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# GLOBAL MACRO RESEARCH

## NAVIGATING THE NEW ERA OF GEOPOLITICAL VOLATILITY

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Tina Fordham is a leading global political analyst and trend-spotter, with over 20 years' experience advising institutional investors and corporate boards about the implications of macro political and socio-economic developments. Tina is a contributor to Forbes magazine on business and geopolitics and is a frequent guest on Bloomberg, CNBC, CNN and the BBC. She has spoken at Davos, the Milken Institute and at Fortune Most

Powerful Women conferences and twice at the United Nations General Assembly. She has been named in the world's Top 100 geopolitical experts, alongside Condoleezza Rice, listed five times in the Financial News "Top 100 Women in European Finance" and included in Harper's Bazaar's 150 Visionary Women in Britain, among many other accolades. From 2020-2022, Tina was a partner and Head of Global Political Strategy at Avonhurst, a boutique political and legal advisory firm. Previously she was Citi's Chief Global Political Analyst, the first and only person at a major financial institution to hold this role. Tina established political analysis alongside traditional asset class research and helped establish it as a crucial component of investor due diligence and asset allocation. Before Citi, Tina was Head of Global Political Risk at Eurasia Group, where she founded the firm's financial markets research business. She has also served as a senior adviser in the UK Prime Minister's Strategy Unit. She now runs Fordham Global Foresight.

## EXECUTIVE SUMMARY

1

Traditional geopolitical risk from military conflict has been in decline, but the Russian invasion of Ukraine is a reminder that state-to-state conflict remains salient. At the same time, new sources of instability are emerging that are closer to home:

- Low trust in institutions
- Political fragmentation
- Generational divide

2

Once a problematic political development is on our radar, the potential transmission mechanism to markets needs to be identified. Not all problems will be impactful for markets; others may be significant but lack a transmission mechanism.

3

A REVIEW OF KEY GLOBAL ISSUES:

- Low trust in institutions and political fragmentation are perhaps most elevated in the US with a meaningful risk that neither side accepts the result of the 2024 Presidential election – this would signal a breakdown in democracy with global contagion risk
- The Russia/Ukraine conflict is an example of a more traditional geopolitical event. It is systemic and the long-term consequences are still largely unknown but it signals a major disruption in the global system and the post-WWII institutions

# NEW SOURCES OF INSTABILITY ARE EMERGING TO REPLACE TRADITIONAL GEOPOLITICAL RISKS

WE ALMOST CERTAINLY FACE A PERIOD OF ECONOMIC, MARKET AND GEOPOLITICAL VOLATILITY AHEAD, BUT IT'S IMPORTANT TO CONTEXTUALISE THIS. BROADLY SPEAKING, THE PERIOD IN WHICH MOST OF US HAVE BEEN ALIVE ON PLANET EARTH HAS BEEN THE MOST PEACEFUL AND PROSPEROUS IN ALL OF HUMAN HISTORY.

Investors should avoid simply extrapolating what we've experienced so far in our lives into the future, bearing in mind that the past 30-years have been the most peaceful and prosperous in human history.

In the United States, political fragmentation and a low level of trust in institutions will be key themes in the 2024 Presidential election that lies ahead. American culture wars are also being imported to the UK and other parts of Europe, driving disruption and discontent. Events in Iran are perhaps a perfect example of generational divide, a largely young population trying to force change from an ageing leadership.

Declining social cohesion – or people's willingness to follow the rules for the sake of other people – is a further risk. COVID exacerbated pressures on social cohesion, and societies divided into those prepared to follow the rules, and those who would not. Three of the countries whose populations were most resistant to COVID measures were the United States, Russia and France which is perhaps not unexpected. The degree of willingness, or unwillingness, to follow the rules for the sake of other people doesn't just have an impact within a society but can also determine the way a country interacts with the rest of the world.



New sources of instability are emerging; political fragmentation, a low level of trust in institutions and generational divide are three of the most important.



