

Horizon Shift: Reconstructing Portfolios for a New Capital-Market Regime

Abstract

The global economic order is undergoing a structural regime shift in which geopolitical control and economic resilience are gaining importance relative to efficiency, openness and international trust. Trade conflicts, export restrictions and strategic dependencies are turning supply chains, raw materials, energy and technology into critical sources of competitive advantage. Artificial intelligence is both a driver of productivity and a geopolitical bottleneck. For many companies, the new regime implies higher costs, greater capital requirements and rising risk premia, while providers of critical technologies and resilient infrastructure may benefit.

The Geo-Resilience Scorecard introduced in this paper assesses companies across seven dimensions, including control of bottlenecks, access to resources and energy, supply-chain resilience and geopolitical risk exposure. An evolutionary optimisation process translates these assessments into a globally diversified portfolio while controlling established factors such as valuation, profitability, balance-sheet quality and volatility. The result is a robust alternative to purely market-capitalisation-weighted portfolios that systematically reflects the changing geopolitical environment

1 Executive Summary

The global economic order is undergoing its most profound transformation in decades. A regime that rewarded efficiency for many years is drawing to a close. Its defining features were rule-based trade for mutual benefit, value chains engineered to minimise unit costs, international trust, freely available raw materials and low-cost energy.

In its place, a new regime is gradually emerging. One that rewards control and resilience rather than efficiency. Trade is becoming an instrument of strategic power, requiring supply chains to be designed for robustness. In this environment, caution, control and oversight matter more than trust. Access to raw materials and technology is becoming scarcer, more directed and more tightly channelled, while autocratic and populist systems are gaining influence. The International Monetary Fund describes this development as “geoeconomic fragmentation”: a policy-driven reversal of the economic integration that preceded it (Aiyar et al., 2023).

For corporate valuation, this shift has one central implication: the old regime rewarded optimisation; the new regime rewards control. Capital markets are increasingly assigning a premium to economic sovereignty (and therefore to companies that control critical bottlenecks) while applying a discount to fragility: business models whose value rests on the assumption of an open, trust-based global system. Portfolios should reflect this transition. Market-capitalisation-weighted portfolios may no longer be optimal in a changing world, because their weights reflect years of cumulative corporate performance generated under the conditions of a regime that is now losing relevance.

This paper has four objectives. First, it frames the regime shift in theoretical and empirical terms. Second, it identifies the channels through which the transition affects fair corporate value: Cash flow, growth and the discount rate. Third, it introduces the Geo-Resilience Scorecard, a practical seven-dimension framework for systematically assessing individual companies by their resilience. Fourth, it shows how these insights can be embedded in an efficient portfolio structure.

Our core investment hypotheses are as follows:

- Deglobalisation is measurable. World trade relative to global output has plateaued since the financial crisis, a development described as “slowbalisation” (Antràs, 2021). The paralysis of the WTO Appellate Body since late 2019 has, in effect, suspended binding dispute settlement.
- Interdependence is being weaponised. Governments are deliberately using nodes in global networks - financial infrastructure, raw materials, semiconductors and waterways - as instruments of pressure. Farrell and Newman (2019) coined the term “weaponized interdependence” to describe this dynamic.
- Raw materials and energy are becoming strategic bottlenecks. More than 200 export restrictions on critical raw materials have been recorded since 2009; for some battery materials, a single country holds a market share close to 90% (IEA, 2023). There is a real possibility that China could impose severe restrictions on exports of critical raw materials to the EU in November 2026.
- Artificial intelligence is both a productivity lever and a geopolitical choke point. Access to leading-edge chips, manufacturing capacity and computing power is increasingly subject to export controls and is therefore becoming an instrument of state power projection (Miller, 2022).
- The valuation landscape is becoming more heterogeneous. Dispersion between structural winners and losers is widening, while average valuation levels are likely to decline. Overall, the emerging environment rewards systematic differentiation.

