

Geopolitics and investments – Lessons from World War I and II

ALM Congres

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Jitzes Noorman

Geopolitical background

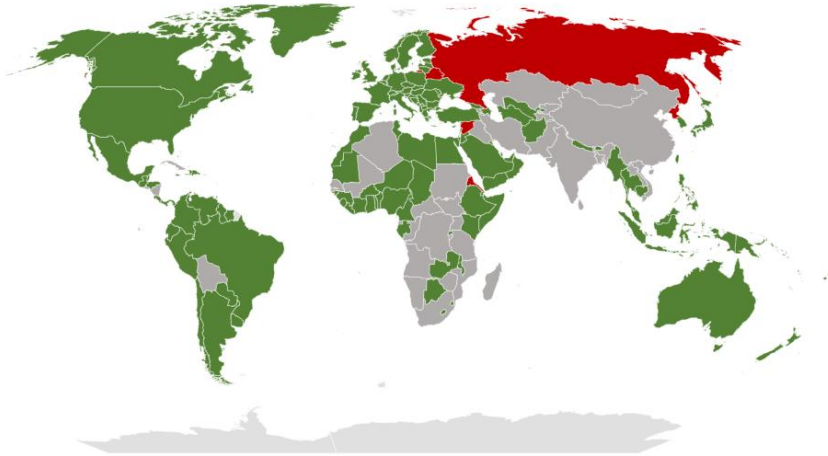
Geopolitical turbulence



Image Source: Adobe Stock, [https://commons.wikimedia.org/wiki/File:Donald_Trump_\(52250930172\)_cropped.jpg](https://commons.wikimedia.org/wiki/File:Donald_Trump_(52250930172)_cropped.jpg), [https://commons.wikimedia.org/wiki/File:Xi_Jinping_\(2022-12-30\).jpg](https://commons.wikimedia.org/wiki/File:Xi_Jinping_(2022-12-30).jpg), [https://commons.wikimedia.org/wiki/File:Vladimir_Putin_\(2017-07-08\).jpg](https://commons.wikimedia.org/wiki/File:Vladimir_Putin_(2017-07-08).jpg), www.kremlin.ru,

Voting UN resolutions against Russian aggression (green = in favour, red = against, grey = abstained)

