

12:40 minute read

#Global

/

#Geopolitics

/

#Asset prices

**For professional and institutional investors only – not to be further circulated. In Switzerland for qualified investors only. In Australia for wholesale clients**

## Finding conviction in a world of higher geopolitical risk

Predicting the outcome of any particular geopolitical event is difficult, but we can have conviction in some of the broader investment implications of persistently elevated geopolitical risk. Negative supply shocks will be more frequent, which will result in higher inflation volatility and more frequent bouts of positive bond-equity correlation. New sources of diversification will be needed, including infrastructure and commodities.

### Key Takeaways

- The ceasefire in the US-Iran conflict is fragile and it is difficult to have strong conviction about what will happen next.
- But the conflict does underscore certain structural trends about which we can have more conviction: geopolitical risk is likely to be persistently high; and chokepoints will be increasingly weaponised to gain leverage in geopolitical disputes.
- This has several important implications for the economy and markets, which will drive secular investment themes over the longer run.
- Negative supply shocks – which push inflation up and growth down – are likely to be more common. This in turn means higher and more volatile inflation, and so greater demand among investors for products that provide inflation protection.
- Bonds are likely to play a smaller role in diversifying risks as the bond-equity correlation is more frequently positive, and investors demand a higher term premium at the longer end of bond curves.
- Assets with exposure to infrastructure, critical minerals, other commodities, and higher defence spending are all likely to benefit in this world.

### Looking for conviction in an uncertain world

The outcome of the Iran conflict remains highly uncertain. A scenarios framework with dynamically updated probabilities is the best way of dealing with a rapidly evolving risk distribution.

Even so, it is often difficult to feel that one has an investment edge when market sentiment turns on fast-moving headlines driven by mercurial and often erratic policymakers.

Regardless of how the conflict evolves in the near term, though, it highlights some deeper features of the global environment about which we can have much higher conviction.

So rather than focusing on the uncertainties around how this conflict evolves, this note steps back to consider what the war reveals about the world and what that means for investors.

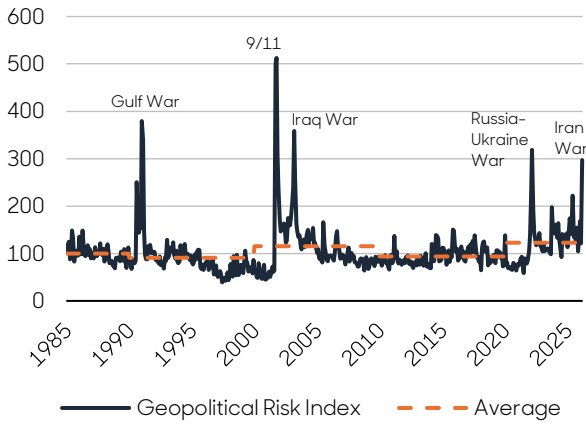
### A structural shift toward higher geopolitical risk

Geopolitical risks have been a bigger focus for investors and a driver of returns in recent years, reflecting deep structural forces in the international order.



In fact, the period from the early 1990s to the mid-2010s, when geopolitical risk was generally low (see Figure 1) was the historically unusual period.

**Figure 1: News-based measures of geopolitical risk show a persistent move higher**



Source: Aberdeen, Haver, April 2026

That world was characterised by expanding globalisation, general acceptance of multilateral institutions, and a conscious choice by major powers to prioritise economic integration over geopolitical rivalry.

But this 'end of history' moment was ultimately underwritten by US hegemony. And as its relative power has diminished, so has its willingness to act as a guarantor of global public goods.

History suggests that periods of hegemonic transition are inherently unstable. This need not imply a 'Thucydides trap' and great powers 'destined for war'.

It may just be that as deterrence structures become less clear and red lines lose credibility, the risk of boundary-testing and strategic miscalculation rises. And countries may increasingly look for new sources of leverage over what might have previously been neutral spaces.

In particular, economic interdependence, which was once thought to be dampener of geopolitical conflict in the period of 'high globalisation', is likely to be increasingly seen as a vulnerability that can be exploited.

**"Keys that lock up the world"**

Indeed, the closure of the Strait of Hormuz during this conflict may be an early example of how geographic chokepoints can be weaponised in this world of greater geopolitical competition.

