

What geopolitical shifts mean for supply chains

Kearney Supply Chain Navigator | 2026 H1

Kearney Foresight
Supply Chain Institute

Photo by Michael Zimmerman
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The Supply Chain Institute, part of the Kearney Foresight network, generates strategic insights to help global business leaders integrate fragmented operational efforts and transform their supply chains. As an authority on supply chain thinking and practices, we regularly conduct comprehensive studies and competitions on critical operations topics to help our clients achieve immediate impact and lasting advantage.



Years of disruption have made global supply chains more adaptive. They have not made them immune to what is converging now. Two forces, escalating conflict in the Middle East and the restructuring of US tariff policy, are layering onto global supply chains in ways that expose the fragility of the systems underpinning global trade. The disruption to energy flows, shipping corridors, and critical input chains is not just increasing costs. It's generating systemic uncertainty that supply chains are far less equipped to absorb than a straightforward price shock.

Higher costs and short-term shocks are manageable. What is harder to absorb is the breakdown of predictability itself: compressed planning horizons, eroding contract reliability, and cascading interactions across energy, logistics, commodities, and tariff policy that amplify both the scale and speed of disruption.

Kearney's Supply Chain Navigator puts the cost dimension of this in sharp relief. Together, these forces are pushing total supply chain cost increases to 5 to 7 percent above inflation through the end of 2026. With US inflation running above 3 percent, total cost exposure is likely to exceed 10 percent.

Key findings



Supply chain costs will rise 5 to 7 percent above inflation through the end of 2026, driven by Middle East energy and freight disruption compounding an already complex tariff environment. With inflation above 3 percent, total cost exposure is likely to exceed 10 percent.



The Kearney Supply Chain Navigator, built using global data and proprietary algorithms, has demonstrated 95 percent+ accuracy in predicting quarterly supply chain performance over 10 consecutive quarters.



Enterprise performance now separates based on how quickly organizations recognize exposure and adapt to an environment where both costs and predictability are under pressure simultaneously.

Supply chain costs could exceed 10 percent above baseline, and here's why

Two scenarios now define the range. The fundamentals-based scenario points to cost increases of up to 5.4 percent above inflation. The sentiment and risk scenario suggests increases of up to 7.1 percent above inflation. Both represent a significant step up from Kearney's prior forecast of 2.3 to 4.0 percent, and the gap between the two captures the uncertainty premium currently priced into markets (see figure).

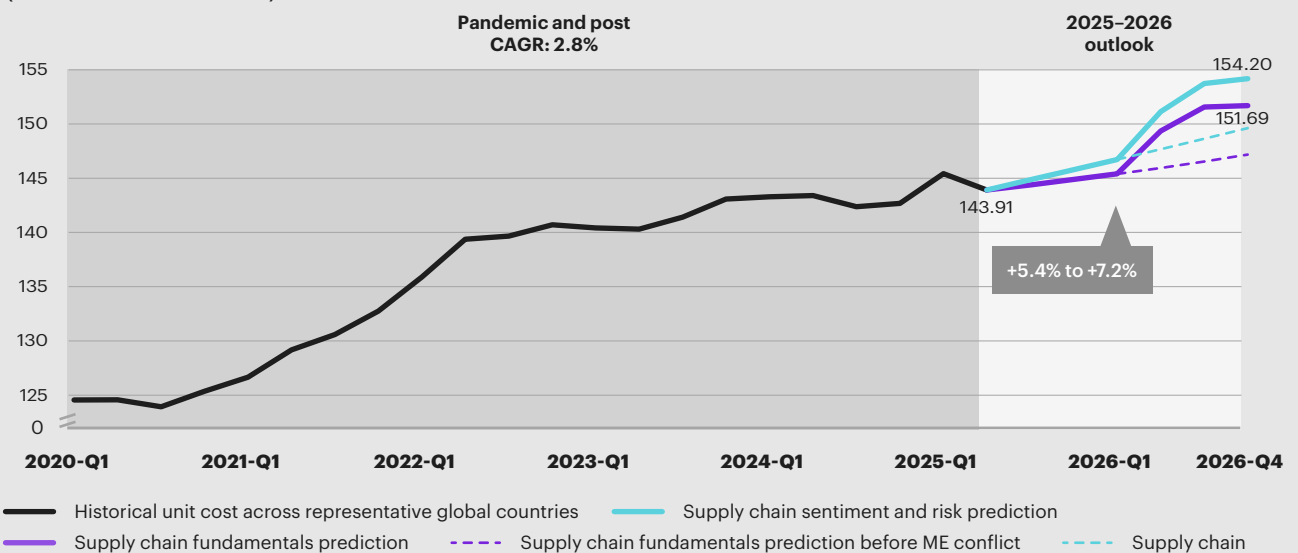
The cost trajectory is not a straight line. Increases are steepest in the first two quarters, then begin to stabilize. The shock front-loads, and the curve shape matters as much as the magnitude. Companies focused on only the final number risk mistiming their response. Those that understand when costs peak and how they normalize can position inventory, contracts, and supplier relationships ahead of the steepest part of the curve rather than reacting to it.

