WE ARE MULTI-ASSET

Reach for our skills and expertise to help shape the future financial security of millions of investors
Geopolitical risk and the new world disorder
- Geopolitical risk is rising and so is strategic volatility
- This will have enormous consequences for political stability and investment decision making
GEOPOLITICAL RISK HAS DOUBLED SINCE 9/11 - BANK OF ENGLAND

Chart 1: Geopolitical risk doubled, on average, after 9/11

Source: Bank calculations and Caldara and Iacoviello (2016), *ibid.*
“The majority of the senior executives surveyed by McKinsey & Co believe that geo-political and domestic instability will detrimentally affect global business and their own companies in the coming years. Nearly all the respondents expect a disruption in the global economy due to volatility and the disruption will be severe.” Swann Global 2016
“We have before us the opportunity to forge for ourselves, and future generations, a new world order where the rule of law, not the law of the jungle, governs the conduct of nations.” President George Herbert Bush, 11 September 1990
We are transitioning towards a new world order in which the rules of the game and the distribution of power between states, and between states and non-state actors, is rapidly changing.
CHARACTERISTICS OF THE NEW WORLD DISORDER

- Rising geopolitical tensions between the major powers
- Loss of Western leadership and values
- Weakening of international institutions
- The rule of law under threat
- Identity politics, populism and nativism on the rise
- Declining growth rates particularly in the developed world
Political theorist George Modelski asserted that geopolitical super cycles occur every 100-120 years. They explain much about global power transitions and why they usually result in conflict and turmoil before the emergence of a new, more stable system. We are in the midst of a transition between super cycles representing major system change.
## MODELSKI WAVES OR SUPERCYCLES

<table>
<thead>
<tr>
<th>War periods</th>
<th>Emerging global leader</th>
<th>Emerging challenger</th>
</tr>
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<tbody>
<tr>
<td>1494–1517</td>
<td>Portugal</td>
<td>Spain</td>
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<td>1579–1609</td>
<td>Netherlands</td>
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<tr>
<td>1688–1713</td>
<td>Britain (1)</td>
<td>France</td>
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<td>1792–1815</td>
<td>Britain (2)</td>
<td>Germany</td>
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<td>1914–1945</td>
<td>United States</td>
<td>USSR</td>
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</tbody>
</table>

Source: Modelski, summarised by Joshua Goldstein (1988)
We are seeing an epochal shift from Pax Americana to a new more turbulent world. One no longer dominated by the values or power of the US and the West.
GEOPOLITICAL DRIVERS

- Emergence of China as a genuine peer competitor to the US
- New assertiveness of an authoritarian Russia
- A disruptive America
- A weakened Europe
- A fragmenting Middle East
China wants to be number one in Asia and possibly globally.

Assertiveness in the South China Sea and Silk Road initiative are challenges to the old order.
CHINA’S NEW SILK ROAD

China’s Belt and Road Initiative
The massive connectivity initiative, first unveiled in 2013, combines China’s long-standing visions for the Maritime Silk Road and Silk Road Economic Belt, targeting 64 countries and 15 Chinese provinces for transportation, energy and trade projects.
Strategic and trade significance of the South China Sea now exceeds that of all other seas.

Carries more than 40% of world trade and 50% of energy trade.

The gateway Malacca Strait more important than the Suez Canal, Panama Canal and Straits of Hormuz.
JOHNSON SOUTH REEF

Breakwater

3~400m

Original

2012. 3

2013. 2

2014. 2
JOHNSON SOUTH REEF WHEN COMPLETE
CHINESE MILITARY FACILITIES ON FIERY CROSS REEF

Fiery Cross Reef

March 9, 2017

Radar/Sensor Array
Hangars
Mobile Missile Shelters
Point Defenses
HANGAR CONFIGURATIONS

SUBI REEF
July 24, 2016

Aircraft shown for illustrative purposes
NORTH KOREA’S BALLISTIC MISSILE THREAT
Major advances under Kim Jong-un in missile technology

ICBM capable of reaching continental US and 100 nuclear warheads by 2020

Wants a hydrogen bomb

Wants a second strike capability and now has SLBMs

Will not give up his nuclear weapons program
Russia’s annexation of Crimea and destabilisation of Ukraine came as a shock to Europe.

Like Xi Jinping, Vladimir Putin is dissatisfied with the existing order.
THE TRUMP SHOCK
BREXIT BUT NOT FREXIT
THE MIDDLE EAST BEFORE THE ARAB SPRING
The post-colonial order in the Middle East is disintegrating with global implications for:

- Great Power politics
- Energy
- Nuclear weapons proliferation
- Confessional politics (the Sunni-Shia divide)
- Terrorism
IMPLICATIONS OF THE NEW WORLD DISORDER FOR INVESTORS

- The new world disorder is likely to be long lasting and characterised by conflict, disruption and elevated levels of geopolitical volatility.

- Expect to see the rate of geopolitical change accelerate.

- China will not rule the world, but neither will the US nor Russia.

- US power will endure and strengthen in the medium term (post Trump) but European decline will be more difficult to reverse.

- Politics in the developed world is now the greatest single risk and source of potential volatility in global markets.
Smart investors understand the implications of geopolitical super cycles.

Geopolitical considerations must be integrated into a holistic approach to risk management.

Good risk strategies won’t necessarily future proof your business, but knowledge is always better than ignorance.