

For Financial Advisers Only

Diversify the diversifiers amid geopolitical tensions

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Different funds carry varying levels of risk depending on the geographical region and industry sector in which they invest. Investors should make themselves aware of these specific risks prior to investing.

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Summary: Investors need to tailor portfolio diversifiers with potential risks

- Bonds and equity prices both fell during 2022, as investors were not positioned for a sharp increase in rates
- However, gold and energy stocks rallied to capture inflation risk and geopolitical concerns from the Russian/Ukraine military conflict
- Investors need to be mindful of types of risks
- For instance, geopolitical risks could disrupt energy/and tech supply, leading to tail risks, while a full-blown trade war could lead to a global recession

Potential risks	Diversifier
Oil shock – multi assets	Gold, inflation protected bonds, cash
Oil shock – equity sectors	Energy, materials
Rising geopolitical tensions	Gold
Global recession	Government bonds


- Own equities - investors tend to look through geopolitical risks!

Asset price performance during the inflation shock/rate shock of 2022

*rebased to 100 = end 2021 to end 2022 (GBP terms)



Source: LSEG Datastream/Evelyn Partners, Data as at 12 Feb 2025

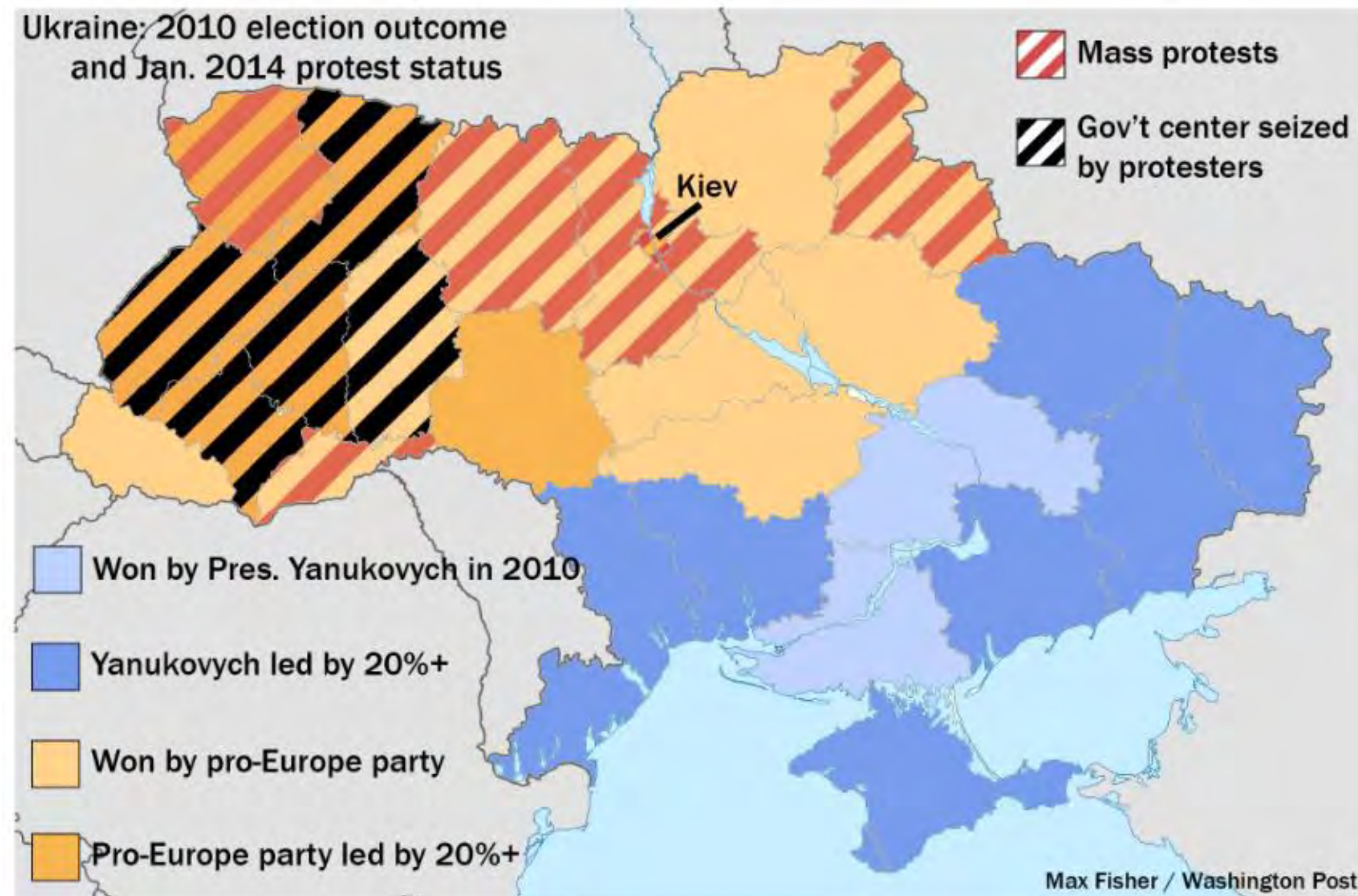
A photograph of Donald Trump and Xi Jinping during the SAK 2017 summit. Trump is on the left, wearing a dark suit and blue tie, looking towards Xi. Xi is on the right, wearing a dark suit and patterned tie, looking back at Trump. The background features the US and Chinese flags and a banner with 'SAK 2017'.

