



Geopolitical risk in a shifting world order

Why geopolitics matters more today and how investors can adapt

MAY 2025



INVESTMENTS

Executive summary

The global order is undergoing a profound transformation. The era of **U.S.-led globalization** – marked by open markets, liberal trade, and geopolitical stability – is giving way to a world defined by **great power competition**, economic nationalism, and rising conflict. Policy positions that once seemed unthinkable – trade wars, shifting energy alliances, and nationalistic industrial policy are no longer exceptions – are now commonplace. These developments aren't isolated disruptions or political noise; they reflect a deeper structural change in how nations pursue power and security. For investors, this shift is critical. Geopolitical events are no longer limited to temporary market noise; they are now driving long-term economic and market realignments.

The global economic order that emerged in the aftermath of the Cold War, shaped heavily by U.S. power and ideals, is now fracturing. This system reflected Washington's vision of a world knit together by commerce, open markets, and rules-based cooperation. But today, the pendulum is swinging decisively toward a new model defined by economic nationalism and strategic state intervention – the return of great power politics.

During the U.S.-led world order, the world benefited from relatively stable supply chains, rules-based international cooperation, and a broad commitment to trade liberalization. Yet, the benefits of globalization were unevenly distributed. Markets expanded, and consumer prices fell, but many communities were left behind – fueling political disillusionment. Populist leaders seized the moment, and voters rallied behind a desire to change in the status quo. That domestic backlash didn't stay contained – it helped accelerate a broader geopolitical shift. As nations turned inward and prioritized national strength over global integration, a new era of strategic rivalry began to take shape.

The resurgence of great power politics is fundamentally reshaping the relationship between geopolitics and economies. Where U.S. security guarantees once helped shield markets from worst-case geopolitical shocks, policy has grown less predictable. Leaders are increasingly using tariffs, sanctions, and shifting defense commitments as core tools of statecraft. As global tensions rise, geopolitical events are more likely to break down old norms and drive lasting shifts in economies and markets.

For investors, the message is clear: yesterday's tools won't manage today's risks. Geopolitical uncertainty can no longer be treated as a passing concern – it's a defining feature of the investment landscape. Meeting this moment requires moving beyond reactive risk management toward proactive adaptation. By treating geopolitics not as noise but as a strategic lens, investors can surface clear, investable themes in a more fragmented world. And in many cases, that may require rethinking portfolio positioning altogether.

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From geopolitical events to paradigm shifts: three case studies

In this new era, geopolitical disruptions are likely to play out in unfamiliar ways – with broader, longer-lasting impacts than in the past.

Positioning portfolios for regime change

Changing global dynamics mean that the average investor should rethink portfolio resilience and asset allocation.

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Global power shifts are making geopolitical risk
unavoidable

Why geopolitics matters for investors

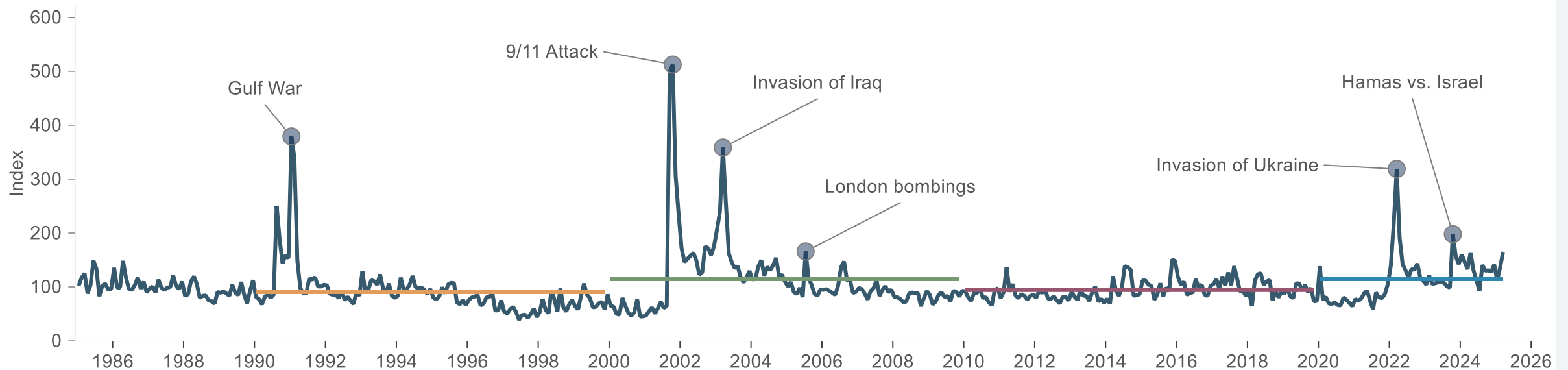
The peace dividend is over, and a new wave of geopolitical risk is rising.

- Geopolitical events can significantly influence financial markets by introducing uncertainty that affects investor confidence, global trade flows, and economic stability.
- In the 2010s, investors enjoyed what is often referred to as a “peace dividend,” benefiting from a relatively low incidence of geopolitical events impacting markets.
- That environment has shifted. The 2020s have brought a measurable increase in geopolitical risk, driven by structural shifts in the global economy. While competition over resources has long shaped geopolitical dynamics, changes in the global economic structure – including increased competition over technology, energy, and financial supply chains – have resulted in a quantifiable increase in geopolitical events. Trade friction (particularly between the U.S. and China), growing awareness of supply chain vulnerabilities, and the rise of economic nationalism have all contributed to a more fragmented and volatile landscape.
- Investors can no longer treat geopolitical risk as episodic. Compared to the last decade, it now demands more consistent consideration in portfolio construction and risk management.

Incidence of geopolitical risk is higher today than it was in the 2010s

The Geopolitical Risk Index measures the occurrence of geopolitical events, threats, and conflicts

— Geopolitical Risk Index — 1990s average — 2000s average — 2010s average — 2020s average



Sources: New York Life Investments Global Market Strategy, Matteo Iacoviello, Macrobond, April 2025.

The impact of geopolitical events on markets

Some geopolitical events are short-lived, while others can signal lasting paradigm shifts that transform markets.

