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Investing beyond the end of history

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For years, investors were able to treat geopolitics as noise. Not unimportant, but rarely decisive for strategic portfolio construction. That era is over. Geopolitics is once again important for markets. Strategic commodities, energy security, and defense capacity are back in the economic debate. Conflicts have a faster impact on inflation expectations, interest rates, currencies, and risk premiums.

That change didn't start yesterday, but since 2022, it has been difficult to ignore. The Russian invasion of Ukraine showed how quickly geopolitics can impact energy prices, purchasing power, budget- policy and monetary policy. Stocks and Bonds came under pressure at the same time. The classic portfolio logic, in which government bonds offer protection unrest on stock markets did not work naturally more. Not because diversifi- cation became worthless, but because it dominant regime changed.

> *The question is not whether history is returned, but how much porte- leaves are still built on the attached name that she was past.*

The exceptional order behind modern investing

After the fall of the Berlin Wall, the world seemed to have found a clear direction. Francis Fukuyama wrote about the "end of history": not because there is nothing more would happen, but because liberal democracy and market capitalism none credible system rival more lay to have (Fukuyama, 1992). For investors wasn't that an abstract philosophical debate. It became the backdrop against which modern portfolio structure form got.

From the beginning of the 1980s, benefited investors of the stability that The Great Moderation brought. The economic success ushered in the unipolar era from 1990.

This period was characterized by globalization, falling inflation, increasing capital mobility and independent central banks. Production chains became inter- more national. The labor supply became global more spacious. Technology pressure costs. Central banks built credibility. Inflation expectations improved anchored. Interest rates declined in line with the trend.

Within that environment, classical worked Diversification exceptionally good. With growth- shocks could central banks the interest rate lower. Bonds then often rose. value while stocks came under pressure. The negative correlation between stocks and government bonds thereby became a funda- ment among many strategic allocations.

That seemed obvious. It wasn't.

That exceptional confluence is visible when political, economic and financial civil regimes are placed side by side. The world order usually changes slowly. sluggish, economic regimes move faster, and financial regimes are responding most directly to shocks in growth, inflation and policy. It is precisely because of this that inflation arise frictions in transitional periods: portfolios can still be set up for the old financial regime, while the economic and the geopolitical undercurrent is already shifting. Figure 1 shows that layering.

The figure makes it clear that the Great Moderation is not an isolated market phenomenon. was, but also the cause and certainly expression of a broader ordering: American geopolitical dominance, international economic integration, credible central banks and broad

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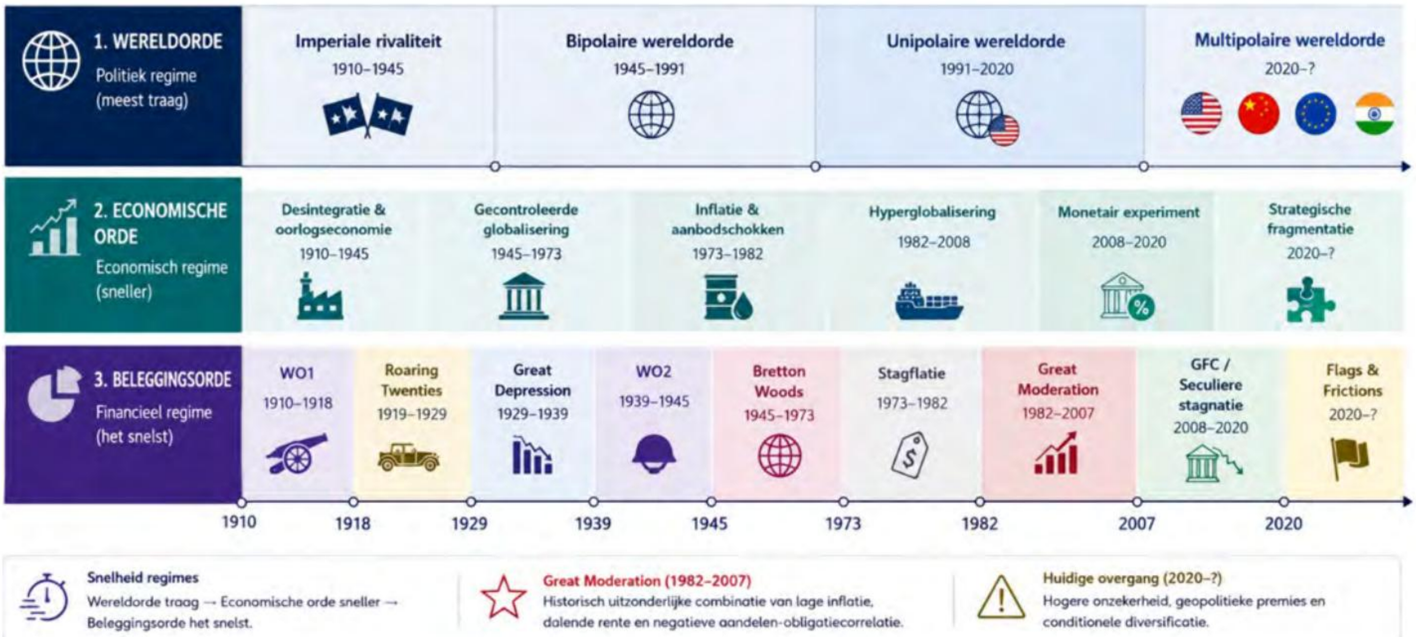
Figure 1
Evolution of the world order, economic order, and investment order
The stability to which we had become accustomed during the unipolar world order was the exception to the rule.



confidence in convergence. When that underlying layer changes, changes too the significance of historical returns, risks and correlations.

