



The US-China relationship has worsened significantly over the last five years and is unlikely to sustainably improve given domestic political realities in both countries. (UBS)

A bumpy road to a multipolar world

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For investors, it may seem increasingly evident that the global geopolitical order has evolved. Once firmly unipolar, a new multipolar world is now taking shape.

The United States is no longer as widely perceived to be the undisputed preeminent power, with China willing to challenge the status quo established by the US and its allies. And against this backdrop, a number of other nations are also becoming more assertive. Terms such as “middle powers” and “geopolitical swing states” are being used to describe those countries that are seeing an opportunity to avoid picking sides and pursue their own interests with flexibility. All of this has important investment implications.

Perhaps most importantly, the US-China relationship has worsened significantly over the last five years and is unlikely to sustainably improve given domestic political realities in both countries. The areas of tension have broadened beyond simply trade, and into the realms of technology and capital flows, to name a few. Given today’s deep linkages between the US and China, a full breakup between both countries seems impractical—yet “de-risking” in several hotspots also appears to be inevitable. This is a longer-term process, but key events on a closer horizon also have the potential to change the course of affairs, including the Taiwanese leadership elections in January 2024 and the US elections in the fall of next year.

Yet, the ongoing reconfiguration in the global economic and geopolitical architecture extends beyond the two superpowers to every country in the world.

From an economic standpoint, we see trade and investment linkages being redrawn. Governments and businesses are swiftly moving away from a “just in time” mentality focused on price and efficiency to a “just in case” mindset, prioritizing

reliability and resilience. Terms such as “nearshoring” and “friendshoring” have become commonplace as companies increasingly announce or discuss a reshuffling of global supply chains.

We hope our latest white paper “[Global implications of US-China engagement - A bumpy road to a multipolar world](#)”: (i) helps you better understand how the various fault lines between the two largest global economies are evolving, and how these will impact countries around the world, (ii) sparks your imagination in terms of the possible scenarios five years out, and (iii) provides valuable suggestions on how to weather-proof investment portfolios in this context.

Investment implications

In a world in which supply chains and foreign investment routes are rapidly being redrawn, we continue to underscore the importance of geographic diversification in investment portfolios. However, geopolitics is not the only reason for increased diversification. For example, demographics, changing production costs, and access to advanced technology play a role as well.

Investors should for example explore investment opportunities in markets profiting from nearshoring, such as India, Indonesia, Malaysia, Mexico, Philippines, Singapore, Thailand, and Vietnam, which are witnessing increased foreign direct investment flows.

We see heightened risks that high-tech products and services (e.g., biotech and advanced IT) and some commodities (e.g., rare metal earths, oil) are caught in the geopolitical crosscurrents.

In contrast, one area of cooperation is climate change. Longer-term themes such as clean air and carbon reduction, energy efficiency, and smart mobility are likely beneficiaries, but we remain selective across names. Broadly, we recommend investors maintain a diversified approach across beneficiary themes and sustainable investment approaches (inclusive of ESG leaders and sustainable bonds).

We see different ways to invest in a more defensive fashion in themes that are supposed to perform well even if the US-China rivalry continues and even potentially intensifies in the coming years. Investors who would like to protect their portfolio against a possible sharp rise in tensions can also build up hedges. Safe haven assets such as the Swiss franc, Japanese yen, or gold, offer stability in geopolitically turbulent times. In addition, our preference for bonds over equities should also perform well during periods of market stress.

A high-volatility environment resulting from increased geopolitical uncertainty also presents opportunities for structured investments and options. In addition, a dynamic approach to asset allocation can also help investors manage risks.

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Read the original report : [Global implications of US-China engagement - A bumpy road to a multipolar world, 30 October 2023.](#)

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