2 The Strategic Context

Historically, economic prosperity has flourished where reliable institutions allow people to retain the fruits of their work: secure property rights, functioning courts, enforceable contracts and peace. This institutional foundation of prosperity is not a natural state; it is a political achievement, and it can be reversed (Acemoglu & Robinson, 2012; North, 1990). The foundations that supported prosperity for decades are now coming under pressure.

2.1 From Multilateralism to Power Projection

Periods of globalisation have always depended on a dominant power capable of safeguarding the framework for trade. In the first great wave of globalisation, that role was played by the British Empire; in the second, by the United States. That hegemonic function (the “guardian of trade for mutual benefit”) is no longer being performed. The United States has shifted its focus towards

bringing strategically important industrial capabilities back within its own sphere of influence, even where doing so is economically suboptimal under the classical theory of comparative advantage (Ricardo, 1817).

The reason is fundamental: the theory of comparative advantage delivers maximum prosperity only if all trading partners act in good faith and for mutual benefit. Once trade can be deployed as a geopolitical weapon, the lowest-cost solution is no longer automatically the best one. Resilience and diversification gain value relative to pure efficiency. This is not a benign cyclical fluctuation, but a structural regime shift.

2.2 The Erosion of the Rule-Based Order

The transition is visible across several fault lines. The obstruction of the World Trade Organization's Appellate Body has suspended binding dispute settlement in global trade since late 2019. International agreements are losing their binding force, while political relationships are increasingly transactional and short-term. At the same time, global centres of power are shifting: China and India are gaining influence through their economic momentum, while continued US dominance can no longer be taken for granted. The Iran war may ultimately mark the point at which US geopolitical power passed its peak.

China signalled this shift years ago through its stated doctrine of reducing its own dependence on the rest of the world while increasing the rest of the world's dependence on China. The subsequent rationing of rare earths for Western companies was the logical next step. Events such as the temporary closure of critical trade routes have demonstrated with striking clarity that heavy dependence on trade can become an existential risk in periods of geopolitical tension.

Farrell and Newman (2019) provide the theoretical framework: in asymmetrically networked global economies, states that control central nodes like payment infrastructure, raw-material refining or semiconductor manufacturing can deny others access or extract information. Interdependence, once viewed as a guarantor of peace through mutual dependence, can thereby become a weapon.

2.3 Deglobalisation in the Data

The trend towards deglobalisation is empirically observable. After decades in which global trade grew faster than global output, the trade-to-output ratio has remained on a plateau since the financial crisis, a phenomenon known in the literature as "slowbalisation" (Antràs, 2021). The IMF documents the increasing alignment of trade and capital flows into geopolitical blocs and warns of substantial welfare losses from a fragmented global economy (Aiyar et al., 2023). The number of trade-restrictive measures has multiplied since 2009.

Dimension	Old regime (until ~2016)	New regime (today)
Role of trade	Mutual prosperity	Instrument of strategic power
Trade / global output	Rising	Stagnating (“slowbalisation”)
Supply chains	Efficiency, just-in-time	Resilience, dual sourcing, inventories
Behavioural foundation	International trust	Caution and control
Raw materials & energy	Freely available, inexpensive	Scarce, monitored, expensive
Rules-based order	Multilateral, enforceable	Situational, eroding

Table 1: The regime shift at a glance. Sources: M.M.Warburg & CO, based on Aiyar et al. (2023), Antràs (2021), and Farrell & Newman (2019).

3 The AI Dimension: Technology as a Geopolitical Bottleneck

Artificial intelligence is not a technology trend separate from geopolitics; it is an integral part of the regime shift. AI promises substantial productivity gains (Brynjolfsson et al., 2023; Acemoglu, 2024), while simultaneously constituting a strategic asset whose access and use are increasingly controlled and restricted on geopolitical grounds. Those who control the critical layers of the AI value chain will control one of the most consequential bottlenecks of the coming decade.

