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GeoMacro
Global Asset Allocation

New Geopolitical Hardware Detected – Restart Required To Install Strategic Asset Allocation Updates

GeoMacro *Beta* Report

June 2025, Volume II

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GeoMacro Report
The *Beta* Report

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GeoMacro *Beta* Report: New Geopolitical Hardware Detected – Restart Required To Install Strategic Asset Allocation Updates

- Global allocators are scrambling to incorporate geopolitics into strategic asset allocation.
- For many, this means thinking about war… or about future end-states.
- This is a mistake. Global allocators need to consider the *transition* away from American unipolarity.
- We create a framework that provides a direct link between geopolitical regimes – unipolarity, multipolarity, and bipolarity – and asset prices.
- We use trade and capital flows as a bridge between geopolitics and asset prices.
- A transition to a multipolar world will crush the USD, favor non-US assets.
- A transition to a bipolar world would do the opposite and crush Chinese assets.

Bottom Line: Geopolitics is not about war. Nor is it a risk. It is the very sinews of material reality that investors must navigate. In this report, we counter the conventional way of thinking about geopolitics. Investors should eschew analyses that define global "end states." Instead, they must focus on what the *transition* to those various end-point scenarios will mean for asset allocation. We conclude that the most likely end state is balanced multipolarity. The transition to that end state will see the USD depreciate and non-US assets outperform US.

New Geopolitical Hardware Detected – Restart Required To Install Strategic Asset Allocation Updates

Geopolitics has become a buzzword for investors, large and small. Investment banks are scrambling to hire former policymakers, intelligence operatives, and diplomats.[1] Meanwhile, the topic repeatedly tops the list of "risks" at conferences and investor polls. A quick gander at the Bank of America Global Fund Manager Survey shows that in 75 of the months polled since 2011 (or 45% of the time), a geopolitical issue was cited as the primary tail risk to the market (**Chart 1**).

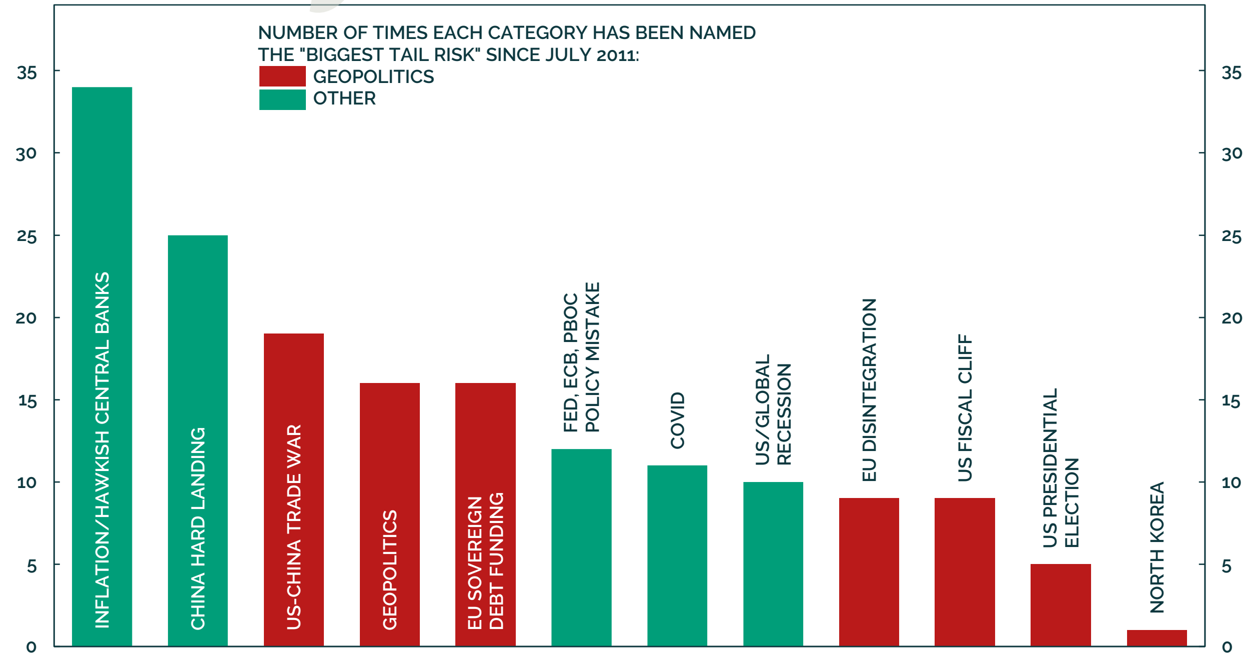
It is not surprising that the investment community sees geopolitics and risk as synonymous. After all, most geopolitical analysis focuses on war and conflict.

