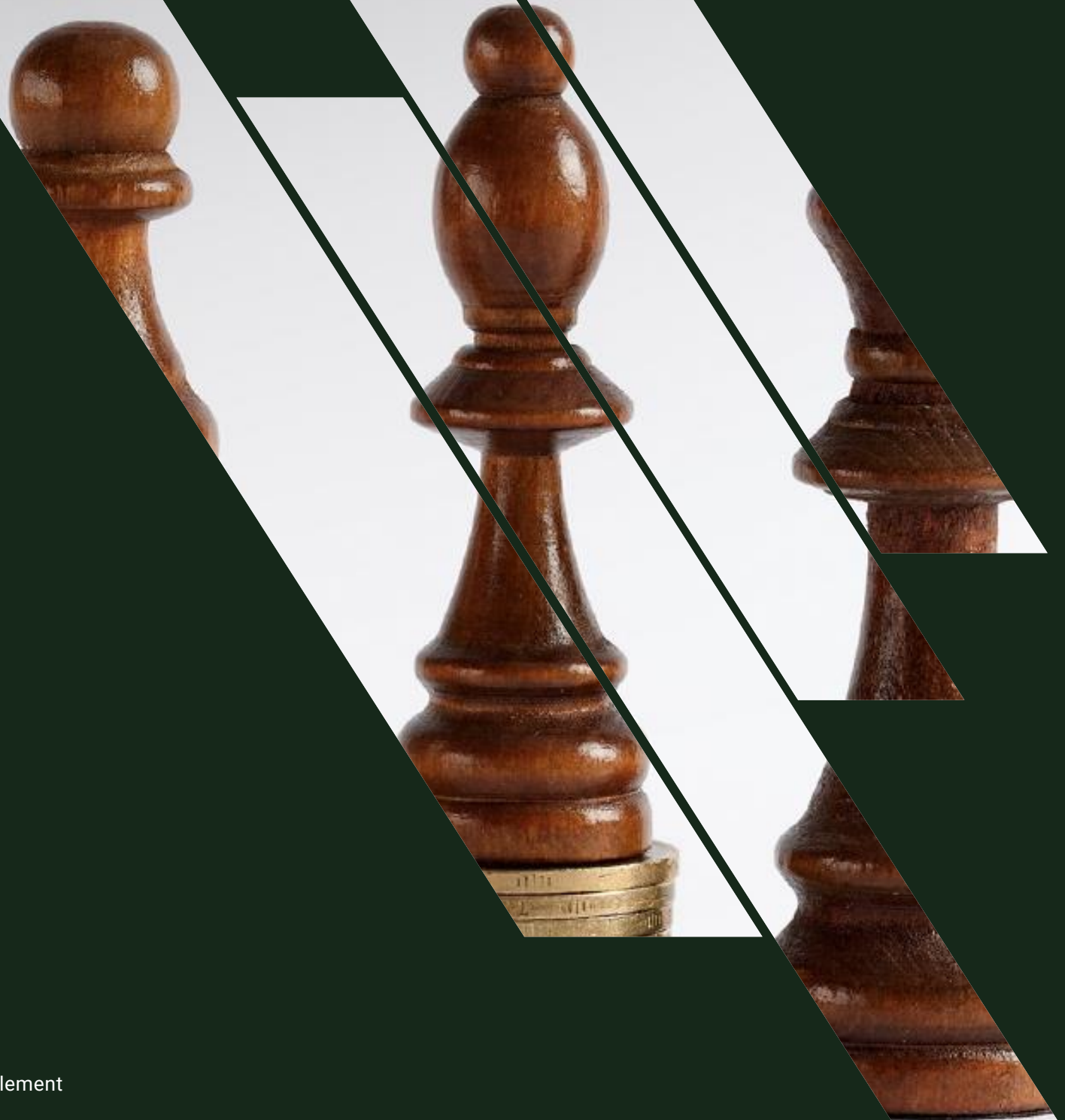


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Geo-Economics

Geopolitical dynamics and
the practical link to
investment strategies

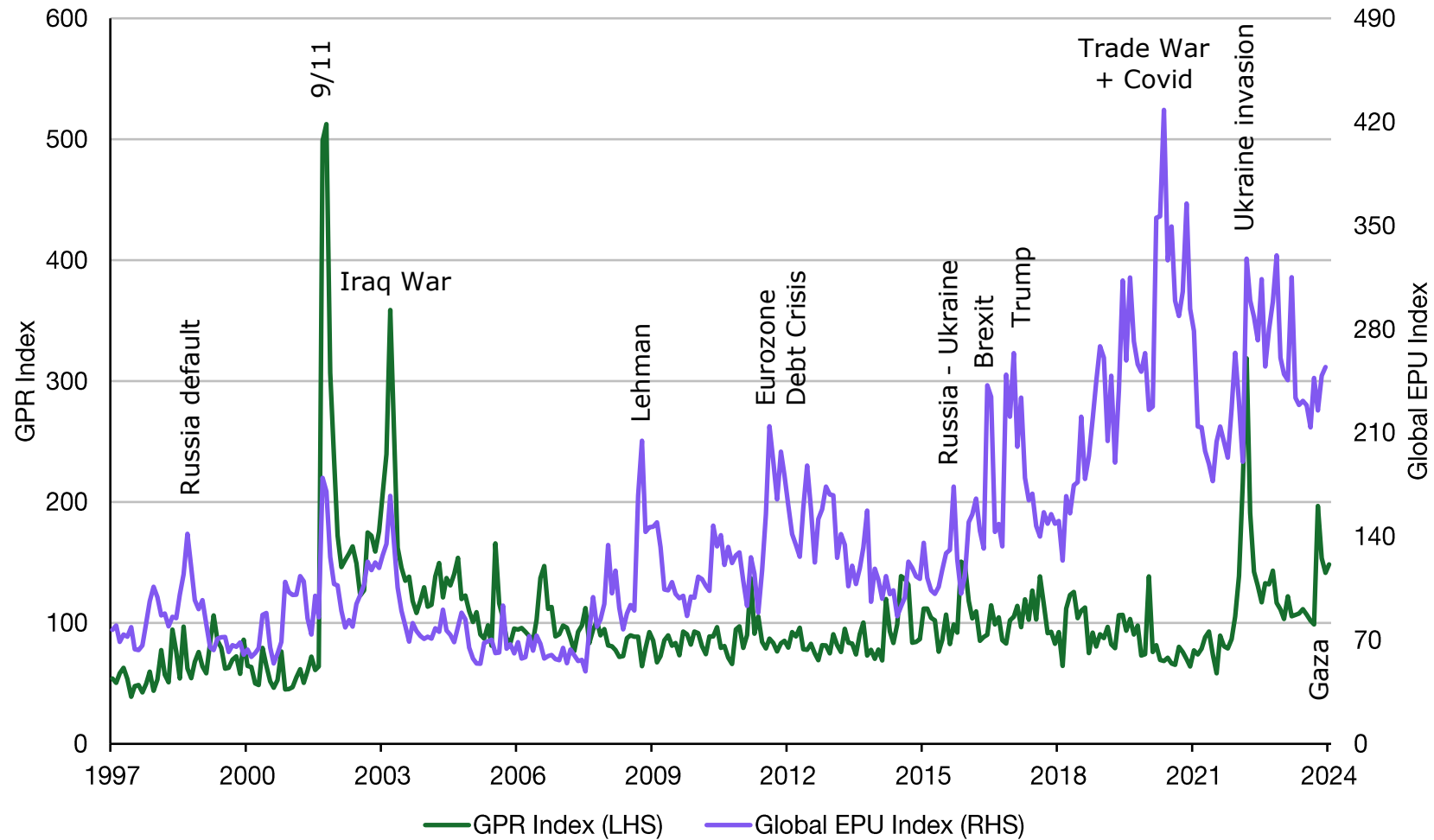


Free book for practitioners



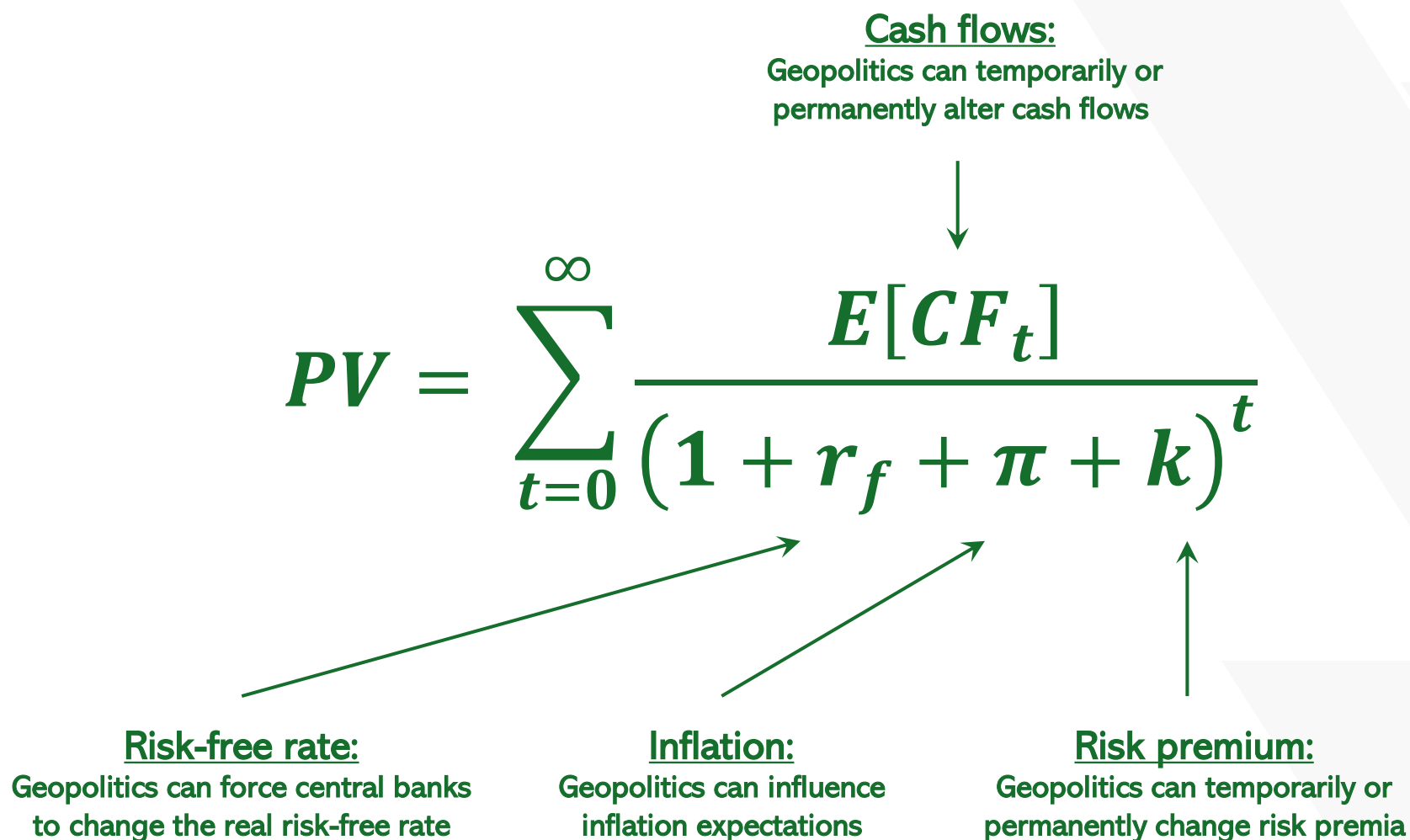
[Download the book for free here](#)

Measuring geopolitical risk isn't straightforward



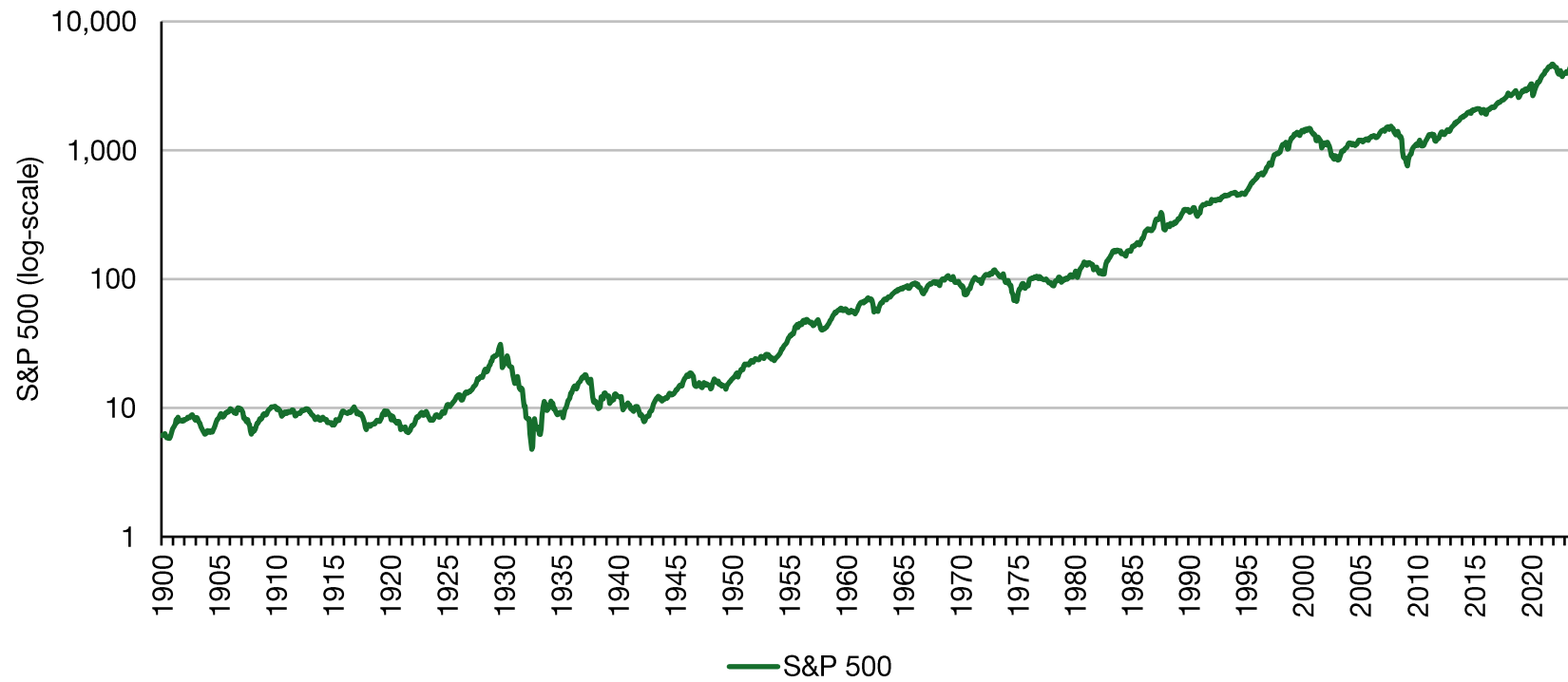
Source: Caldara and Iacovello (2019), Baker et al. (2016)

