Managing geopolitical risk in investment portfolios

Geopolitical events can weigh heavily on financial market sentiment

These events—expected or unexpected—can impact the functioning of the global economy and influence the relative attractiveness of sectors, regions, and strategies in investor portfolios. However, sensational news headlines do not always align with an increase in risk to your portfolio.

When managing portfolio allocations, the Global Market Strategy team takes geopolitical risk factors into account, and suggests the following insights for managing geopolitical risk in client portfolios.

Prepare yourself

Focus on action, not distraction

Understanding and adapting to geopolitical risk can be an endless endeavor—what really matters is how these risks play out in your clients' portfolios.

Focus on the information that helps you feel informed and comfortable when discussing portfolio allocations. Leverage internal research resources where applicable.

Recognize your clients' exposure

Assess your clients' allocations for vulnerability to geopolitical risk. Even U.S. companies listed on U.S. indices can be impacted by key risks through international sales or supply chain. Currency is another key transmission mechanism of geopolitical risk via market volatility and company earnings.

Build resilient portfolios

Be faithful to your clients' goals and risk tolerance using products that help enhance portfolio resiliency against the effects of risk when and where appropriate. For some, this can be as simple as diversifying portfolios with uncorrelated solutions.

If a portfolio seems to be overly exposed to risk, consider a smart hedge like a currency-hedged product. However, keep in mind that varying your clients' portfolio allocations too frequently can result in higher costs and missed opportunities.

Prepare your client

Set an investment policy statement

There will always be some reason to take money off the table, so turn your clients' focus away from headline-driven concerns and back toward their initial investment goals. If your clients do want to discuss major geopolitical themes, focus on whether and how these key threats may or may not impact your clients' portfolio construction.

Stick to good investor behaviors

Market volatility creates investor fear. Therefore, it is critical to remind your clients of good investor behaviors. Discourage early selling and remind them that diversification is a proven method for helping to mitigate risk, such as country- or sector-specific risks.

Identify thresholds for change

There are likely some risks that would merit adjustments to client portfolios. Remind your clients that you are there for them and ready to work with them to help them manage their investments. Identify what constitutes an environment that is too risky—before such conditions arise.

Then, if market conditions do reach those thresholds, you and your clients will be better prepared to make any necessary adjustments that match their established investment discipline.

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