3.1 Three Layers of AI Relevance

Advanced AI rests on three foundations, each of which represents a potential bottleneck:

1. Specialised chips. Training large models requires high-performance chips supplied by only a handful of vendors. Exports to geopolitically sensitive markets have been tightly licensed since 2022, forcing manufacturers to develop reduced-performance variants to comply with the rules.
2. Leading-edge manufacturing. Production of the most advanced semiconductors is concentrated among a small number of foundries and a single supplier of EUV lithography systems. These companies are subject to extraterritorial export rules whenever Western technology or software forms part of the value chain.
3. Computing capacity and data. Cloud-based access to computing clusters and proprietary data is increasingly regulated; attempts to circumvent restrictions through third parties are being actively curtailed. Data sovereignty is becoming a strategic resource in its own right.

3.2 Concentration as Both Risk and Opportunity

Miller (2022) describes how the semiconductor supply chain has become one of the most concentrated and strategically sensitive networks in the global economy. This creates a two-sided valuation dynamic. Companies that control one of these bottlenecks benefit from an economic moat that is reinforced by policy: export controls remove competitors and strengthen the pricing power of the remaining suppliers. Conversely, companies that depend on unrestricted access or that could lose a substantial share of their market through export bans carry elevated geopolitical risk, even when their operations are otherwise excellent.

This asymmetry makes AI a cross-cutting theme. Rather than isolating it in a single dedicated dimension, the Geo-Resilience Scorecard deliberately captures it across several dimensions, particularly control of technological bottlenecks, access to resources and data, and exposure to geopolitical risk.

4 Implications for Valuation

A company's fair value is the present value of its future free cash flows. The regime shift systematically affects the key variables in that valuation. Because the price-to-earnings ratio ultimately condenses expectations for growth, margins, capital requirements and risk, fair multiples for individual stocks and entire sectors will change accordingly.

4.1 Three Transmission Channels

Earnings and margins. Deglobalisation raises input costs (energy, intermediate goods and logistics), transaction costs such as tariffs, export controls and compliance, and spending on resilience, including dual sourcing, higher inventories and duplicated regional capacity. Where these additional costs cannot be passed on, margins decline; a lower sustainable margin level implies a lower fair P/E multiple.

Capital intensity. Reshoring, nearshoring, inventory accumulation and redundancy tie up more working capital and require greater investment. Free cash flow per unit of earnings declines. Even at an unchanged P/E ratio, the free-cash-flow multiple therefore rises. This is unattractive to investors and generally reduces their willingness to pay high valuations.

Uncertainty and the discount rate. Sanctions, escalation, technology controls, localisation requirements and abrupt shifts in demand driven by industrial policy widen the range of plausible future outcomes. Investors therefore apply higher discount rates to future earnings. Empirical evidence links elevated geopolitical risk to lower investment, weaker economic activity and higher risk premia (Caldara & Iacoviello, 2022). A higher cost-of-equity component, consistent with the country and equity risk premia documented by Damodaran (2023), directly reduces present value, particularly for companies whose cash flows lie far in the future.

Valuation variable	Geopolitical transmission mechanism	Impact on multiples
Operating cash flows	Cost shocks, resilience spending, limited pass-through	Margin pressure → P/E generally lower
Long-term growth	Fragmented markets, protectionism, reduced scalability	Lower terminal-growth assumptions
Discount rate	Greater uncertainty and systemic risks	Risk premium ↑ → WACC ↑ → present value ↓

Table 2: How the regime shift affects valuation. Sources: M.M.Warburg & CO, based on Caldara & Iacoviello (2022) and Damodaran (2023).

4.2 Winners and Losers in a More Dispersed Valuation Landscape

Although there are many reasons to expect structurally lower valuations in the emerging capital-market regime, the direction is not uniformly negative. Greater resilience and additional regional capacity will trigger new investment cycles and unlock substantial public support. Companies that enable the transition in infrastructure, automation, industrial software, power grids, defence, and selected semiconductor and security value chains stand to benefit from structural demand growth, in some cases underwritten by the state. Whether a company's fair P/E ratio rises or falls will depend primarily on four attributes: its pricing power; its dependence on open global markets; its ability to make supply chains more resilient without destroying returns; and its exposure to political and regulatory risk.