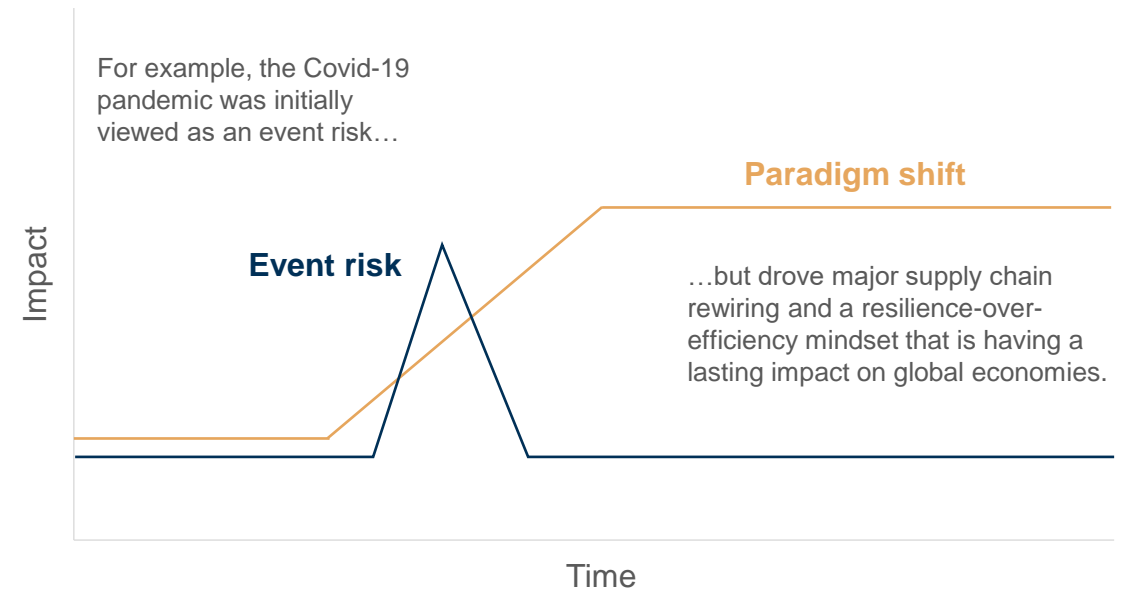
- In global markets, not all geopolitical events are created equal. The difference between geopolitical events and paradigm shifts is important for determining an investor's approach.
- Geopolitical events are sudden disruptions that take markets by surprise but remain limited in scope and duration. These events can be difficult to foresee (e.g., terrorist attacks), or to time (e.g., escalation in the Middle East). They can also be calendared (e.g. unpredictable results of an election).
- For example, an investor who bought the yen (JPY/USD) the day before Japan's 2011 earthquake would have seen a gain of 5% over the following week. However, this event was impossible to predict, and the yen quickly returned to its prior trend.
- Paradigm shifts, by contrast, begin as events but spark a longer-lasting transformation in investor sentiment and preferences, requiring re-thinking and potentially a recalibration of investor allocations.

Geopolitical events: Most event risks occur without much time for preparation

Type	Example	Historical event
Natural / environmental	Earthquake, pandemic, climate event	Bird flu outbreak (2022); Turkey-Syria earthquakes (2013)
Technological	State-sponsored cyber attack or data breach, election interference	Colonial Pipeline cyberattack (2021); Yahoo data breach (2013)
Political / social (internal)	Elections, coups, leadership changes, strikes, mass protests	French Yellow Vest protests (2018); Iran protests (2022)
Military / security (external)	Invasions, armed conflict, terrorism, border disputes	Israel-Hamas War (2023-present), Saudi Aramco drone attack (2019)
Geoeconomic / trade	Tariffs, trade wars, resource weaponization	Brexit (2016); China weaponizes rare earth metals trade (2010)
Regulatory / sovereign	Nationalization of industries	Venezuela's oil industry nationalization (2007)

Opinions of New York Life Investments Global Market Strategy, May 2025.

Paradigm shifts: All paradigm shifts begin as events, but paradigm shifts change market and economic realities



Opinions of New York Life Investments Global Market Strategy, May 2025.



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Why geopolitics matters more today: the return of great power politics

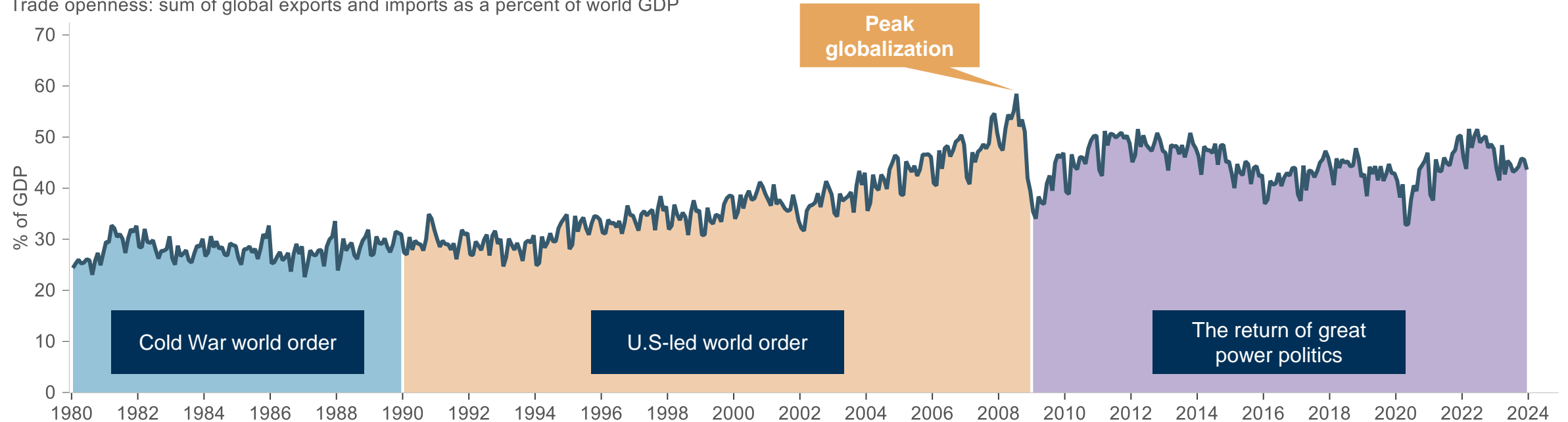
Regime change: the U.S.-led world order is ceding to great power politics

The global economy and markets are adjusting to a new way of doing business. Investors should expect disruption.

- We believe the U.S.-led world order, which took hold in the early 1990s and peaked around 2010, has been gradually giving way to a return of great power politics defined by economic nationalism, strategic industrial policy, onshoring, and the weaponization of trade, technology, and financial systems. This regime change has far-reaching implications for capital flows, inflation, and portfolio construction.
- The end of the Cold War world order was abrupt, driven by the collapse of the Soviet Union. The rise of great power politics has been more gradual, shaped by economic competition, shifting alliances, and regional rivalries.
- Though recent U.S. policy positions may have accelerated this regime change, the broader trend is about more than one country or one administration. The global economic landscape has shifted in stages: as free trade and open markets became more entrenched; as the beneficiaries of those economic ideas ebbed and flowed; and as policymakers' tools and preferences changed.

