



Economic Situation and Strategy

9 January 2026

Geopolitical resilience in portfolios: How does it work?

In Germany, we have little tradition of thinking in geopolitical terms. Therefore, we find it somewhat difficult to grasp the geopolitical developments that have been brewing for several years and are now becoming fully visible. While the last few decades were at least superficially characterized by trade conducted for mutual benefit and on an equal footing, today many countries use trade more as a geopolitical instrument and even a weapon. In retrospect, it can be said that globalization reached its peak shortly before the financial crisis in 2008 and then changed its character, first slowly, then ever more rapidly. The global turning point was probably China's decision to be independent of the world while simultaneously making the world dependent on China. The Dual Circulation initiative launched in 2020 was the official manifestation of this thinking, and from that point on, at the latest, it should have been clear to every observer that a different wind was blowing.

The US understood much earlier than Europe that a new era had begun. The attempt to gain control over Venezuela must therefore be viewed geopolitically, since Venezuela possesses not only large oil reserves (additional Venezuelan oil production would be very damaging to Russia) but also vast deposits of rare earth elements. The mere fact that the US has now also seized a Russian oil tanker in the North Atlantic, apparently escorted by a Russian submarine and likely carrying Venezuelan oil, demonstrates the current geopolitical relevance and is vaguely reminiscent of the Cuban Missile Crisis.

The American perspective on Greenland, however problematic it may be, also follows this geopolitical logic, since Greenland's location makes it militarily of immense importance (whoever controls Greenland also controls the Arctic and the North Atlantic, as well as a significant portion of the Northern Hemisphere's airspace and outer space, when it comes to a missile shield for the US). Furthermore, Greenland possesses vast deposits of many industrially essential minerals.

Since Russia's attack on Ukraine, it has become clear that countries are once again prepared to redraw borders by force of arms. This could embolden China to invade Taiwan, and a Russian attack on NATO states no longer seems entirely out of the question.

However you look at it, the world has changed dramatically in just a few years, and it would be presumptuous to believe that this has no impact on capital markets. The question here is less about whether the markets as a whole will be affected in their development; We actually believe that even geopolitical upheavals will not prevent stock markets from achieving positive performance.

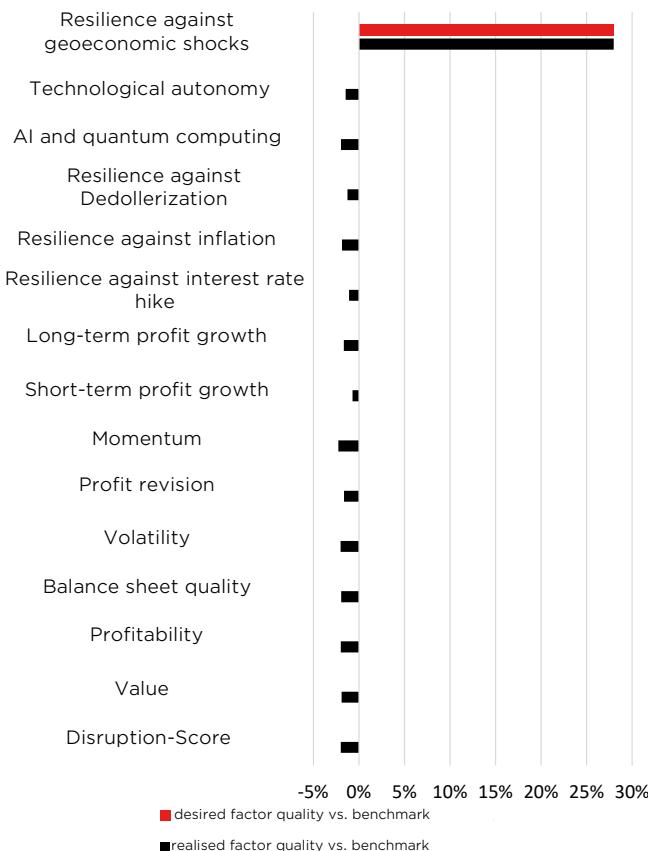
What could change, however, are the drivers of this performance. We assume that an escalation of geopolitical tensions will certainly have a relevance for the performance of individual stocks. There are stocks that have achieved remarkable performance in recent years, but are unlikely to exhibit high resilience to major geopolitical upheavals.