How geopolitics influences markets



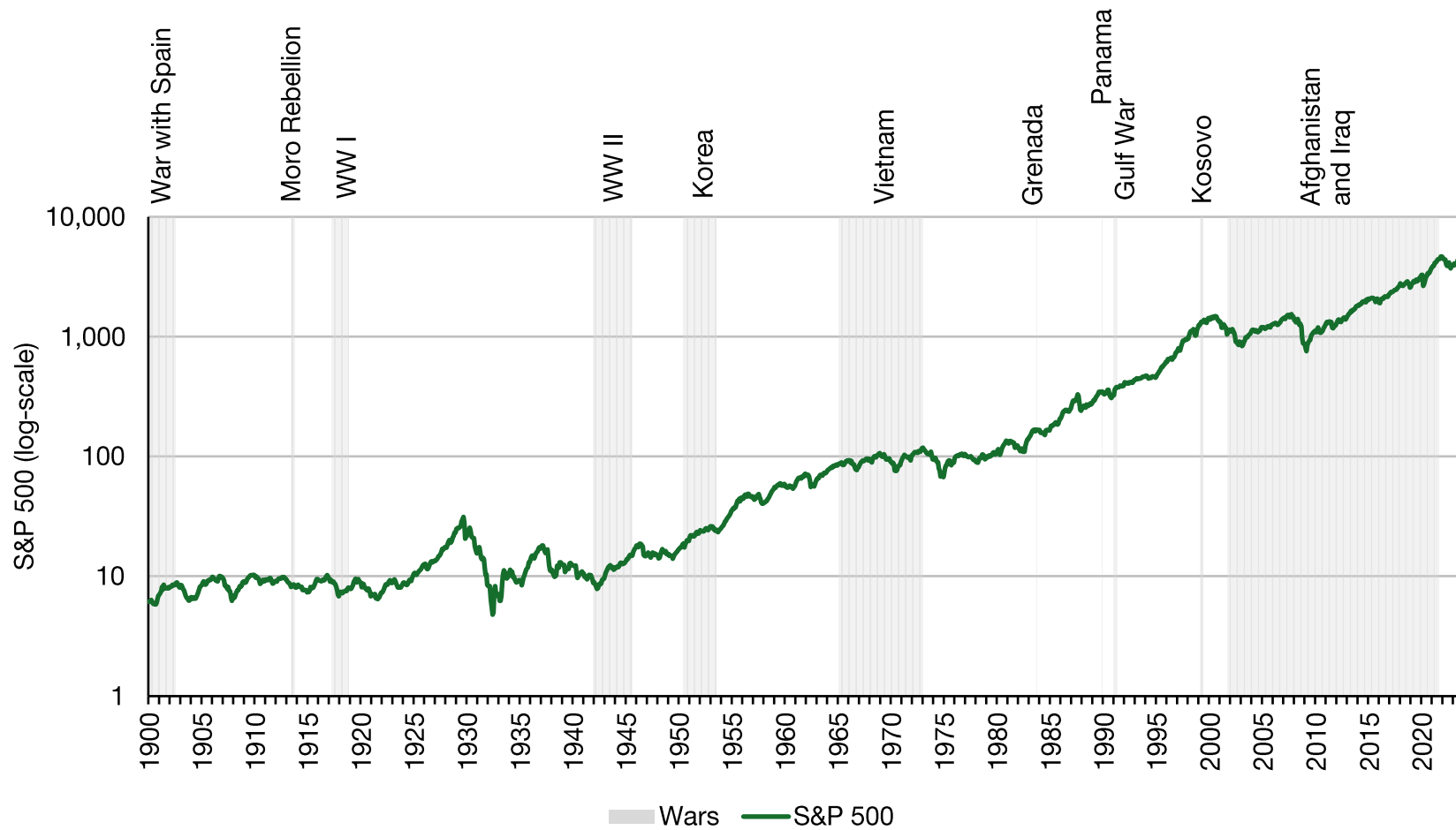
How to deal with wars and conflict

Spot the war



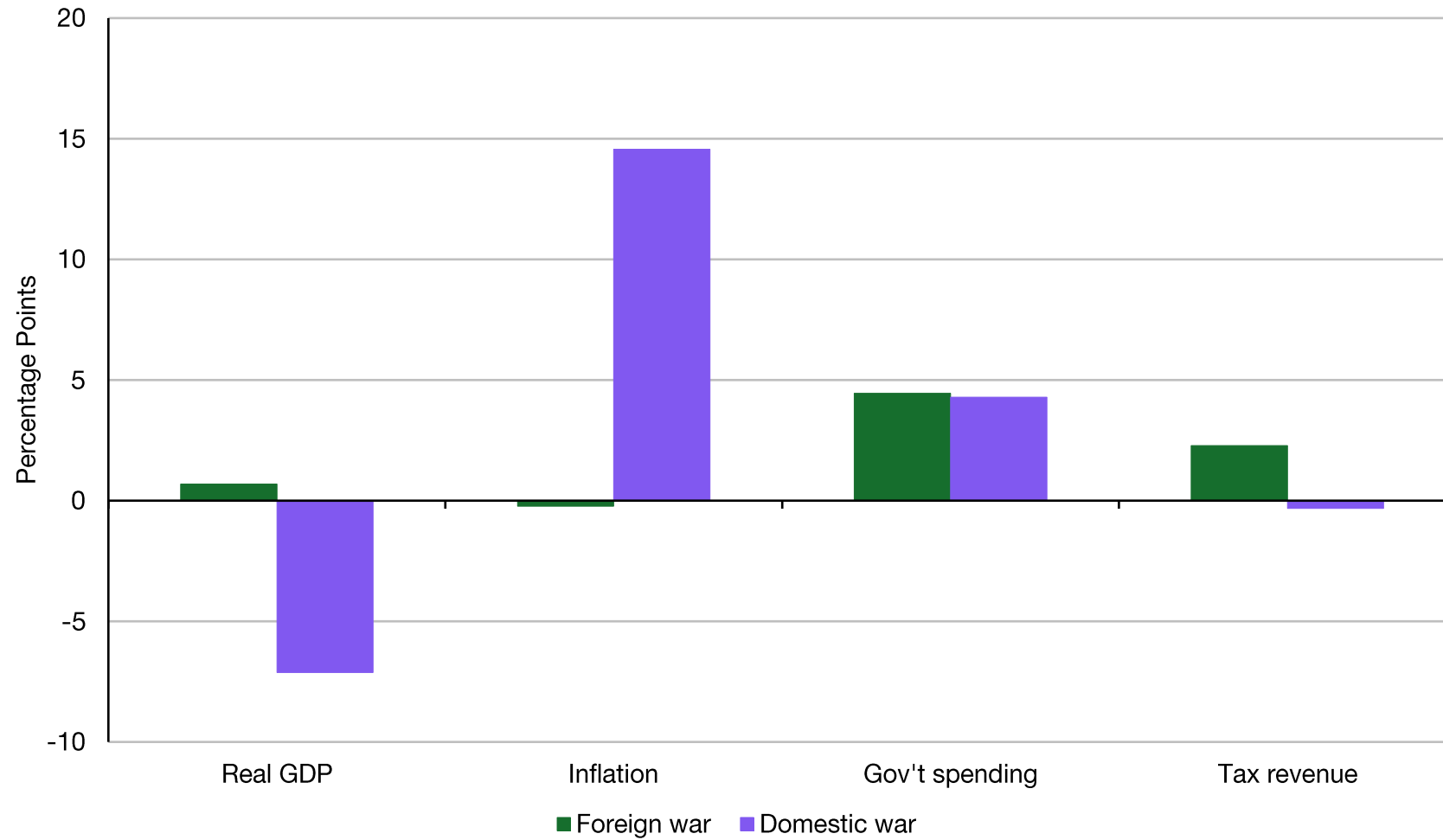
Source: R. Shiller, Correlates of War, UCDP Armed Conflict Data

Spot the war



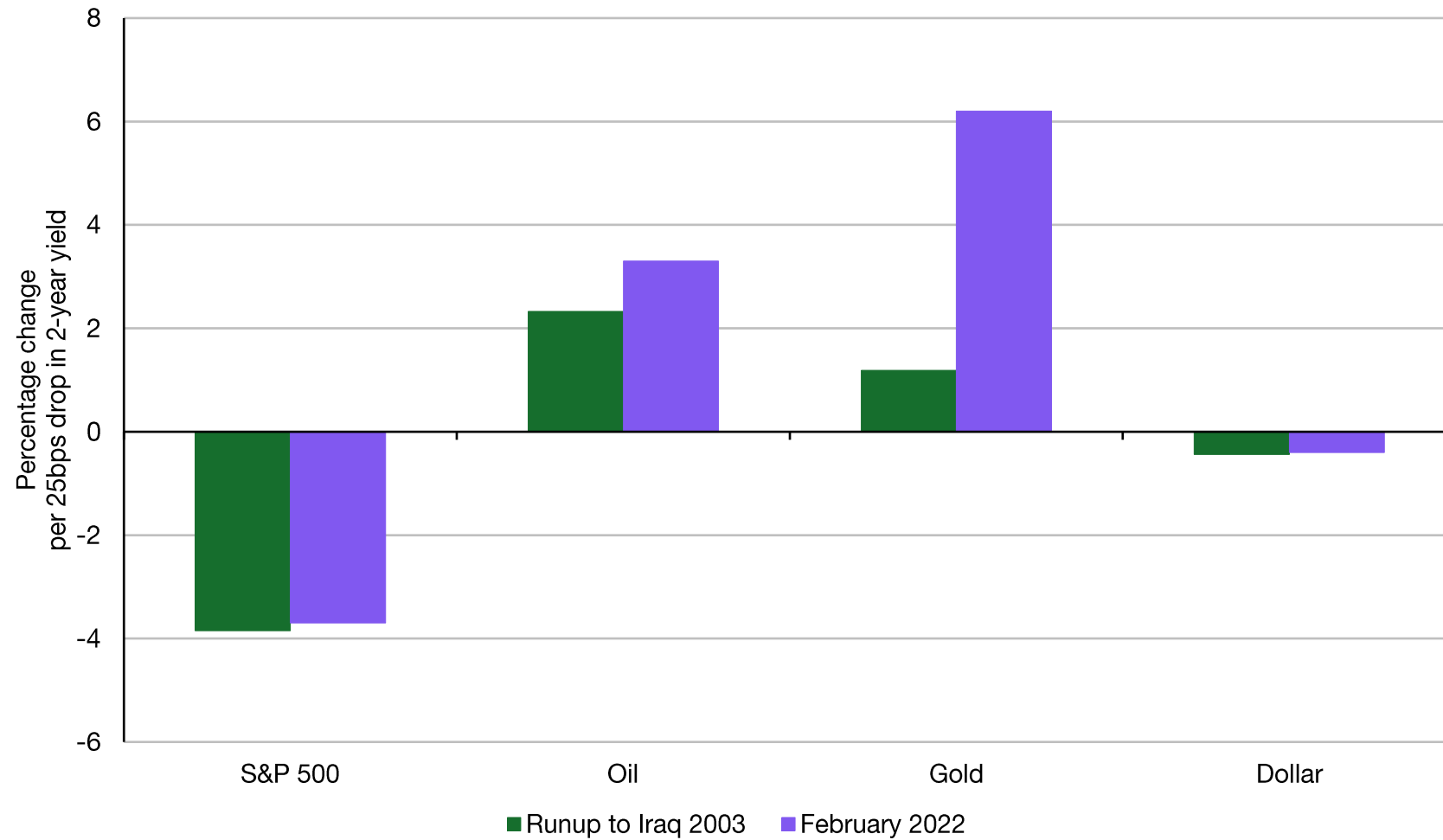
Source: R. Shiller, Correlates of War, UCDP Armed Conflict Data

Where the war is matters



Source: Caplan (2022)