# BE PREPARED – ANTICIPATE THE RISKS AND ACT ACCORDINGLY

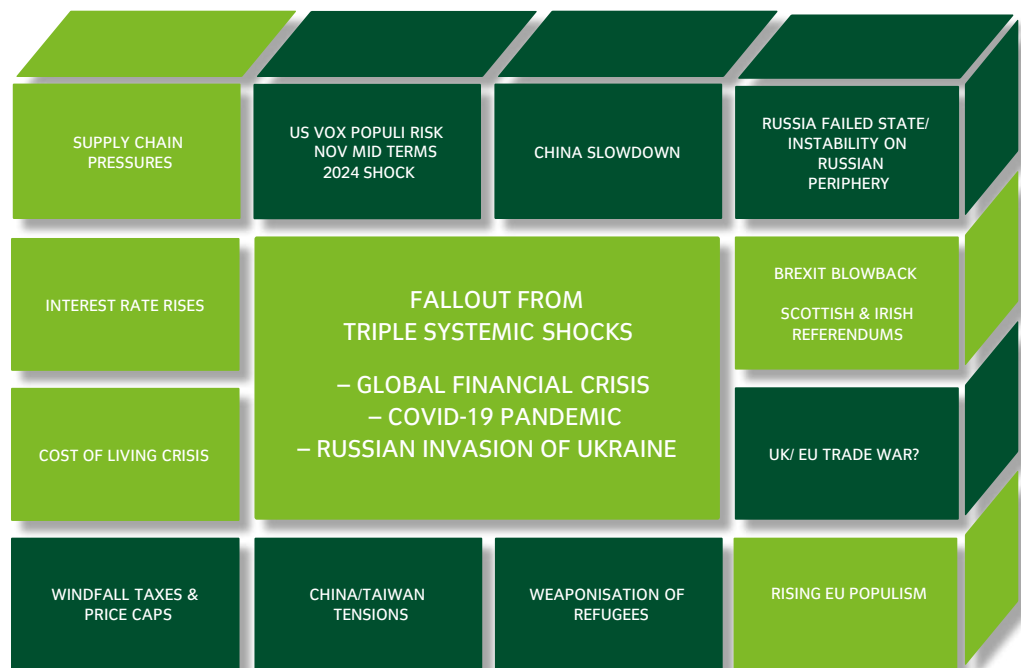
The fact that many of us have grown up in such stable and privileged times makes us less able to recognise political or social disruption when it occurs. We need to prepare our minds so that we're not surprised when people take actions that are not in their "rational economic self-interest", as market participants have been led to expect.

When we think about the geopolitical outlook, my favourite motto is Louis Pasteur's: "Fortune favours the brave... but chance favours the prepared mind". Investors may have experience in finance, but unless they have a good knowledge of geopolitics and history, they can find themselves vulnerable to unexpected events.

## THE FIRST STEP FOR INVESTORS IS TO MAP OUT POTENTIAL RISKS

When we search for sources of potential disruption to financial markets and the global economy, many can be traced back to the vulnerabilities created by three shocks that have occurred in relatively short succession (see Figure 1). All three events, the global financial crisis, the pandemic and now the Russian invasion of Ukraine have deglobalizing and systemic. When we build our 'wall of worry' we can map out these potential risks and whether they are idiosyncratic or stem from some wider underlying theme.

Figure 1: Mapping out potential sources of disruption in a wall of worry<sup>1</sup>



<sup>1</sup> For illustrative purposes only. Dark green events are idiosyncratic, light green stem from the three shocks at the centre.

## THE SECOND STEP FOR INVESTORS IS TO WORK OUT THE TRANSMISSION MECHANISMS

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Once we have mapped out potentially problematic political developments around the world, the next step is to work out how they could potentially impact financial markets.

When we think about new sources of instability, it is often more difficult to know how great the risks are, and what the transmission mechanisms may be. In the United States, political fragmentation has led to the weaponization of refugees, with buses picking up those crossing the border in the south and taking them directly to Democrat held cities. It is difficult to tell if this is just a short-term gimmick, a way to focus minds to solve the broader problem or will end up further entrenching the political divide.

In the European Union, Brothers of Italy won the recent election, and proudly show Mussolini's symbol of a flame in their flag. The rise of populism can be linked back to the fallout from the triple crisis, and a lack of trust in institutions. To understand potential transmission mechanisms here, we really need to understand what fascism actually means, because it's not just a bad word. Fascism includes nationalism, it includes statism, it generally seeks a large welfare state, albeit only for natives. If we went through the political science definition of fascism, various recognisable themes would emerge, and could provide insights into the future market consequences of the election.