**“I HEAR YOU
GUYS ARE GOOD
AT BUILDING
WALLS”**

GEOPOLITICAL RISKS

Geopolitical hot spot #1: Ukraine-Russian war

Ukraine's politics is determined by identity and language. Domestic identity in a geopolitically contested territory can trigger blow-ups between "Superpowers"



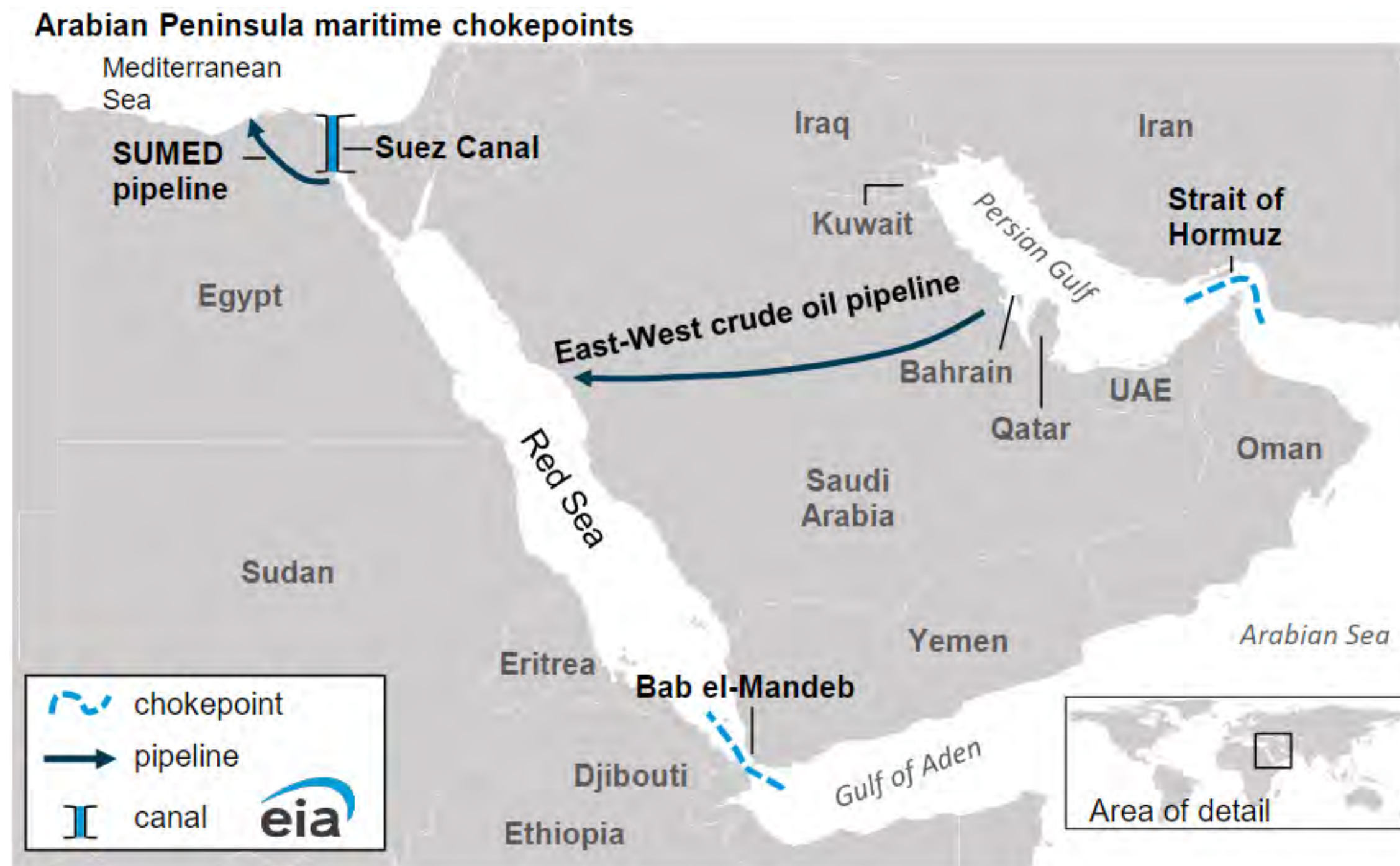
Ukraine's protests and the 2010 election results. Source: Max Fisher/Washington Post



