

The Great Geopolitical Reset: Risks and Opportunities

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Much of the recent geopolitical landscape may seem confusing and disjointed. The US seems to be turning against its former allies and embracing former adversaries. Trade wars and tariffs are proliferating. Regional turmoil is increasing, headlined by Ukraine/Russia, Gaza/Israel, India/Pakistan and now Iran/Israel. Populism is taking root globally. Financial markets are seemingly divided on future direction. And so on. But there is a clear throughline: we are witnessing the end of the post-World War II era. Thanks in large part to Putin's miscalculations in Ukraine, the status quo that has defined and shaped global order for the past 80 years is dissolving, with important consequences for financial markets.

Before World War II, the US was broadly isolationist in its foreign policy. With such an active role on the world stage since 1941, few can recall a period of US isolationism. And yet a far more neutral foreign policy approach was the norm until the country entered WWII. This inward-facing stance dates back to George Washington, who warned of foreign entanglements. Washington wrote at great length about the importance of the Union in his Farewell Address, writing "it is our true policy to steer clear of permanent alliances with any portion of the foreign world". He encouraged the young country to focus on strengthening the Union and even advised against an "overgrown military establishment". Up to the eve of the Pearl Harbor attack, most Americans opposed joining the war efforts in either Europe or Asia. Even as late as the summer of 1940, after France fell to Nazi Germany and Britain faced Nazi Germany alone, Americans broadly were not supportive of helping their allies. A Gallup poll at the time asked Americans:

"Which of these two things do you think is the more important for the United States to try to do—to keep out of war ourselves or to help England win, even at the risk of getting into the war?"

Over 60% of Americans still advocated for keeping out of the war efforts, despite the fact that England faced immediate peril.



Figure 1: Source – United States Holocaust Memorial Museum

The end of World War II produced two superpowers with different ideologies: the United States and the Soviet Union. Fearing each other, the Cold War began and intensified. And thus, the US did not retrench to its former isolationist ways. Instead, the Americans fought to spread their influence and operating system, as did the Soviets, which led to several direct and indirect conflicts over the decades.

The US promoted capitalism, which brought with it at least a degree of personal economic freedom such as private ownership rights. US policy makers recognized that they held several strengths that could be leveraged to counterbalance the Soviets: their military and related technology, a booming

economy and growing middle class, and a strong and stable US dollar which became the world reserve currency. As an enticement to adopt the American system and resist communism, the US leveraged its strengths to provide allies with three primary benefits:

- 1) Unilateral military cooperation and support (and in many cases mutual defense agreements);
- 2) Access to the largest and most voracious consumer market the world has ever seen; and
- 3) Economic aid, starting with the ambitious and successful Marshall Plan.

This post-war arrangement is now crumbling, and US policy makers now seem to be in the early stages of removing these offers, becoming more inward-focused as a result. The catalysts are two-fold: Russia no longer poses a global threat, and the US has a significant fiscal spending deficit. The US therefore feels less compelled to underwrite the North Atlantic Treaty Organization (NATO) and will more aggressively address its spending deficits. This pivot was inevitable and would have transpired regardless of US leadership. And in some ways, the shift began under President Biden. The Trump administration has accelerated this shift significantly and abruptly, resulting in uncertainty and confusion.

Impact of US Policy Shift

If we are indeed seeing the end of the post-World War II framework, then there are a number of ramifications that will become increasingly more apparent in the years to come.

Global trade, or disruptions thereof, is the most obvious consequence of a new global order.

US policy makers are going to pivot away from positioning American consumers as the customers for its allies. The US wishes to return jobs home, especially in manufacturing, and reduce reliance upon other nations for important commodities and goods. President Trump maintains the view that the US has been taken advantage of for years as the buyers of the world's goods. The placement of tariffs by the Trump administration, ostensibly to encourage manufacturing at home but also to end the supposed exploitation of American consumers by the world, is part of this post-war shift. Going forward, trading relationships will need to be diversified. And smaller regional trading hubs, such as that which is emerging in Southeast Asia, will likely proliferate.