Short-term reaction to wars



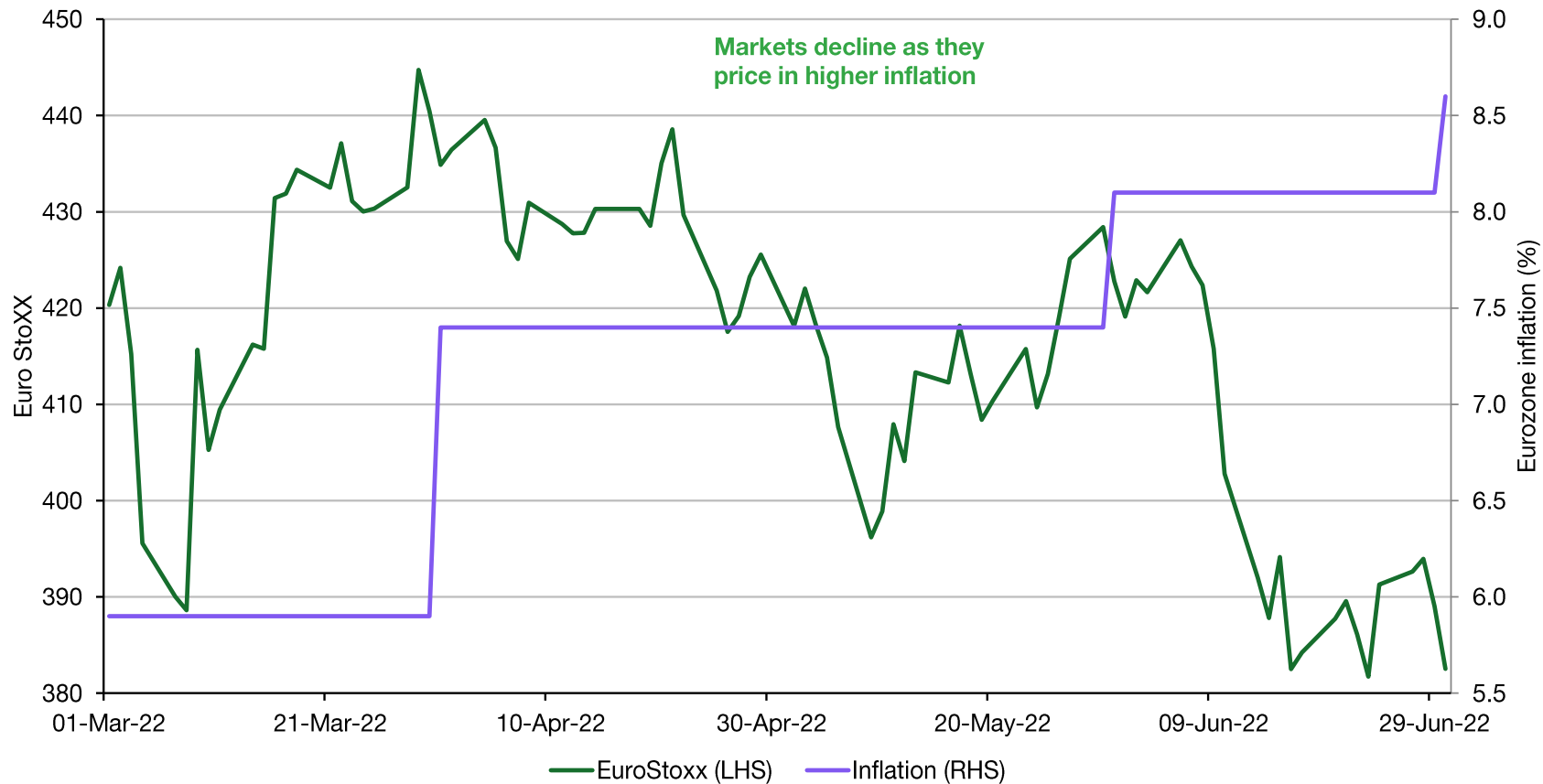
Source: Rigobon and Sack (2003), Liberum

