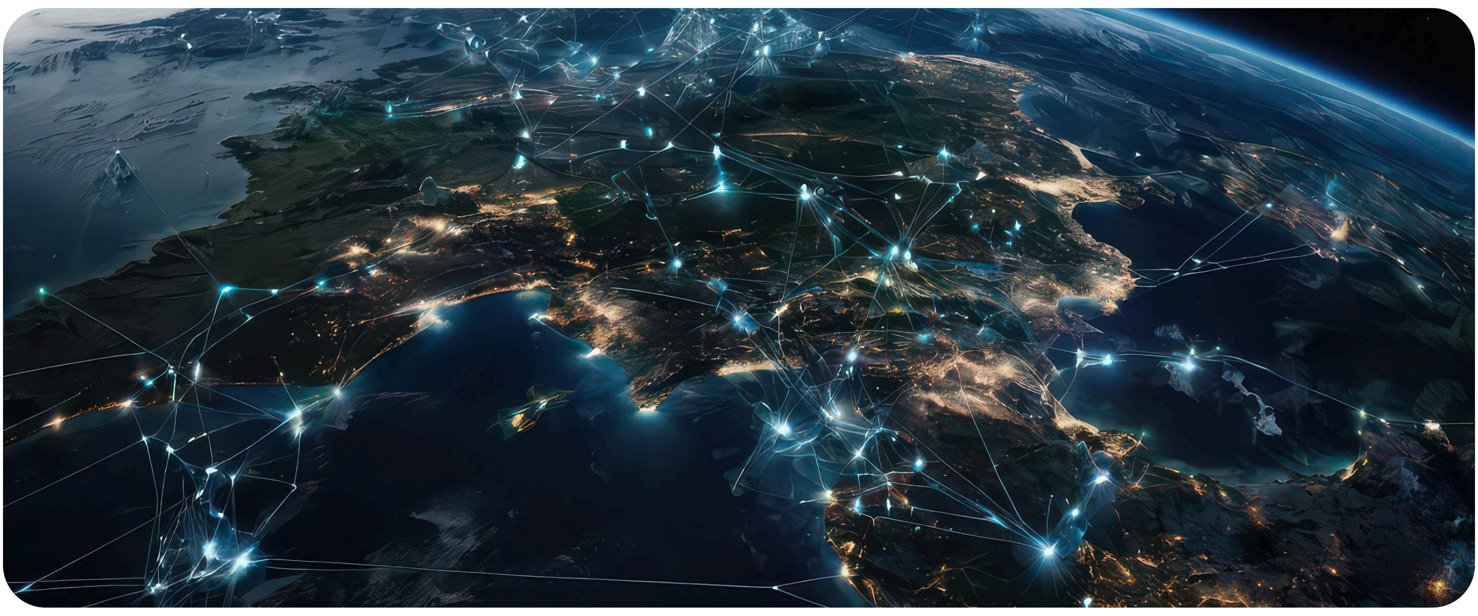
Mind the (geopolitical) gap

To navigate Geopolitical Risk has always required dedicated monitoring and analysis.



A stark reminder was provided in 2022 when Russia imposed capital controls and defaulted on its debt after it invaded Ukraine in February 2022, thereby triggering international sanctions. Until then, Russia had enjoyed an investment grade rating and displayed macro stability.

Not only have geopolitical risks intensified, but they now take multiple forms beyond military and political events, as they cover a broader range of dimensions, such as trade and currency wars, regulation and taxation conflicts, arising from commercial, financial, political or national sovereignty issues.

Geopolitical risks are wider spread, no longer confined to emerging and frontier markets, but also prevalent in major economies, as illustrated in the US where the second Trump administration has reshaped international relations. For corporates trading with or investing in the US, the rise and instability of tariff duties, unpredictable changes in the regulatory and taxation environment (including a recent case of side-payments being required to make business), the interference of the government in the corporate sector (with direct attacks on companies' leaders and a plan to convert subsidies converted into government stakes for chipmakers) and its assault on the independence of independent agencies such as the Federal Reserve now all need to be considered as risks posed by their US business operations.

There are no obvious market instruments to hedge those forms of geopolitical risks in contrast to the traditional forms of country risk, such as exchange rate, transfer, or default risks. Corporates will need to adapt to a shifting global environment, which may involve transformation of their supply chains, adoption of new payment systems or diversification of their products and investors. Financial market pricing of those risks may be more gradual and not fully efficient. With little available in the way of quick fix to managing geopolitical risk, corporates will need to rely on a holistic integrated vision rooted in prospective analysis and longstanding experience.

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