The likely result is a more heterogeneous valuation landscape: wider dispersion between structural winners and losers, combined with a modest decline in average valuation levels. This is the central rationale for systematic scoring. In an environment of rising dispersion, differentiation becomes a decisive driver of returns.

5 The Geo-Resilience Scoring Framework

The Geo-Resilience Scorecard translates the valuation logic described above into a practical and transparent tool. Each company is assessed across seven dimensions on a scale from -5—a clear loser under the new regime—to +5, a clear winner. The dimensions are aggregated into an overall score that supports qualitative classification and ranking. Methodologically, the framework follows established principles for composite indicators: transparent definitions, justified weighting, normalisation to a common scale and robustness testing (OECD & JRC, 2008).

5.1 Company-Scoring Factors

Factor	Meaning
1 Control of bottlenecks	Ownership of a choke point: technology, IP, patents or AI hardware—that competitors cannot bypass
2 Access to raw materials & re-sources	Ownership of, or secure access to, scarce raw materials and data, as opposed to unsecured dependence
3 Supply-chain resilience	Robustness against fragmentation; regional anchoring and redundancy rather than efficiency-driven concentration risk
4 Government demand & protection	Benefits from government demand, subsidies and protectionism; strategic indispensability
5 Energy position	Access to affordable, sovereign energy rather than energy-intensive import dependence
6 Market sovereignty	Resilience of market access to bloc formation, boycotts and local nationalism
7 Geopolitical risk exposure	Benefits from geopolitical tension or limited exposure to geopolitically driven risks

5.2 Weighting and Aggregation

An AI model assigns each stock a score from -5 to +5 for each of the seven factors. For a sample of approximately 10% of the stocks, we conducted a more detailed plausibility review of the scores. All factors are equally weighted, so the overall score is the arithmetic mean of the individual factor scores.

5.3 Why Seven Factors?

The number of factors reflects a balance between information content and practicality. Fewer factors increase the risk of overlooking systemic vulnerabilities. More factors, by contrast, increase complexity and correlation among the criteria without adding proportionate predictive value. In our view, the seven selected factors capture the principal channels through which the regime shift affects corporate value, while remaining readily communicable to investment committees and investors.

6 Illustrative Application

The following overview illustrates the methodology using a selection of companies. The classifications are illustrative only.

Company	Assessment	Key drivers
ASML	Strong winner	Near-monopoly in EUV lithography; policy-reinforced economic moat; countervailing factor: loss of China-related revenue due to export restrictions
Rheinmetall	Winner	Structurally rising defence budgets; state-backed demand; high order visibility
Glencore	Winner	Control of scarce battery materials; scarcity rents; countervailing factors: country and cyclical risks
Apple	Loser	Brand moat remains intact, but manufacturing is heavily concentrated in China; exposure to political risk on both sides; resilience investments weigh on margins
Nike	Loser	Dependence on open consumer markets; boycott and trade risks; erosion of the globalisation-driven growth assumption
Maersk	Loser	A pure intermediary of the efficiency-based model; stagnating trade volumes undermine the growth base

Table 3: Illustrative classification of selected companies. Not an investment recommendation.

7 Portfolio Implementation

The simplest approach would be either to include only the highest-scoring stocks in a portfolio or to make portfolio weights a direct function of the score. Neither approach is appropriate. Both would create substantial distortions because the resulting portfolios would deviate materially from

conventional benchmark structures. This paper has argued that traditional market-capitalisation-weighted portfolios are likely to be suboptimal in a changed capital-market regime. Yet failing to control established factors such as valuation or profitability would amount to a risky bet. We therefore use an optimizer to maximise the geopolitical resilience score, subject to the condition that the resulting portfolio must be no worse than the market-capitalisation-weighted portfolio on, among others, the following factors:

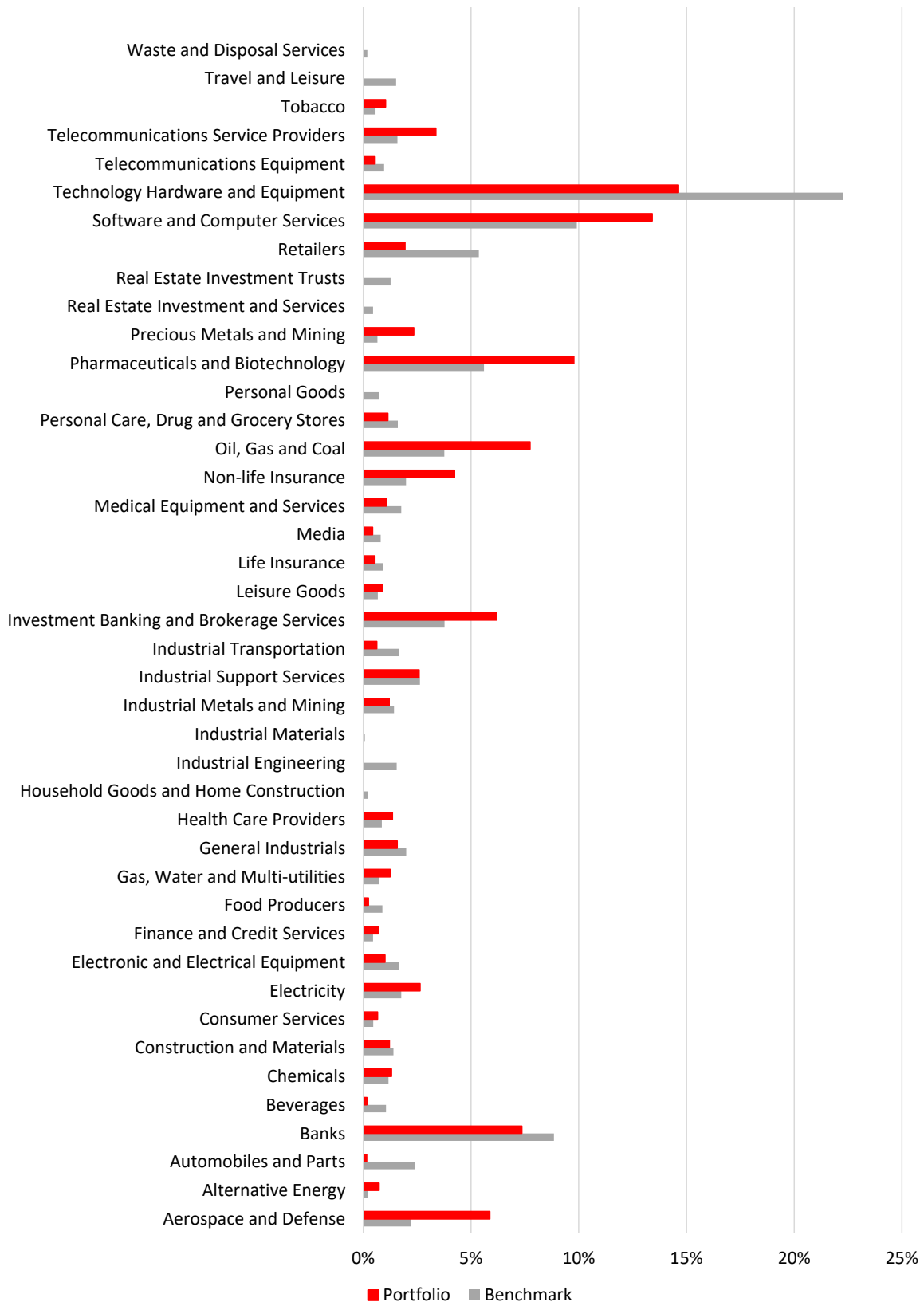
- Sensitivity to rising interest rates, measured econometrically as interest-rate elasticity
- Sensitivity to rising inflation, measured econometrically as inflation elasticity
- ESG characteristics
- Drawdown characteristics and price volatility
- Earnings revisions
- Balance-sheet quality
- Profitability
- Valuation

A note on the investment universe: given the regional fragmentation described above, restricting the portfolio to a single investment region would make little sense. The strategy requires the broadest possible global reach. Emerging markets must be included in particular, as many of these countries possess substantial reserves of important and scarce raw materials and are likely to play an increasingly decisive role in the future global order. We therefore use an investment universe of 2,400 stocks: the 1,800 largest companies from North America, Europe and Asia-Pacific in the Dow Jones Global Total Market, supplemented by the 600 largest emerging-market stocks.