Russia-Ukraine War: Immediate shock



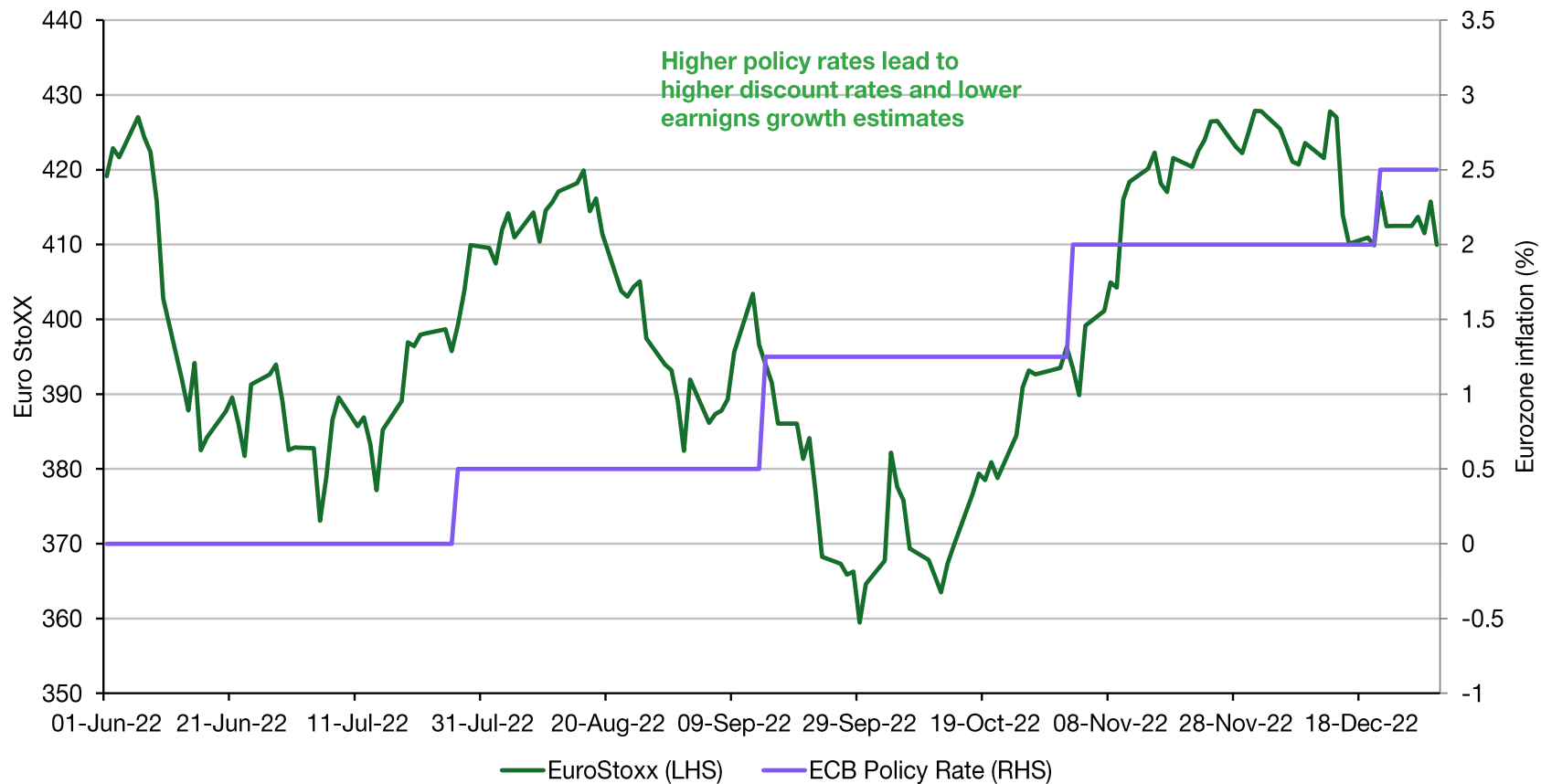
Source: Liberum, Bloomberg

Russia-Ukraine War: Realisation that sanctions against Russia fuel inflation



Source: Liberum, Bloomberg

Russia-Ukraine War: Central banks hike rates, thus creating recession fears



Source: Liberum, Bloomberg

Wars that do and don't matter

Wars that don't matter

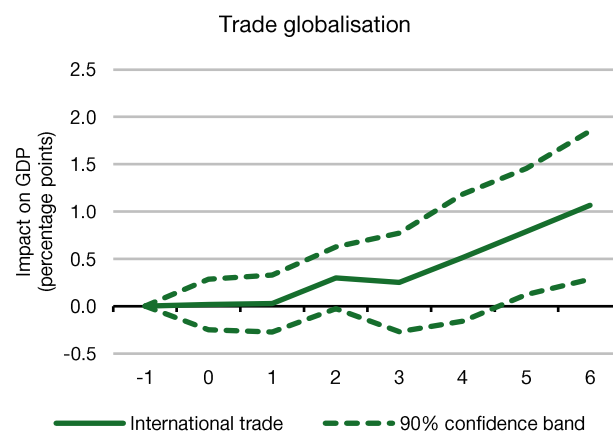
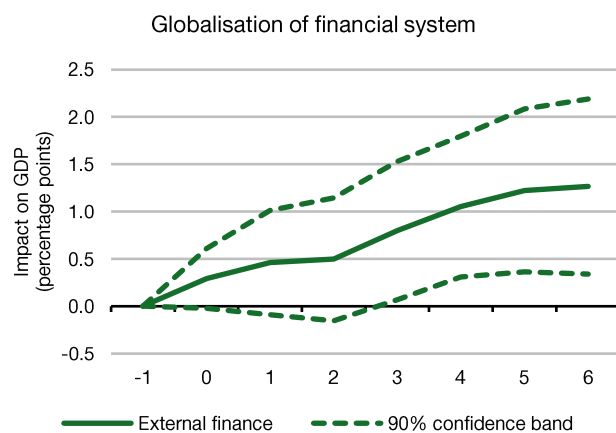
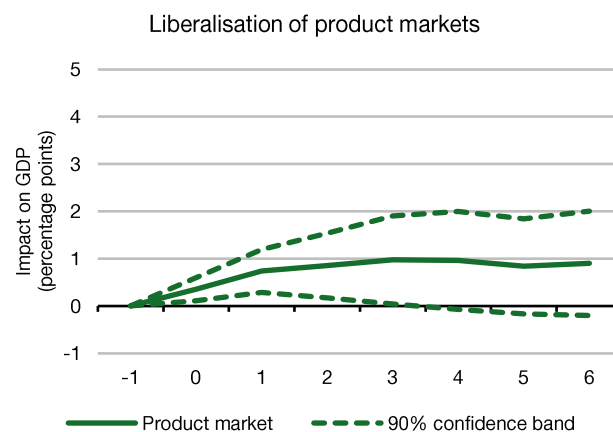
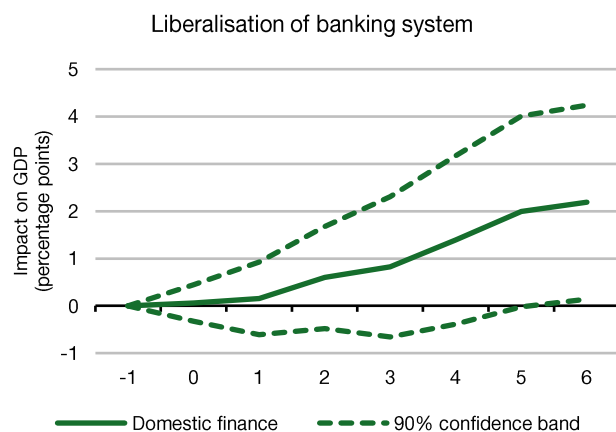
- Israel/Gaza
- Almost all wars in the Middle East (as long as oil supply remains in place)
- Practically all civil wars and regional wars in emerging markets (Niger, Senegal, Venezuela, Ecuador, Myanmar,...)
- All terrorist attacks

Wars that do matter

- Ukraine War because of the loss of access to Russian natural gas
- A war with China or between China and Taiwan
- A war on the Korean peninsula

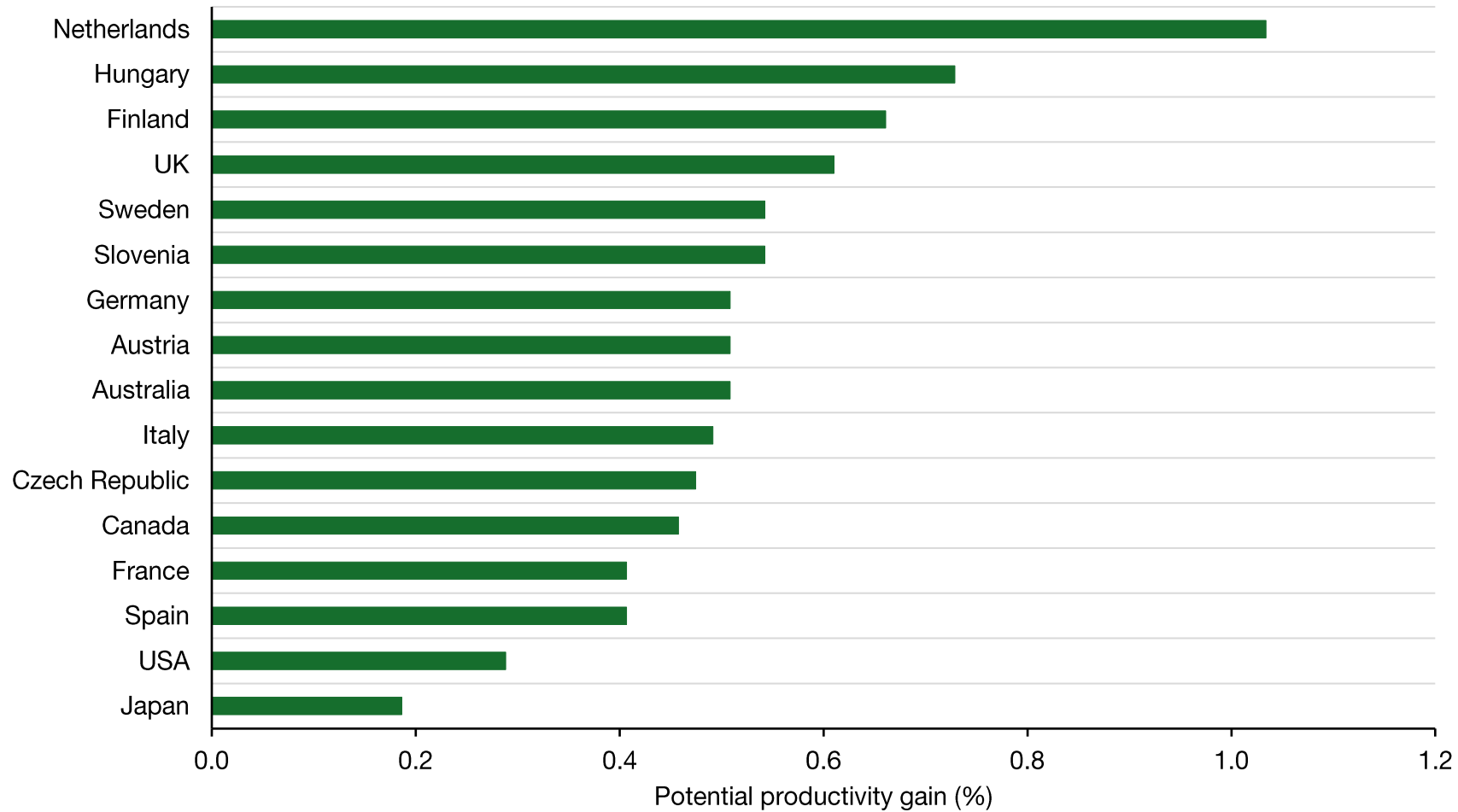
The positive side of geopolitics: Globalisation and international trade

Benevolent geopolitics: Globalisation



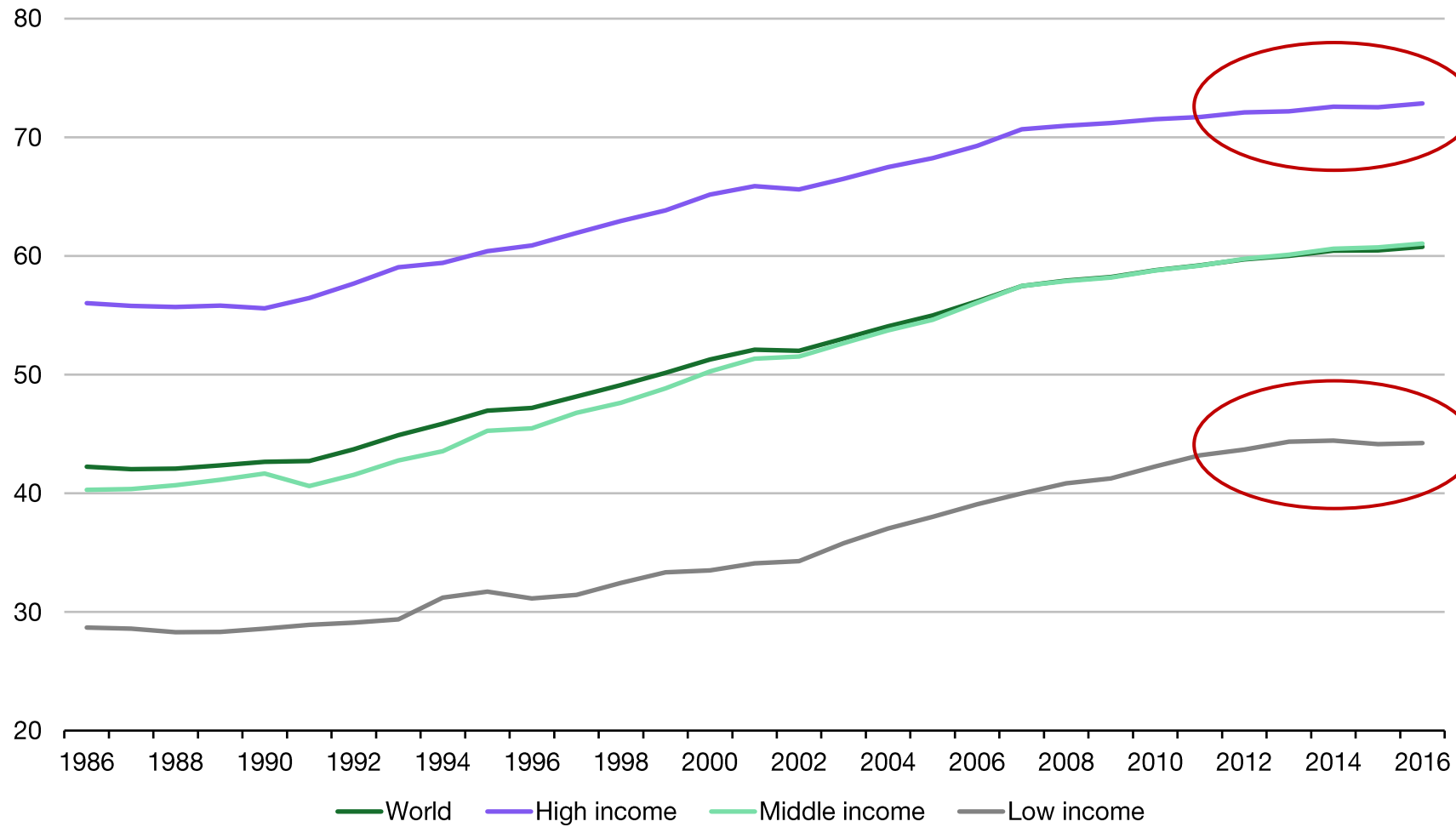
Source: IMF (2019)