The world will likely de-dollarize in the years to come. The US dollar will likely remain as the world reserve currency. There is simply no substitute with the size, trust, and strength of the dollar to provide an alternative for global trade, however the prominence of the dollar will subside. There are three drivers behind de-dollarizing:

1. **Weaponization of the US financial system** – After Russia's invasion of Ukraine in 2022, the US in concert with key allies orchestrated the removal of Russia from the world's banking network, freezing assets of Russia and most of its oligarchs in the process. More recently, the US doubled down on this leverage when Trump threatened to sanction Colombian assets if they refused more airplanes with deportees landing in Bogota. If the US no longer holds private ownership sacred, then central banks will need to de-dollarize-- typically to gold which is the only other Tier 1 reserve asset recognized by the Bank of International Settlements (BIS).
2. **Policy uncertainty** – In times of uncertainty, investors tend to repatriate their assets or find safe harbors from unknowns. Investors will grow leery of holding excessive dollars if US

policy is too unpredictable or dangerous. Recycling dollars back into the US, as was customary AND expected, will subside going forward. Central banks have been buying increasing amounts of gold since 2022, which should continue further in the years ahead.

3. **Shrinking trade deficits** – When the US runs high trade deficits, it floods the world with dollars. The post-war system encouraged those dollars to be recycled back into US assets. Remember that the current account (including trade deficits) must balance with the capital account, which represents the net assets flowing into/out of a country. The US has been blessed with lots of foreign investment because of our high trade deficit. Foreigners own ~20% of US equities and over 30% of US bonds (corporate and Treasuries respectively).¹ If trade deficits eventually narrow, so too will inbound capital flows.

As the US dollar fades in prominence, gold seems well positioned to fill the void. Gold has held value as a consistent storer of wealth throughout human history. Many central banks have already been actively adding gold to their reserves. This trend picked up considerably in 2022, due to concerns related to the seizure of Russian assets as noted above. The rise in gold prices is a reflection of strong central bank buying. The US is said to be considering issuance of gold-backed Treasuries.

