

# Breaking free from geopolitical noise

Why long-term portfolio success depends on strategy, not global headlines

Global events continue to make headlines and spark debate among investors. From intense political exchanges in the US to displays of European unity overcoming post-Brexit tensions, and the latest tariffs introduced by the US, there is no shortage of geopolitical drama.

Furthermore, the ongoing Russia-Ukraine conflict and the escalating Israel-Palestine tensions have further increased global uncertainty, with ripple effects being felt across economies and markets. Considering the severity of these events, it is only natural to wonder how they might influence financial markets.

While news cycles often amplify uncertainty, it's crucial to distinguish between media-driven sensationalism and the actual impact these events have on investments. Not every headline triggers market turmoil, and history demonstrates that markets tend to adjust and focus on long-term fundamentals rather than short-term political noise. Recognising this distinction can help investors stay focused on their financial goals without being swayed by every fluctuation in global affairs.

## MARKETS FAVOUR RESILIENCE OVER REACTION

Global politics undoubtedly cast a shadow over economic activity, with geopolitical events sometimes triggering sharp movements in markets. Yet, time and again, equity markets have shown their resilience. For example, despite the Brexit referendum sending shockwaves through markets in

2016, many UK-based investment assets recovered over time as businesses, investors and governments adapted to the new reality.

Similarly, while the Russia-Ukraine war has disrupted energy markets and supply chains, causing inflationary pressures, markets have demonstrated an ability to adjust. The same can be said for the Israel-Palestine conflict, which, although tragic, has had localised economic impacts that global markets have largely absorbed.

In investment portfolios, acting impulsively in response to political upheaval can result in poor outcomes. Selling assets amidst uncertainty only confirms losses and causes investors to miss future recoveries. Diversification is essential, as it provides a buffer against volatility. Spreading investments across equities, bonds and alternative assets helps a portfolio endure periods of instability, even when headline risks seem overwhelming.

## UNDERSTANDING THE ECONOMIC IMPACTS OF POLITICAL RISK

While your investment portfolio can often withstand political upheavals, your approach to managing daily finances might require a more proactive strategy. Geopolitical tensions can lead to tangible economic impacts, capable of affecting cash

flow and savings. For instance, the Russia-Ukraine conflict has caused significant fluctuations in energy prices, which directly impact household budgets.

Similarly, inflation spikes caused by conflicts or disrupted supply chains can diminish the real value of cash. A practical example is fluctuations in oil prices, often driven by geopolitical events. When OPEC disputes, regional tensions or wars disturb supply, pump prices increase, which then impacts household budgets. Adjusting bank balances in response to such changes might involve prioritising cost-cutting or reallocating savings to sustain spending power.

## AVOIDING THE PITFALLS OF OVER-CAUTION IN INVESTING

Some investors may see cash as a safe haven during times of political turmoil, believing it will protect their wealth until uncertainties pass. However, this approach has its disadvantages. Inflation, exacerbated by political instability, can significantly diminish the value of cash holdings over time. Keeping money idle during such periods can be costly.

Instead, adopting a cautious approach that combines growth strategies with defensive assets, such as government bonds, could produce better results. Bonds from stable economies, like the UK or the US, generally perform well when interest

rates fall during economic growth shocks. For instance, during a significant downturn, declining yields on bonds can generate solid gains, offering both security and returns.

### **LONG-TERM GOALS, NOT SHORT-TERM HEADLINES**

The reality is that, over the long term, equity markets tend to follow earnings growth and corporate innovation rather than being influenced by fluctuating geopolitical noise. The saying 'time in the market, not timing the market' reminds us that disciplined, patient investors often achieve the best results. Jumping in and out of investments in reaction to global drama can end up costing more than it saves.

Conversely, managing bank balances often requires quick responses, especially when geopolitical events directly impact household finances. Changing spending habits, exploring inflation-protected products or budgeting for unexpected price rises could help lessen negative effects without needing drastic measures.

### **STRIKE THE RIGHT BALANCE**

The key point is clear yet essential: long-term investors should seldom allow geopolitical events

to prompt significant changes in their portfolios. While headlines may spark fear and doubt, history shows that markets possess an impressive ability to recover and adapt to new circumstances over time.

Reacting impulsively to political disruptions often results in locking in losses and missing out on eventual recoveries. Instead, adopting a steady, disciplined approach helps investors endure short-term volatility and focus on the bigger picture – long-term growth and stability.

### **ROLE OF DIVERSIFICATION**

Equally important is the role of diversification in navigating market uncertainties. A well-structured portfolio that includes equities, bonds and alternative assets provides the flexibility needed to withstand geopolitical storms.

Diversification acts as a buffer, reducing the impact of volatility in any single asset class and ensuring that investors remain positioned for recovery when markets stabilise. By staying committed to a diversified approach, investors can enhance their resilience and avoid the dangers of emotional, short-term decisions. ■

## **ARE YOU CONSIDERING REVIEWING YOUR PORTFOLIO OR ADAPTING YOUR FINANCIAL STRATEGY?**

For more insights on navigating uncertain markets or managing your personal finances, feel free to get in touch. Whether you're looking to review your portfolio or adapt your financial strategy, we'll offer professional advice to ensure you're ready to face the challenges ahead.

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