Geopolitics is often seen as *exogenous* to the portfolio construction process: A list of external shocks fundamentally different from the core anchors of valuations, growth, and inflation that asset allocators use to build their portfolios. But the conventional wisdom is wrong. In its foundational report titled "What Is GeoMacro?," BCA's *GeoMacro Strategy* argued that there is nothing exogenous about geopolitics.[2] It is very much endogenous to the macroeconomic and financial assumptions that define the strategic asset allocation (SAA) process.

1 Please see *JPMorganChase Center for Geopolitics*, available at jpmorganchase.com.

2 Please see *BCA Research, GeoMacro Strategy, Beta Report,* "What Is GeoMacro?" dated July 2024, available at bcaresearch.com.

CHART 1
Geopolitical Concerns Weigh On Investors



SOURCE: BOFA GLOBAL FUND MANAGER SURVEY.
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With this approach in mind, BCA's *Global Asset Allocation* and *GeoMacro* teams join forces in this report to tackle one of the most important questions for long-term investors: What are the asset allocation implications of a changing geopolitical regime? We create a framework that provides a direct link between geopolitical regimes and asset prices, using trade and capital flows as a bridge. Crucially, our framework is data-driven, quantifiable, and can be incorporated into traditional capital market assumptions.

Furthermore, we eschew the simplistic and tired crutch of military conflict as a stand-in for thorough geopolitical analysis. Geopolitics does *not* equal war. Geopolitics is the very macro hardware upon which the planetary system operates. The sinews of material reality that investors must navigate, whether they are aware of them or not. War is merely an event whose probability varies across different geopolitical paradigms. We intend to produce a follow up analysis to this report that will deal with the scenario of a major conflict between great powers. But that is a tail risk hedging exercise and, as such, not worthy of a strategic asset allocation report.

This report is structured as follows:

- First, we cover the theory of the three geopolitical paradigms: unipolarity, bipolarity, and multipolarity.
- Second, we make the case that the world is **transitioning** away from unipolarity. We also provide signposts that can help investors identify which regime we are transitioning into.
- Third, we explain how each geopolitical regime leads to a different economic and financial configuration between countries, using a trade and financial flow approach.
- Fourth, using our financial and trade flow approach, we estimate how the transition across geopolitical regimes affects different asset classes.
- Lastly, we give our take on which regime outcome looks more likely, and what that implies for asset allocators.

Our view is that the world's global macro *software operating system* is being updated for underlying geopolitical *hardware*. Our high conviction view is that the new geopolitical order is a multipolar one, with a low conviction view (hope?) that a balanced multipolar world is emerging. However, we only focus on that forecast at the end.

We first undertake an analysis of what the *transition away from unipolarity* means for investors.

Geopolitical Regimes: Unipolarity, Bipolarity, And Multipolarity

There are – broadly defined – three types of geopolitical ordering: **unipolar, bipolar, and multipolar**. BCA Research has been at the forefront of introducing the investment-relevance of this approach to the world of finance since 2012.[3]

Broadly speaking, what distinguishes these orderings is the distribution of power between states. Because the global geopolitical arena is in anarchy – there is no higher power than the sovereign state in world politics – it is the distribution of power between states that varies the anarchic qualities of global politics (i.e., the volatility and disequilibrium).