The question now arises as to how to construct equity portfolios optimized to be more resilient to potential disruptions in geopolitically tense times than conventional benchmark structures. We use our

Economic Situation and Strategy

proprietary tool, HORIZON SHIFT, for this task. We developed this tool to manage complex equity portfolios not only with regard to traditional key performance indicators, but also with a focus on themes that are generally only qualitatively assessed, yet are highly relevant, especially with a view to the coming years.

Factor quality in standard deviations

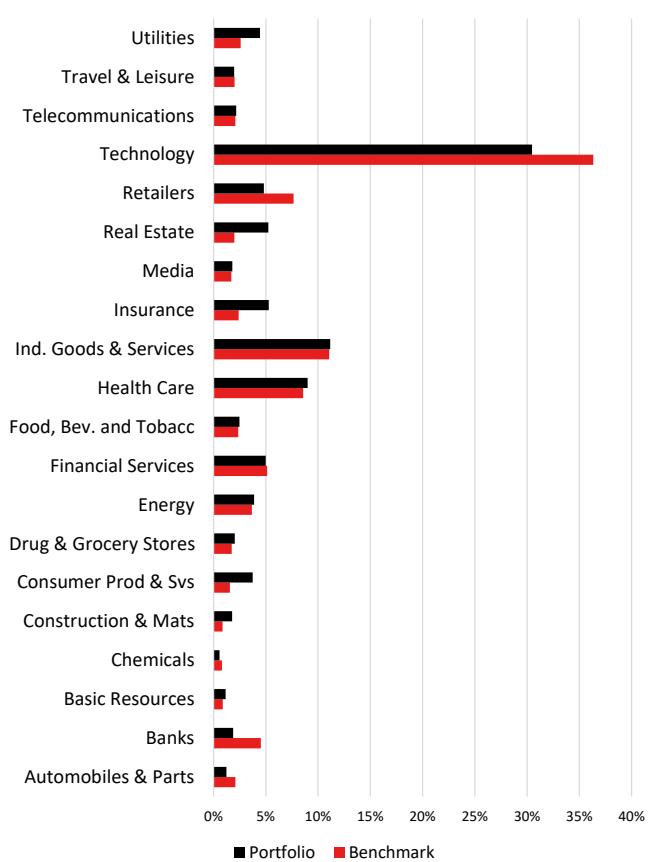


In this light, the name HORIZON SHIFT makes perfect sense, as it aims to shift the focus away from the usual topics and towards issues that, given various changes in the global economy, are likely to become more relevant to decision-making in the coming years.

This task is not trivial. While classic factors such as valuation or balance sheet quality can be readily operationalized using analyst estimates of various key figures, this is definitely not the case for qualitative issues such as resilience to geoeconomic shocks. To address this problem, we have extensively relied on the power of AI tools. For example, we had the stocks in our equity universe scored to assess the extent to which companies would suffer from restricted shipping routes, limited access to critical raw materials or intermediate products, or hybrid warfare involving attacks on critical infrastructure. We then randomly reviewed and scrutinized the results of these AI-supported analyses. Overall, we were so convinced by the results and their

plausibility that we felt it was responsible to incorporate them into optimization algorithms. Our tool HORIZON SHIFT works as follows: For the topics listed in the graphic on the left, the user can use sliders to specify the importance each topic should have in the optimization. In the relevant example here, we have (for didactic reasons) focused solely on the topic of resilience to geoeconomic shocks.

Sector weights



The optimizer is thus forced to approach the benchmark's performance in all other categories, while achieving maximum improvement over the benchmark in geopolitical resilience. This worked well, as the chart shows. The "quality" of resilience to geopolitical disruptions increases by approximately 0.25 standard deviations at the portfolio level. There is, of course, a price to pay – as expected (there's no free lunch...), there is a marginal decrease in factor quality in all other categories.