Globalization peaked alongside the U.S.-led world order

Trade openness: sum of global exports and imports as a percent of world GDP



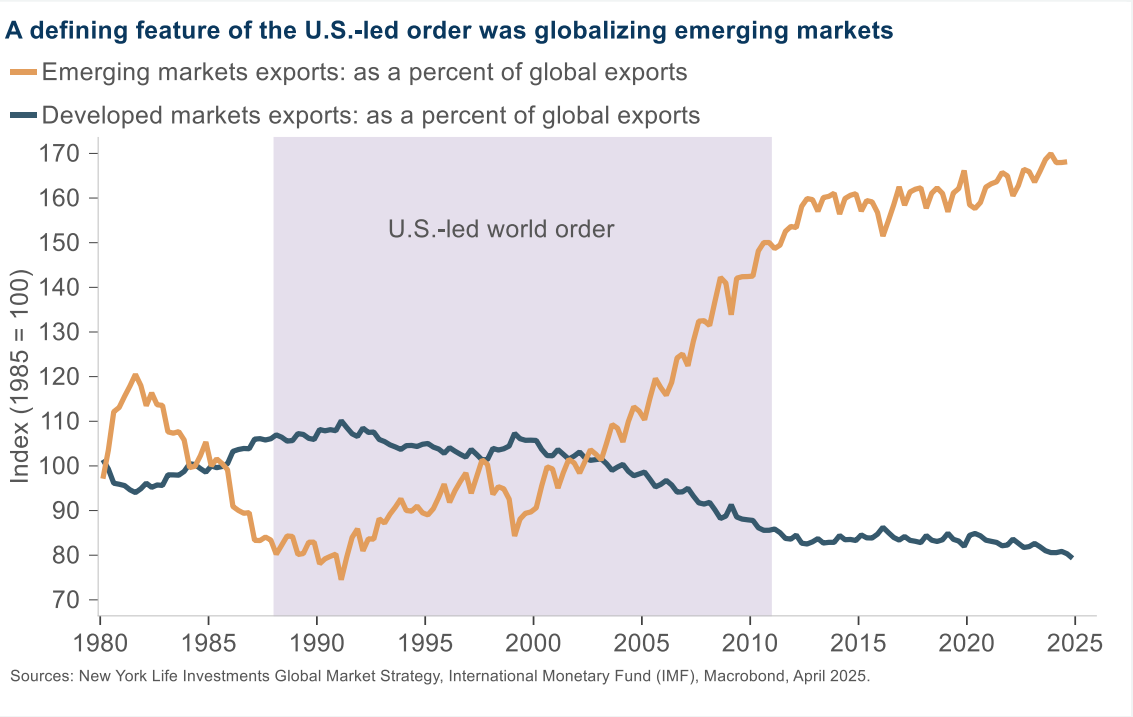
Sources: New York Life Investments Global Market Strategy, International Monetary Fund (IMF), United Nations Trade & Development, Macrobond, April 2025.

Old regime: the U.S.-led world order was focused on neo-liberal economic ideas

For the last few decades, the U.S. has played a dominant role in global economic preferences, pursuing free trade and open markets.

- The U.S.'s role in the global economy strengthened after the World Wars but accelerated following the Soviet Union's collapse, which left capitalism unchallenged. The U.S.-championed world order was built on globalization, free trade, and open markets.
- While the U.S has played a dominant role in the global economy since then, the United Kingdom and other Western economies also pursued aggressive policies of privatization, deregulation, and open markets.
- Institutions such as the IMF, World Bank, and WTO reinforced these principles globally, often requiring market-friendly reforms as a condition for financial assistance or membership.
- Open markets and economic integration also contributed to stronger growth for many emerging economies, including China, that benefited from demand for their lower-cost goods and services.

Principles of the U.S.-led world order	Example
Globalization	China's 2001 WTO accession deepened integration in global markets and supply chains.
Free trade	Trade liberalization through deals like NAFTA and WTO membership reduced barriers and promoted rules-based commerce.
Market liberalization	Deregulatory moves like the 1999 repeal of Glass-Steagall enabled freer capital flows and favored market-led growth.
Multilateral institutions	Institutions like the IMF, World Bank, and WTO reflected and reinforced a U.S.-centered, rules-based global system.
Global energy interdependence	The U.S. and its allies prioritized stable, open global energy markets over self-sufficiency, with interventions like the Gulf War underscoring the link between energy access and global stability.



Opinions of New York Life Investments Global Market Strategy, May 2025.

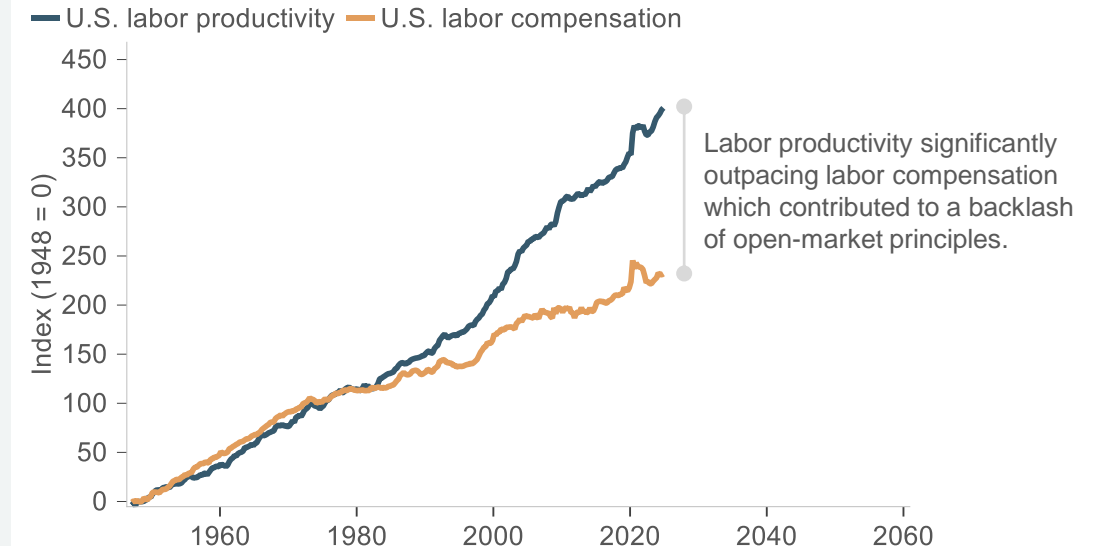
Regime change: Economic norms and policy tools are now changing

Recent years have represented a shift in the global economic landscape. Shifts like this can bring periods of rapid change and instability.

- The last decade has marked a waning of the U.S.-led world order. The promises of neo-liberal economic ideals, including free trade, deregulation, and open markets, are seen by many as having overpromised and unevenly delivered. Though initially effective at liberalizing markets, these ideas also deepened global imbalances and dependencies. Rising geoeconomic fragmentation, populism, and economic vulnerabilities suggest its global influence is fading.
- Transitions in global economic ideas and leadership – which we'll call regime change – are often turbulent. In the last transition, for example, the end of the Cold War redrew borders, triggered economic turmoil in former Soviet states, and sparked regional conflicts from the Balkans to the Caucasus.
- We believe investors should expect that the shift away from a U.S.-led world order will also result in a disruptive period for the economy and markets. It is already happening.

Forces bringing about the end of the U.S.-led world order	Example
Globalization backlash	The increasing influence of populist movements globally reflects voter pushback against the job losses and inequality caused by global integration.
Supply chain vulnerabilities	The COVID-19 pandemic laid bare the vulnerabilities of global supply chains. Countries realized that the security and availability of goods and services may be more important than their cost in some cases.
Weaponized economic interdependence	Trade and finance have increasingly become tools of geopolitical rivalry: Sanctions on Russia, SWIFT exclusions, and U.S. tech export bans on China are a few examples.
Return of activist industrial policy	The U.S. CHIPS Act and the EU's Green Deal mark a decisive shift toward state-led investment in critical industries and technologies.
Energy transition and security	Europe's scramble to boost liquid natural gas capacity post-Ukraine invasion highlights the urgency for secure, diversified energy supplies.

The U.S.-led world order brought prosperity but it wasn't shared equally with all workers



Sources: New York Life Investments Global Market Strategy, U.S. Bureau of Labor Statistics (BLS), Macrobond, April 2025.