2022

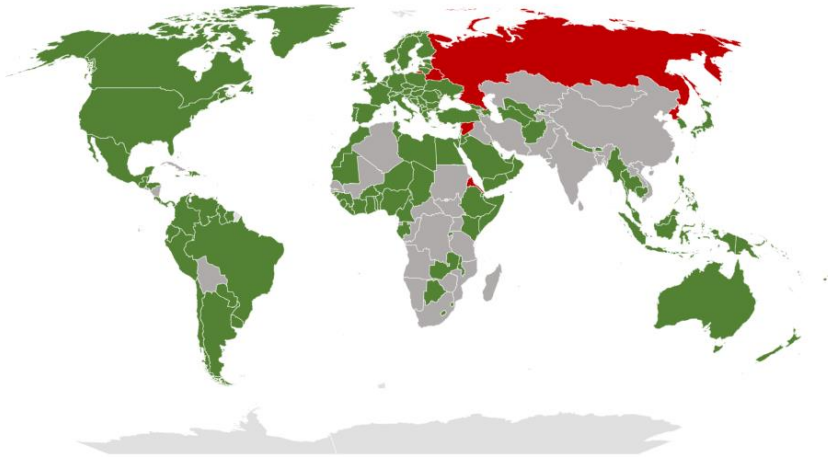


Source: Columbia Threadneedle Investments, UN, March 2022

Fragmentation

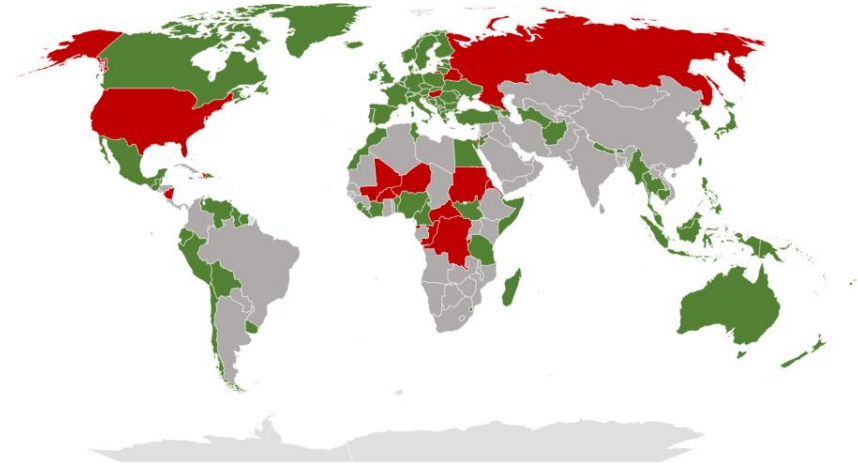
Voting UN resolutions against Russian aggression (green = in favour, red = against, grey = abstained)

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2025

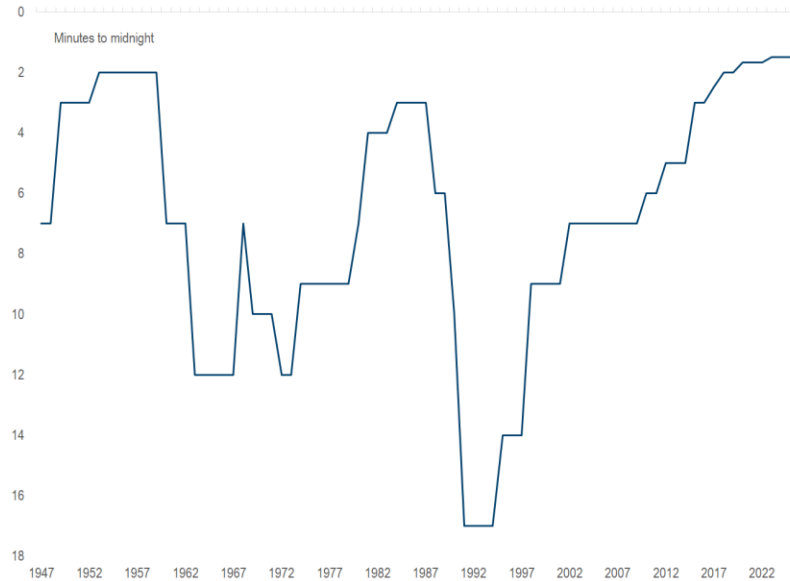


Source: Columbia Threadneedle Investments, UN, February 2025

Fragmentation

Geopolitical risks historically high

Doomsday clock – likelihood of a human-made global catastrophe (Bulletin of the Atomic Scientists)



“Who would win in a nuclear war between America and China” (The Economist)



Source: Columbia Threadneedle Investments, 'Bulletin of the Atomic Scientists' January 2025, The Economist 22 August 2024

DNB – Visie op Toezicht 2025-2028

Eén van de drie algemene focusgebieden betreft ‘Geopolitieke ontwikkelingen’

Focusgebieden van het toezicht

DNB heeft voor de komende jaren drie focusgebieden voor het toezicht vastgesteld. Deze worden hier besproken.

Een proactieve houding en intensieve samenwerking zijn nodig om de risico's die voortvloeien uit geopolitieke ontwikkelingen te beheersen

Ambities

- Financiële instellingen identificeren proactief geopolitieke risico's en beheersen deze integraal.
- De weerbaarheid van financiële instellingen tegen geopolitieke risico's wordt vergroot door krachtige publiek-private en Europese samenwerking.