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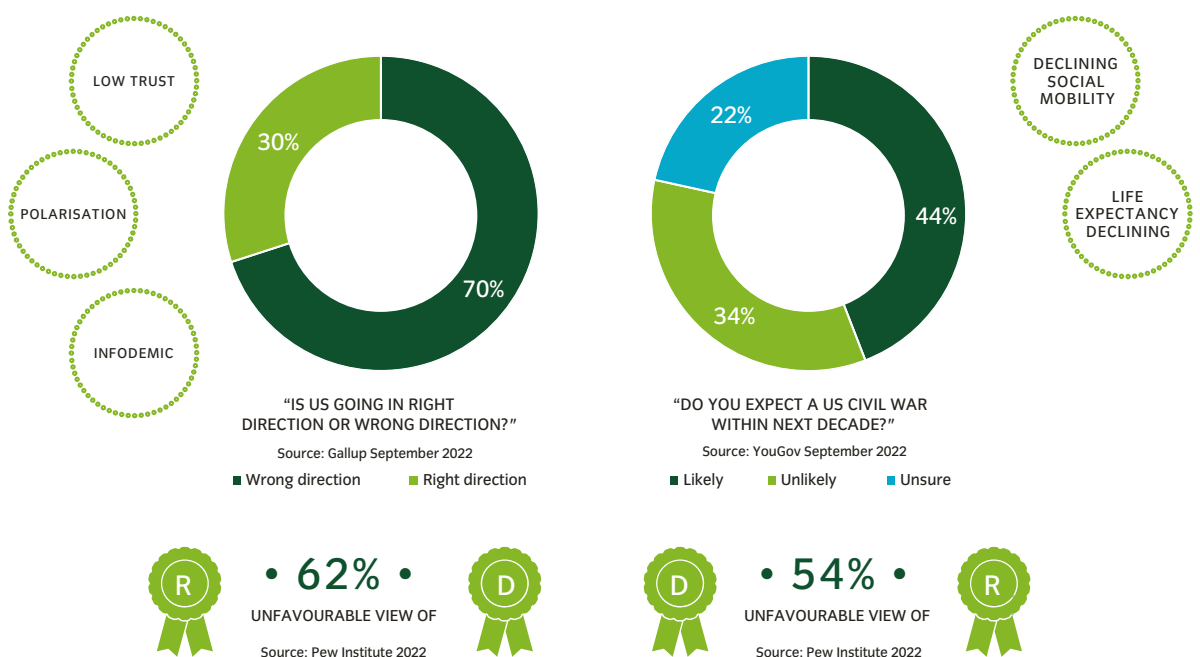
# EXAMINING THE MAJOR CURRENT ISSUES

## 1. THE UNITED STATES

The United States is perhaps one of the best examples of low trust in institutions. A very telling indicator for the US the right track / wrong track number – a weekly poll run by Rasmussen Reports<sup>2</sup>. This shows that the vast majority of Americans think the country is going in the wrong direction (see Figure 2). The level of fragmentation in the US is significantly higher than in most other developed countries, with large proportions of Democrats and Republicans having unfavourable views of the other side. This degree of dislocation in the US is going to be quite difficult to resolve through political means.

Looking more deeply at the US, we can see notable reversals in various indicators that perhaps underly this political fragmentation. The most significant is life expectancy. The United States has become the only developed country in history to see a significant reversal in life expectancy. China now has greater life expectancy than the United States and China is a country with no formal healthcare system. This is remarkable, and I would argue that incorporating indicators of wellbeing and public health into our thinking about elections and the policy outlook is more important than many people think. There was an interesting study by two economists at Princeton pre the Trump election, known as the Deaths of Despair study<sup>3</sup>. This looked at the number of Americans that were dying of suicide, drug overdoses and alcoholism – numbers that had skyrocketed. This had a direct impact on votes going to Donald Trump and that trend has continued through recent years.

Figure 2: The US is facing an increasingly fractured society, driven by significant underlying problems



<sup>2</sup>Source: [https://www.rasmussenreports.com/public\\_content/politics](https://www.rasmussenreports.com/public_content/politics)

<sup>3</sup>Source: <https://deathsordespair.princeton.edu/>

As we start to think about the 2024 Presidential election, low trust is going to be a key concept. The Supreme Court is about to vote on the rights of individual states to certify elections, and that's potentially a game-changer. A significant number of Americans believe that the 2020 election results were falsified. Trust in US institutions has progressively deteriorated, and this has been exacerbated by Trump's claims of election falsification and state level disputes.

If the Supreme Court rules in favour of individual state legislature, then state legislators will have the power to act unilaterally on how elections are conducted. One of the most important conditions of democracy is that the loser accepts the result of elections, and in 2024 I think there is a very real risk that the loser will not accept the result.

This political polarisation is now at extreme levels in the US. As a corporate, you can no longer even have a red state, blue state strategy anymore, you have to target individuals. That's a consequence of a twenty-to-thirty-year trend of polarisation, dislocation and a breakdown of the social contract.



China now has greater life expectancy than the United States and China is a country with no formal healthcare system.