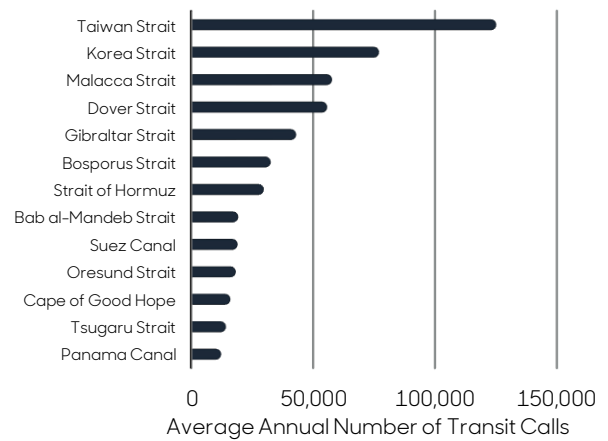
The importance of chokepoints has long been understood. In 1904, Royal Navy Admiral Jacky Fisher

famously described several strategic waterways ("Singapore. The Cape. Alexandria [Suez]. Gibraltar. Dover") as the "keys that lock up the world".

And the closure of the Strait of Hormuz is in many ways a paradigmatic example of a grey swan: a risk that was well understood in national security and energy market circles, but low probability and hard to price, so often assumed away.

But given how many of the major geographic chokepoints are located in geopolitically fraught areas, it is worth reflecting on other similar grey swan risks (see Figure 2).

**Figure 2: Important maritime chokepoints are in geopolitically fraught locations**



Source: Aberdeen, Refinitiv, April 2026

The Houthis may yet disrupt the Bab el-Mandeb Strait in the current conflict should the ceasefire break and Iran want to escalate. And the risk of both it and Hormuz being closed simultaneously in some future conflict may keep a lasting premium on energy prices.

Elsewhere, the Taiwan Strait represents an obvious vulnerability in the event of an escalation over Taiwan, with far-reaching implications for global trade and semi-conductor supply chains.

President Donald Trump has expressed his interest in the US gaining greater control over the Panama Canal, presumably to be able to exert geopolitical leverage. And his interest in Greenland is likely in part also driven by a desire to gain control over what might become a new Northwest passage as the climate changes and reshapes the Arctic ocean (see Figure 3).



**Figure 3: The High North is becoming an arena of geostrategic competition**



Source: FT, April 2026

The geographic metaphor of chokepoints can also be used to understand the way in which countries are increasingly using their control over other, sometimes intangible, critical nodes in the global economy to achieve geopolitical ends.

For example, the US has long used control over the dollar financial system to impose sanctions on rivals to achieve foreign policy objectives. It has also tried to regulate the export of leading-edge chip technology to China to restrict its ability to undertake advanced computing, including for training AI models.

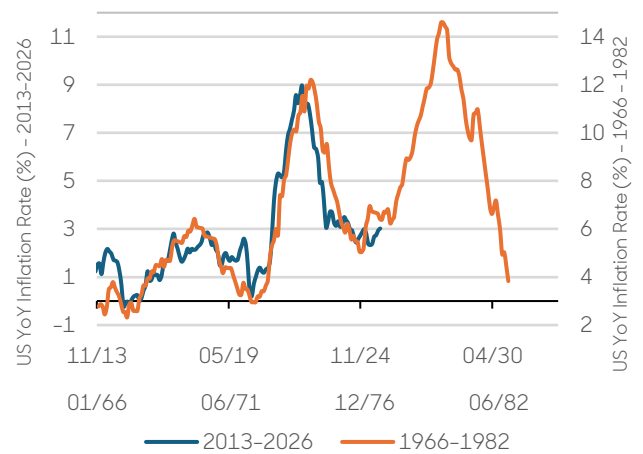
Meanwhile, China recently used its control over rare earth exports as a negotiating tool in its trade war with the US to get significant concessions on tariffs.

**The economy will be hit by more supply side shocks**

From a macro and markets perspective, a key implication of a world with greater geopolitical risk is that the economy is likely to be hit by more negative supply shocks. These push up on inflation and down on growth at the same time.

The large increase in energy prices resulting from the Iran conflict is an obvious example of such a negative supply shock (see Figure 4).

**Figure 4: It might be a “chart crime”, but the potential parallels with the 1970s oil shocks cannot be ignored**



Source: Aberdeen, Haver, April 2026

And closure, or even the risk of closure, of other chokepoints in future geopolitical conflicts would put upward price pressure on whatever various commodities and goods flow through that chokepoint, and cause second-round effects as these higher prices ripple through supply chains.