Het geopolitieke klimaat is de afgelopen jaren aanmerkelijk guurder geworden.¹³ De tijd waarin gunstig gezinde internationale betrekkingen voor Nederland en Europa een vanzelfsprekendheid vormen, is voorbij. In deze guurere geopolitieke omgeving krijgen conflicten tussen landen en regio's vaker een hybride karakter. Zo worden handelsbelemmeringen en industriepolitieke maatregelen ingezet om strategische sectoren te beschermen. Cyberaanvallen door statelijke actoren zijn het nieuwe normaal geworden. Ook is sprake van een groeiend aantal financiële sancties die met name westerse overheden opleggen aan andere landen. De toegang tot de internationale financiële infrastructuur en financiële dienstverlening wordt daarbij in toenemende mate als drukmiddel ingezet (de zogenaamde *weaponisation of finance*).

¹³ Zie ook: [Weerbaar in een gure wereld](#)

Geopolitieke ontwikkelingen hebben via verschillende kanalen impact op financiële instellingen en de macro-economische omgeving waarin zij actief zijn. Zo zijn geopolitieke risico's met een hoge mate van onzekerheid omgeven waardoor de kans op nieuwe, onverwachte schokken toeneemt. Instellingen ondervinden onder andere gevolgen via blootstellingen op bedrijven die gevoelig zijn voor verstoringen in mondiale toeleveringsketens en beleggingen in potentieel kwetsbare jurisdicties. Ook kunnen zij te maken krijgen met moedwillig veroorzaakte digitale of fysieke verstoringen in de eigen bedrijfsprocessen of die van kritieke toeleveranciers. Of getroffen worden door sancties. Geopolitieke spanningen vormen zo een potentiële bron van verschillende risico's, zoals inflatie-, krediet-, markt-, liquiditeits- en operationele risico's, waaraan instellingen blootstaan.

Het is belangrijk dat financiële instellingen geopolitieke risico's integraal in hun risicomanagement verankeren, aangezien geopolitieke ontwikkelingen via uiteenlopende en elkaar in potentie versterkende kanalen instellingen kunnen raken. Dit vergt alertheid en anticiperen op hoe geopolitieke risico's in financiële en niet-financiële risico's kunnen resulteren. Geopolitieke risico's vormen de komende jaren een belangrijk aandachtsgebied in het toezicht en DNB zal instellingen dan ook uitdagen op de wijze waarop zij deze risico's identificeren en beheersen.

Investment lessons from WWI and WWII

Equities and bonds at times of war

Limited lessons, although real assets are well placed

- Limited lessons of previous wars
- Different behavior financial markets WWI and WWII
- Different impact per country, depending on multiple factors (see next sheet)
- Impact of many other wars limited
- Impact of some non-WW events even more significant, such as Great Depression, and Lehman crisis
- Different impact for 'winners' and 'losers'



Equities and bonds at times of war

Relevant factors

- Country of investment involved in war? And does the war take place on a country's own territory?
 - Impact on economy? Does the country manufacture defense goods? Development of new technologies?
 - Central bank policy?
 - Impact on inflation? Monetary financing of debt? Dependency on energy imports?
 - Government financing via debt issuance or via taxes?
 - Which countries win and which countries lose the war?
- Each war is different: geopolitically, economically, technology wise, and regarding weapons
 - For instance, several differences currently:
 - US vs China
 - Nuclear threat and cyber warfare
 - High debt/GDP levels already in peacetime

