



Geopolitics and Market Implications: Preparing Public Funds for the Next Cycle of Uncertainty

At the 2026 Opal Group Public Funds Summit West, I joined fellow trustees, CIOs, and senior institutional consultants on a panel to discuss the following question: How should public pension systems navigate a world where geopolitical shocks, great-power competition, and policy volatility collide directly with portfolio risk, liquidity, and funding ratios?

The panel, *“Geopolitical Shifts, Global Conflicts, and Market Implications – Preparing Portfolios for Uncertainty,”* explored how trustees can adapt governance, allocation strategy, and risk frameworks to safeguard DB plans for future generations. Using the panel’s internal question set to frame the discussion, this article synthesizes the core themes, practical recommendations, and external research most relevant to long-horizon institutional investors.

Russia–Ukraine: A Long War with Underpriced Second-Order Effects

More than three years into the Russia–Ukraine conflict, markets no longer react sharply to daily headlines. But the risks have not, in fact, faded, and include disruptions to Black Sea grain flows, fertilizer markets, natural gas infrastructure, and refined product exports continue to reverberate through inflation and global growth expectations. Recent IMF and other analyses show that geoeconomic fragmentation and commodity disruptions remain key downside risks to global growth¹.

Why this matters for public funds:

- Food and energy price volatility feeds directly into liabilities through inflation assumptions.
- Higher shipping and insurance costs bleed into goods prices.
- Funding ratios remain highly sensitive to real-return expectations.

Trustees should pressure-test actuarial valuations against a scenario where inflation remains structurally sticky due to energy and agricultural chokepoints.

U.S.–China Strategic Competition: The New Barometer for Global Risk

Our panel emphasized that U.S.–China competition is no longer confined to tariffs—it now spans technology export controls, capital-flow restrictions, industrial policy, and military signaling around Taiwan.

Key questions trustees should have included in briefings: frequency of U.S.–China naval or air intercepts near Taiwan and the South China Sea, changes to semiconductor export controls, chip-tool restrictions, or outbound investment screening, and shifts in tariff regimes and supply-chain realignments.

Material escalation could simultaneously hit:

- Asian equities and EM currencies
- Global semiconductor supply chains
- U.S. and European firms dependent on Chinese revenue
- Shipping routes and insurance premia

The Council on Foreign Relations notes that even a temporary Taiwan blockade could trigger global recessionary dynamicsⁱⁱ. Trustees should build clear rebalancing protocols and liquidity ladders that enable disciplined action if Asia-related risk premiums suddenly widen.

Middle East Volatility and the Strait of Hormuz Scenario

This year's flare-ups between Israel and Iran briefly repriced oil markets—but the panel focused on the broader question: What happens if the Strait of Hormuz, which carries roughly 20–27% of global seaborne oil and LNG, experiences a multi-week or multi-month disruption? The U.S. Energy Information Administration confirms these volumes and underscores the systemic importance of Hormuz flowsⁱⁱⁱ.

Implications for asset owners:

- Breakeven inflation rates could spike rapidly.
- Infrastructure, midstream, and shipping exposures may serve as partial hedges.
- Funding ratios—highly sensitive to inflation and discount-rate volatility—could deteriorate quickly.

Trustees should pre-approve a geopolitical energy-shock playbook rather than improvising amid market stress.

Global Chokepoints: Red Sea, Suez, and Panama Canal Disruptions

Public funds often assume historic shipping patterns and reliability, but recent years have proven otherwise. Persistent attacks in the Red Sea, Suez diversions around the Cape of Good Hope, and historic low water levels at Panama have injected friction into global freight. As the World Bank has documented, shipping delays are materially contributing to goods inflation^{iv}.

The risks to such events impact energy security, but also provide opportunities for institutional investors who invest in: logistics and supply-chain infrastructure, collateralized trade finance and North American and near-shored manufacturing hubs. Boards should reassess whether portfolio companies remain overexposed to fragile routes—or whether private-market exposure tilts too heavily toward globalized supply chains that no longer function reliably.

Elections, Sanctions, and Policy Volatility

One of the most important governance challenges we discussed was the rise of headline-driven policy shocks: tariffs, sanctions, entity bans, cross-border data restrictions, investment-screening regimes, and shifting U.S. industrial policy. For public funds with large private-market exposures, this is a critical issue. Sanctions or new restrictions can suddenly prohibit additional investment—or force asset owners to unwind exposures at distressed prices. The BIS notes that policy weaponization of trade and financial channels is accelerating, raising the operational risk for global investors^v.

Trustees should request regular briefings on, and dashboards to monitor shifts:

- A map of portfolio exposure to countries subject to sanction, export control, or tariff rotation.
- Stress-testing of private credit and private equity holdings for “policy shock vulnerability.”
- Requiring GPs to demonstrate compliance frameworks that can adapt quickly to new rules.

Commodities, Critical Minerals, and Friend-Shoring Dynamics

Defense spending, renewable energy deployment, and the explosive growth of AI data centers all demand key resources: copper, lithium, nickel, rare earth elements, and high-grade industrial metals. The International Energy Agency highlights persistent supply constraints in critical minerals through 2030^{vi}.

