

Don't build portfolios for yesterday

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For years, investing was straightforward. Geopolitics played hardly any role in portfolios, stocks yielded returns, and bonds offered safety. In a multipolar world, however, the certainties upon which that portfolio logic was based are disappearing.

The old logic worked perfectly for decades. Stocks benefited from a long bull market, helped by globalization, falling interest rates, and rising profit margins.

Bonds often offered protection against growth shocks, such as during the credit crisis.

Anyone looking back on that time understands why many portfolios still rely on the stock-bond combination. It was simple, explainable, and for a long time, effective.

For many investors, one regime felt normal: low inflation, falling interest rates, and reliable rules of the game. That was the world of Fukuyama's 'end of history': free markets, open trade, and further economic integration seemed self-evident. The market did not need to understand geopolitics, as long as globalization worked.

Old certainties are wavering

The past year has shown how vulnerable that world has become.

American import tariffs, the war in the Middle East, tensions surrounding Greenland, and higher defense spending appear to be isolated events. Yet they point to the same pattern: trade, energy, raw materials, and security are becoming intertwined once again. Openness remains important, but resilience carries more weight. Capital seeks not only returns but also security.

The first old certainty was that capital flows like water to the most efficient destination. For years, globalization revolved around low costs, scale, and as little friction as possible.

Now, security of supply and economic resilience carry more weight. This can support growth through investments in defense, energy, infrastructure, and technology, but

It also makes the global economy more expensive and less predictable, and puts global growth under pressure.

The second certainty was that inflation would never again spiral out of control. Globalization helped central banks for years. Cheap production, efficient supply chains, and deep labor markets kept price levels down. That tailwind has weakened. Energy prices, trade barriers, and geopolitical tensions can lead to supply shocks more quickly. Inflation does not necessarily have to remain permanently high, but it is less likely to return to calmer waters. This affects interest rates, valuations, and the central banks' ability to absorb disappointing growth.

The third certainty was that diversification worked automatically. As mentioned, bonds offered protection when stocks fell. That suited a world in which central banks could lower interest rates as soon as growth slowed. In a world with more inflationary shocks, that protection is less self-evident. Bonds are yielding returns again, but are not automatically insurance against falling stock markets. Real estate, infrastructure, and other real assets must also be re-evaluated against scenarios.

Robustness across multiple scenarios

That is the core of the matter: not only do returns change, but above all, the interplay between risks becomes less predictable.

Many portfolios are better diversified across investment classes than across scenario outcomes. Diversification based on historical relationships is too narrow. The question, therefore, is not only what yields an average return, but what holds up under different regimes.

It is tempting to want to predict geopolitics. But it is wiser to acknowledge that a single baseline scenario is no longer sufficient. Scenario analysis, robustness, and adaptability are becoming more important than optimizing for a single economic regime. The old question was how to optimally combine stocks and bonds. The new question is which portfolio will remain standing when the old regime disappears.



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