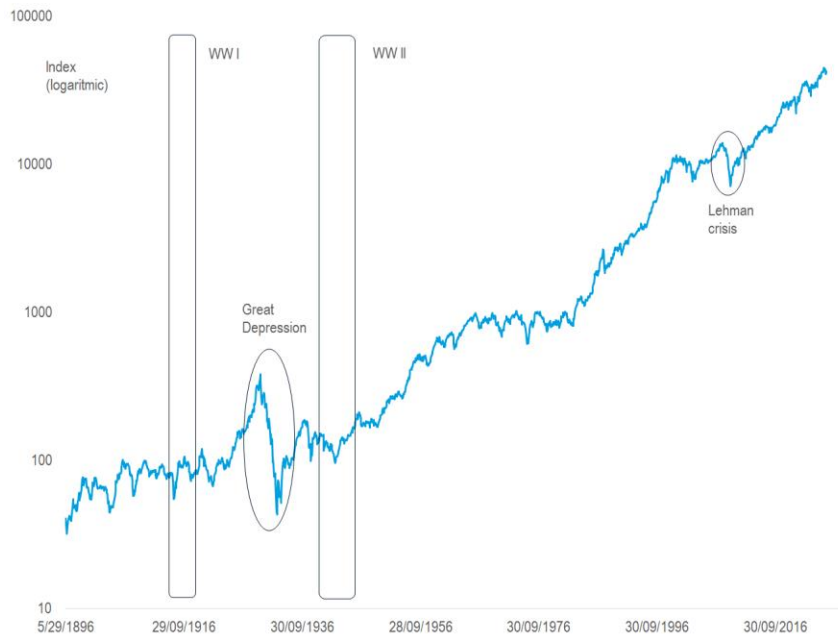


Image: Adobe Stock_250893944

WWI and WWII

Equity markets

Dow Jones Industrial Average index (1896-2025)



Source: Columbia Threadneedle Investments, Bloomberg, S&P Dow Jones Indices, Global Financial Data, LBS, May 2025

WWI (28th July 1914 – 11th Nov 1918)

- **Germany:** German equities lost two thirds of their value
- **United States:** initially -30%. Unchanged on balance

WWII (1st Sep 1939 – 2nd Sep 1945)

- **Germany:** initial rally of 50%, ultimately 90% loss
- **US:** initial decline of -30%, ultimately increase of 34%
- **Japan:** crash in real terms to less than one-tenth

Significant downturns Dow Jones Index (1897-2025)

(classification based on World Economic Forum risk categories)

	Start	Max Drawdown	Economic	Environmental	Geopolitical	Societal	Technological
Panic of 1901	9-May-1901	-13.7%					
Panic of 1907	14-Oct-1907	-48.5%					
WWI	28-Jul-1914	-36.3%					
Depressie 1920-1921	1-Jan-1920	-46.6%					
Grote Depressie	24-Oct-1929	-89.2%					
WWII	1-Sep-1939	-31.3%					
Kennedy Slide of 1962	13-Dec-1961	-27.1%					
Tech Stock Crash 1970	3-Dec-1968	-36.6%					
1973-1974 crash	1-Nov-1973	-45.1%					
Black Monday 1987	19-Oct-1987	-36.1%					
IT-zeepbel	10-Mar-2000	-16.4%					
9/11'	11-Sep-2001	-21.0%					
Lehman crisis	9-Aug-2007	-53.8%					
COVID-19	27-Dec-2019	-37.1%					
Oekraïne inval	22-Feb-2022	-21.9%					
Trump handelsoorlog	2-Apr-2025	-16.4%					

