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From geopolitical shocks to structural repricing



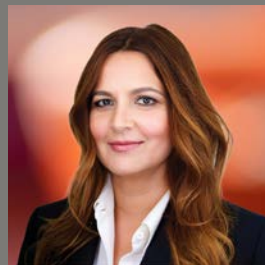
UBS

Geopolitical disruption is no longer episodic, the authors argue. As energy security, supply-chain resilience and reserve diversification reshape capital flows, investors face the challenge of identifying markets still pricing in stability.



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For much of the post-Cold War era, geopolitical events were seen primarily as discrete shocks: serious when they occurred, but rarely central to the long-term investment regime. That distinction is becoming harder to sustain.

Today, geopolitical developments are influencing inflation, growth, fiscal policy, capital flows and market leadership more persistently, often with effects that extend well beyond the initial shock.

For investors, this is an important shift. No longer just a source of episodic downside risk, geopolitics is increasingly a driver of macro regimes. The knock-on challenge is how to identify where markets remain priced for an older regime even as policy priorities, trade patterns and capital allocation move in a new direction.

In our view, three channels matter most: energy security, supply-chain rewiring and shifts in reserve and fiscal regimes. Together, they are changing how countries and companies are valued, how capital is deployed and where the next investment opportunities may emerge.

Energy security is creating a new premium

Energy security has moved from being a policy consideration to a strategic imperative. The past several years, and particularly recent months, have reinforced that access to energy cannot be separated from national security, industrial policy or geopolitical influence. Governments are being forced to focus on reliability, diversification and domestic resilience, even when that comes at a higher cost.

The market consequences are clear to us. Countries and sectors with strategic energy resources, export capacity or infrastructure significance may command a new premium, while those overly reliant on concentrated external supply may face a larger discount. Europe's scramble to reduce dependence on Russian gas was an early reminder that energy exposure can be repriced quickly once strategic assumptions break down. More recently, renewed concerns around Middle Eastern supply routes have shown how quickly energy security can return to the center of the macro narrative.

This is why we shouldn't view energy geopolitics only through the lens of short-term commodity price swings. Domestic production, infrastructure, spare capacity and secure transport routes all take on greater importance when energy assets become strategically more valuable than they were in a world defined mainly by efficiency and cost minimization.

It also broadens the set of countries and assets investors should consider. Resource-rich economies that once sat at the margin of global capital allocation may regain strategic relevance if reliable supply becomes more highly valued. Venezuela,

for example, is not simply a political story. In a world more focused on security of supply, underinvested barrels and infrastructure can take on greater significance, particularly if policy conditions become more supportive of external capital and production recovery. The point is not that every producer becomes attractive, but that strategic energy exposure can matter more in a fragmented world than it did in a more integrated one.



Supply chains are being rebuilt for resilience

A second shift is the move away from the single-minded pursuit of lowest cost more generally. For years, global supply chains were optimized for efficiency, concentration and just-in-time delivery. That model lowered costs, but it also created fragility. Repeated disruptions, from the pandemic to war to export controls and trade restrictions, exposed the risks of dependence on a narrow set of production hubs, shipping routes and critical inputs.

As a result, resilience is becoming a more powerful driver of capital allocation. Companies and governments are diversifying suppliers, building redundancy into logistics and investing in new production and processing nodes for strategically important goods. This shift includes the broader ecosystem around manufacturing: raw materials, intermediate inputs, transport infrastructure, refining and storage.

As supply chains are rewired, capital tends to move toward countries that combine strategic relevance with policy credibility, infrastructure and the capacity to absorb new investment productively. Poland's role in IT offshoring in Europe, India's growing importance in global production networks as well as rising investment in commodities and industrial corridors across parts of Latin America and Africa all point in the same direction.

Globalization is essentially being rewired, not dismantled. Capital is still moving across borders, but increasingly toward jurisdictions that offer resilience, alignment and flexibility rather than simply the lowest cost base. In this sense, the winners will likely be the countries best positioned to serve a world that values security of supply alongside efficiency.

Opportunities could emerge in places where markets have been slow to adjust. Argentina, for example, may benefit if policy credibility improves at the same time that demand rises for strategic resource and industrial investment. In parts of sub-Saharan Africa, the opportunity set is broader but also more selective: resource endowments matter, but so do governance, logistics, power supply and the ability to move up the value chain rather than remain only an exporter of raw materials.

Reserve diversification and fiscal pressure

A third channel is the gradual shift in sovereign reserves and fiscal regimes. The broader use of sanctions and financial restrictions has served as a reminder that reserve assets are not entirely neutral in a more fragmented world.

At the margin, this has encouraged greater interest in reserve diversification, including into gold, real assets and selective non-dollar arrangements.

The implications are significant. Although the US dollar remains the dominant global reserve currency and is likely to remain so for the foreseeable future, marginal change still matters. Even slow shifts in reserve behavior have potential to influence official flows, currency demand and the relative appeal of certain assets over time.

At the same time, geopolitical rivalry is contributing to higher public spending on defense, energy security and industrial policy. This can support growth in selected sectors, but it can also add to fiscal strain and complicate the inflation outlook. In other words, geopolitics is changing the broader macro policy mix. Investors therefore need to think more carefully about sovereign balance sheets, term premia and currency dynamics.

Where the alpha comes from

For investors, the more durable opportunity often lies in identifying the policy shifts, capital spending responses, trade reorientation and strategic repricing that follow major geopolitical developments.

Markets often react quickly to major events, but the longer-lasting investment implications usually come from the adjustments those events set in motion. This may mean recognizing when strategic assets deserve a higher valuation, when a country's external position is improving because of shifting trade patterns, or when fiscal and funding vulnerabilities are becoming more important than consensus expects.

Put simply, geopolitics becomes an alpha source when major developments do more than generate volatility – it becomes an alpha source when they help bring about a world that markets have not yet fully priced.

Why the emerging markets lens matters

This is where we believe an emerging markets perspective is especially valuable. EM investors have long had to assess countries through an integrated lens: not just growth and inflation, but also external balances, dependence on foreign capital, commodity exposure, institutional strength, policy credibility, sanctions risk and the political constraints on economic decision-making. In many cases, the distinction between macro analysis and political analysis was never especially clean.

These factors are becoming more relevant beyond emerging markets. Developed markets are increasingly confronting questions that EM investors have dealt with for years: how resilient a country's external position is, whether fiscal expansion could unsettle markets, how much policy credibility matters when financing conditions tighten, how trade dependence can become a geopolitical vulnerability, and whether political choices can alter the investment case for entire sectors or countries.

We believe this is especially true in a world where industrial policy is back, supply chains are being reconfigured, energy dependence has become strategic again and sanctions are a more active tool of statecraft. In our view investors should spend less time

assuming developed markets are insulated from these pressures and more time examining them through a framework already familiar in EM, one that links politics, policy, funding, external vulnerability and valuation.

Ultimately, geopolitics is no longer simply a source of episodic volatility. It has become a more persistent force shaping inflation, growth, policy and capital allocation. For investors, this requires a broader investment lens. The real opportunity lies in identifying where markets remain anchored to assumptions from a more stable and efficiency-driven world, even as the investment landscape is being reshaped by security, resilience and fragmentation. That is where geopolitical disruption moves from a risk to be managed to a source of opportunity to be understood.

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