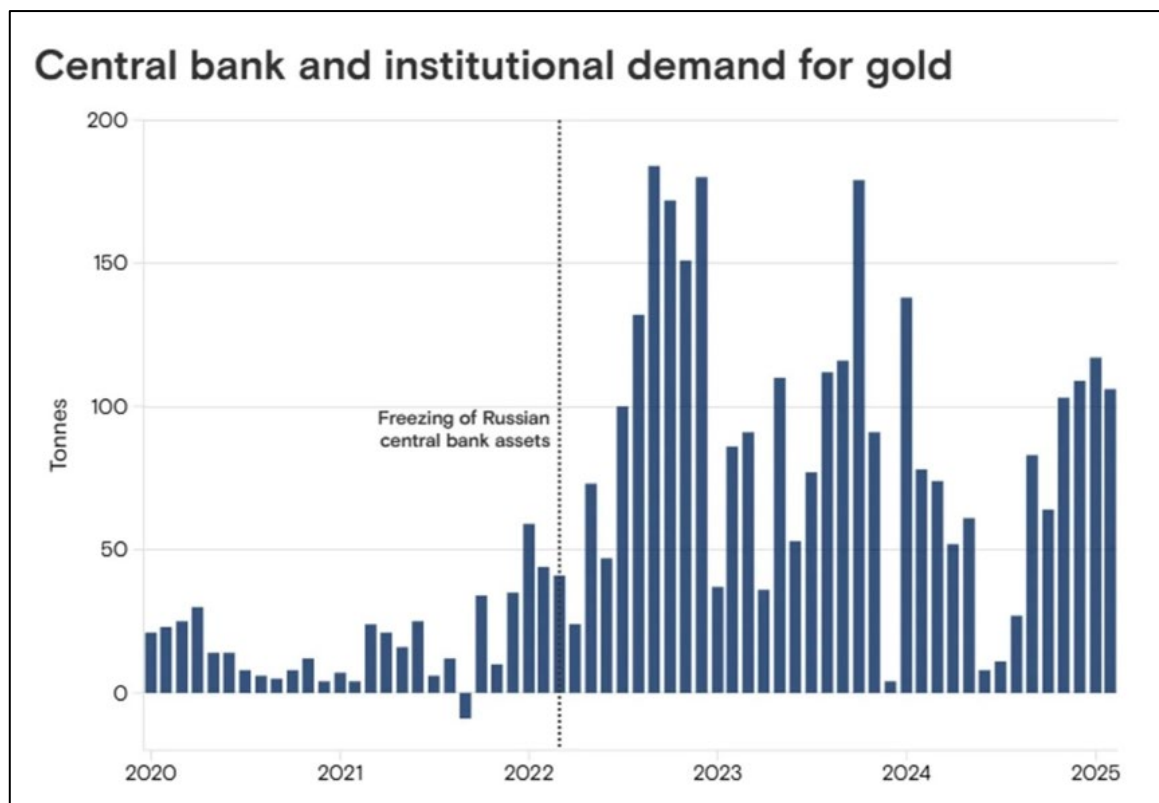


Figure 2: Source – Goldman Sachs Research

Alternative payment systems may also arise to challenge the USD and western SWIFT network. China is already actively building the Renminbi cross-border settlement system, for example. This system is already connected to 16 nations and boasts faster settlement (as little as 7 seconds) and lower transaction costs. China is also working on digital currency. Cryptocurrency and blockchain also will likely be incorporated into global finance as the dollar's prominence fades.

The US will increasingly turn its focus on the Americas. In the post-World War II environment, the US paid little attention to its own hemisphere, especially South America. There are no global threats

¹ MacroBond, Federal Reserve, Apollo Management Chief Economist

to US hegemony to emerge in the region, primarily the result of the Andes, the longest mountain range in the world which acts like a dividing line to prevent a nation from effectively building a strong naval presence on both oceans. Over time, the US will seek more engagement with Latin America, especially more populated nations such as Brazil, Argentina, Colombia and even Venezuela.

In the post-war period, the US focused on Europe (due to the fear of a Russian attack), and the Middle East (which controlled oil prices for a time). American interests are now diverging, and these are two regions where the US will likely reduce its presence, perhaps significantly. The US has a different view of the European continent today. Specifically, the US no longer views Russia as possessing the ability to attack western Europe, and therefore the defense structure which is heavily subsidized by America since the end of World War II, is unnecessary today. Moreover, the Trump administration views Europe with a certain contempt as an aging and liberal place with declining economic prospects.

The US shale revolution has re-shaped interest in the Middle East. Fracking technology re-energized American oil fields and catapulted the country to its current position as the largest energy producer in the world. The US now produces approximately 22% of oil and 25% of natural gas worldwide.² US hydrocarbon production today has significantly limited the ability of OPEC to push oil prices higher. As US policy will favor increased oil field expansion, pipeline building, and additional liquified natural gas (LNG) export terminals, the US will remain a major energy producer well into the future. The key remaining threat to American interests is Islamic extremism, which is an even greater threat to Islamic nations like Saudi Arabia, Qatar, Turkey et al. The US seems to be pressing for a coalition of countries to police the area, including Saudi Arabia, Qatar, Turkey and eventually Israel (which normalized relations with Israel is a goal of President Trump).