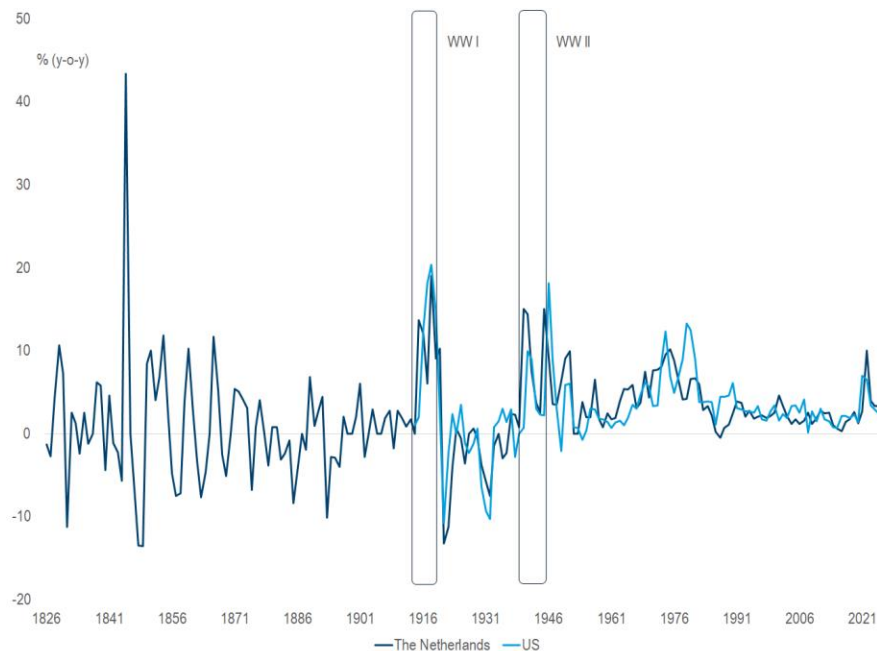
Source: Columbia Threadneedle Investments, S&P Dow Indices, Bloomberg, May 2025

Most significant equity drawdowns last century were non-war related

WWI and WWII

Inflation

Annual inflation in the US and The Netherlands



Source: Columbia Threadneedle Investments, Bloomberg, CBS, May 2025

WWI (28th July 1914 – 11th Nov 1918)

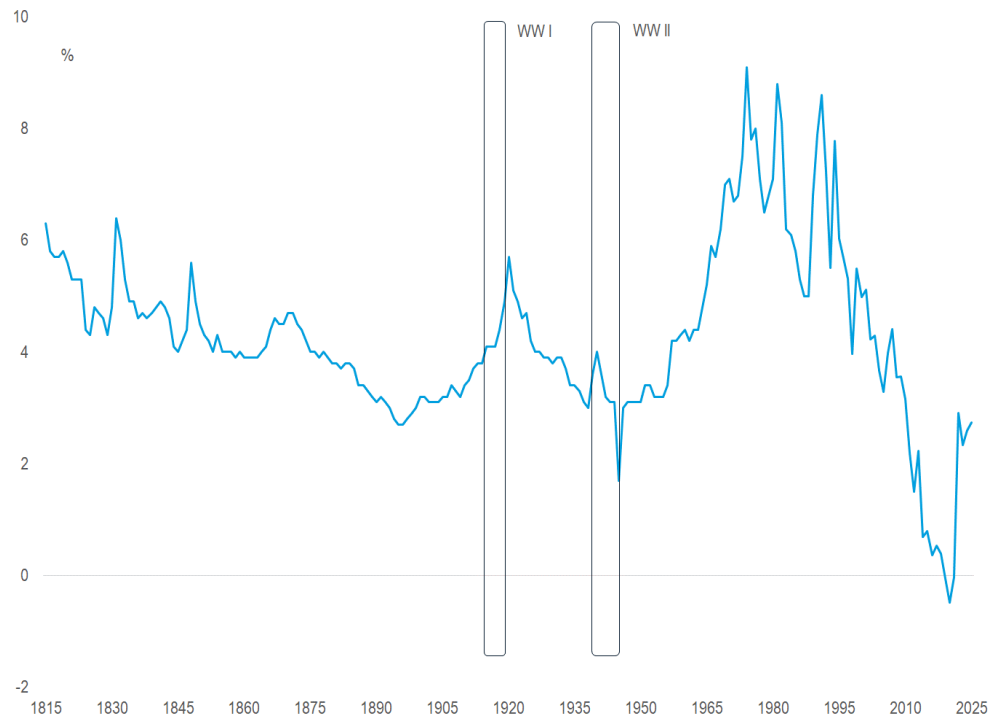
- **Germany:** significant inflation during the war and hyper-inflation post-war
- **US:** significant inflation
- Similar picture in **The Netherlands** as in the US

WWII (1st Sep 1939 – 2nd Sep 1945)

- **Germany:** significant inflation
- **Japan:** hyper-inflation
- **US:** significant inflation
- Similar pattern in **The Netherlands** as in the US

WWI and WWII

Interest rate: long term Dutch Government Bond Yield

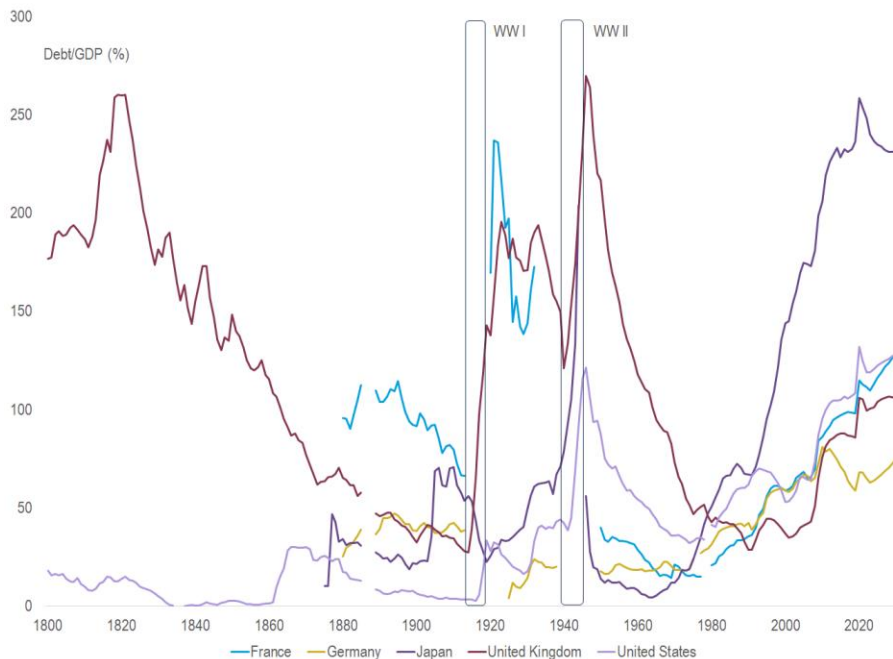


Source: Columbia Threadneedle Investments, Bloomberg, DSTA, June 2025

WWI and WWII

Government debt

Gross debt/GDP-ratio (1800-2024, IMF forecast 2030)



Source: Columbia Threadneedle Investments, Bloomberg, IMF Historical Public Debt Database, June 2025

WWI (28th July 1914 – 11th Nov 1918)

- **Germany:** government debt became almost worthless
- **France:** debt/GDP-ratio almost tripled
- **US:** debt/GDP-ratio rose significantly from 3% to 33%
- **UK:** debt/GDP soared from 27% to 142%

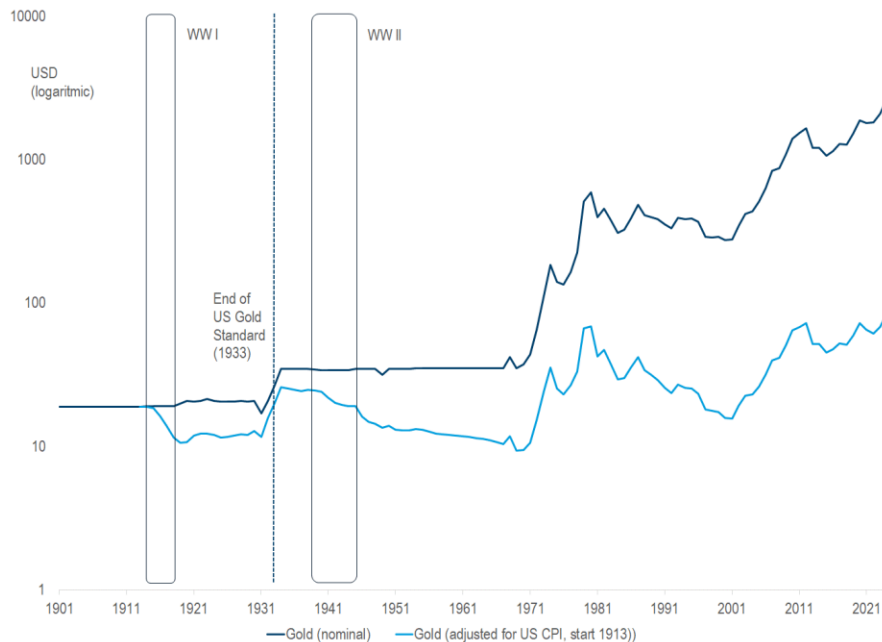
WWII (1st Sep 1939 – 2nd Sep 1945)

- **Germany:** government debt almost increased tenfold, and defaulted after the war
- **US:** the US financed the war expenses mostly via debt issuance, and to a smaller extent via tax increases. debt/GDP-ratio almost tripled
- **UK:** debt/GDP rose from 149% to 234%
- **Japan:** post-war, Japan wrote off most of its domestic (war) bonds

WWI and WWII

Gold

Gold price (USD/troy ounce)



Source: Columbia Threadneedle Investments, Bloomberg, UK Finance, LBMA, US Bureau of Labor Statistics, 1901-2024

WWI (28th July 1914 – 11th Nov 1918)

- The **gold price** was stable, but dropped in real terms

WWII (1st Sep 1939 – 2nd Sep 1945)

- The **gold price** was stable in nominal USD terms, but dropped in real terms

Performance during crisis in recent years (euro returns, during equity downturn)

	Lehman crisis (Oct 2007 - Feb 2009)	COVID-19 (Jan 2020 - March 2020)	Stagflation (Dec 2021 - Sep 2022)
DM equities	-51.4%	-20.1%	-23.1%
EM equities	-56.3%	-19.1%	-15.4%
Euro govt core	9.7%	-1.1%	-16.9%
Euro govt non-core	7.3%	-3.5%	-16.3%
Inflation-linked euro govt core	6.3%	-6.4%	-11.1%
IG EUR Corporates	-4.9%	-7.2%	-14.6%
High Yield Global	-27.7%	-13.6%	-16.4%
EMD HC	-13.0%	-15.0%	-25.4%
EMD LC	-4.9%	-13.2%	-5.5%
Private Equity	-23.6%	-6.2%	-4.2%
Non-listed Infrastructure	-6.5%	-3.8%	7.9%
Non-listed Real Estate (US)	-8.9%	0.3%	7.6%
Listed Real Estate (DM)	-65.6%	-28.3%	-26.4%
Non-listed Timber (US)	22.8%	-0.3%	5.9%
Listed Timber (DM)	-66.6%	-23.4%	-28.5%
Commodities	-43.1%	-17.6%	12.1%
Gold Futures	17.0%	0.1%	-10.7%
Hedge Funds (Fund-of-Funds)	-20.5%	-9.3%	-8.1%
Hedge Funds (Macro strategies)	4.7%	-1.7%	9.1%
Catastrophe Bonds	7.3%	-1.3%	-8.9% (-1.5% excl Hurricane Ian)
Cash EUR	5.6%	-0.1%	-0.3%

Source: Columbia Threadneedle Investments, Bloomberg, NCREIF, S&P, BCOM, MSCI, JPMorgan, FTSE EPRA Nareit, Swiss Re, HRI, 2025, returns in EUR (hedged, EM-related unhedged)

Stagflation + following recovery (2022-2024)

(euro returns, during equity downturn)

