Now&Next

AUTUMN

FPW
FINANCIAL ADVICE

What do rising geopolitical tensions mean for investment markets?

Count
The confidence to look ahead

What do rising geopolitical tensions mean for investment markets?

As conflicts between nations flare into open armed warfare and elections around the world become more contentious, there's plenty to spike investor concern. We look at how wars and political tensions influence investment markets over the long term and examine the implications for your retirement savings.

Recently, we've seen a humanitarian crisis unfold in the Middle East as the Hamas/Israel war continues, and Russia's war with Ukraine stretches into a second year. Increasingly, regional tensions with China over trade, defence and Taiwan keep many of us on edge.

More than half the world's population is heading to the polls in 2024, with many of these elections contentious, including the US presidential election in November 2024.

It's natural that we're concerned for those people directly affected by each of these tensions as well as the security of the world at large.

What does history tell us about the impact of geopolitical tensions?

While geopolitical conflict makes investment markets more volatile over shorter time frames, this volatility tends to ease over the medium to longer term. For example, the outbreak of conflicts in Ukraine and the Middle East caused investment markets to immediately fall and then recover. Indeed, investment markets performed very strongly over 2023, with global shares up 24%.[8] Likewise, historical shocks such as 9/11 and Brexit haven't had an enduring impact on global investment markets.

This is because it's the fundamentals of economic growth: corporate earnings, inflation and interest rates that drive the value of investment markets, and in turn, the value of your investment portfolio.

Generally, geopolitical tensions don't impact how economies operate, particularly the larger economies that drive global economic growth. Governments continue to collect taxation revenue, pay interest to government bond holders, and spend on programs across their economies.

Likewise, people usually continue to consume goods and services, and the companies that supply them earn profits that are paid to shareholders and bond holders.

Where geopolitical tensions can have a more notable impact is in the dispersion of returns, that is, large performance differences between companies within the same economy. Some companies or sectors may be exposed to geopolitical tensions and their performance may be supressed as a result. For example, at the time of writing, a strong US economy pushed the US share market up 28%,[9] yet the US energy sector is up only 1%[10] in comparison. This is in part due to the energy sector's exposure to energy price volatility, global supply chain disruptions and, in consequence, some consumers and companies reducing their demand.

Yet sometimes geopolitical conflict can actually amplify the performance of exposed companies and sectors. For example, if a government increases its cyber security, aerospace and defence spending, the performance of the companies that supply these goods and services is also likely to increase.

How to defend your retirement savings against a world in turmoil

The good news is that there are four things that you can do to help guard your portfolio.

1. **Diversification.** In the same way that diversifying across a range of geographies, assets and companies can drive long-term performance, diversification is also likely to be a strong defence against geopolitical uncertainty, volatility and dispersion of returns.
2. **Take a medium to long-term view.** When tensions are rising, maintaining a long-term perspective can be challenging. Yet it's important to take a medium to long-term view and avoid making sudden portfolio decisions in response to daily events.
3. **Professional investment management.** Geopolitical tensions can be nuanced and complicated which is why professional investment managers watch these events closely. They monitor geographic and sector risks and work to smooth out negative impacts while also positioning for the opportunities that emerge.
4. **Staggered deposits and withdrawals.** If you're investing or withdrawing your money from investment markets, small transactions over time mean that the impact of market disruptions on your savings are minimised. This is one of the reasons why allocated pensions, which draw down on super savings gradually over time, are a popular choice.

How we can help

If you have any concerns about geopolitical risks to your investment portfolio, speak to us. We can advise you on whether any adjustments to your portfolio are warranted, taking into account your financial goals.

8 MSCI, **Index Factsheet**, MSCI World Index (USD), accessed 27/02/2024

9 S&P Global, **S&P 500 Overview**, accessed 27 February 2024

10 S&P Global, **S&P 500 Energy Overview**, accessed 27 February 2024

The numbers

Household spending is

3.0%

higher than a year ago, driven by spending on essential goods and services.[11]

The unemployment rate is

4.1%

at January 2024.[12]

During the December 2023 quarter, the total managed funds industry rose

$176.6b (3.9%) to $4,751.5b

funds under management.[13]

Inflation continues to impact most goods and services. CPI rose

0.6%

in the December quarter and was up

4.1%

in the past 12 months.[14]

Australian retail turnover rose

1.1%

(seasonally adjusted) in January 2024.[15]

11 Australian Bureau of Statistics

12 Australian Bureau of Statistics

13 Australian Bureau of Statistics

14 Australian Bureau of Statistics

15 Australian Bureau of Statistics

CONTACT YOUR COUNT ADVISER AT: