

RISK GOES GLOBAL



Massimiliano Marini
Chief Risk Officer

Today's world is more economically connected than ever before and is experiencing significant geopolitical fragmentation. In this context, geopolitical risks are among the top three issues that banks must address in the coming years.

"Switzerland's financial centre faces significant challenges amid rising global uncertainty."

Historically, geopolitical risk has often been loosely defined as the additional challenges and opportunities associated with investing in foreign markets, particularly from the perspective of U.S. investors. In my view, this definition is too narrow, as it overlooks the reality that even domestic portfolios can be meaningfully affected by global political and economic shifts.

A more robust definition was introduced by Dario Caldara and Matteo Iacoviello, who described geopolitical risk as the threat, realisation, and escalation of adverse events such as wars, terrorism, and political tensions that disrupt international relations. I fully agree with this broader perspective, as it captures not only the events themselves but also the anticipation of such risks, both of which shape investment decisions, market behaviour, and global macro financial cycles.

FROM HEADLINES TO PORTFOLIO

Geopolitical instability has re-emerged as a key driver of market volatility, influencing investment strategies and corporate decision making worldwide. In a period marked by fractured global governance, shifting alliances, and rising protectionism, understanding these dynamics has become essential for risk managers and investors.

The current geopolitical environment is increasingly unpredictable. Geopolitical threats and actions are shaping markets, and these factors continue to play a decisive role in wealth management, guiding investment decisions across the globe.

Switzerland's financial centre faces significant challenges amid rising global uncertainty. With ongoing conflicts in Ukraine and the Middle East, escalating US–China tensions, cyber threats, and the resurgence of tariff disputes, Switzerland's long-standing political and economic stability is being rigorously tested. For the Swiss financial sector, this environment presents both new risks and opportunities to reinforce its reputation as a trusted safe haven for investors and corporations.

Geopolitical risks and wealth management are inextricably linked with global events shaping investment landscapes. Successful wealth managers stay ahead by continuously monitoring political and economic trends, adapting to regulatory changes, and using data-driven strategies to protect client assets.

THE KEY DRIVERS OF GEOPOLITICAL RISKS

Ongoing conflicts in Eastern Europe and the Middle East continue to disrupt energy supply chains and commodity markets. The risk of escalation, whether through state actors or proxy wars, remains a significant tail event for global markets.

The decoupling of major economies, particularly between the U.S. and China, is reshaping global trade flows. Export controls on technology and critical minerals are creating supply chain vulnerabilities, while regional trade blocs gain prominence.

Elections in key economies, populist movements, and fiscal stress are amplifying uncertainty. Policy unpredictability, ranging from sanctions to capital controls, can trigger sudden market dislocations.

Geopolitical risks can materialise as credit, market, operational and funding risks. Geopolitical shocks can be transmitted to banks and their operating environment through different channels. A geopolitical

shock can affect banks via three main channels: the Financial market channel, the Real economy channel and the Safety and security channel.

Geopolitical risks can be transmitted to banks via credit risk, liquidity and funding risk, market risk, business model risk, operational risk and governance. Banks are therefore expected to also consider geopolitical risks when identifying and managing their risks.

In my opinion, the ability to navigate these risks proactively will be a clear key differentiator that separates elite wealth and asset managers from the rest, with clients increasingly demand expert, data-driven analysis to protect portfolios. Consequently, wealth and asset managers who successfully integrate a geopolitical perspective into investment frameworks will be better positioned to protect and grow client assets, cementing reputation in an unpredictable environment.



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