FT Wealth Management May 15 2024

Wealth managers take granular approach to geopolitical risk

By **David Thorpe**

The impact of negative geopolitical events on markets is best understood through the opportunities created in individual asset classes, according to a range of money managers.

Simon King, chief investment officer at Vermeer Partners, said: “Geo-politics matter very much to us when constructing portfolios but much more at a company specific level rather than from an asset allocation perspective. We believe it is important to not assess things from a global or broadbrush perspective since this can lead to investing by proxy ie if I get the general point right then it doesn’t really matter which investment I make since if it is in the right area it is bound to go up”

He added: "We prefer to factor geopolitical change into the way we look at every potential and existing investment on an individual basis. A good example would be the Biden-led Inflation reduction Act which has already produced significant new build projects in the US, but this has been very specific both geographically and by sector so it is vital to understand which companies have real exposure to these areas.

"2024 is a year of election in the USA, India, Indonesia, UK which will have a huge bearing on industrial, health and fiscal medium and long term outlook. Our task is to ascertain what differences the potential outcomes will make at a micro level.”

For David Jane, multi-asset investor at Premier Miton, geo-political risk is typically most evident within currency and commodity markets.

He said in the current climate these assets are the key to diversification when the world is turbulent, particularly as turbulence is usually inflationary.

Jane said: “From a construction point of view our view remains that diversifying equity with long duration bonds is not remotely as effective as it was in the previous couple of decades now that inflation is normalised back at higher levels.

"Using commodities such as gold, energy or metals as diversifiers makes much more sense, not just as a inflation hedge but also as a way of mitigating geopolitical risk. Should things in the Middle East or Russia get significantly worse, or even if something develops further relating to China, then this is likely to be inflationary and negative for equity.

"Hedging equity risk with inflation beneficiaries makes much more sense than trying to use government bonds. Additionally, any instability is likely to lead to strength in the US dollar, hence holding dollar positions can also work as a hedge.”

Rory Maguire, managing director at Fundhouse said he never tries to predict what will happen within the geopolitical realm, but instead tries to ascertain whether any assets have become mispriced as a result of the turbulence.

He said this approach led him to buy gilts and sterling in the immediate aftermath of the Truss "mini budget", with those assets subsequently rising in value as calm returned.

James Sullivan, head of partnerships at Tyndall, says there is always a risk people get "emotional" about politics, he feels if an investor focuses on diversification and ignores temporary events, then the effect of geo-politics on portfolio construction is limited.

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