For long-horizon asset owners, commodities are both inflation hedge and geopolitical hedge, reflecting the realignment of supply chains under friend-shoring and national-security policies. Public pension portfolios should consider exposures to: resource equities and midstream infrastructure, North American refining, processing, and mining opportunities and selective use of collateralized commodity strategies.

Geopolitical Volatility leads to Market and Funding Ratio Volatility

Public plans typically hold 60–70% in growth assets. When geopolitical shocks are more frequent but shorter in duration, CIOs face a choice: a) explicit tail-risk or volatility-control overlays; b) greater allocations to real assets and inflation hedges; and/or c) improved liquidity ladders and cash-flow forecasting.

The OECD warns that repeated volatility cycles increase the likelihood that public funds must rebalance or meet benefit payments at unfavorable price levels^{vii}. Trustees should seek resilience: ensuring benefit payments continue uninterrupted and forced selling never occurs during market stress.

Regionalization and the Future Opportunity Set

The panel highlighted a shift from globalization to overlapping “economic-security blocs.” This affects what public funds can invest in. Among these, more investable are: local-currency Asian debt (ex-China), dual-use technologies (cyber, aerospace, advanced manufacturing), and Western energy and logistics infrastructure. Less investable are: China A/H shares, certain MENA markets with sanction exposure, and sectors dependent on fragile supply chains. The World Trade Organization shows a clear rise in regionally aligned trade flows since 2022^{viii} - Boards must explicitly define their geopolitical investment boundaries.

Governance, Communications, and Political Realities

Public funds are both financial and political institutions. The panel emphasized the need for trustees to communicate geopolitical risk with governors, legislators, unions, and beneficiaries in a way that avoids pro-cyclical de-risking during crises. Best practices include^{ix}:

- Pre-approved crisis communications protocols
- Clear, measurable risk dashboards
- Scenario planning frameworks aligned with the Investment Policy Statement

Good governance reduces the likelihood that stakeholders pressure the system into mistimed trades during market volatility.

K-Shaped U.S. Economy: Implications for Public Funds

The widening divergence between the top 10% and the bottom 50% affects consumption, savings, and municipal economic health. Brookings’ research confirms these widening structural divides^x.

For trustees, this translates into:

- Revenue-base fragility for municipalities
- Higher political risk around contribution rates
- Greater sensitivity to employment cycles in the public sector

Boards should engage actuaries to model downside demographic and wage scenarios over a 10–20-year horizon.

Cyber and Financial-Infrastructure Risk

The U.S. Treasury’s Financial Stability Oversight Council identifies cyber as the top emerging threat to market functioning^{xi}. The panel focused on the operational impacts of cybersecurity, i.e.: What happens if a cyberattack temporarily disables an exchange, custodian, or major payment network? Boards should require:

- Cash buffers to maintain benefit payments
- Local liquidity and contingency plans
- Pre-agreed rules for rebalancing when market data is incomplete or unavailable

An overengineered response is unnecessary; a simple, documented liquidity and governance playbook is essential.

National Industrial Policy: AI, Quantum, Pharma and Energy Security

Finally, national initiatives in AI, semiconductor manufacturing, advanced medicine, and domestic industrial security are reshaping U.S. investment opportunity sets. Various White House Executive Orders recent Acts have mobilized hundreds of billions toward infrastructure investment, reshoring manufacturing, healthcare and technology innovation ecosystems^{xii}. Sector rotation in this new policy regime requires proactive governance.

Trustees should expect the pension office to provide regular briefings and dashboards demonstrating plan exposures to: AI-driven productivity gains, grid modernization and distributed energy resources, quantum-technology accelerators and domestic biopharma supply chains.

Strategic Recommendations for Trustees

Drawing on panel insights and external research, trustee priorities should include:

- 1. Geopolitical dashboards aligned with the IPS:** energy chokepoints, semiconductor supply dependencies, regional military risk metrics and sanction/ export-control exposure.
- 2. Strengthen liquidity governance:** multi-tier liquidity ladders, rebalancing protocols under partial market closure and cash-flow modeling under high inflation.
- 3. Re-underwrite private-market portfolios for policy risk:** sanctions, ownership/beneficial-owner screening and tariff-sensitive revenue streams.
- 4. Expand resilience assets:** infrastructure, logistics, midstream; resource equities and critical minerals; collateralized trade finance; and select real asset hedges.

5. Enhance communications discipline: pre-agreed crisis playbooks, briefings for legislators and unions, and transparent scenario analysis.

Conclusion

The geopolitical era we have entered is not likely to be transitory – in a multipolar world, volatility is likely to be structural. For public pension systems charged with safeguarding intergenerational retirement security, the challenge is to build institutional resilience through governance, liquidity, diversification, and disciplined decision-making. With this resilience, it's not necessary to predict the next conflict or policy shock. As fiduciaries, Trustees' task is to ensure that beneficiaries receive contracted benefits regardless of world events. This requires robust frameworks, informed oversight, and a willingness to adapt asset allocation to realities.

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