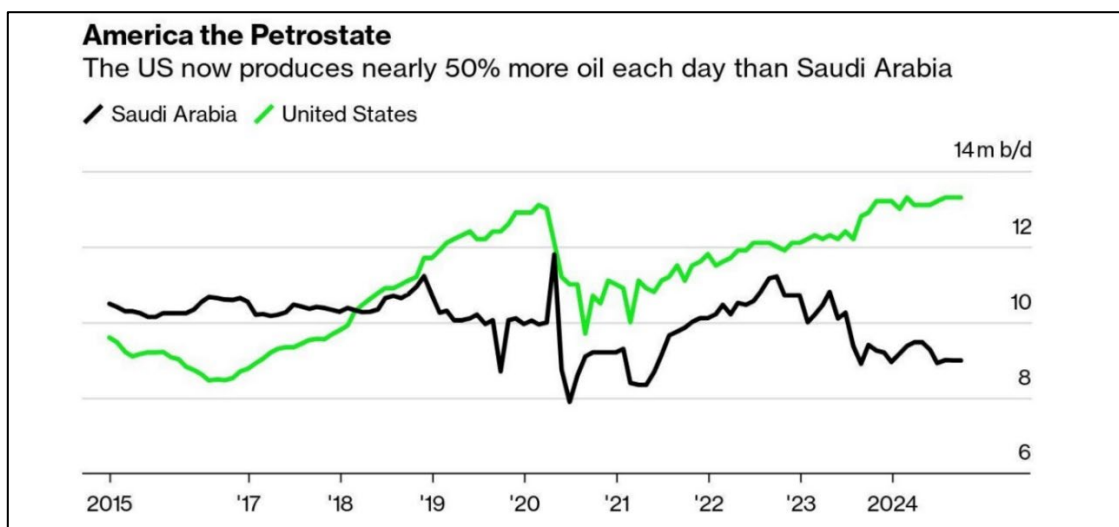


Figure 3: Source – Department of Energy; Bloomberg

Military spending and strategy will also shift. The US will be less willing to intervene militarily, and it will further expect more compensation for countries leveraging US as part of their defense strategy. Today the US military operates out of over 750 bases worldwide spanning 80 different countries. Expect that number to decline, perhaps significantly. This void will be filled by increases in defense spending elsewhere. Many European nations are already ramping up investment in their militaries.

The nature of conflict has also changed. Prior wars required large land armies, which was certainly the case in WWII. Moreover, WWII ushered in the age of airpower, and the post-war period saw

² Source – U.S. Energy Information Administration (EIA)

significant investment into fighter jets, bombers, and helicopters—all of which have played significant roles in post-war conflict until the Ukraine invasion. Today, drones and satellite-targeted missiles have changed the nature of fighting. The ability of adversaries to develop relatively low cost drones in massive quantities is rendering multi-billion dollar missile defense systems obsolete, not to mention the mismatch in cost of chasing cheap drones with multi-million dollar missiles. Military strategy and tactics are fundamentally different today than in the era following WWII. Expect AI, autonomous vehicles, and space to grow in importance at the expense of large armies and piloted aircraft.

As the post-war era ends, NATO looks increasingly unnecessary from the American point of view. NATO was created to check Soviet expansion. With limited natural barriers and a long history of foreign invasions (e.g. Napoleon and Hitler), the Russians pressed westward in the years after WWII with the goal of creating a buffer zone, the “Soviet Block”, to better protect their territories. Even still, the Soviets lacked free access to the Atlantic Ocean, having to navigate their navy through the Danish and Gibraltar Straights respectively. Without fear of a land incursion, the American defense strategy is instead focused on controlling the Atlantic and Pacific Oceans. Thus, the post-war goals of the Americans and Soviets were diametrically opposed. To address their fear that the Soviets would continue expansion westward through Europe until it reached the Atlantic, the US was instrumental in creating and funding NATO to create a buffer zone that limited free transit to the Atlantic, thereby ensuring American dominance. If Americans are no longer worried about Russian military capabilities, then NATO becomes somewhat obsolete from their perspective.

A multi-polar world is emerging. As the US withdraws, the world order seems destined to change. The US will still maintain a powerful military and seek to influence world affairs, but the willingness of Americans to intervene in world affairs will be more muted. In addition, relationships with former adversaries will in many cases be reset. This change in US foreign policy will be alarming to many countries and regions that have previously been able to rely upon American security guarantees. Impacted countries, now feeling less secure, will rally around strong leaders who promise stronger nationalistic agendas.

The populist movement will continue as a consequence. Populist movements coalesce around the “true” peoples of a nation and conflict with outsiders. A recent example can be found in Canada. The policy shift from the Trump administration flipped their recent 2025 federal election around. The Liberal party surged in the polls in response to Trump’s initiatives and comments, winning the highest vote share of any party since the mid-80’s. Canadian voters flocked to the party with the leader who seemed best suited to protect national interests against the policy shifts out of D.C. Canadian sentiment is more patriotic and unified than at any point in the past few decades.

New regional powers and coalitions look set to arise in a multi-polar world. Former adversaries may be forced to work together more closely, such as China and Japan, India and China, or Saudi Arabia and Turkey. Increased regionalization could be another consequence of America taking a more muted approach to foreign affairs.