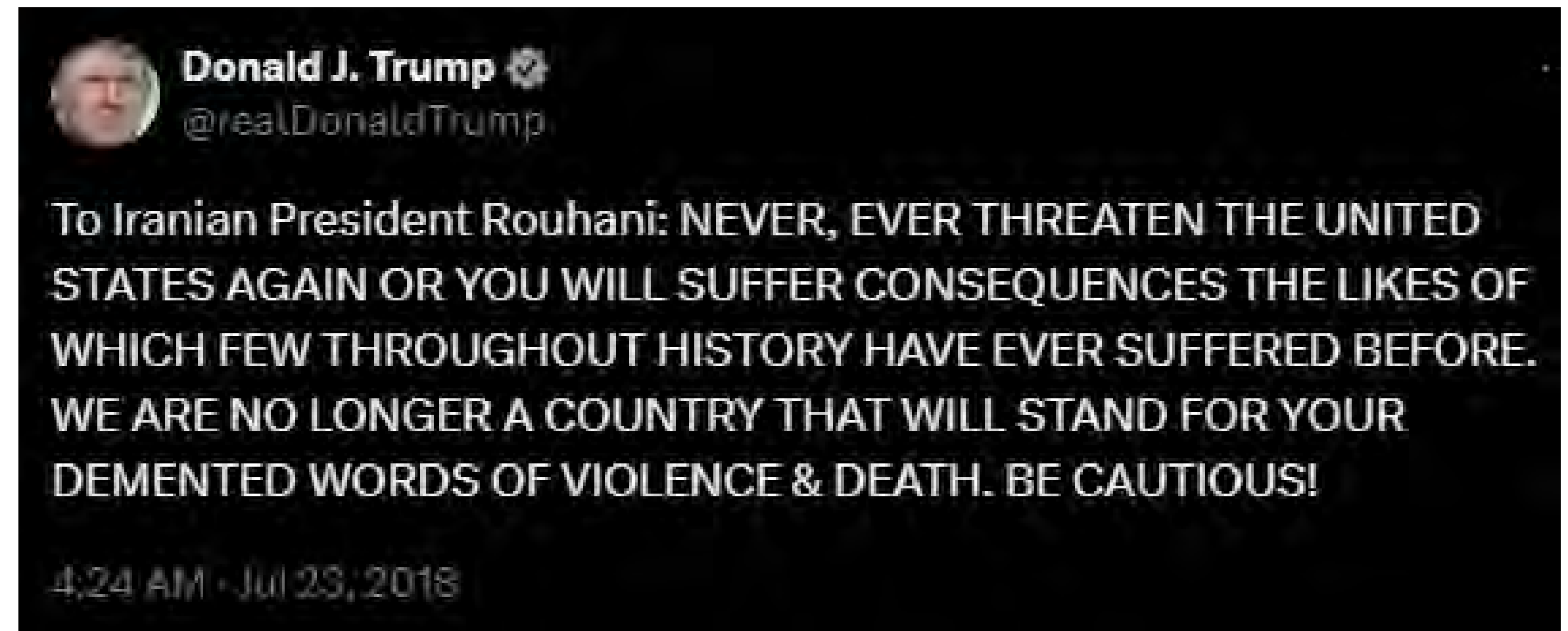
Ukraine's protests and linguistic breakdown. Source: Max Fisher/Washington Post