Companies focused on only the final number risk mistiming their response.

Figure

Supply chain cost outlook update: recent geopolitical escalation (IEEPA, Middle East) could raise 2026 supply chain costs by up to 7%, above prior outlook

Global Unit Cost Index: trend and outlook
(incremental to inflation)



Sources: Global Unit Cost Index – Oxford Economics, sources for metrics used to build the prediction are based on the supply chain fundamentals, sentiment, and risk metrics outlined in the latter three pages; Kearney analysis

Energy, freight, and tariffs are all moving against supply chains

Middle East escalation is the primary driver

The Hormuz Strait disruption is the most immediate pressure point. Roughly 20 percent of global oil flows and 25 percent of liquefied natural gas (LNG) transit the strait. With crude prices surging above \$100 per barrel since the conflict began, fuel costs are feeding directly into transport and household prices across net-importing economies including the EU, India, Japan, and Korea.

The energy shock does not stop at fuel costs. Downstream material impacts of 10 to 25 percent cost increases are already feeding into petrochemicals, plastics, fertilizer, and metals supply chains, categories that sit at the input layer for a wide range of industrial manufacturers, often several tiers removed from where procurement teams have direct visibility. For many organizations, the exposure is already embedding before it surfaces in tier 1 pricing.

The logistics impact compounds the energy shock. Between 70 and 80 percent of vessels have rerouted via the Cape of Good Hope, adding 10 to 14 days and approximately 3,500 to 4,000 nautical miles per voyage. Shipping costs on affected lanes are projected to rise 30 to 70 percent in the near term if disruptions persist, with full normalization potentially taking six to 12 months after de-escalation. Unlike tariff-driven cost increases, energy costs are written directly into most commercial contracts as oil-linked riders and fuel surcharges. The pass-through is immediate. A prolonged conflict introduces a further risk: demand destruction. Sustained energy cost elevation suppresses consumer and industrial demand, compressing the recovery timeline and reducing the volume benefit that often offsets cost increases during disruption periods.

Beyond cost, the more immediate operational risk is the loss of predictability. The cost increases are real and material. But layered on top is something harder to plan around: the breakdown of predictability across the inputs, corridors, and contracts that supply chain decisions depend on. Planning horizons are compressing as contract reliability erodes and cascading disruptions across energy, logistics, and critical inputs interact and reinforce each other. The challenge is absorbing higher costs while making sound decisions in an environment where the inputs to those decisions keep shifting.

Tariffs compound the pressure without offsetting it

Tariffs have been reshaping supply chain cost structures, and that pressure hasn't gone away. What's changed is that energy and freight volatility from the Middle East are now compounding that pressure, and they move faster. The companies treating this as a slow-moving policy question are already behind.

The Supreme Court's IEEPA ruling forced a shift to alternative tariff instruments. The Section 122 surcharge temporarily restores roughly 70 percent of the trade-weighted tariff coverage lost through IEEPA removal, for 150 days. The net effect is a modest reduction in effective tariff rates of approximately 2 percentage points. That relief is real but unevenly distributed and insufficient to counterbalance the energy and freight surge.

The redistribution matters for organizations with concentrated sourcing positions. Countries that previously faced high IEEPA rates, including Brazil, China, Canada, and Mexico, see lower effective rates under the flat surcharge. Partners that had secured negotiated floor arrangements see relative increases. US tariff policy now operates through a layered framework of Section 122, 232, and 301 instruments, increasing structural complexity for global supply chains regardless of the near-term rate reduction.

The challenge is absorbing higher costs while making sound decisions in an environment where the inputs to those decisions keep shifting.

When costs front-load, timing determines outcomes

Companies that built resilience over the past two years aren't panicking right now, and they shouldn't be. The ones that come out ahead will be the ones that understood their contract exposure, secured their critical freight lanes, and didn't wait to be told something was wrong.