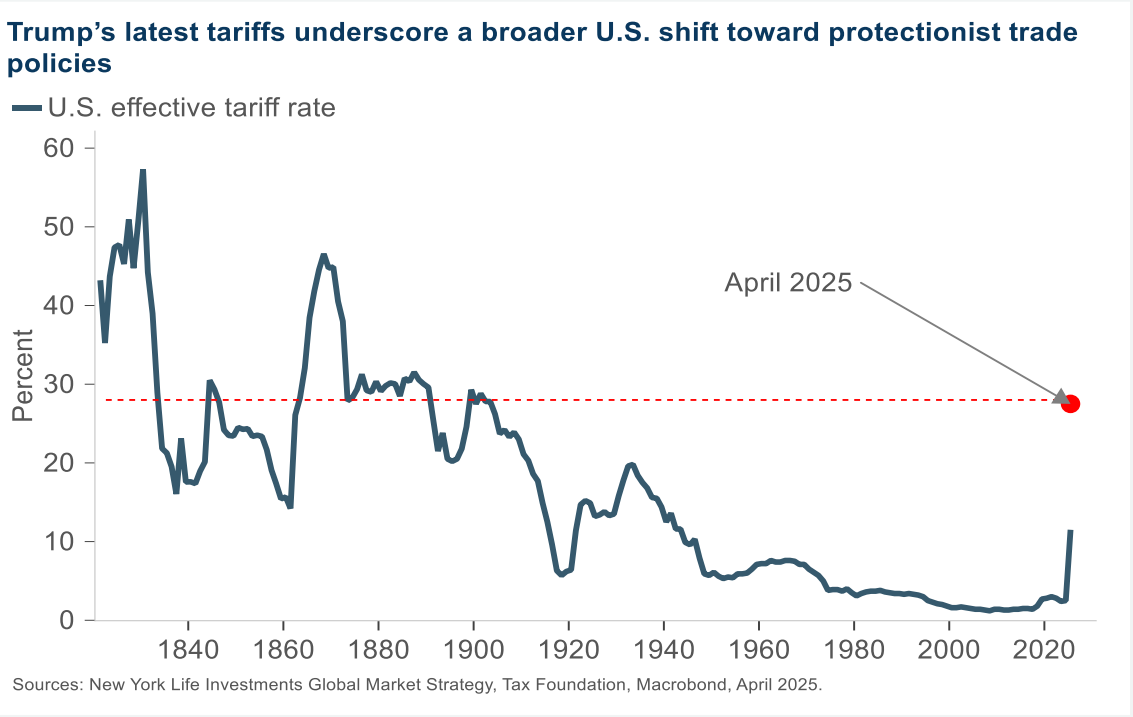
Opinions of New York Life Investments Global Market Strategy, May 2025.

New regime: The return of great power politics increases geopolitical risk

In response to changes in the geopolitical backdrop, economic and market norms are being rewritten.

- The ongoing changes in the global economy mark a return of great power politics, where state intervention is more important, driven by principles of national security, industrial resilience, and economic self-reliance.
- Policies once seen as protectionist – like onshoring, friendshoring, and industrial policy – are now mainstream as governments seek to secure supply chains and support strategic industries.
- In the U.S., for example, the CHIPS Act marks a clear pivot from market-driven efficiency to state-backed industrial strategy. Japan and the European Union have implemented similar policies to incentivize domestic semiconductor production.
- This new paradigm comes with new risks, including the potential for structurally higher inflation as global trade declines.

Principles of great power politics	Results
Economic nationalism	Countries increasingly pursue onshoring, reshoring, strengthening their own domestic industries.
Weaponization of trade and finance	Sanctions, tariffs, and financial restrictions are deployed more frequently as instruments of geopolitical pressure, especially by the United States.
Preference for bilateral relations over multilateral institutions	Governments move away from multilateral agreements and institutions – such as the Trans-Pacific Partnership and the WTO – in favor of bilateral negotiations that prioritize national interests.
Strategic competition; emphasis on industrial policy	Governments direct investment into strategic sectors to bolster industrial capacity and national competitiveness.
Resilience over efficiency	Countries reconfigure supply chains to emphasize resilience and redundancy, marking a shift away from cost-optimized globalization.



Opinions of New York Life Investments Global Market Strategy, May 2025.



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From geopolitical events to paradigm shifts: three case studies

Regime change is here, making geopolitical disruptions more likely

The global economy is highly inertial. Once forces for change accumulate, the adjustment period can be highly disruptive.

- Global systems have a tendency to be inert: They putter along as they are until they are forced to change.
- The U.S.-led world order has persisted because its systems were relatively efficient and difficult to circumvent. A dominant center for internet traffic, financial transactions, defense, and semiconductor design, the U.S. has effectively “owned” the plumbing of the global financial and information system.
- Now, as disruptions to the U.S.-world order pile up, geopolitical events are more likely to become paradigm shifts, and investor expectations are more likely to be disrupted.
- These domains – payments, currency, trade, tech, and defense – once reinforced U.S. dominance. But as geopolitical tensions rise, they are becoming front lines of strategic competition and potential areas of geopolitical disruptions.

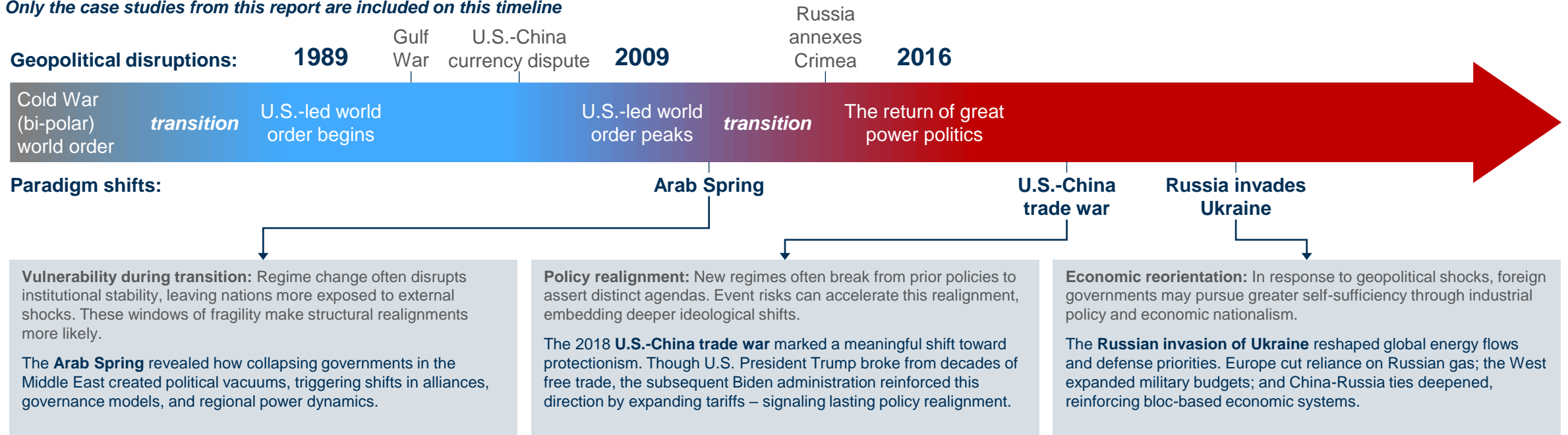
Domain	U.S. embedded control		Risk in great power competition
Finance and payments	The U.S. effectively controls SWIFT access and dollar clearing		SWIFT alternatives (e.g. China’s CIPS) gain traction; sanctions push rival blocs to develop parallel payment systems, fragmenting global finance
Reserve currency	USD dominates central bank reserves (~60% of total), giving the U.S. exorbitant privilege		De-dollarization accelerates as countries seek to insulate against U.S. sanctions and financial leverage
Trade institutions	U.S. was a key architect and enforcer of WTO, IMF, and World Bank		Institutions weaken as countries (including the U.S.) bypass WTO rules, favor bilateral deals, and use economic tools for strategic advantage, undermining global coordination
Internet infrastructure	ICANN, root DNS servers, and global data hubs centered in the U.S.		Digital sovereignty policies and techno-spheres emerge; countries wall off data flows and internet infrastructure, splintering the global internet
Defense guarantees	U.S. anchors NATO, Indo-Pacific alliances, and provides security guarantees for trade		Security commitments become less reliable; allies hedge with new defense arrangements or arms build-ups, raising regional tensions
Technology leadership	U.S. firms dominate semiconductors (design), software, and cloud infrastructure		U.S.-China tech decoupling accelerates the formation of parallel technology ecosystems. Diverging standards, hardware, and platforms raise costs and complicate global business operations
Energy security	U.S. Navy secures global sea lanes		Maritime chokepoints face rising threats from hostile actors raising geopolitical risk premium priced into commodities