	Stagflation (Dec 2021 - Sep 2022)	Recovery after Stagflation (Sep 2022 - Dec 2024)	Stagflation + Recovery (Dec 2021 - Dec 2024)
DM equities	-23.1%	54.9%	19.1%
EM equities	-15.4%	22.5%	3.6%
Euro govt core	-16.9%	3.7%	-13.8%
Euro govt non-core	-16.3%	11.9%	-6.4%
Inflation-linked euro govt core	-11.1%	2.2%	-9.2%
IG EUR Corporates	-14.6%	14.5%	-2.2%
High Yield Global	-16.4%	23.4%	3.1%
EMD HC	-25.4%	21.6%	-9.4%
EMD LC	-5.5%	12.9%	6.7%
Private Equity	-4.2%	9.0%	4.5%
Non-listed Infrastructure	7.9%	16.7%	25.9%
Non-listed Real Estate (US)	7.6%	-14.6%	-8.1%
Listed Real Estate (DM)	-26.4%	17.3%	-13.7%
Non-listed Timber (US)	5.9%	17.7%	24.7%
Listed Timber (DM)	-28.5%	15.8%	-17.2%
Commodities	12.1%	-5.4%	6.1%
Gold Futures	-10.7%	49.1%	33.2%
Hedge Funds (Fund-of-Funds)	-8.1%	12.9%	3.8%
Hedge Funds (Macro strategies)	9.1%	-0.6%	8.4%
Catastrophe Bonds	-8.9% (-1.5% excl Hurricane Ian)	42.8%	30.1%
Cash EUR	-0.3%	7.3%	7.0%

Source: Columbia Threadneedle Investments, Bloomberg, NCREIF, S&P, BCOM, MSCI, JPMorgan, FTSE EPRA Nareit, Swiss Re, HRI, 2025, returns in EUR (hedged, EM-related unhedged)

How to invest at times of war

Some external quotes

Nathan Rothschild, 1810

- “Buy on the sound of cannons, sell on the sound of the trumpets”

Warren Buffet, 2022



- “The one thing you could be quite sure of is if we went into some very major war, the value of money would go down. I mean, that's happened in virtually every war that I'm aware of. So, **the last thing you'd want to do is hold money during a war.**”
- “American businesses are going to be worth more money. Dollars are going to be worth less, so that money won't buy you quite as much. But you're going to be **a lot better off owning productive assets** over the next 50 years than you will be owning pieces of paper”

BCA Research, 2022

- “10% chance of a **civilization-ending global nuclear war** over the next 12 months. **Stay bullish on stocks** over a 12-month horizon. The size and composition of your portfolio become irrelevant in case of a nuclear war”

Potential ways to invest at times of war

Summary

For illustrative purposes only, this should not be taken as a recommendation to deal

Nominal government bonds at risk

- Inflation risk
- Default risk

Inflation-linked government bonds

No inflation risk, but default risk remains

Gold

Stable in nominal terms during WWI and WWII, but declined in value in real terms

Real and productive assets are preferred

- Equities
- Real Estate
- **No guarantees.** Also, equities can take a severe hit. See for instance German (WWI and WWII) and Japanese stock markets (WWII)

Diversification via alternatives

Lesson from Ukraine war



Image: Adobe Stock_250893944

Appendix



JITZES NOORMAN

Delegated CIO & Investment Strategist

Jitzes Noorman joined Columbia Threadneedle Investments in 2011 and is Delegated CIO & Investment Strategist in the Fiduciary Management team. He is responsible for the investment portfolio of several pension funds.

Before joining the firm, he was employed at MN Services as senior fund manager Special Investments and Hedge Funds. Moreover, he has worked for Rabobank International for ten years, among others as Credit Structurer, Fixed Income Strategist and Monetary Economist. He also was involved with the FTK Pension Fund Advisory Team of Rabobank International.

Jitzes Noorman has attained a Master's Degree (cum laude) in Macro Economics at the University of Groningen, and is a Certified EFFAS Financial Analyst.

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