More globalisation = more productivity



Source: Kof

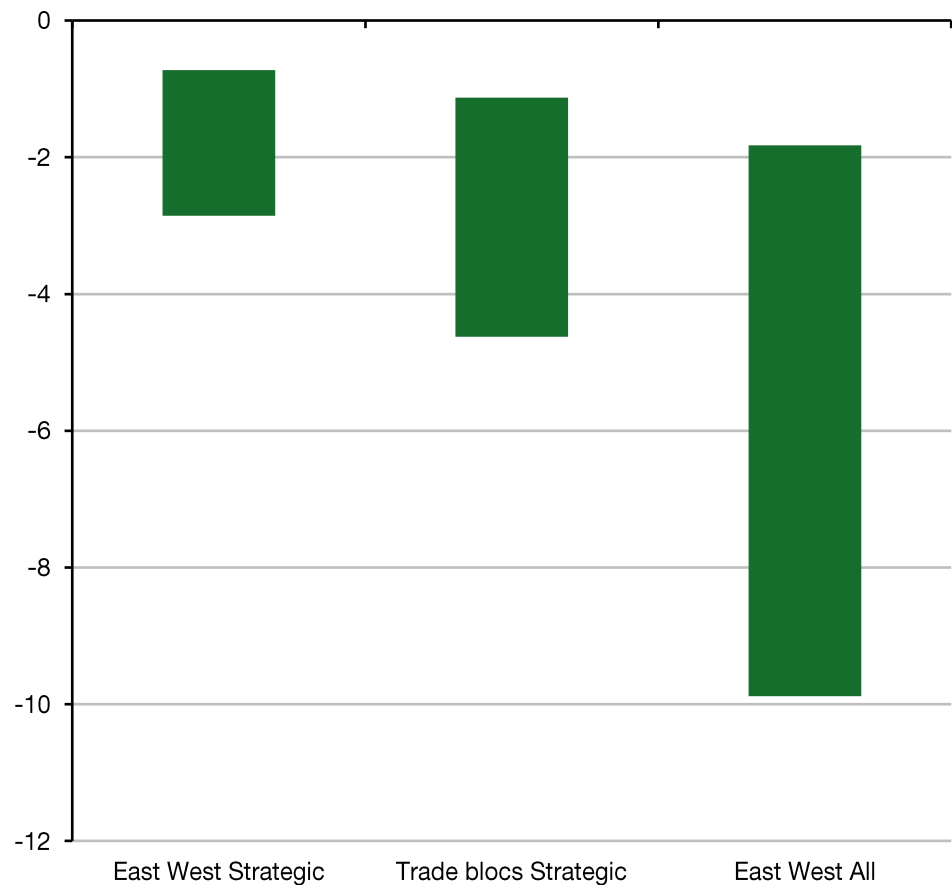
Has globalisation stopped?



Source: Kof

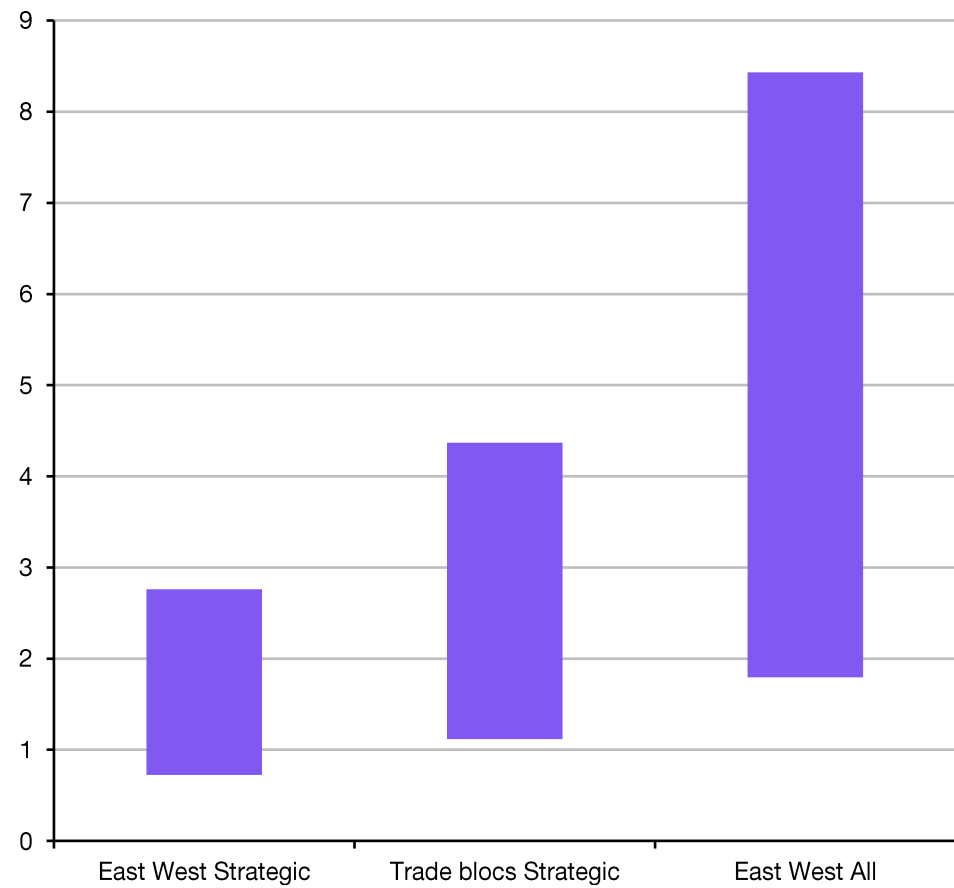
The global cost of decoupling

Impact on global income



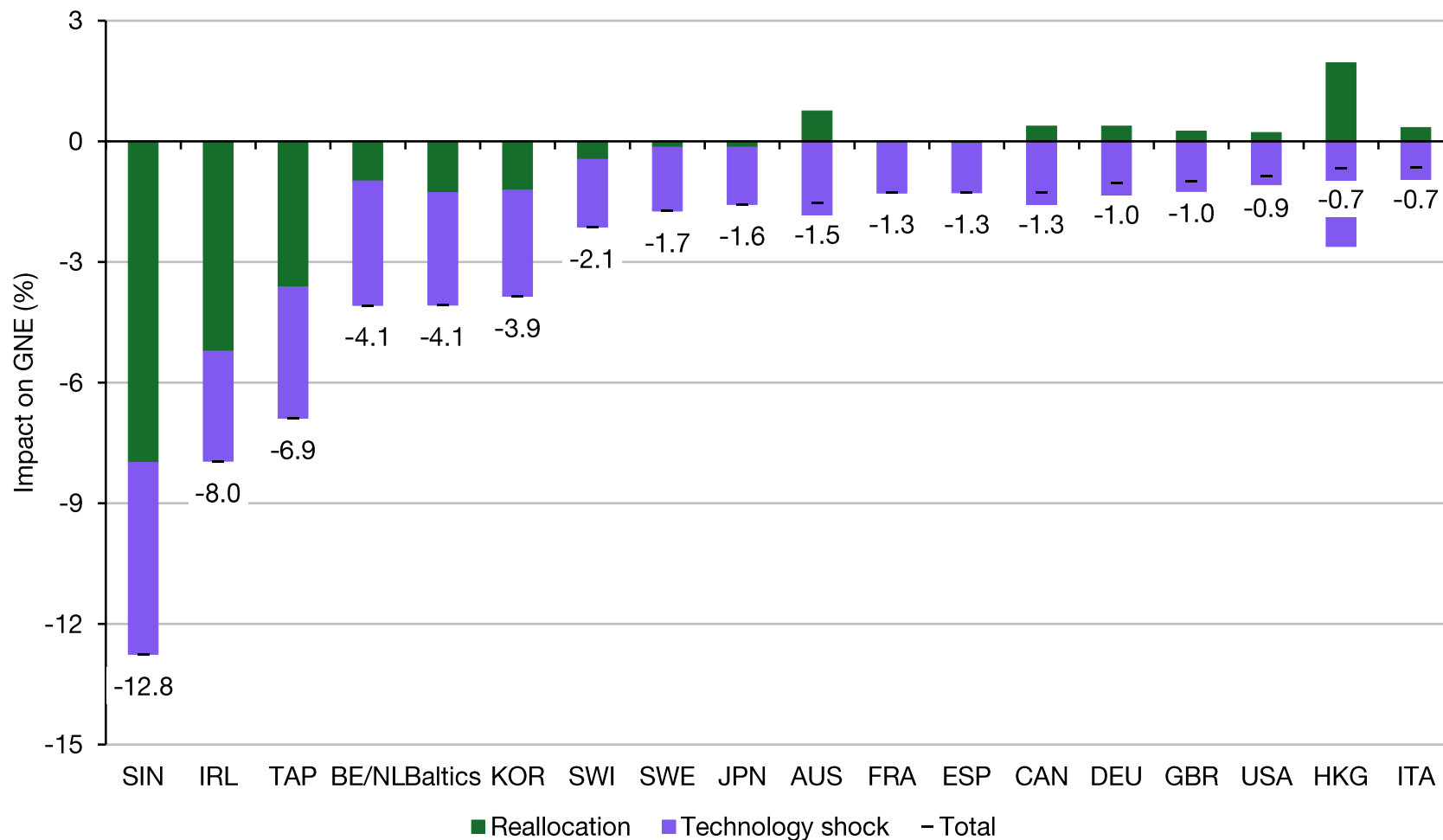
Source: Attinasi et al. (2023)