During regime change, event risks are more likely to become paradigm shifts

The global economy is already undergoing a major geopolitical transition. This increases the likelihood and severity of geopolitical risk in our view.

- Regime change weakens the institutional and ideological anchors that typically preserve the status quo. When old norms lose legitimacy, and new power structures haven't fully consolidated, the system becomes more malleable. This opens the door for event risks – conflicts, shocks, or crises – prompting deeper structural change. In essence, regime change creates a political and economic vacuum where new ideas, coalitions, and policy models can rapidly take root.
- There is no exact science for how a geopolitical event evolves into a paradigm shift. So, if investors should expect paradigm shifts to become more likely in this period of regime change, how should they adapt? In this section, we illustrate three concrete case studies illustrating how geopolitical circumstances, actors, preferences, and constraints shape the economic and market impact of geopolitical shocks. In the next section, we provide tangible, investable ideas for how investors can prepare.

Only the case studies from this report are included on this timeline



Views of the New York Life Investments Global Market Strategy, 2025. For illustrative purposes only.

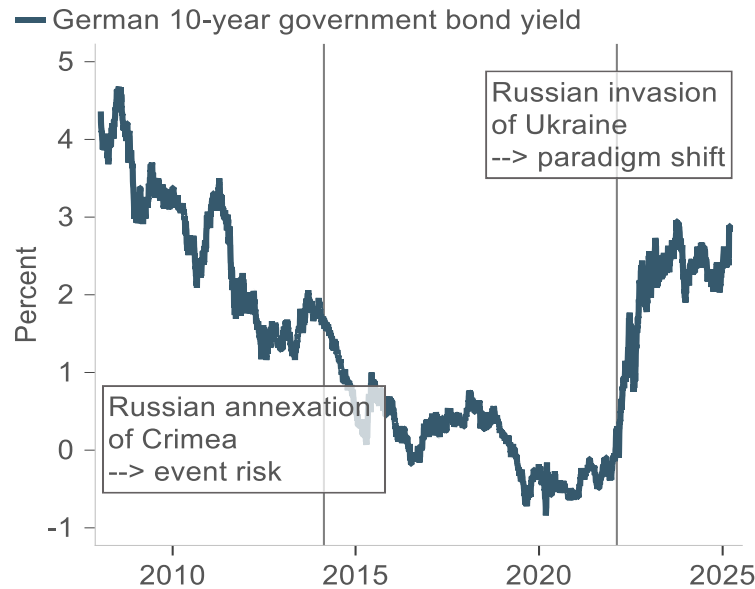
From geopolitical events to paradigm shifts: Three case studies

These recurring global themes demonstrate how geopolitical shocks both reflect and reinforce regime change.

Russian aggression

Russia's annexation of Crimea unsettled the status quo but had minimal impact on global allocation. Later, couched in global concerns about inflation and supply chains, Russia's invasion of Ukraine prompted a full-scale shift in the investment outlook especially in energy insecurity and inflation awareness.

Paradigm shift: German bond yields

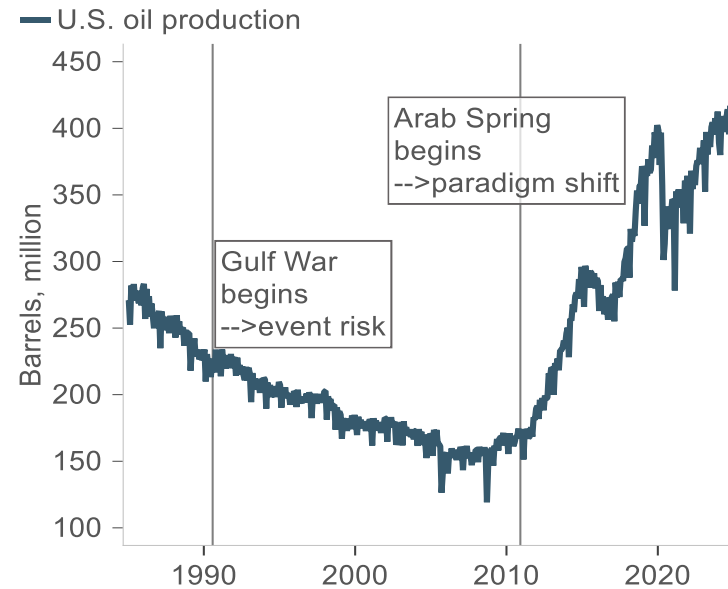


Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, March 2025.

Middle East conflict

In the leadup to the Gulf War, global economies – including the U.S. – were energy price takers, having relied on global energy markets secured by the U.S. By contrast, the instability of the Arab Spring accelerated the uptake of new technology (fracking) and the U.S. transition to oil price maker, or marginal supplier.

Paradigm shift: U.S. oil production



Sources: New York Life Investments Global Market Strategy, Energy Information Administration (EIA), Macrobond, April 2025.

U.S.-China competition

In the early 2000s, during a currency between the U.S. and China, tensions were mostly diplomatic – not backed by tariffs or concrete penalties. Supply chains and asset prices mostly stayed put. By contrast, the 2018-2019 trade war included real tariffs. Uncertainty around costs and operations resulted in a real diversification of supply chains.

Paradigm shift: U.S.-China decoupling



Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, Macrobond, April 2025.

Russian aggression: Geopolitical event vs. paradigm shift (1/2)

Russia's annexation of Crimea unsettled the status quo. Russia's invasion of Ukraine rewrote it.

Russia's annexation of Crimea unsettled the status quo but had minimal impact on global allocation. Later, couched in global concerns about inflation and supply chains, Russia's invasion of Ukraine prompted a full-scale shift in investment outlook, organized around energy insecurity and inflation awareness.