And supply chains may be more frequently disrupted by trade disputes, with economies having to deal with the sudden imposition of tariffs, quotas, or export restrictions, especially in strategically significant sectors.

Away from geopolitics, the physical and transition risks from climate change, and even the possibility of future pandemics, could also create more supply side shocks.

In time, countries and firms may move to reshore supply chains to reduce these risks. But this is its own kind of negative supply shock, because presumably the pre-existing supply chain existed as it was the most efficient mode of production.

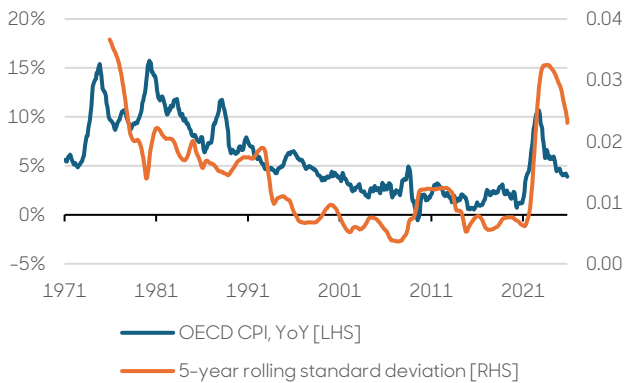
Sacrificing efficiency for resilience may be a perfectly sensible thing to do in a world of greater geopolitical risk, but it implies a loss of productive potential and worse growth/inflation trade-off for the economy as a whole.

**Inflation will be higher and more volatile**

With more inflation-inducing shocks, average inflation is likely to be higher and more volatile, with inflation more frequently converging towards central bank targets from above rather than below (see Figure 5).



**Figure 5: Inflation is returning to a regime of being higher and more volatile**



Source: Haver, Aberdeen, April 2026

And as households and businesses start to adopt to a world of more negative supply shocks, inflation expectations may also drift higher.

In turn, wage and price setting institutions are likely to evolve to reflect the distributional conflicts created by the expectation of higher inflation, including perhaps an increase in price and wage indexing and greater union power.

Ironically, these behavioural and institutional changes would then make the economy even more prone to more persistent inflation pressure as-and-when a supply shock occurs. That's because they make it more likely that any initial price increase will have second-round consequences, turning what might be a relative price shock into a more general price level increase.

This makes it even harder for central banks to 'look through' the inflation caused by these negative supply shocks. Instead, they will more frequently be required to tighten policy to keep inflation under control, exacerbating the negative growth shock.

So, interest rates are also likely to be more volatile, especially as it is often hard for markets to predict how policymakers will navigate the kind of trade-offs created by negative supply shocks.

From an investment perspective, this means investors may look for products that provide greater inflation protection, including infrastructure, which may have inflation-indexed cashed flows, or exposure to commodities.

And fixed income markets are likely to be even more volatile due to higher inflation and policy rate volatility. This means that bond term premia will need to increase.

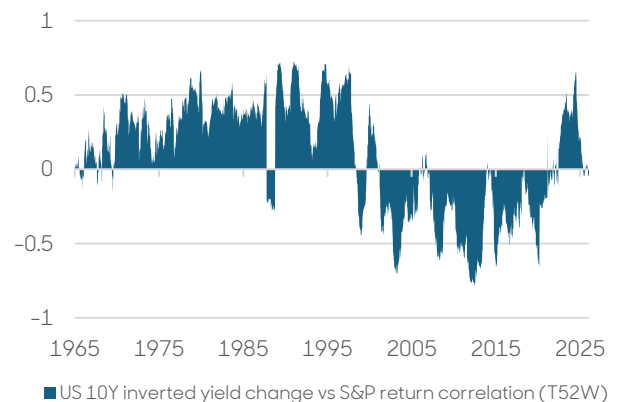
**Bonds will provide less diversification to equity risk**

Indeed, these more volatile fixed income assets are likely to be more frequently positively correlated with equities.

That's because in a world of mostly negative demand shocks, the times when growth is low (and so equities are weak) are also likely to be times when inflation and policy rates are low (and so bond performance is strong). But in a world of more negative supply shocks, weak growth is more likely to coincide with high inflation, and so both bonds and equities struggling at the same time.

In fact, seen in this light, the period of negative correlation between bonds and equities from the 1990s until recently can be seen as a contingent feature of the geopolitical stability of that period (see Figure 6).