How quickly an organization feels the cost increase depends heavily on its inventory position. Well-prepared companies may carry up to 12 weeks of stock, providing a window to draw down existing inventory before higher-cost inputs fully reprice. But many industries carry far less, in some cases under 30 days, meaning the cost impact begins showing up in operations and margins much sooner. The front-loading the model describes in the first two quarters reflects exactly this dynamic: companies with thin buffers feel it first, and the aggregate cost curve steepens as more of the market reprices.

Energy exposure, logistics fragility, and tariff complexity are not independent risks to be managed separately. They are compounding.

Near-term and longer-term response

Planning reliability is breaking down, and the **near-term response** has to reflect that. Mapping value chain segments exposed to tariff changes and Middle East routes is the starting point for understanding the full scale of impact. Securing capacity on priority freight lanes and identifying alternative carriers and ports for high-risk corridors is time-sensitive. Increasing inventory buffers for critical SKUs and adjusting planning lead times where rerouting or delays are likely are the immediate operational levers.

The interactions between disruptions matter more than any single shock, and the **longer-term response** has to be built around that reality. Energy exposure, logistics fragility, and tariff complexity are not independent risks to be managed separately. They are compounding. Companies that come out ahead will be those that build flexibility across the value chain through scenario-based planning, predictive risk monitoring, dual-sourcing, nearshoring, and diversified logistics corridors, not as single-point fixes but as an integrated operating model designed for persistent volatility. That also means establishing the capability to detect early disruption signals across supply chains and sub-tier constraints before costs become embedded, and combining AI-enabled visibility with the cross-functional leadership needed to act on those signals quickly.

Resilience built before the shock determines outcomes now

The relative supply chain stability of 2024 into early 2025 gave many organizations time to rebuild buffers, diversify suppliers, and adjust to tariff complexity. That foundation is now being tested by disruptions that are harder to absorb because they are breaking down predictability alongside cost. The organizations that treated that period as an opportunity to build structural flexibility are entering 2026 with measurably more options. Those that did not are facing a cost curve that steepens fast and takes time to normalize.

The Kearney Supply Chain Navigator will continue to track these dynamics at a quarterly level as the situation evolves.

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Appendix

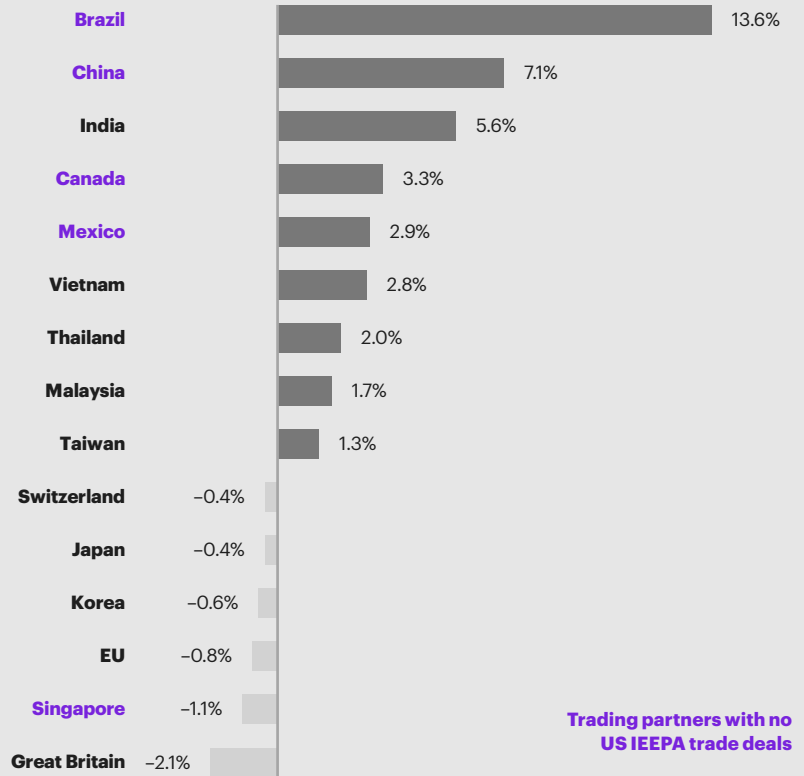
Section 122 temporarily restores much of the IEEPA coverage gap while redistributing effective rates across trading partners

Impact on top US trading partners

Reduction in trade-weighted average tariff (%)

¹ Trade-weighted average tariff rate on all US imports by tariff instrument

Sources: Global Trade Alert; Kearney analysis



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