Geopolitical event: Russia annexes Crimea (2014). *Russia's annexation of Crimea signaled the fragility of the U.S.-led global system, but the geopolitical fallout was limited. In particular, the subdued use of sanctions suggested that the benefits of economic ties and trade outweighed confrontation for key actors.*

- **Trigger | Security shock:** The 2014 Euromaidan protests topple Ukraine's pro-Russian government, pushing the country toward the EU and NATO; Moscow seizes Crimea to protect its Black Sea Fleet and buffer zone.
- **Policy response | Targeted sanctions:** U.S. and EU impose targeted sanctions on specific individuals, companies, and imports – signaling that trade links still trump confrontation.
- **Market and strategic impact | Minimal disruption:** Energy flows, supply chains, and risk premia snap back quickly; Russia shifts a bit closer to China, but global norms stay intact.

Paradigm shift: Russia invades Ukraine (2022). *Occurring amid investor concerns about supply chains, inflationary pressures, and resource independence, Russia's invasion of Ukraine reshaped the geopolitical landscape.*

- **Trigger | NATO rejects Russian demands:** The Kremlin launches a multi-front assault claiming Ukrainian territory, but underestimated Ukraine's resistance and Western military support.
- **Policy response | Sanctions and energy weaponization:** Western coalition freezes foreign exchange reserves, cuts banks from SWIFT; Moscow slashes gas exports to Europe.
- **Market and strategic impact | Structural realignment:** Europe rewires energy capacity toward liquid natural gas (LNG), defense budgets surge, and Moscow deepens a “no-limits” economic and security partnership with Beijing.

How the Russian invasion signposted the return of great power politics

U.S.-led world order (Pre-invasion)	Great power politics (Post-invasion)
Energy markets are global and efficient	Energy is a strategic asset and access must be secured
Trade fosters peace	Trade dependencies can be exploited
Sanctions are rare and targeted. Financial markets are apolitical	Sanctions are widespread and systemic. Financial markets are strategic tools
Efficiency over resilience: Global supply chains drive costs down	Resilience over efficiency: critical resources require national control
U.S. allies' defense budgets can remain low (peace dividends)	Defense spending returns; elevated geopolitical risk premium

Opinions of New York Life Investments Global Market Strategy, May 2025.

Russian aggression: Geopolitical event vs. paradigm shift (2/2)

Unlike after its annexation of Crimea, Russia's invasion of Ukraine forced investors to rethink the impact of geopolitical disruption.

German bond yields saw a structural move higher following the Russian invasion of Ukraine

— German 10-year government bond yield



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, April 2025.

Middle East conflict: Geopolitical event vs. paradigm shift (1/2)

The Gulf War secured oil flows; the Arab Spring rewired them.

In the leadup to the Gulf War, global economies – including the U.S. – were energy price takers, having relied on global energy markets secured by the U.S. By contrast, the instability of the Arab Spring accelerated the uptake of new technology (fracking) and the U.S. transition to oil price maker, or marginal supplier.

Geopolitical event: The Gulf War (1990). *Iraq’s invasion of Kuwait exposed the fragility of global energy security, but decisive U.S.-led intervention and coordinated supply efforts contained the fallout and preserved the global status quo.*

- **Trigger | Iraq invades Kuwait:** Saddam Hussein’s forces overrun Kuwait, threatening a key oil producer and risking broader regional instability, drawing global condemnation.
- **Policy response | Coalition intervention:** U.S.-led Desert Storm expels Iraqi forces while Saudi Arabia and other producers ramp up output, ensuring global supply remains steady.
- **Market and strategic impact | Contained shock:** Oil spikes then retrace; supply chains and the globalization narrative remain intact.

Paradigm shift: The Arab Spring (2011). *A wave of uprisings shattered regional stability, disrupting oil production and accelerating a long-term shift in Western energy policy – away from Middle East dependence and toward diversification and self-sufficiency.*

- **Trigger | Mass uprisings:** Popular revolts topple regimes in Tunisia, Egypt, Libya and ignite civil wars in Syria and Yemen.
- **Policy response | Prolonged instability:** Fragmented governments and disrupted output erode OPEC cohesion while the U.S. accelerates shale production.
- **Market and strategic impact | Security over price dominates:** Supply shocks push the U.S. to restructure energy policy to reduce reliance on imports and prompt Europe to diversify – expanding beyond Middle Eastern supply and investing more in LNG, renewables, and nuclear.

How the Arab Spring signposted the return of great power politics

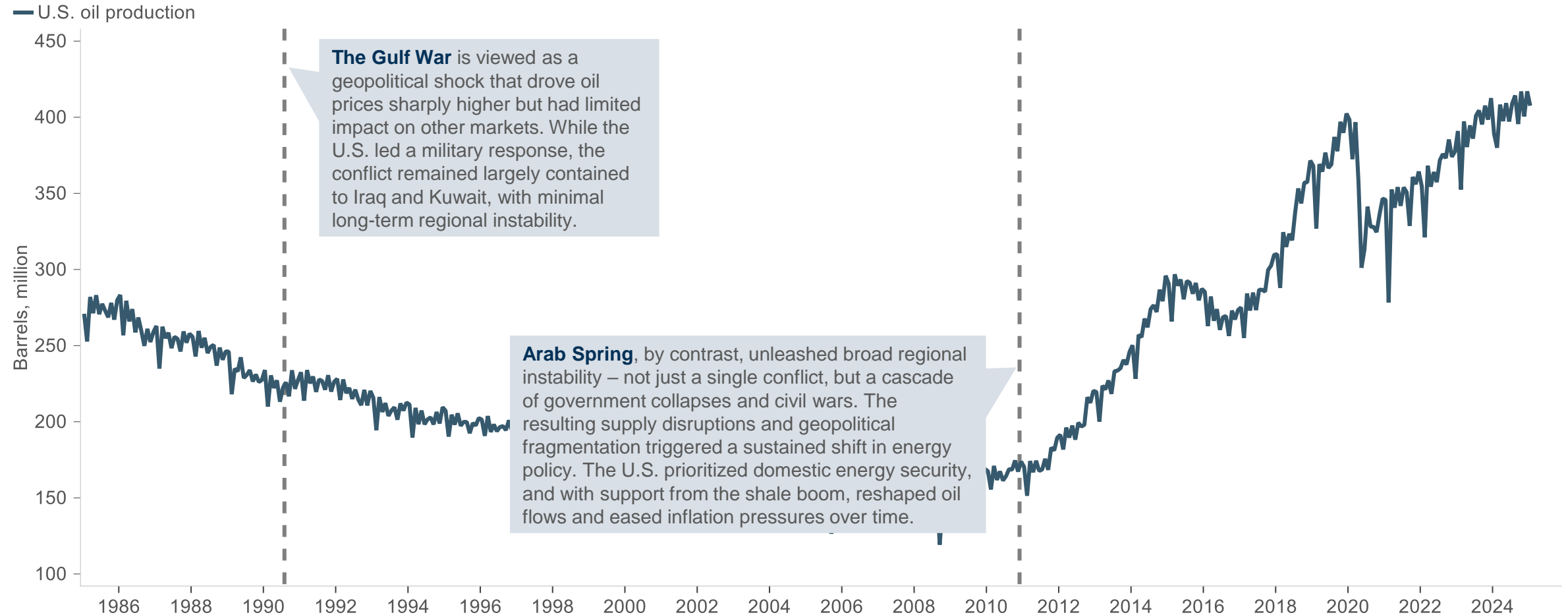
U.S.-led world order (Pre-Arab Spring)	Great power politics (Post-Arab Spring)
The Middle East is primarily a supplier of cheap energy	Energy policy prioritizes domestic production over global sourcing
Energy is a global commodity	Energy security is a strategic priority prompting U.S. shale production
Globalization reduces conflict	Globalization creates strategic vulnerabilities
Market liberalization ensures prosperity	Market liberalization can create political unrest
Climate policy will phase out fossil fuels	Shale oil is an economic and strategic weapon

Opinions of New York Life Investments Global Market Strategy, May 2025.