Impact on prices



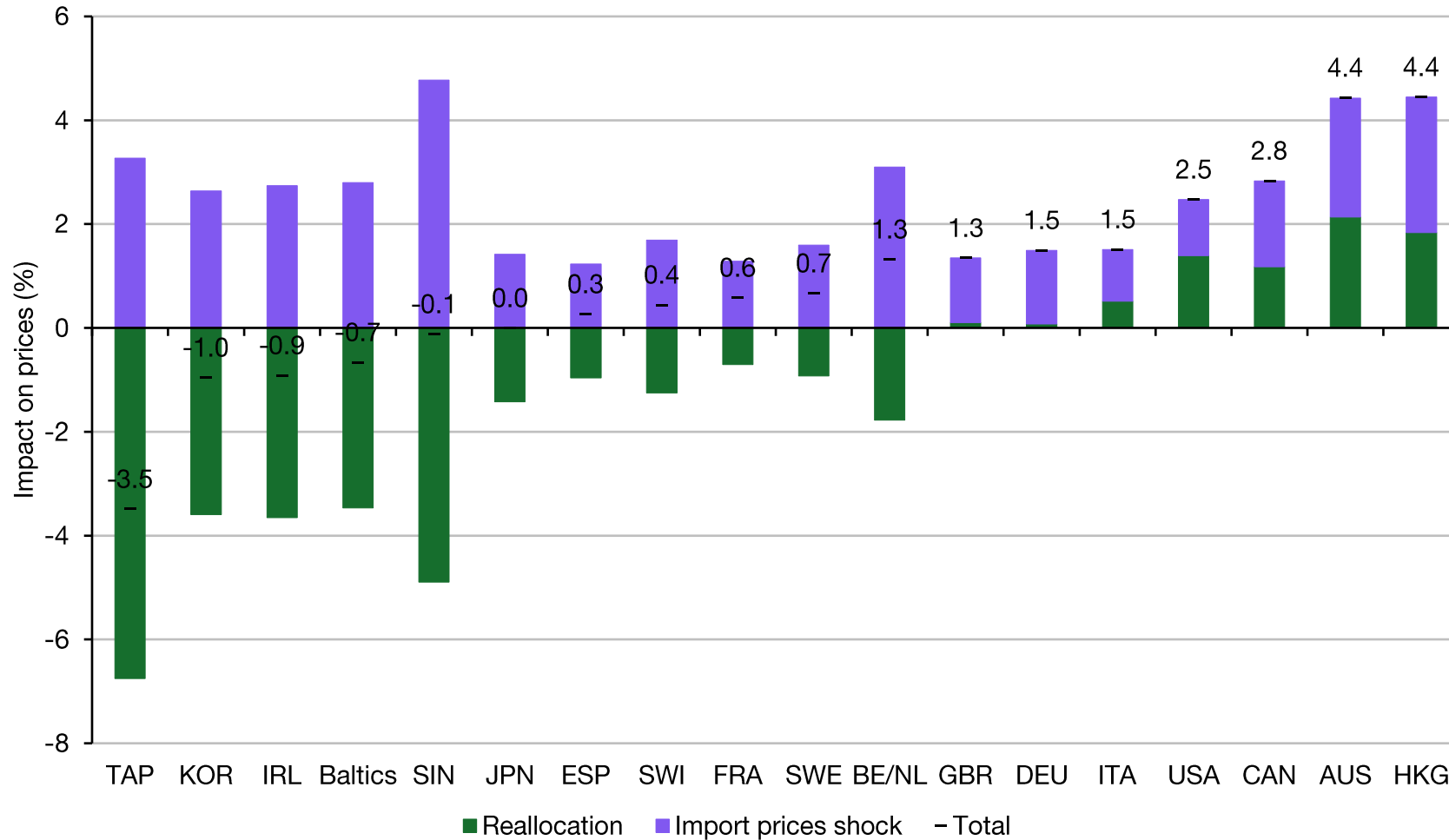
Source: Attinasi et al. (2023)

Growth impact of East-West strategic decoupling to high-income countries



Source: Attinasi et al. (2023)

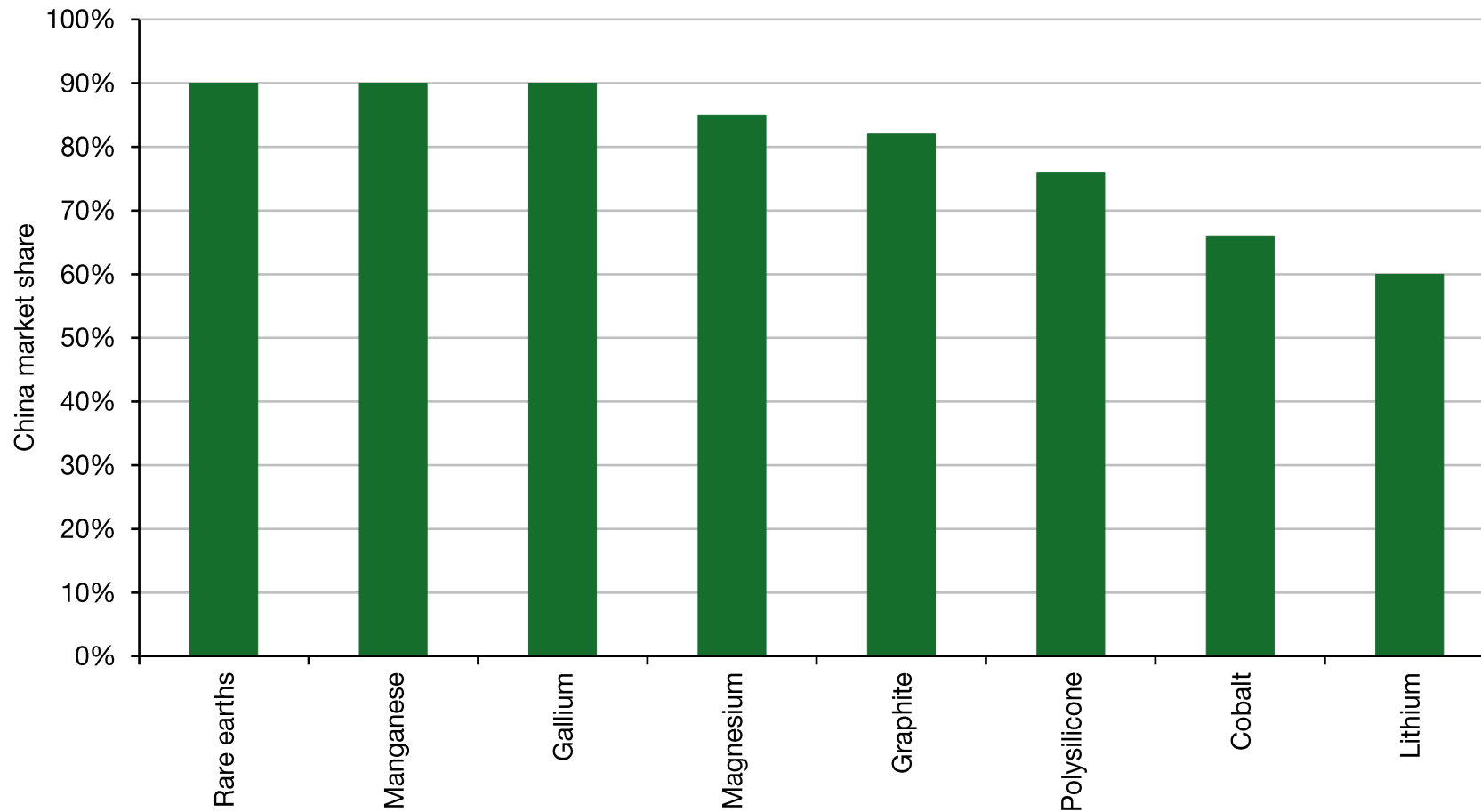
Price impact of East-West strategic decoupling to high-income countries