Geopolitical hotspot #2: Middle East

Blocking the Straits of Hormuz would disrupt energy flows



Trump's "Peace through strength"



Geopolitical hotspot#3: Taiwan and Asia Pacific

Location, location, location! Taiwan is of great strategic importance to both the U.S. and China due to its geopolitical location



US navy ship in Hong Kong harbour, 2016

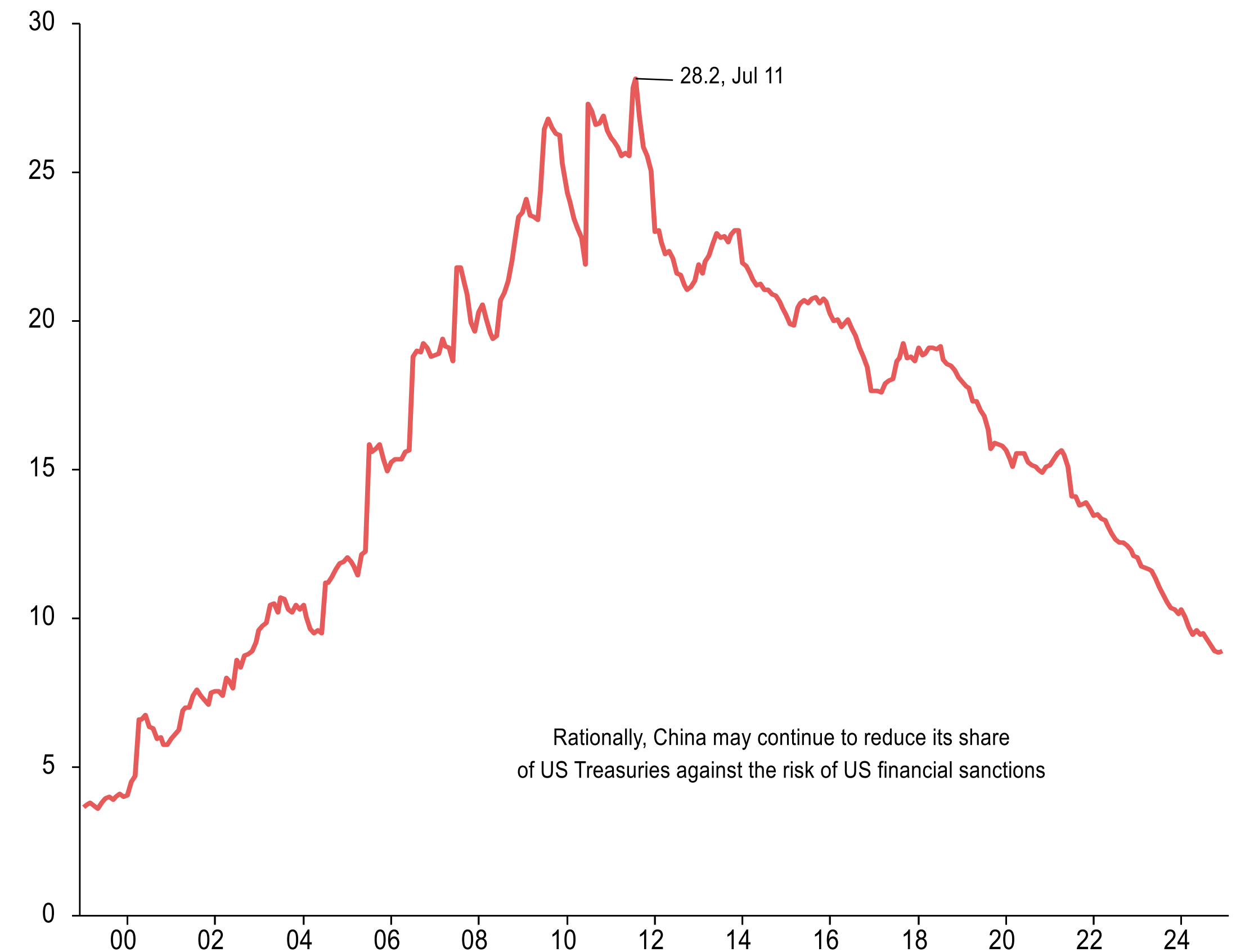


To hedge geopolitical risk the BRICS are looking to move away from the USD financial system – adding to geopolitical tensions