Public spending will trend higher around much of the world. If the American consumer is less accessible, additional stimulus may be needed to encourage strong local domestic growth and consumption, thereby muting the loss of US consumers. Dissatisfaction from geopolitical fallout may encourage additional government support to appease their electorate in the form of lower taxes, new subsidies, and social initiatives. Fiscal spending looks set to therefore increase, a trend we are already witnessing in parts of Europe.

Demographics represent a profound shift. The world population was far younger and fast growing following the second World War. Today much of the world is aging, and many countries are experiencing losses in population. In the US, the post-war era began with the Baby Boomer generation, as births and living standards soared at the end of the war. This growth in population and wealth enabled Americans to ascend to their status of consumers of the world, a stark contrast to the centrally planned, socialist model employed by the Soviets. It is a result of this economic growth that the US was able to woo its allies more effectively than the Soviet Union, as consumption levels diverged significantly. As this generation retires and dies off and—importantly—is not replaced by another wave of generational growth in births and consumption, the US population simply cannot continue as the world’s consumer.

Longer-term demographic changes are even more devastating to other important countries. Key adversaries such as Russia and China have already begun to lose population, and neither country attracts immigrants. Europe is also aging rapidly, with corresponding declines in numbers. Immigration can help offset declines, but only after nationalist policies subside. Even places like Turkey and Indonesia are projected to start declining in population in the later part of this century, whereas many parts of Africa and Asia are poised to enjoy booming population growth. These demographic trends will absolutely shape which regions and nations emerge as regional leaders in the years to come. US policy makers have recognized this shift, encouraging births domestically and, over time, revamping immigration policies to enable better paths to citizenship. In the context of the closure of the post-war era, foreign policy strategy will adjust over time to match these realities in global populations.