A **unipolar distribution** is the least anarchic. A global hegemon – the most powerful state with a preponderance of power – can compel behavior across the globe, often with so much as a phone call. This is the ordering that greatly contributes to low geopolitical volatility. One could argue that the era of "great moderation" – low vol in inflation and growth rates (**Chart 2**) – was partly product of America's hegemony.

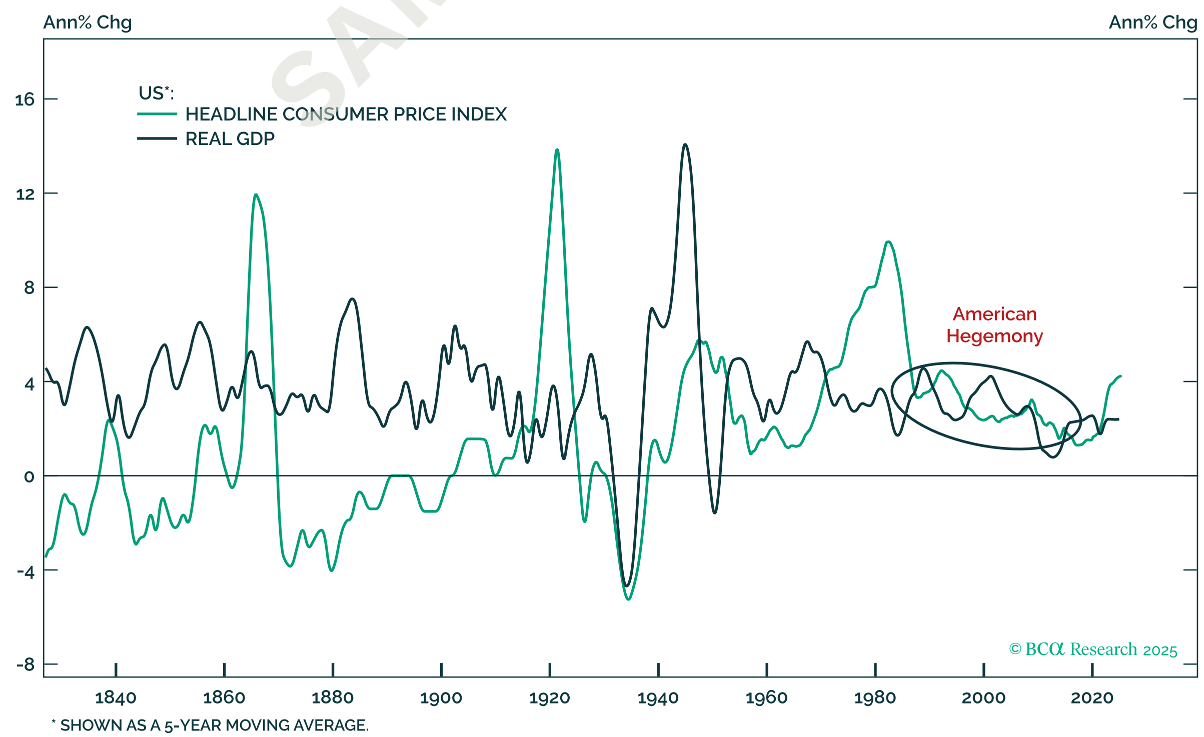
THIS IS A SAMPLE REPORT.

Our team will be in touch shortly with the full report.

If you do not receive a call, please contact our Client Services team clientsuccess@bcaresearch.com

CHART 2

American Hegemony Underpinned The Era Of Great Moderation



* SHOWN AS A 5-YEAR MOVING AVERAGE.
SOURCE: MINNEAPOLIS FED, MADDISON HISTORICAL DATA, BLS, BEA.