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GLOBAL MACRO VIEWS

Geopolitical shifts and tariff risks: Navigating a new era of uncertainty

Q&A with Laura Cooper and TIAA's Mark Patrick

Actionable insights for investors

Laura Cooper
Head of Macro Credit, Nuveen

Mark Patrick
Head of the Macro & Country Risk Team TIAA Financial Risk and Capital Management

As power dynamics shift and established global orders falter, nations and investors alike are grappling with how to navigate this changing landscape. We explore the key factors contributing to this upheaval and their implications for investors with Mark Patrick, Head of Macro and Country Risk for TIAA, Nuveen's parent company.

LC: The world appears to be moving toward a multipolar system, marked by jostling between major powers as U.S. willingness to lead diminishes. How do you see current geopolitical power dynamics changing?

MP: Since the end of World War II, the world has largely operated under a liberal trade and security framework, underwritten and enforced by the U.S. However, the fraying of this system has been evident in recent years. The Russian invasion of Ukraine marked a significant challenge to the established order, shattering assumptions about European security and reigniting tensions on NATO's borders. The shift from the Biden administration's efforts to restore global alliances to a more isolationist, tariff-focused approach under President Trump has further undermined this framework, leaving the international community to question the foundational principles upon which global order is maintained.

This change creates a more dangerous and unpredictable world, where the boundaries of international conduct are unclear. Heightened tensions have raised fears of a potential conflict over Taiwan and China, while recent threats involving Greenland, Denmark and the Panama Canal underscore America's strategic recalibrations. Russia, China, North Korea are also to challenge the remnants of the liberal trade order.

The assumption that all regions are equally stable and predictable is no longer valid

LC: The erosion of globalization presents new challenges for investors and businesses that have long benefited from a stable global trading environment. How do you view the implications of this?

MP: The challenges can be viewed in three parts: economic, military and fiscal implications. On the economic front, trade tensions are likely to escalate, predominantly between the U.S. and China, creating market uncertainty and inflationary pressures. At a regional level, countries will look to further reduce their dependence on global supply chains, with a trend toward economic autarky emerging. These dynamics will have investment firms continuing to reevaluate their portfolios to mitigate exposure to these geopolitical risks.

The diminishing security order also heightens the risk of state-to-state conflicts. After years of underinvestment, there is a need for Europe and the U.S. to bolster their defense capabilities. The possibility of conflicts involving nuclear powers also introduces unprecedented risks. This is resulting in strategic posturing as military commanders and intelligence services are scrambling to plan for potential crises.

Together, the economic pressures and political polarization complicate nations' ability to address these mounting threats. The aftermath of the global financial crisis, the pandemic and inflationary surges have left many developed nations with weakened fiscal capacity. These fiscal constraints are also being complicated by an urgent need to transition to green energy, and voter reluctance to support large-scale investments in defense and climate initiatives.

LC: The path forward is riddled with uncertainties, from potential trade wars to the specter of large-scale conflicts. How can investors best navigate this backdrop?

MP: For investors and risk managers, this environment demands vigilance and adaptability. It underscores the need for more conscious investment decisions. A "globalization forever" mindset may no longer be viable.

Diversification is the first line of defense amid heightened risks. Investors should spread their exposure across different asset classes, sectors and regions to help cushion against market shocks and geopolitical disruptions. For general account managers, like those at TIAA, maintaining a broadly diversified portfolio remains a top priority.

To navigate geopolitical uncertainty, scenario analysis has also become essential. Investors need to ask, “What could go wrong?” By modeling potential scenarios, investment teams can identify early warning signals and make proactive decisions. For instance, if tensions between China and Taiwan escalate, it may become necessary to shift assets away from companies heavily dependent on Chinese markets. Taking preemptive actions based on scenario outcomes can help protect portfolios from future shocks.

Another emerging trend is the reassessment of investment exposures based on national jurisdictions. The assumption that all regions are equally stable and predictable is no longer valid. Investment decisions should now factor in geopolitical risks, trade dynamics and regional economic fragmentation.

Investors must be cautious about over-allocating in markets that, while having strong credit or sovereign ratings, face geopolitical headwinds. Developing a robust framework to evaluate jurisdiction-specific risks is essential in today’s investment environment.

LC: Are there any lessons that investors can take from historical geopolitical shifts to better navigate the current landscape?

MP: One critical lesson from past financial crises, such as the dot-com crash and the 2008 global financial meltdown, is that statistical models based on historical data can fail. These models often assume that asset behavior in the future will mirror past trends—a dangerous assumption when dealing with human behavior and geopolitical events.

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Financial markets have shown that so-called “100-year floods” can occur much more frequently than expected. Therefore, investors must challenge traditional risk models and be prepared for sudden, correlated events that defy historical patterns.

The key takeaway for investors is to remain nimble and ready to question established assumptions. Markets are more interconnected with political and social dynamics than ever before. By adopting a mindset of adaptability and resilience, investors can better navigate this era of uncertainty.

LC: Ultimately, the world is at a crossroads. How nations adapt to this new reality, forge new alliances and prevent catastrophic conflicts remains to be seen. It is essential for investors to reassess their strategies and adopt measures to mitigate these risks as perhaps the age of stability and predictability is over, and an uncertain era has begun.

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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