**Figure 6: The correlation between bonds and equities is likely to be positive more frequently in the future**



Source: Haver, Aberdeen, April 2026

And as geopolitical risk has increased, it is unsurprising that the bond/equity correlation has turned positive given the new set of shocks this implies.

The increased positive correlation between bonds and equities means that bonds will be a less reliable source of diversification, and standard 60/40 equity/bond portfolio construction strategies are going to become a lot less attractive to investors.

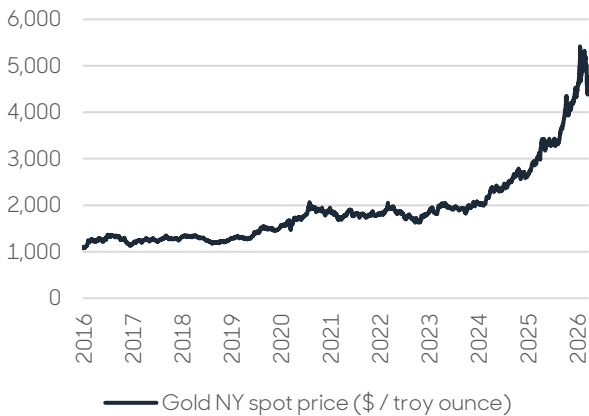
Instead, investors will look to new sources of diversification, like infrastructure and private markets which have different correlation structures with equities.

**Gold will benefit from market and geopolitical hedging**

Notwithstanding its recent weakness during the Iran conflict, gold is also likely to be another source of portfolio diversification in a world of more negative supply shocks, because it is typically a consistent inflation hedge (see Figure 7).



**Figure 7: Gold hasn't been a hedge in the Iran conflict, but that may reflect the strength of the prior bull run rather than something intrinsic about gold**



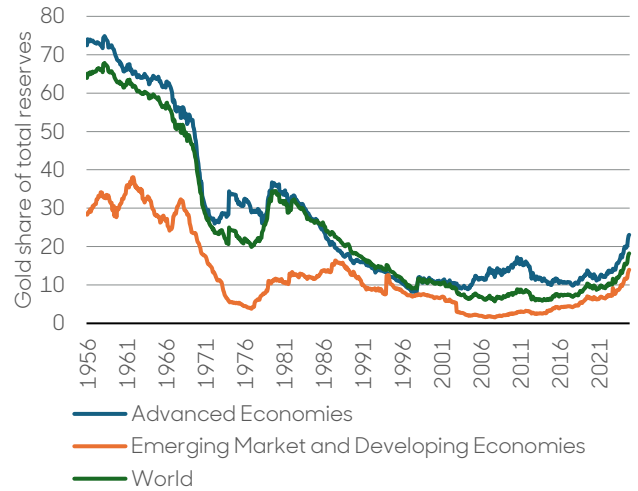
Source: Aberdeen, FactSet, April 2026

Along with its inflation hedging qualities, there are other reasons to expect gold and other precious metals to perform well in a world of higher geopolitical risk.

As the US continues to use its chokehold over the dollar system as a tool of geopolitical influence, competing powers are likely to continue to shift existing holdings of dollar assets in things like central bank reserves and sovereign wealth funds towards gold (see Figure 8). They may seek to minimise confiscation risk in the first instance, and perhaps in the long run develop a non-dollar based financial system.

Of course, any loss of dollar hegemony is unlikely to occur in the near term, as there are powerful network effects that make dollar usage extremely attractive even in a world of greater geopolitical risk.

**Figure 8: Central bank purchases a key support of gold prices, with plenty of scope to add to holdings**



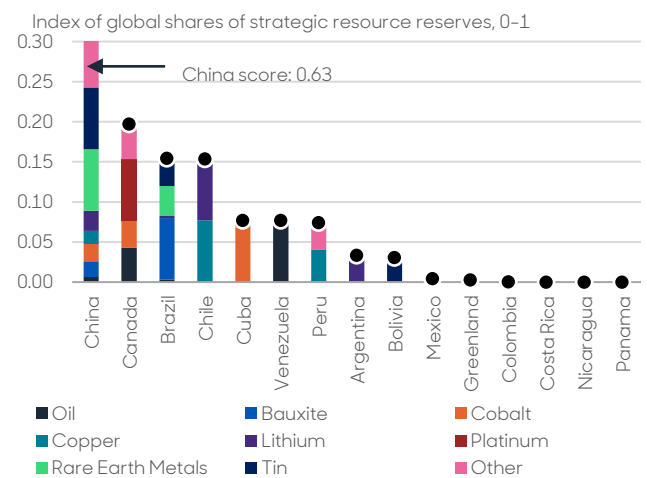
Source: Aberdeen, IMF, April 2026

But a collapse in the dollar system is not necessary for non-sovereign investors in gold to benefit from the price appreciation caused by marginal, gradual reallocations towards gold by large sovereign entities.