Russian President Vladimir Putin was presented with a symbolic "BRICS bill" at the Kazan BRICS summit in October



Chinese holdings of US Treasury securities (% of total foreign holdings)



Rationally, China may continue to reduce its share of US Treasuries against the risk of US financial sanctions

Source: LSEG Datastream/Evelyn Partners, Data as at 27/01/2025

TAIL RISK SCENARIOS (ENERGY AND TECH)



Photo: Adobe Stock

Energy: Looking back at the crude oil prices spikes in 2008 and 2022

Brent crude oil during price spikes

US\$/barrel



Source: LSEG Datastream/Evelyn Partners, Data as at 12 Feb 2025

Energy: Multi-asset performance during oil shocks

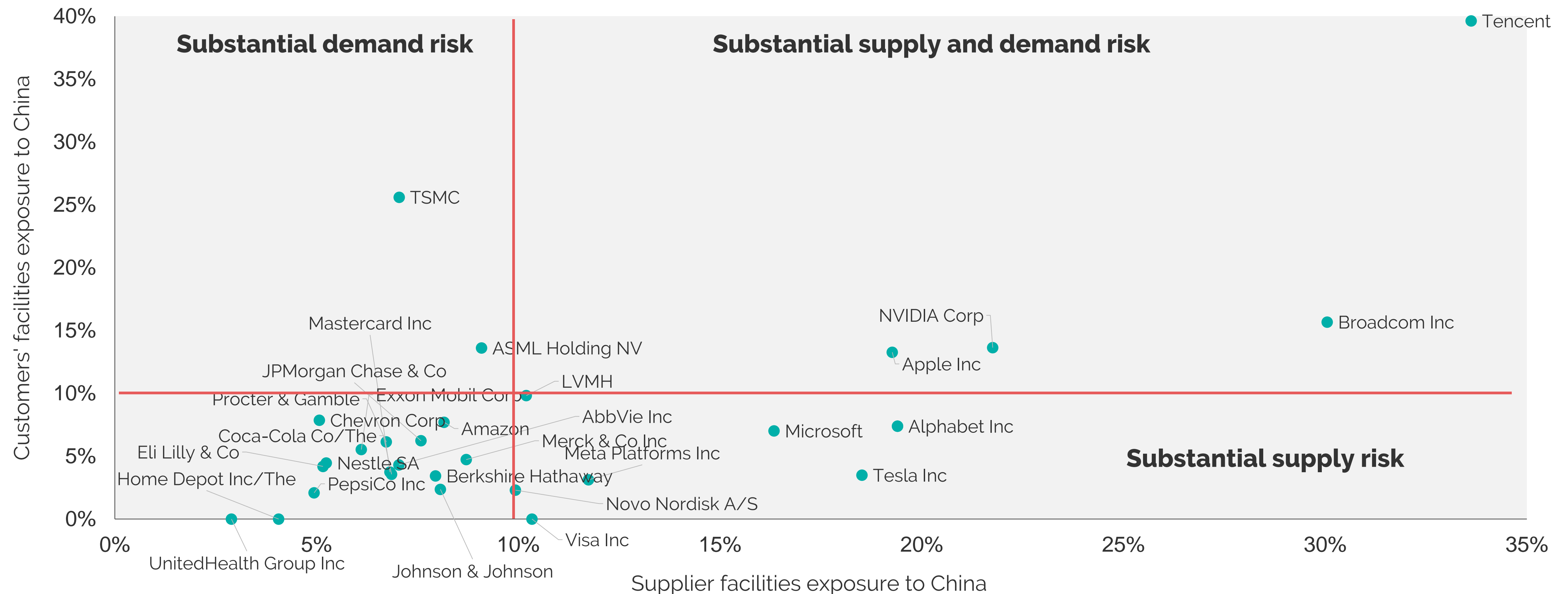
	Profit and Loss percent (Oil increase 2008)	Profit and Loss percent (Oil increase 2022)	Average
Overall portfolio	-6.7	-5.8	-6.3
UK linkers (5-15yr)	4.2	1.7	2.9
Cash	0.0	0.0	0.0
Hedge Funds	-0.5	-1.6	-1.1
Sterling credit	-4.8	-5.9	-5.3
Gilt 7-10yr	-3.6	-3.8	-3.7
Gilt 1-5yr	-1.8	-1.9	-1.9
Gold	1.1	14.5	7.8
UK IMI core RE	-23.2	-13.0	-18.1
EM equities	-13.9	-5.0	-9.4
Europe ex-UK equities	-3.7	-15.8	-9.7
Japan equities	-2.6	-10.7	-6.7
N. America equities	-7.3	-7.9	-7.6
Pacific ex Japan equities	-6.5	-1.1	-3.8
UK equities	-9.9	-6.7	-8.3
Crude oil price trough-to-peak dates for 2008 (1/2/08 to 3/7/08) and 2022 (1/12/21 to 8/3/2022).			