Source: Attinasi et al. (2023)

Our relationship with China: Mutually assured economic destruction

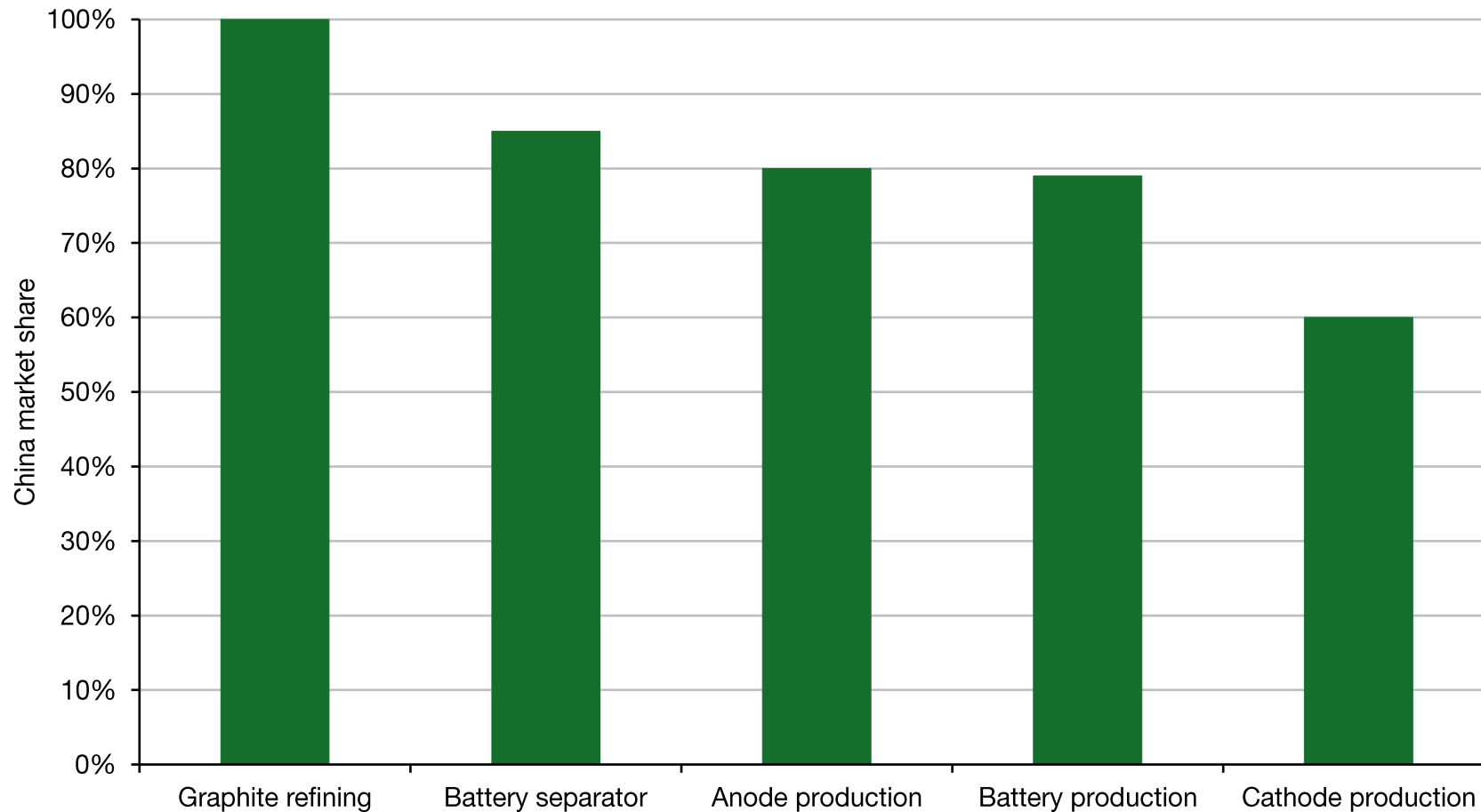
China market share in critical minerals



Source: Liberum, Julien (2022)

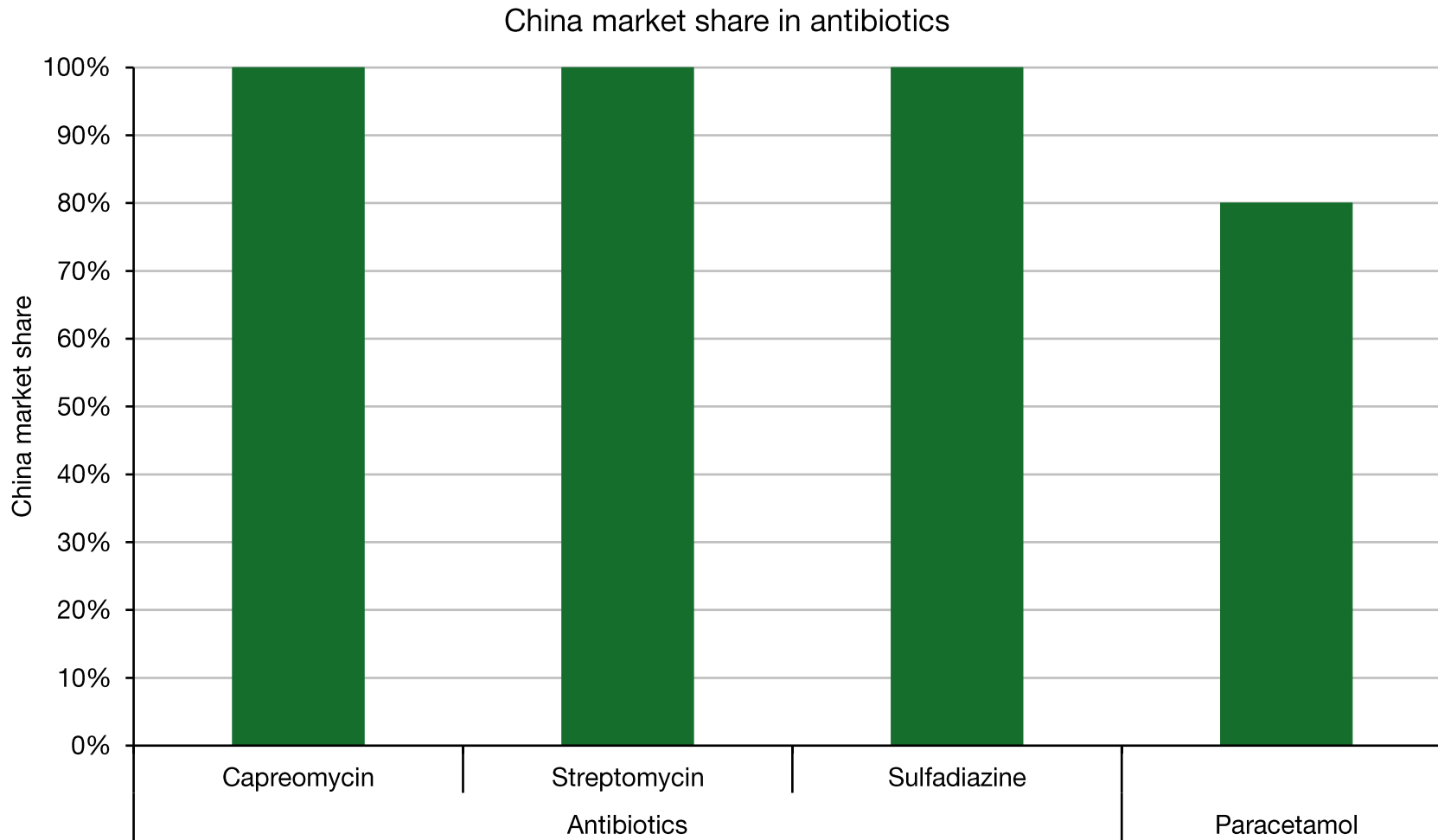
Our relationship with China: Mutually assured economic destruction

China market share in battery supply chains



Source: Liberum, Julien (2022)

Our relationship with China: Mutually assured economic destruction



Source: Liberum, Julien (2022)

My 10 rules for forecasting

1. Data matters: We humans are drawn to anecdotes and illustrations but looks can be deceiving. Always base your forecasts on data and not on qualitative arguments.
2. Don't make extreme forecasts. Predicting the next financial crisis will make you famous if you do it at the right time but will cost you money and reputation in any other instance.
3. Reversion to the mean is a powerful force. In economics, as well as in politics, extremes cannot survive for long.
4. We are creatures of habit. If something has worked in the past, people keep doing it almost forever. Don't expect these trends to change quickly even though there is mean reversion.
5. We rarely fall off a cliff. People often change their habits at the last minute before a catastrophe happens.
6. A full stomach does not riot. Revolutions and riots rarely happen when people have enough food and feel relatively safe.
7. The first goal of political and business leaders is to stay in power. Viewed through that lens, many actions can easily be predicted.
8. The second goal of political and business leaders is to get rich. Combined with the previous rule this explains about 90% of all behavior.
9. Remember Occam's Razor. The simplest explanation is the most likely to be correct. Ignore conspiracy theories.
10. Don't follow rules blindly. This applies to these rules as well.

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