**Defence and infrastructure spending will increase further**

Finally, a world of greater geopolitical risk is unsurprisingly likely to be a world of greater defence spending. And it is also likely to mean greater spending on projects to boost national resilience through making supply chains and infrastructure more robust and securing access to critical minerals (see Figure 9).

**Figure 9: China has dominance over key materials. The US may look to LatAm as a new source**

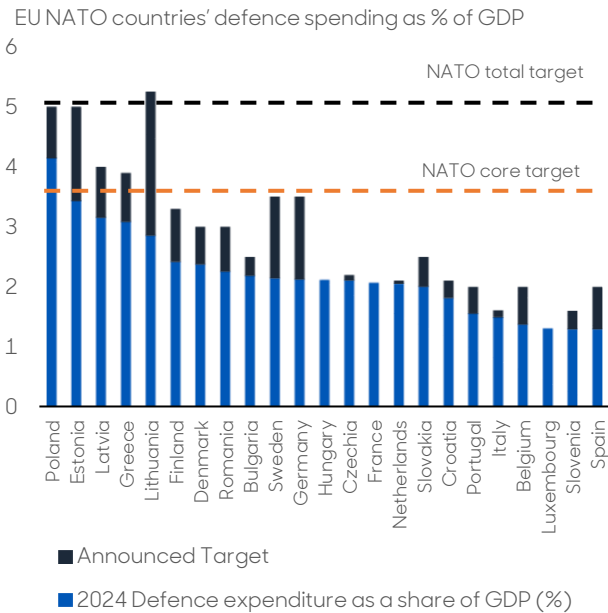


Source: Aberdeen, Energy Institute Statistical Review of World Energy, April 2026



European defence spending was already set to rise considerably in coming years (Figure 10).

**Figure 10: The NATO defence spending target has risen from 2% to 3.5-5%**



Source: Aberdeen, European Commission, April 2026

**Authors:**

Luke Bartholomew and Paul Diggle

Recent events have likely only increased concerns about the reliability of the US as a partner and the need for stronger sovereign defence capability. So higher defence spending, concentrated on firms that build a European defence base is likely to remain a key theme for markets.

And the US itself is weighing a near-50% increase in its defence budget, including to replenish munitions expended in the Iran conflict.

This increased government spending, much of which is likely to be deficit financed, is likely to have implications for how investors think about sovereign bond markets, putting further upward pressure on the structure of interest rates.



## Important Information

**For professional and Institutional Investors only – not to be further circulated. In Switzerland for qualified investors only.**

### **Risk warning**

**The value of investments, and the income from them, can go down as well as up and an investor may get back less than the amount invested. Past performance is not a guide to future results.**

Copyright in this content from the Global Macro Research team belongs to the Aberdeen Group and our licensors. You may quote this content (excluding any Third Party Data) provided you acknowledge Aberdeen Investments as the source.

Any data contained herein which is attributed to a third party ("Third Party Data") is the property of (a) third party supplier(s) (the "Owner") and is licensed for use by Aberdeen\*. Third Party Data may not be copied or distributed. Third Party Data is provided "as is" and is not warranted to be accurate, complete or timely. To the extent permitted by applicable law, none of the Owner, Aberdeen\* or any other third party (including any third party involved in providing and/or compiling Third Party Data) shall have any liability for Third Party Data or for any use made of Third Party Data. Neither the Owner nor any other third party sponsors, endorses or promotes the fund or product to which Third Party Data relates.

\*Aberdeen means the relevant member of the Aberdeen Group, being Aberdeen Group plc together with its subsidiaries, subsidiary undertakings and associated companies (whether direct or indirect) from time to time.

The information contained herein is intended to be of general interest only and does not constitute legal or tax advice. Aberdeen does not warrant the accuracy, adequacy or completeness of the information and materials contained in this document and expressly disclaims liability for errors or omissions in such information and materials. Aberdeen reserves the right to make changes and corrections to its opinions expressed in this document at any time, without notice.