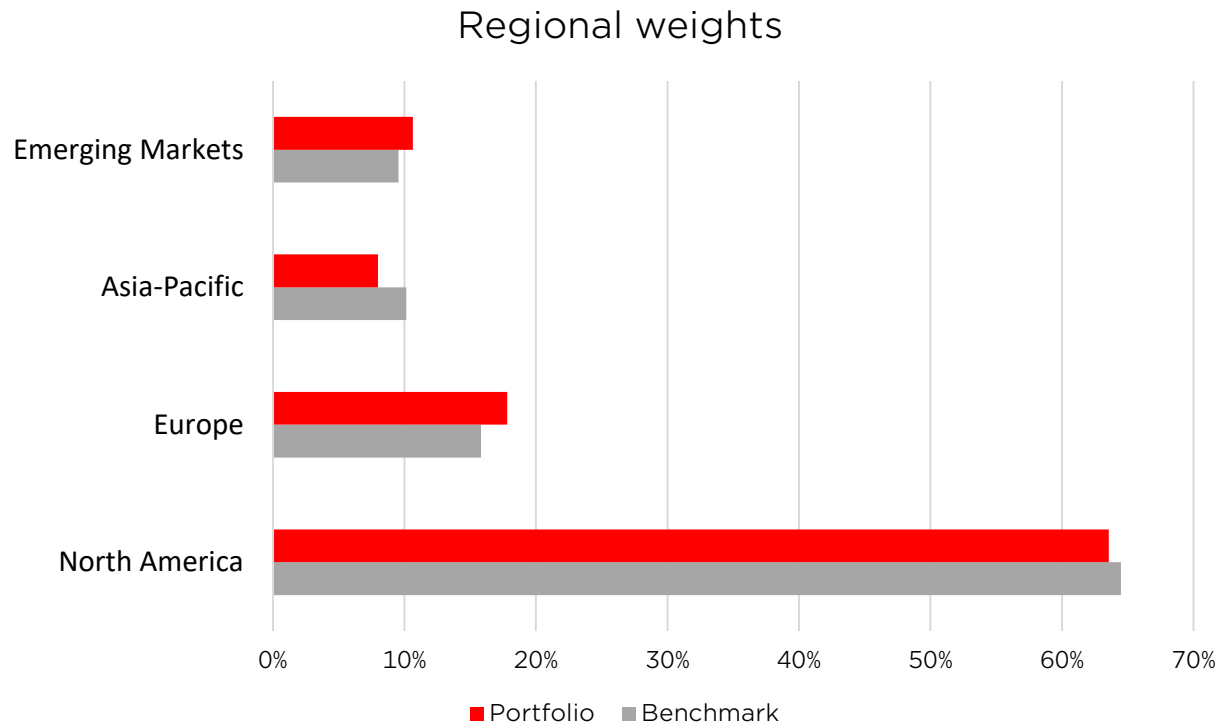
The second design choice concerns the method of portfolio construction. Given the breadth of the investment universe and the complexity of the trade-offs among factors, mathematical optimization is the natural tool for deriving target portfolios. Conventional optimization methods, however, reach their limits in this setting. The trade-offs among factors and the interaction of constraints and objectives create numerous discontinuities, while limiting the number of holdings introduces integer constraints. We therefore use an evolutionary optimizer capable of handling multiple objectives and constraints simultaneously, including discontinuities and target numbers of holdings.