Energy: Global sector performance during oil shocks

		Profit and Loss percent (Oil increase 2008)	Profit and Loss percent (Oil increase 2022)	Average
MSCI ACWI (MXWD)		-7.4	-7.5	-7.4
	Communication Services	-9.7	-12.8	-11.2
	Consumer Discretionary	-17.8	-19.2	-18.5
	Consumer Staples	-10.7	-0.2	-5.4
	Energy	15.9	33.4	24.7
	Financials	-13.5	-5.1	-9.3
	Health Care	-8.9	-2.6	-5.8
	Industrials	-5.4	-6.7	-6.1
	Information Technology	-2.3	-18.7	-10.5
	Materials	-0.8	1.3	0.3
	Real Estate	-10.3	0.7	-4.8
	Utilities	-6.6	6.1	-0.3
Crude oil price trough-to-peak dates for 2008 (1/2/08 to 3/7/08) and 2022 (1/12/21 to 8/3/2022).				

Tech: tech supply chains are most exposed to US-China tensions

Exposure of top 25 global companies (ACWI) to US-China tensions/war



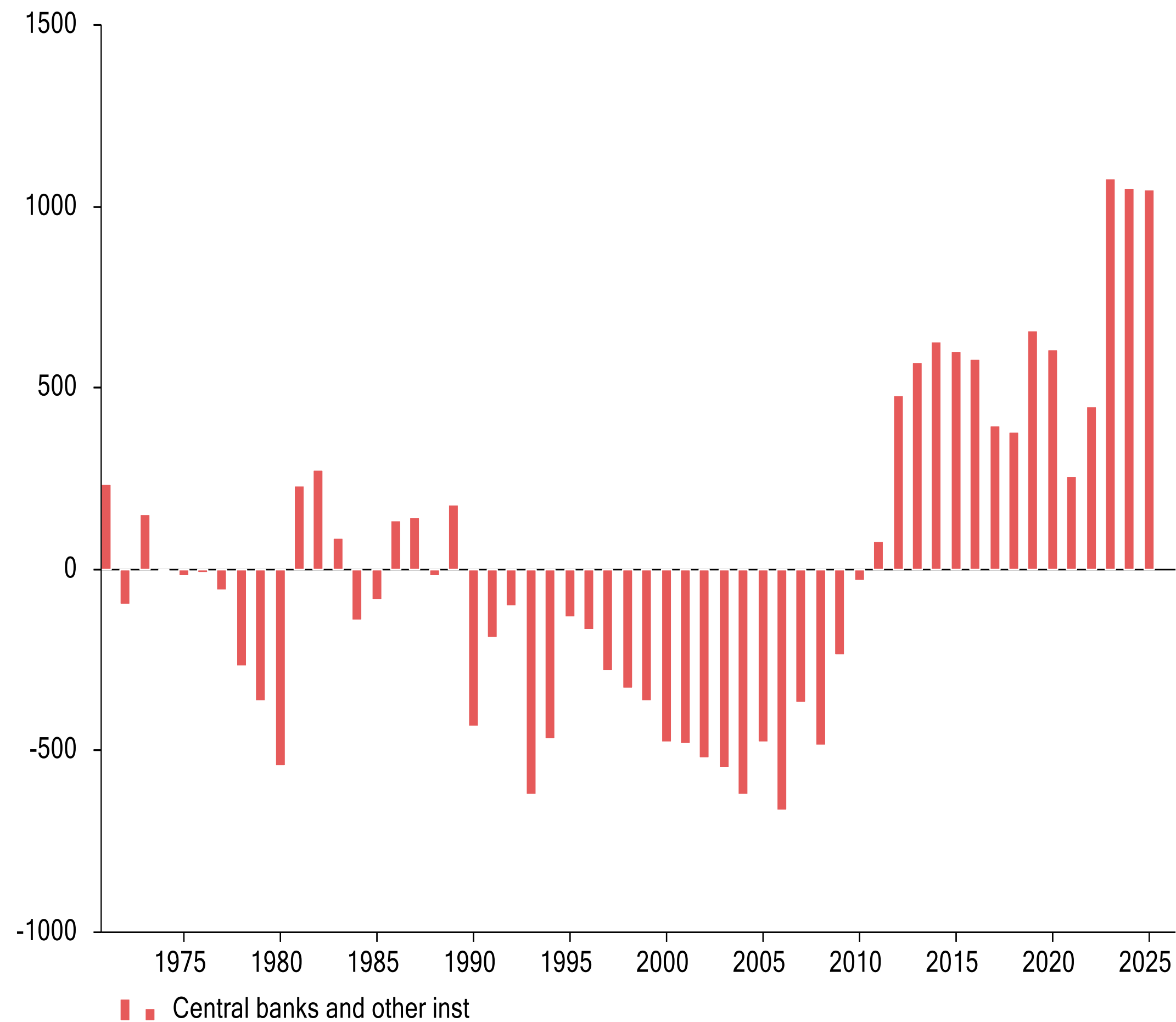
Source: Bloomberg, Evelyn Partners. Note: Supplier facilities exposure measures the percentage of suppliers' total facilities that are based in China. Customers' facilities exposure measures the percentage of customers' total facilities based in China.