Some of the information in this document may contain projections or other forward-looking statements regarding future events or future financial performance of countries, markets or companies. These statements are only predictions and actual events or results may differ materially. The reader must make his/her own assessment of the relevance, accuracy and adequacy of the information contained in this document, and make such independent investigations as he/she may consider necessary or appropriate for the purpose of such assessment.

Any opinion or estimate contained in this document is made on a general basis and is not to be relied on by the reader as advice. Neither Aberdeen nor any of its agents have given any consideration to nor have they made any investigation of the investment objectives, financial situation or particular need of the reader, any specific person or group of persons. Accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the reader, any person or group of persons acting on any information, opinion or estimate contained in this document.



**This communication constitutes marketing, and is available in the following countries/regions and issued by the respective Aberdeen Group members detailed below. The Aberdeen Group comprises Aberdeen Group plc and its subsidiaries:** (entities as at 01 April 2026)

#### **United Kingdom (UK)**

abrdn Investments Limited registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated in the UK by the Financial Conduct Authority.

#### **Europe<sup>1</sup>, Middle East and Africa**

<sup>1</sup>In EU/EEA for Professional Investors, in Switzerland for Qualified Investors - not authorised for distribution to retail investors in these regions

**Belgium, Cyprus, Denmark, Finland, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, and Sweden:** Produced by abrdn Investments Limited which is registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL and authorised and regulated by the Financial Conduct Authority in the UK. Unless otherwise indicated, this content refers only to the market views, analysis and investment capabilities of the foregoing entity as at the date of publication. Issued by abrdn Investments Ireland Limited. Registered in Republic of Ireland (Company No.621721) at 2-4 Merrion Row, Dublin D02 WP23. Regulated by the Central Bank of Ireland. Aberdeen Investments Global is a business name of abrdn Investments Ireland Limited. **Austria, Germany:** abrdn Investments Limited registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL. Authorised and regulated by the Financial Conduct Authority in the UK. **Switzerland:** abrdn Investments Switzerland AG. Registered in Switzerland (CHE-114.943.983) at Schweizergasse 14, 8001 Zürich. **Abu Dhabi Global Market ("ADGM"):** abrdn Investments Middle East Limited, Cloud Suite 403, 11th floor, Al Sarab Tower, Abu Dhabi Global Market Square, Al Maryah Island, P.O. Box 5327224, Abu Dhabi, United Arab Emirates. Regulated by the ADGM Financial Services Regulatory Authority. For Professional Clients and Market Counterparties only. **South Africa:** abrdn Investments Limited ("abrdnIL"). Registered in Scotland (SC108419) at 1 George Street, Edinburgh EH2 2LL. abrdnIL is not a registered Financial Service Provider and is exempt from the Financial Advisory And Intermediary Services Act, 2002. abrdnIL operates in South Africa under an exemption granted by the Financial Sector Conduct Authority (FSCA FAIS Notice 3 of 2022) and can render financial services to the classes of clients specified therein. Aberdeen Investments Global is a business name of the foregoing entities.

#### **Asia-Pacific**

**Australia and New Zealand:** abrdn Oceania Pty Ltd (ABN 35 666 571 268) is a Corporate Authorised Representative (CAR No. 001304153) of AFSL Holders MSC Advisory Pty Ltd, ACN 607 459 441, AFSL No. 480649 and Melbourne Securities Corporation Limited, ACN 160 326 545, AFSL No. 428289. In New Zealand, this material is provided for information purposes only. It is intended only for wholesale investors as defined in the Financial Markets Conduct Act (New Zealand). **Hong Kong:** abrdn Hong Kong Limited. This material has not been reviewed by the Securities and Futures Commission. **Japan:** abrdn Japan Limited Financial Instruments Firm: Kanto Local Finance Bureau (Kinsho) No.320, License: Investment Management Business, Investment Advisory and Agency Business, Type II Financial Instruments Business. Membership: Investment Management Association of Japan, Type II Financial Instruments Firms Association. **Malaysia:** abrdn Malaysia Sdn Bhd, Company Number: 200501013266 (690313 -D). This material has not been reviewed by the Securities Commission of Malaysia. **Thailand:** Aberdeen Asset Management (Thailand) Limited. **Singapore:** abrdn Asia Limited, Registration Number 199105448E. Aberdeen Investments Global is a business name of the foregoing entities.

Copyright © Aberdeen Group plc 2026. All rights reserved.

AA-140426-206793-60

