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## Geopolitical risk and how it impacts investors

Economic and geopolitical risk are inseparable for investors in an evolving global investment landscape

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The economic outlook and the potential risks and opportunities it represents has long been a main driver of investment decisions. Geopolitical risk was more a back burner consideration, occasionally coming to the fore when country tensions rapidly expanded.

However, we are shifting from the previous 'era' of globalisation to a more nuanced world order dominated by regional geo-politics and position jostling by the major powers. This type of global regime change tends to occur every 30-40 years.

The key point for investors is that it is no longer sensible nor possible to separate the geo-political from the economic.

## Defining Geopolitical risk

Geopolitical risk can impact all investments across regions, sectors and industries. It refers to the potential for political, social, economic, or military conflicts to disrupt financial markets or affect the performance of investments.

These risks can arise from issues such as wars, political instability, trade disputes, terrorism, and regulatory changes, among others. Geopolitical risk can have a significant influence on investment decisions and asset allocation, as it introduces uncertainty and can lead to market volatility.

Additionally, geopolitical events can disrupt supply chains, affect global trade agreements, and lead to changes in government policies that can directly impact businesses and investments. For example, trade tensions between countries may result in tariffs being imposed on imports and exports, affecting the profitability of businesses operating in those markets.

In addition to impacting trade and political policies directly, geopolitical risk can also influence traders that focus on macroeconomic indicators and their approach to managing foreign exchange rates, interest rates, and commodity prices, further complicating investment decisions.

## Accounting for Geopolitical risk

There are several strategies that investors can consider when looking to reduce risk:

- Diversification is a key risk management strategy, as spreading investments across different asset classes, industries, and regions can help mitigate the impact of geopolitical events on a portfolio. Gold is often referred to as a safe-haven asset, as investors tend to buy it during times of political and economic uncertainty. Historically, the price movement of equities and gold is independent as they are uncorrelated, which adds diversification to an investor's portfolio.
- Conducting thorough research and staying informed about geopolitical developments can also help investors anticipate potential risks and make more informed decisions. With modern technology, investors have instant access to global news, meaning markets can react swiftly to news reported on geopolitical events.
- Implementing risk management techniques such as stop-loss orders or hedging strategies using options can provide protection against sudden market movements triggered by geopolitical events. By adhering to an investment strategy, investors can set pre-determined triggers to minimise risk exposure and capitalise on a rebound in the market.
- Engaging with a professional financial advisor or investment analyst who specialises in global markets can also provide valuable insights and guidance on navigating uncertain market conditions. It is important to understand the adviser's approach to risk management and ensure it aligns with your risk profile as an investor.

## Conclusion

Maintaining a long-term investment perspective and avoiding hasty reactions to geopolitical events can help investors ride out short-term volatility and focus on their overall investment goals.

Whilst markets can have a negative reaction to global conflicts, historically they tend to recover within weeks from the low point.

By sticking to a well-defined investment strategy, investors can avoid the emotional impulses of reacting to market fluctuations and mitigating short-term down turns by remaining invested for the long term.

In conclusion, geopolitical risk is a critical consideration for investors, as it can have a significant impact on performance and portfolio stability.

By understanding the nature of geopolitical risk, implementing risk management strategies, and seeking expert advice, investors can effectively mitigate the impact of geopolitical events on their investments and make more informed decisions in today's complex global marketplace.