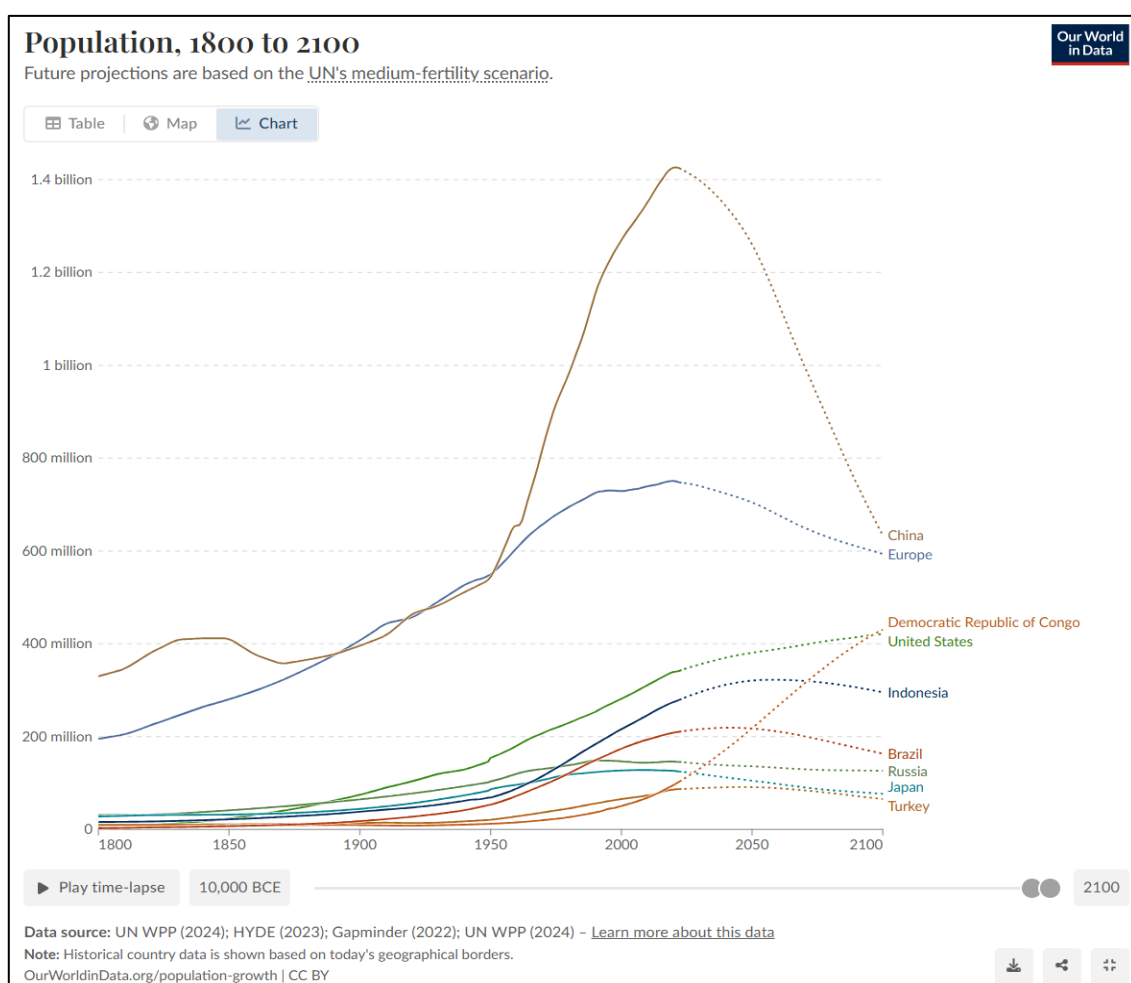


Figure 4: Source – UN World Population Prospects (2024) via OurWorldinData.org

Affordable energy access will emerge as a key issue. The shale revolution in the US has been transformative, not only impacting relations with the Middle East but also likely to shift how the US negotiates. Owing to fortuitous geological formations from when the center of the country--from Texas to the Dakotas--was covered by a shallow inland sea full of life, the US possesses significant reserves of hydrocarbons. If the US decides not to “outsource” its military as readily in the future, policy makers instead may exploit its energy wealth to influence global affairs. Natural gas is likely where the action will be; specifically, LNG because in liquid form it is 600 times more energy dense and better suited to shipping overseas. It is expected that the US will leverage LNG to advance its national interest, with Project 2025 noting “LNG exports help to ensure America’s ability to support our friends and allies around the world while also supporting domestic natural gas production.” As these efforts accelerate, the US will invest in more development of its oil and gas fields, new pipeline construction, and the addition of LNG export terminals.

Impact on Capital Markets

If US foreign policy reverts to a more neutral or Americas-focused stance (and the above trends hold true), then a number of secular shifts may take place in global capital markets. The most obvious potential outcome is fewer dollars being reinvested back into the US. Foreign investors currently represent over 20% of US equity ownership and collectively own over 30% of US Treasury debt and corporate debt respectively. There are many potential drivers that could decrease capital flows into the US, including rising anti-US sentiment, China catching up on AI (see Deep Seek), increasing fiscal stimulus in Europe and China, high valuation multiples in US stocks, or fresh taxes levied on foreign investors. Foreign flows into or out of the US need to be monitored closely in the coming year to evaluate this potential secular trend.