Middle East conflict: Geopolitical event vs. paradigm shift (2/2)

The Gulf War prompted a temporary disruption in energy markets; Arab Spring contributed to a complete reshuffling of energy priorities.

After pulling out of shale production due to cheap oil in the 1980s, energy producers ramped up when instability pressured prices higher



Sources: New York Life Investments Global Market Strategy, Energy Information Administration (EIA), Macrobond, April 2025.

China competition: Geopolitical event vs. paradigm shift (1/2)

U.S.-China competition has intensified over time.

In the early 2000s currency dispute between the U.S. and China, tensions were mostly diplomatic – not backed by tariffs or concrete penalties. Supply chains and asset prices mostly stayed put. By contrast, the 2018-2019 trade war included real tariffs. Uncertainty around costs and operations resulted in a real diversification of supply chains.

Geopolitical event: Currency dispute (early 2000s). Mounting U.S. trade deficits brought attention to China’s currency management policies, but U.S. reactions were limited. Markets interpreted the tension as manageable within existing frameworks of globalization.

- **Trigger | Undervalued-RMB debate:** Surging U.S. trade gap and job losses spark charges that Beijing’s fixed yuan is an unfair subsidy.
- **Policy response | Diplomatic pressure:** Treasury reports, Senate bills, and WTO dialog push Beijing to abandon its hard currency peg against the U.S. dollar.
- **Market and strategic impact | Status quo holds:** Despite heated rhetoric and political posturing, trade between the U.S. and China continued to expand. China adjusted its currency peg to a basket of global currencies (not just the U.S. dollar) and continued embedding itself in global supply chains. U.S. corporations deepened their presence in Chinese markets.

Paradigm shift: U.S.-China trade war (2018). Breaking with decades of globalization orthodoxy, the trade war marked a structural turn toward decoupling. Investors began to price an enduring fragmentation of supply chains and a less cooperative global trading regime.

- **Trigger | IP-theft and forced-tech claims:** A Section 301 investigation frames China as a strategic threat to U.S. technology leadership.
- **Policy response | Tariff barrage:** Washington slaps duties on ~\$360 billion of imports; Beijing retaliates in kind, and both sides layer on export controls and subsidy races.
- **Market and strategic impact | Rise of protectionism:** The trade war locks in a bipartisan U.S. retreat from free-trade norms to lasting tariffs and industrial policy.

How the trade war signposted the return of great power politics

U.S.-led world order (Pre-trade war)	Great power politics (Post-trade war)
Trade liberalization benefits everyone	Trade is a zero-sum game
China’s rise is good for global markets	China’s rise is a threat to Western dominance / economic rivalry
Tariffs are outdated	Tariffs are a tool of economic warfare
Multilateral institutions (WTO, IMF) will prevent major trade disputes	WTO is sidelined
Tech is neutral and global	Tech is a battleground
The U.S. and China are economic partners first	The U.S. and China are strategic rivals first

Opinions of New York Life Investments Global Market Strategy, May 2025.

China competition: geopolitical event vs. paradigm shift (2/2)

Where the U.S.-China currency dispute had little immediate market impact, the broader trend of competition is re-working global systems.

The trade war exemplifies the start of U.S.-China economic decoupling

— China's share of U.S. trade deficit



Sources: New York Life Investments Global Market Strategy, U.S. Census Bureau, Macrobond, April 2025.

Opinions of New York Life Investments Global Market Strategy, May 2025.

The background of the slide is a dark blue, textured image of a world map. Overlaid on the map is a complex network of thin, light blue lines connecting various points, suggesting global connectivity or data flow. The map is centered, showing the continents of Africa, Europe, and Asia. The overall aesthetic is modern and technological.

4 | Positioning portfolios for regime change

An investors’ toolkit for navigating geopolitical risk

Quantifying geopolitical risk is challenging because of the qualitative nature of the risks.

- Geopolitical risk is challenging to manage because of its core principles: it is difficult to anticipate, and its impacts can be unevenly felt. These realities require investors to think more in terms of long-term trends and frameworks – no easy feat. The rising incidence and intensity of geopolitical events may also require investors to do more to prepare portfolios for consistent disruption.
- Actionable strategies, such as geographic diversification, adding geopolitically-aware asset classes, and reassessing allocations through the lens of structural political and economic shifts may help investors to prepare.
- Other strategies, such as scenario analysis, political risk insurance, and game theory are valuable, but can be costly and time-consuming. For these strategies, we believe investors should consider how the output of these processes would improve their investment process before allocating too many resources.

Actionable strategies		Strategies to consider with a grain of salt	
Buy the macro volatility portfolio <i>(slide 25)</i>	Certain asset classes tend to move more quickly when a geopolitical event occurs. Adding exposure to those asset classes may help prepare portfolios for the rise in incidence of geopolitical events.	Stress testing and scenario analysis	Stress testing and scenario analysis can be useful, but they are time-consuming exercises, and their results are only as effective as the assumptions used. In a period of regime change, even well-built models can fail to capture the full scope of risks.
Diversify country exposure <i>(slide 26)</i>	The impact of geopolitical events often depends on where you sit. Geographic diversification, therefore, remains a vital defense against the un-anticipatable. By reducing portfolio exposure to regions with elevated geopolitical risk, investors can help mitigate overall volatility.	Political risk insurance	While insurance may offer protection against extreme outcomes, it comes at a cost and typically covers narrow scenarios.
Position for regime change <i>(slide 27)</i>	The principles of great power politics introduce new risks and market forces that potentially call for shifting portfolio allocations.	Quantitative game theory	These models attempt to simulate how countries and actors might behave under pressure – but their complexity can become a liability. The outputs of these models can be difficult to interpret, let alone act on with confidence.

Opinions of New York Life Investments Global Market Strategy, May 2025.