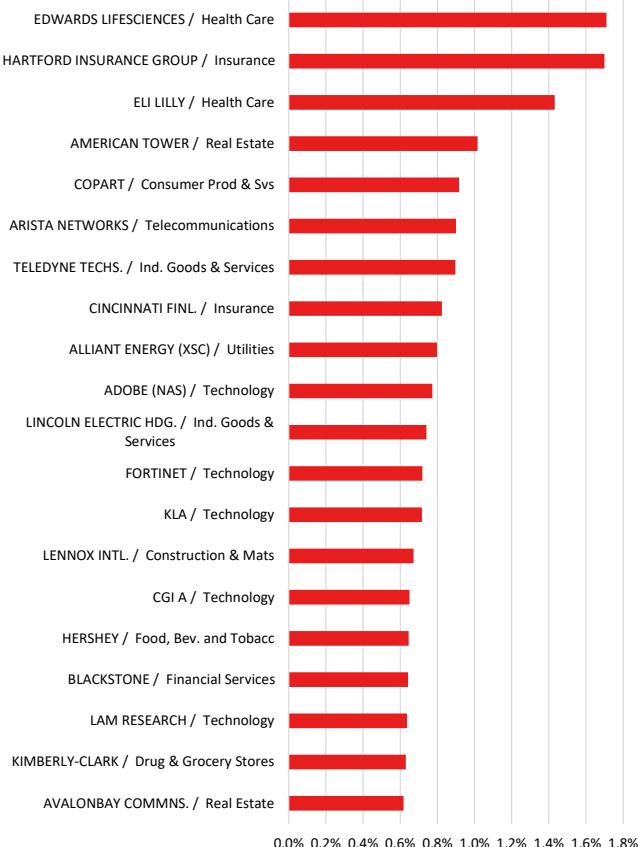
The sectoral allocation structure does not change significantly; for understandable reasons, the technology sector is slightly reduced, and sectors such as healthcare and real estate gain ground relative to the benchmark. However, the resulting portfolio is still quite closely aligned with the benchmark. In the example shown here,

Economic Situation and Strategy

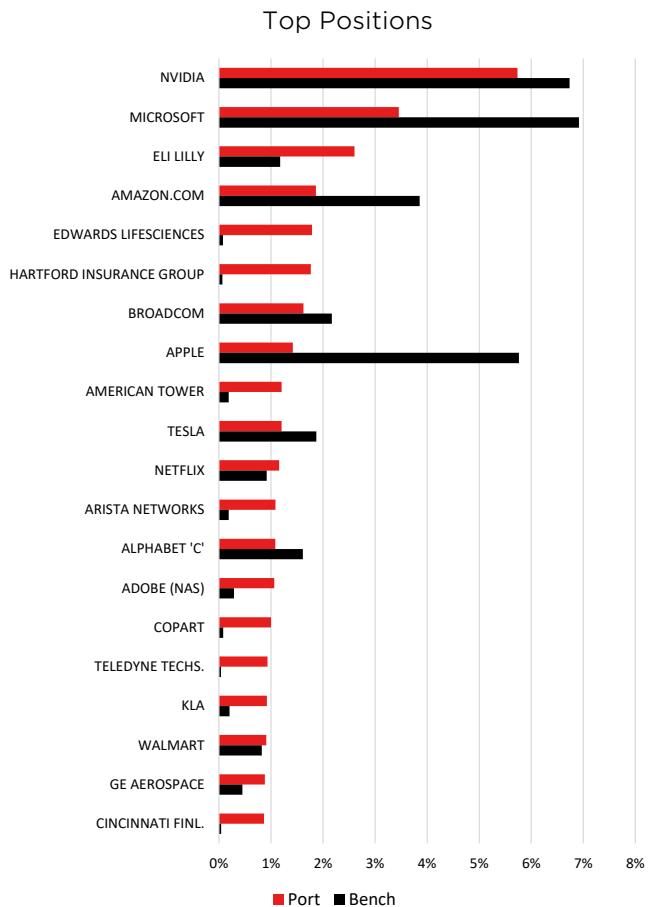
the tracking error was only 1.3 percent. However, in this specific case, the optimizer was also tasked with constructing a portfolio with a low tracking error.

The investment universe in this exemplary case was the US stock market with its 600 largest companies.

Largest positive deviations



The largest deviations in percentage points from the benchmark structure are listed above, with the largest absolute positions shown in the chart on the right. These results do not claim to represent a perfect portfolio in themselves. Rather, the aim here is to present a set of tools that can be used to explicitly consider geopolitical aspects in portfolio construction. An investor using the HORIZON SHIFT tool can, of course, also consider other themes and factors in their portfolio construction.



It's important to note that every additional requirement doesn't exist in a vacuum, but rather directly entails trade-offs, specifically reduced exposure to themes not explicitly considered in the portfolio construction. The advantage of such a tool lies in making these trade-offs visible, thereby revealing risks and bets that one might otherwise not consciously take.

Above all, however, such a tool broadens the thematic horizon for investors. Instead of evaluating and describing portfolios solely based on sectors or traditional company metrics, new, future decision-relevant factors become investable.

