côte d'Ivoire	Congo
New Zealand	Argentina	Mauritania	Mozambique	Angola
South Korea	El Salvador	Brazil	Mongolia	Gabon
Mexico	Dominica	Venezuela	Afghanistan	Niger

Economic Implications

Seeking to ensure foreign demand and supply, the US will likely work hard to draw new countries into its system and keep others from leaving. In the process, we think Washington will pressure the countries in its evolving neo-colonial system to ensure that their economic policies are aligned with those of the US. If this includes pressure for improved policies such as deregulation and fiscal stability, we believe that Washington's embrace may signal improved growth and better stock market performance for those countries.

In the administration's new national security strategy, we've already seen how the US is willing to put strong pressure on European Union countries to deregulate their

economies. In our view, those that don't comply will be more at risk of being jettisoned from the US system and losing access to the US's markets.

Over time, we believe Washington could also choose to loosen its embrace of other countries based on their distance from the US. Whether those countries serve as markets or input sources for US industry, the administration has shown that it doesn't like long supply lines. For instance, while the US currently may want to defend Taiwan to ensure access to its advanced semiconductor supplies, the Trump administration is also trying to develop the US's indigenous capacity for those goods. When and if it finally builds that capacity, the US would have much less interest in defending

Taiwan. Similar logic could apply to countries such as Japan, South Korea, and much of Europe in the long term. In this case, the US bloc or neo-colonial system would shift noticeably from its current contours to something more like a Western Hemisphere system, and those distant economies may become economically disadvantaged.

Investment Implications

We would caution that this is still not a final and definitive analysis. As we continue to watch the administration's approach, we try to better understand where it is going and try to wrap our heads around the associated investment implications.

Nevertheless, we do think that many of our current themes remain valid. For example, we think the administration's ongoing criticism of European leaders and their policies will further raise concerns about the US commitment to allied defense. Coupled with the US's new support for right-wing European politicians, that should bolster the region's recent trend toward more stimulative economic policies, deregulation, and increased defense and infrastructure spending. That, in turn, should give a further boost to economic growth and help support ***European stock*** values. The disorienting shifts in the US's foreign and domestic policy alone could also help keep central banks and investors interested in buying ***precious metals***, buoying their prices.

Finally, the administration's push toward greater US economic sovereignty is consistent with continued global fracturing and the disintegration of supply chains, which should undermine efficiency, raise costs, make consumer price inflation higher and more volatile than otherwise, and have the same impact on interest rates. In this

environment, ***bonds*** still seem set to decline in value, as we have long argued.

All the same, we think the US's new foreign policy will raise some novel implications. For example, the administration has signaled that it intends to prioritize economic opportunities for US businesses. That should give a leg up to large, well-run US companies that derive much of their profits from foreign sales, especially if they are currently burdened by foreign regulations. Those firms seem likely to have the full power of the US government behind them as they work to boost foreign sales and profits. We therefore believe ***US large cap stocks*** will be advantaged over small cap stocks, especially if those large firms are in the ***energy, technology, or digital services*** sectors. After being guarded about the prospects for ***US defense stocks*** in 2025, the president's new enthusiasm for higher defense budgets now makes us more positive on them again.

We continue to think the US dollar will weaken over time, giving some support to ***international stocks***. However, the US's new drive for economic domination in the Americas and beyond could keep the demand for dollars from falling too much. At least in the immediate term, the administration's apparent effort to achieve a temporary détente with China should also reduce geopolitical tensions with that major country. We think that any such decline in tensions would likely be bullish for both US and ***Chinese stocks***, although we still think that the competition for countries and resources will rekindle US-China tensions in the future.

Finally, the US's focus on dominating the Western Hemisphere likely portends pressure on Latin American nations to align their economic policies with current US

priorities. If they do so, they could enjoy preferential trade relations with the US, boosting ***Latin American stocks***. However, it's important to note that over time, US firms may simply buy the most attractive firms and economic assets in the Americas, leaving relatively fewer, less attractive local

firms. However, that development may be further off in the future.

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