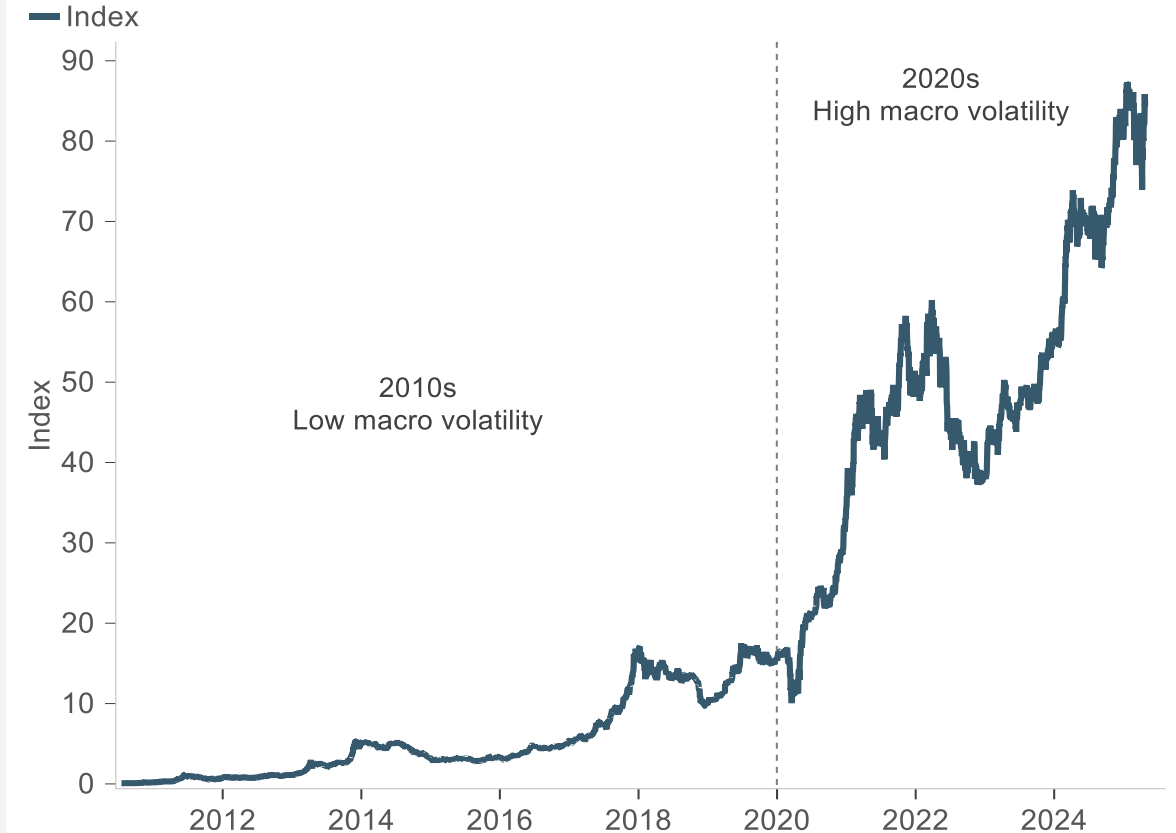
Embracing geopolitical risk through its transmission mechanisms

Owning a “macro volatility” satellite may prepare portfolios for disruption via three key geopolitically-aware asset classes.

- Certain asset classes tend to move more quickly when a geopolitical event occurs. Adding exposure to those asset classes may help prepare portfolios for the rise in incidence of geopolitical events.
- Our “macro volatility” portfolio is an equal-weighted portfolio of oil, gold, and bitcoin, sourced as a small satellite from equity. These asset classes were chosen due to their historical role as key transmission mechanisms of geopolitical shocks.
 - **Oil:** Geopolitical tensions often disrupt energy supply chains, leading to higher oil prices (1973 oil embargo, 1990 Gulf War). The inflationary energy channel is one primary way that geopolitical events, specifically adverse supply shocks, impact the real economy, prices, and therefore, risk assets.
 - **Gold:** In times of greater uncertainty, geopolitical risk often transmits through a deflationary macro channel, dampening growth and activity. Gold tends to benefit – not just from inflation concerns, but from falling real rates, financial stress, central bank activities, and its role as a safe-haven asset.
 - **Bitcoin:** The post-pandemic environment has been defined by fluctuating market liquidity. Bitcoin is included as a proxy for liquidity-driven risk-taking. This asset may also benefit from any rise in U.S. dollar-based uncertainty as the U.S.-led world order changes.

Owning macro volatility may be the trade of the 2020s

The macro volatility portfolio is composed of an equal weight of gold, oil, and bitcoin



Sources: New York Life Investments Global Market Strategy, Macrobond Financial AB, Macrobond, April 2025.

Opinions of New York Life Investments Global Market Strategy, May 2025.

Geopolitical risk can't be avoided; it can only be managed

Investors can mitigate geopolitical risk by avoiding regions prone to geopolitical tensions, but in today's world, that may be easier said than done.

- The return of great power politics is fueling the rise of more geopolitical hotspots. As countries compete for resources – even in outer space – conflict or other disruption is rising.
- While the impact of any event depends on where it occurs, avoiding geopolitical fallout is increasingly difficult. Global supply chains and financial linkages mean even assets in “safe” regions can be exposed to distant shocks.
- For most investors, it's worth reassessing *and diversifying* geographic exposures (see next page for more) – especially if country weights have shifted. But resilience isn't just about location; it's also about a market's connectivity to the global system. For example, Canadian equities may be geographically distinct, but their fortunes are deeply tied to U.S. oil demand.

Avoiding geopolitical risk is becoming more complicated



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What investors need to consider for regime change

Investment approach considerations for the return of great power politics.

- Regime change from a U.S.-led world order to great power politics carries significant implications for global economic organization and policy decision-making.
- In an era defined by great power politics, investors should focus on protecting portfolios from inflation and political volatility by prioritizing real assets, commodities, infrastructure, and resilient (or beneficiary) sectors.

Theme		Approach		Investment idea
Incidence of geopolitical risk appears to be rising	→	Add a macro volatility satellite to portfolio	→	Equal parts oil, gold, and bitcoin, implemented as a small satellite exposure sourced from equity
Event risk can impact any country or region	→	Diversify country exposure	→	The benefits of diversifying country exposure are likely to grow as globalization weakens and national economic trajectories diverge
	→	Manage currency risk	→	Consider a 50% currency hedge as currency volatility is likely to be higher
Regime change / Event risks are more likely to become paradigm shifts	→	New world order is likely to push prices and rates higher	→	<i>Manage duration:</i> we prefer short duration exposure or, when extending duration, keeping a close eye on income generation per unit of interest rate volatility <i>Add inflation-aware asset classes:</i> TIPS, real assets <i>Build income across asset classes:</i> Dividend-paying equities; high-yield corporate bonds
			→	<i>Private assets:</i> Focus on areas of real value creation. We favor the lower middle market as an area more resilient to global changes and capital markets trends, especially as dry powder has been captured upmarket
	→	Economic nationalism is becoming more evident	→	<i>Overweight domestic champions and beneficiary sectors:</i> industrials, energy, semiconductors, cybersecurity, and defense
			→	<i>Capture global megatrends:</i> Digital and energy infrastructure may benefit from the confluence of geopolitical trends and global economic needs (e.g. artificial intelligence).
	→	Market risk is more politically-driven and non-economic	→	Active management tends to outperform during periods of higher volatility. Investors should consider actively managed funds to better target quality opportunities in equities and credit.

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Global Market Strategy

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From the desk...
(timely response to market movement, policy, data, etc.)



Weekly podcast & bi-weekly videos



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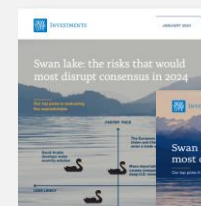
Megatrends

- **Coming soon!** 2025 Megatrend: debt
- Artificial intelligence: from imagination to investment
- (re)globalization



Politics and geopolitics

- Geopolitical risk in a shifting world order
- Swan Lake: the risks that would most disrupt consensus in 2025



Private markets

- Global market outlook



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