Dr. Christian Jasperneite

Market data

Stock markets	As of 09.01.2026 08:56	Change versus					
		02.01.2026 -1 week	08.12.2025 -1 month	08.10.2025 -3 months	08.01.2025 -1 year	31.12.2025 YTD	
Dow Jones	49266	1,8%	3,2%	5,7%	15,6%	2,5%	
S&P 500	6960	1,5%	1,7%	3,1%	17,6%	1,7%	
Nasdaq	23480	1,1%	-0,3%	1,9%	20,5%	1,0%	
DAX	25127	2,4%	4,5%	2,2%	23,6%	2,6%	
MDAX	32083	3,6%	8,2%	4,0%	25,4%	4,8%	
TecDAX	3780	4,3%	5,5%	1,3%	8,3%	4,4%	
EuroStoxx 50	5904	0,9%	3,1%	4,5%	18,2%	1,9%	
Stoxx 50	5016	1,2%	4,2%	4,7%	14,3%	2,0%	
SMI (Swiss Market Index)	13351	0,6%	2,8%	5,6%	12,4%	0,6%	
Nikkei 225	51940	3,2%	2,7%	8,8%	29,9%	3,2%	
Brasilien BOVESPA	162936	1,5%	3,0%	14,6%	36,2%	1,1%	
Indien BSE 30	83576	-2,5%	-1,8%	2,2%	6,9%	-1,9%	
China CSI 300	4759	2,8%	3,0%	2,5%	25,6%	2,8%	
MSCI Welt	4484	0,9%	1,8%	3,0%	20,2%	1,2%	
MSCI Emerging Markets	1453	1,6%	4,8%	5,9%	35,7%	3,4%	
Bond markets							
Bund-Future	127,86	75	44	-105	-386	29	
Bobl-Future	116,30	31	-85	-174	-78	14	
Schatz-Future	106,82	6	0	-23	9	2	
3 Monats Euribor	2,03	0	-4	1	-75	1	
3M Euribor Future, Dec 2026	2,06	-5	-11	8	-13	-5	
3 Monats \$ Libor	3,62	-3	-11	-39	-73	-5	
10 year US Treasuries	4,19	-1	3	7	-49	4	
10 year Bunds	2,83	-7	0	19	31	1	
10 year JGB	2,10	6	15	42	95	6	
10 year Swiss Government	0,30	-2	5	1	-11	-2	
US Treas 10Y Performance	639,19	0,1%	0,3%	0,8%	8,8%	-0,1%	
Bund 10Y Performance	560,04	0,7%	0,6%	-0,5%	0,5%	0,4%	
REX Performance Index	459,20	0,2%	0,4%	0,0%	1,8%	0,1%	
IBOXX AA, €	3,31	-6	-2	23	17	-2	
IBOXX BBB, €	3,53	-7	-5	15	-6	-3	
Commodities							
MG Base Metal Index	532,22	2,5%	8,3%	15,0%	31,2%	3,2%	
Crude oil Brent	62,68	3,0%	0,2%	-5,5%	-17,7%	3,0%	
Gold	4471,84	3,5%	6,9%	10,7%	67,8%	3,4%	
Silver	76,92	5,9%	32,3%	57,3%	155,4%	7,9%	
Aluminium	3084,63	3,1%	8,0%	11,9%	25,0%	3,9%	
Copper	12737,25	1,8%	9,4%	19,7%	42,8%	2,3%	
Iron ore	107,65	0,4%	1,2%	3,2%	10,1%	0,5%	
Freight rates Baltic Dry Index	1718	-8,7%	-36,2%	-12,5%	77,8%	-8,5%	
Currencies							
EUR/ USD	1,1644	-0,7%	-0,1%	0,1%	13,2%	-0,9%	
EUR/ GBP	0,8672	-0,4%	-0,7%	0,2%	3,9%	-0,7%	
EUR/ JPY	183,40	-0,3%	1,2%	3,3%	12,6%	-0,4%	
EUR/ CHF	0,9315	0,2%	-0,8%	0,1%	-0,7%	0,0%	
USD/ CNY	6,9814	-0,2%	-1,3%	-2,1%	-4,8%	-0,1%	
USD/ JPY	156,88	0,0%	0,6%	2,7%	-0,9%	0,1%	
USD/ GBP	0,74	0,6%	-0,8%	0,0%	-8,0%	0,2%	

Source: LSEG Datastream

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