In the illustrative case, the optimiser constructs a portfolio of 250 stocks from the 2,400-stock investment universe. The outcome has the intended characteristics: exposure to geopolitical resilience is maximised, while the quality of every other controlled factor is at least as high as in the market-capitalisation-weighted benchmark. Controlling these other relevant factors automatically limits tracking error without targeting it explicitly. With no specific tracking-error constraint, the optimised portfolio has a tracking error of just over 4%. This can readily be reduced towards 2% or another desired and acceptable target by adding an explicit constraint. Sector deviations exist, but remain moderate in scale and, importantly, are economically intuitive.

Sector weights



The regional allocation does not differ materially from the market-capitalisation-weighted structure.



8 Conclusion

The coming decade and perhaps the decades beyond will be shaped by shifting power relations, a weakening rules-based order and an accelerating reversal of globalisation. At the same time, an artificial-intelligence revolution is transforming technology, while access to that technology is itself becoming a geopolitical bargaining chip. These shifts are changing not only the real economy, but also the logic by which assets are valued. Margins are likely to come under pressure, capital requirements will rise and uncertainty will increase. Companies that enable the transition and control critical bottlenecks should be the principal exceptions.

For long-term investors, failing to account for this shift would be difficult to justify. The Geo-Resilience Scorecard provides a disciplined and transparent framework for systematically identifying structural winners and making portfolios more robust to the tensions of a fragmented, AI-shaped world. An evolutionary optimization process allows us to translate the scorecard into a robust portfolio construction that captures the desired geopolitical characteristics without creating unintended and uncontrolled factor bets elsewhere. The result is a highly diversified global portfolio with the potential to improve diversification and outperform conventional market-capitalization-weighted indices in periods of geopolitical stress. The implementation options are broad: the approach can support bespoke client mandates that reflect specific factor preferences, or form the

basis of an alternative index methodology that adapts conventional market-capitalization-weighted indices to the regime shift by incorporating the Geo-Resilience Scorecard.

References

- Acemoglu, D. (2024). The simple macroeconomics of AI. *Economic Policy*, 40(121), 13–58.
- Acemoglu, D., & Robinson, J. A. (2012). *Why nations fail: The origins of power, prosperity, and poverty*. Crown Business.
- Aiyar, S., Chen, J., Ebeke, C., Garcia-Saltos, R., Gudmundsson, T., Ilyina, A., Kangur, A., Kunaratskul, T., Rodriguez, S., Ruta, M., Schulze, T., Soderberg, G., & Trevino, J. P. (2023). *Geoeconomic fragmentation and the future of multilateralism* (IMF Staff Discussion Note No. 2023/001). International Monetary Fund.
- Antràs, P. (2021). De-globalisation? Global value chains in the post-COVID-19 age. In *ECB Forum on Central Banking 2020* (pp. 168–203). European Central Bank.
- Brynjolfsson, E., Li, D., & Raymond, L. R. (2023). *Generative AI at work* (NBER Working Paper No. 31161). National Bureau of Economic Research.
- Caldara, D., & Iacoviello, M. (2022). Measuring geopolitical risk. *American Economic Review*, 112(4), 1194–1225.
- Damodaran, A. (2023). *Country risk: Determinants, measures and implications – The 2023 edition*. Stern School of Business, New York University.
- Farrell, H., & Newman, A. L. (2019). Weaponized interdependence: How global economic networks shape state coercion. *International Security*, 44(1), 42–79.
- International Energy Agency. (2023). *The state of clean technology manufacturing*. IEA.
- Miller, C. (2022). *Chip war: The fight for the world's most critical technology*. Scribner.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge University Press.
- OECD, & Joint Research Centre. (2008). *Handbook on constructing composite indicators: Methodology and user guide*. OECD Publishing.
- Ricardo, D. (1817). *On the principles of political economy and taxation*.

Disclaimer: This document is provided for information purposes only and does not constitute investment advice, an investment recommendation, or an invitation to buy or sell financial instruments. The companies mentioned are included solely for illustrative purposes. Past performance and developments are not reliable indicators of future results.