HOW TO DIVERSIFY PORTFOLIOS



Hold gold: New secular demand for gold amid geopolitical changes

Central bank gold demand, tonnes



Source: LSEG Datastream/Evelyn Partners, Data as at 12/02/2025

Gold beans all the rage with China's Gen Z as deflation bites



Gold beans, which come in glass jars are the latest hot-selling items in Chinese jewellery stores.
Source photo: Bloomberg

Hold gold: Bullion adds portfolio diversification and supports returns

Performance of portfolios with varying gold allocation*

	Annualised Return	Annualised Std Dev	Annualised Sharpe (Rf=0%)	Maximum Drawdown
65% equity/35% bond	7.3%	9.8%	0.74	28.8%
2.5% gold	7.4%	9.6%	0.77	28.0%
5% gold	7.5%	9.4%	0.79	27.2%
7.5% gold	7.6%	9.2%	0.82	26.4%
10% gold	7.7%	9.1%	0.84	25.6%

65/35 portfolio of MSCI ACWI and iBoxx GBP Overall bonds, All total return, GBP terms. *Change is done proportionally, such that the remaining weight between bond and equities is always 65% to 35%
Source: Bloomberg/Evelyn Partners, Monthly data from Jan 1998 to end Nov 2024

Own equities: Investors tend to look through geopolitical risks

US equities (S&P 500) forward returns. %

Events	Date	1 week	1 month	6 months
Cuban missile crisis	16/10/1962	-6.3	5.1	22.6
Six-day war	05/06/1967	4.1	4.1	8.5
First oil shock	19/10/1973	1.1	-5.5	-12.8
Iranian revolution/second oil shock	16/01/1979	1.1	-0.3	5.7
Iran-Iraq war	22/09/1980	-5.3	1.6	5.3
Fall of Berlin wall	09/11/1989	1.3	3.9	3.3
Russia declares independence from USSR	12/06/1990	-2.1	0.0	-8.9
Irag invades Kuwait	02/08/1990	-3.1	-7.9	-2.7
Gulf war	16/01/1991	4.5	17.2	22.9
Sept. 11 attacks	11/09/2001	-5.4	0.6	7.3
Irag war	19/03/2003	-0.5	2.4	17.1
Arab Spring	24/01/2011	-0.4	1.5	5.2
Russia annexation of Crimea	26/02/2014	1.6	0.8	9.4
US-North Korea tensions	08/08/2017	-0.3	-0.2	12.7
US announces tariffs	08/02/2018	5.9	8.2	11.8
US exits Iran nuclear deal	08/05/2018	1.6	3.9	2.9
Average		-0.1	2.2	6.9
Median		0.4	1.5	6.5

Source: Bloomberg, Blackrock, *note immediately after 9/11 stock trading was suspended. When trading resumed on the 17th Sept, the S&P 500 eventually fell 12% from the 9th Sept before bottoming out on the 21st September.

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Photo: Adobe Stock/everettovrk

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