## 2. RUSSIA AND UKRAINE

Wars over territory have been the most deadly and disruptive thing to ever happen to humankind, so the robust way that the US and Europe have responded to Russian aggression has to be welcomed. During COVID, a narrative emerged that the West was over – and the Ukraine conflict has very clearly shown that not to be the case.

It's increasingly clear that Russia can't take and hold Ukraine, so the plan has shifted to dismembering it, and ensuring that Ukraine can't exist as a functioning independent country. The United States and Europe have woken up to the fact that Russia can't be allowed to win in Ukraine – but that could potentially give us a whole new problem if Russia were to become a failed state. Tensions between Russia and the West are now leading to issues all along the post-Soviet periphery, with the conflict between Azerbaijan and Armenia a prominent example.

Those looking for swift resolution to the conflict are likely to be disappointed. The consequences of this conflict are going to be with us for a long time. Russia will not be an energy supplier to the West again. That may lead to a cold and difficult winter, but sanctions on Russia will stay in place and there will be more of them if there are further escalations.

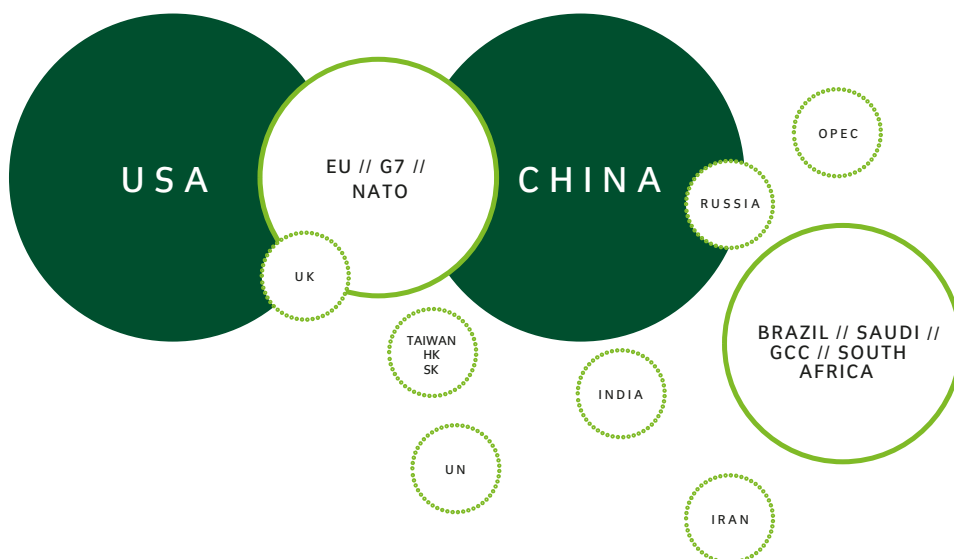
### Accelerating a re-calibration of the international system

The longer-term consequences of the conflict are still evolving, but the conflict has accelerated a repositioning of the international system that was already underway. Relations between China and the US were already frayed, and the standoff between these two competing powers is likely to be a dominant theme over at least the next decade. Critically, however, events in Ukraine have solidified US commitments to protect Taiwan, the long-term consequences of which could prove significant in light of Chinese threats to invade.

Other countries are treating the conflict more opportunistically (see Figure 3). Saudi Arabia and Russia continue to tactically collaborate within OPEC. India is still not voting with the US on a UN security council resolution and remains happy to buy Russian oil at a discount.

Wisely, the United States has so far decided against the 'if you're not with us you're against us' type of framing that we've seen in past conflicts, perhaps less confident of how the final alignments would appear.

Figure 3: The international system is in flux and being redrawn





# CONCLUSION

When we consider how all of this may impact our investments or our business, we need to take these difficult-to-quantify themes and trends and try to link them back to what we know matters. What's the biggest source of disruption of course in the political space? It's war and conflict. We have become used to conflicts that happen far away – two Iraq wars, the war in Syria, Afghanistan, the horn of Africa. There have been many conflicts over the last few decades around the world, but they weren't systemic.

The Russia, Ukraine conflict is systemic, and we still don't really appreciate how disruptive and long-term the consequences of the Russian invasion of Ukraine are going to be. It is perhaps the second-order effects of this conflict that will have the greatest impact on the international system – with the most significant being the apparent protection being offered to Taiwan from the United States.

During happier and higher growth times, geopolitics was something that investors had to be careful about in case it caused disruption. For Europeans at least, the conflict in Ukraine is far closer to home, while new geopolitical risks are playing out within our own societies – this needs far more careful attention.



The Russia, Ukraine conflict is systemic, and we still don't really appreciate how disruptive and long-term the consequences of the Russian invasion of Ukraine are going to be.





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