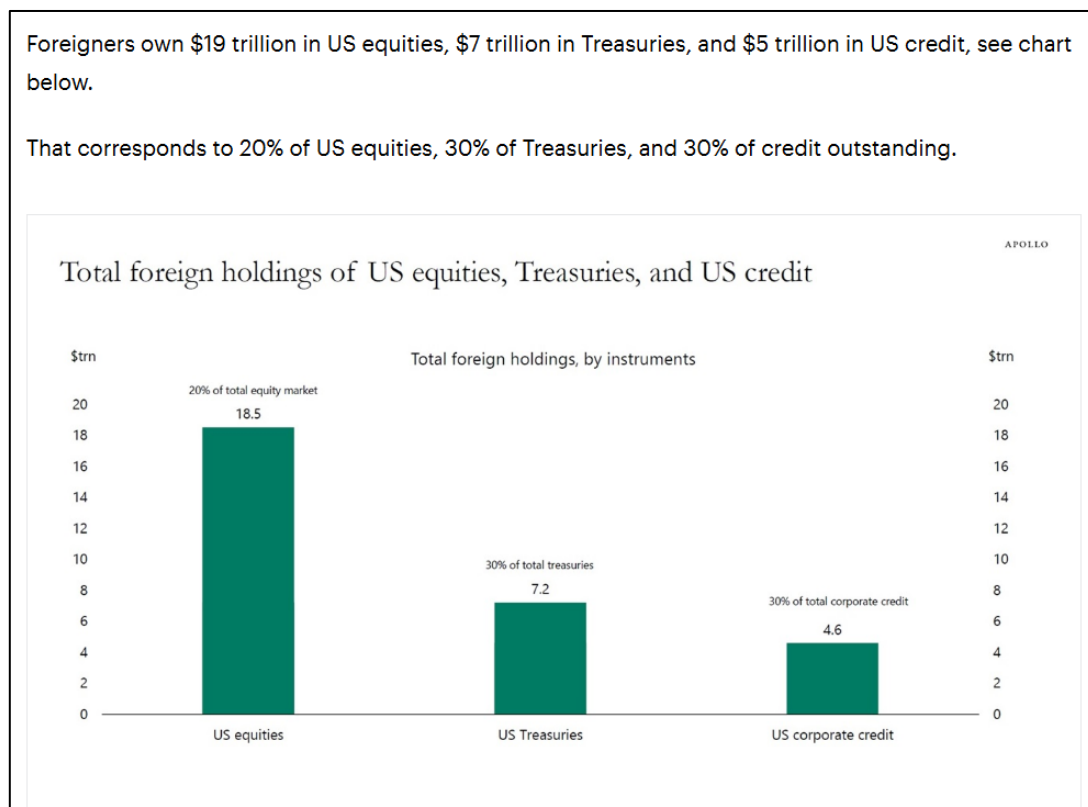


Figure 5: Source – Federal Reserve, MacroBond, Apollo Chief Economist

Markets that could benefit from such a pivot out of US assets include Latin America and Europe. And in fact, both stock and bond markets in these regions have already enjoyed strength in 2025. Valuations are still reasonable there, especially compared to valuation multiples in the US. Emerging markets could also be a beneficiary of supply chain dislocation and a multi-polar world.

If the world de-dollarizes, gold will likely benefit as the world's only other Tier 1 reserve, as classified by the Bank of International Settlements. There are several catalysts for the rise in gold prices, including strong demand from central banks, a weakening dollar, rising mining costs, and increasing acceptance as an investible asset. Silver, which has averaged around a 60:1 price ratio with gold, should follow suit as gold prices rise. US policy makers may also look to leverage gold to improve access to financing, as gold-backed Treasuries have been discussed by the Trump administration. An argument favoring cryptocurrency and Bitcoin could also be made here.

Commodity prices in general may rise as the tariffs and trade wars proliferate. Shifts towards more electrification will also increase demand for materials. The rebuilding of US manufacturing is another potential source of demand for raw materials. However, energy prices are likely to remain low as the US and Qatar continue to untap massive natural gas reserves, constructing pipelines and LNG terminals in the process. Mid-stream investments are poised to outperform up-stream production in the coming years. Periodic price shocks could happen as demand for oil and gas is very inelastic. Any rapid jumps in oil and gas prices will likely be tied to military conflict, yet so much reserve is available that it would only be a matter of time before high prices spur the market to bring more supply online, and therefore the longer-term price trends look muted. Massive consumers of foreign oil and gas—notably China, India, and Europe—will prioritize access to hydrocarbon energy sources. And as natural gas production and exports rise, led by the US and also Qatar, expect more adoption of LNG or compressed gas for industrial and transportation uses. Lower energy prices should spur economic growth globally and, due to abundance and lower prices, will complicate and probably delay the shift to renewables. Nuclear energy will also benefit and receive more interest as an energy source.

Currency volatility will tend to increase as trade battles play out. Exporters favor a weaker currency price to make their goods more attractive on a cost basis. The US is signaling that they wish to import less and export more, and along with this goal a weaker dollar is desired, as President Trump himself has mentioned numerous times. Fluctuations in currencies provide the risk of impairing returns from investments outside of one's base currency, yet on the other hand, price volatility could also be harnessed to improve returns. Currency hedging will become increasingly important to manage increased FX volatility. Static FX hedging strategies are likely to be enhanced by dynamic hedging, which recalibrates how much to hedge as prices fluctuate by considering factors such as carry, value, and momentum along with growing use of AI and market sentiment.

For more information on these secular shifts, and solutions to help manage market exposure, please visit [A-Suite](#).

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