Geopolitics for Investors (a summary)

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Published 2015 by the CFA Institute Research Foundation
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The CFA Institute Research Foundation presents *Geopolitics for Investors* to help investors manage the "new geopolitics" that is now influencing the investment landscape. The book focuses on how to think about geopolitics so that investors can better determine what they think about geopolitics and its impact on markets and prices.

It is written for a generation that has known only a post–Cold War world. Some 25 years ago, the Berlin Wall fell and the world economy benefitted from the resulting "great moderation of inflation" and "peace dividend." The introduction of billions of new workers into the world economy drove wages and prices down and GDP up. It also drove geopolitics off the landscape, largely because, with so much growth, everyone's needs could be met. That left less to argue about. Now, 25 years later, we find the world descending again into contentious geopolitics. We hear fiery, provocative language between the world's superpowers. We see very near misses between Russian fighter jets and US spy planes and between US and Chinese naval vessels. Air incursions and disputes over borders and territory are becoming commonplace. Social unrest is percolating in many parts of the world. Non-state actors, ranging from separatists in Ukraine to ISIL, are changing the landscape of risk. Established borders, such as the Sykes–Picot borders in the Middle East and the US–Mexican border, are disintegrating before our eyes. These developments all have market implications that investors need to consider.

The current generation of fund managers and investors has known only a world in which geopolitics has been relatively subdued compared with the Cold War period. From an investor's perspective, the wars in Afghanistan, Iraq, and Syria have been reasonably localised events, with relatively limited market consequences. The bigger question now is whether investors are safe to assume that the United States, Russia, and China will always find more benefit in cooperation than in conflict. Is this assumption still true? China and Russia are not only challenging the United States from a strategic perspective. They—and many others—are also challenging the US dollar's role as the reserve currency. The US philosophy that has underpinned the postwar world economic architecture is increasingly questioned. Long-standing relationships—including the alignments between Saudi Arabia and the United States, between Britain and the EU, and between the EU and the United States—are also changing because of geopolitics and can no longer be taken for granted. Internal alignments are changing as well.

The return of geopolitics to the landscape has investment implications. Although it is easy to assume that social unrest, conflict, and other forms of geopolitics render the landscape "uninvestable," such events also create opportunities. Tunisia—where the Arab Spring started—launched a record number of IPOs, all successful, only one year after that event in spite of (or perhaps because of) a radical change in governance. Markets adjusted during the height of the "mutual assured destruction" days of the Cold War. Geopolitical tensions do not preclude good investment performance. But ignorance of geopolitics can undermine performance.

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The complete book can be found at
http://www.cfapubs.org/toc/rf/2015/2015/1.

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