When geopolitics becomes macro again

That order has not disappeared, but become less self-evident. The world is moving towards a lake multipolar configuration. That does not mean that globalization is simply being reversed turned. On the contrary: economies, finan- civil markets and production chains remain deeply interwoven. Precisely because of this, can geopolitical shocks have a faster ripple effect.

The core issue is that political divergence is faster increases then economic decoupling. Countries remain dependent on each other, but trust each other less. As a result, dependencies strategic vulnerability present. Russian gas was a before 2022 source of cheap energy. After that, it became it a geopolitical lever Taiwanese Chips are not only industrially important, but also touch upon security policy. The The dollar is not only a reserve currency, but also infrastructure for sanctions power and financial influence.

Geopolitical developments affect markets usually via economic variables: energy prices, inflation expectations, interest rates, currency, trade flows, profit expectations levies and risk premiums. The IMF points out that geo-economic fragmentation via capital flows, financing conditions and financial stability can have an impact on markets (IMF, 2023). The World Bank also emphasizes that trade fragments tation, policy uncertainty and geopolitical tensions structural headwinds can forms for growth and investment (World Bank, 2025).

> *In an integrated global economy geopolitically does not remain on the edge of the portfolio; it moves via inflation, interest and risk premiums to the center*

The illusion of predictability

That calls for a different approach thinking. Much institutional decision-making still starts with a central path. Budgets, ALM studies, strategic asset allocations and business plans are often calibrated on one consistent set of assumptions. That is logical. Models require internal con- persistence. Without a baseline scenario, analysis is rudderless.

But the power of models is at the same time their limitation. Models usually calculate bin- within a regime. They are good at the analysis range of sensitivities surrounding a contamination altered world. Scenarios have a other function. They make conceivable what what happens when the regime itself changes. That is the core of the scenario approach such as which has been developed in the strategy literature: not predicting, but decision-making make more robust under fundamental uncertainty (Wack, 1985).

Europe had the exact course of the ener- did not have to predict the tremor in 2022. But the scenario of a serious disturbance ring of Russian gas supplies had much can be lived through more seriously. Which buffers were needed? Which industrial sec- towers were vulnerable? Which budgetary space was required? What did it mean for inflation, interest rates and purchasing power?

The value of scenario thinking does not lie in predicting but preparing.

> *Optimizing models within regimes. Preparing scenarios on regime changes*

For investors, this is crucial. A portfolio sheet that seems optimal under one central path may prove vulnerable if inflation dominant risk becomes, as geopolitical stress affects energy prices or as institut- national credibility suddenly a market- variable becomes. The central question ver- then shifts from precision to robustness.

Figure 2
Historical stock-bond correlation and investment regimes

The negative stock-bond correlation at the end of the Great Moderation and post-GFC was exceptional, not self-evident.

Diversification has become conditional

A tangible illustration of regime-dependent Mortality is the unstable stock-bond-correlation. In a growth-dominated regime Government bonds often offer protection. Growth slowdown depresses stocks, but gives central banks room to the interest rate lower. In an inflation-dominated regime does this work differently. Inflation shocks can actually force central banks to tighten, even if growth weakens. Then stocks and bonds can be held simultaneously valleys.

The stock-bond correlation shows exactly see why regime consciousness is necessary. In practice, the negative correlation is often treated as a structural own-shelf of portfolios. Historically, however, it is rather a regime outcome. In earlier regimes the relationship was more often positive or unstable, in line with research showing it appears that inflation, real interest rates and government quality of important explanatory variables are for the stock-bond correlation (Molenaar et al., 2024).

This shifts the interpretation. State-bonds remain important, but their role as automatic hedge against equity risk is less self-evident once inflation, budgetary policy and credibility of policy becoming more dominant. The ECB also points out on that changes in long-term interest rates and the natural interest can indicate a more lasting shift in the interest and inflation regime (Schnabel, 2025). The question is therefore not whether bonds will still diversify, but under which circumstances.

From optimization to regime-aware portfolio construction

The implication is not that investors their must throw away models. On the contrary. The analysis should actually be broadened, causing the emphasis to shift. Less relying on historical averages as stable guide. More attention to the question under which regime those averages to came into being.

Regime-conscious portfolio construction starts by making vulnerable explicit liabilities. How does the portfolio respond? on an inflation shock? What happens when rising real interest rates? When does it work Duration still as a hedge? Which diversification works during a growth shock? Where is the liquidity? if reallocation is necessary?

This relates directly to the practice of institutio-not investing. An interest rate hedge can offer protection against falling interest rates, but turn out differently in a regime of rising inflation and higher real interest rates. Inflation-sensitive investments can be useful be, but only if cash flows or value-rings actually move along with the relevant inflation risk. Alternative investments can add diversification, but only if their liquidity profile matches in stress scenarios.

Regime-conscious portfolio construction therefore does not ask for one new saint grail, but for multiple defense lines sneeze. A growth spurt requires different protection than an inflation shock. Financial crisis requires different liquidity than a geopolitical conflict. Figure 3 ver-does this translate into a scenario framework: no each scenario is by the same construction caught a stone.

The value of such a framework does not lie in choosing the right quadrant. The value lies in making visible concentrations in vulnerability. A porte-leaf can appear well spread over investment categories, yet strong dependence on one macro regimen: low inflation, falling interest rates and credible policy responses. Scenario analysis makes that hidden concentration risk explicit.

Not more pessimistic, but more aware

Investing beyond the end of history Denis is no reason for gloom. Markets continue to function. Innovation continues. Globalization is not disappearing fully. Liberal institutions remain eco-economically powerful. But the self-evident-the nature of the post-Cold War regime is disappeared.

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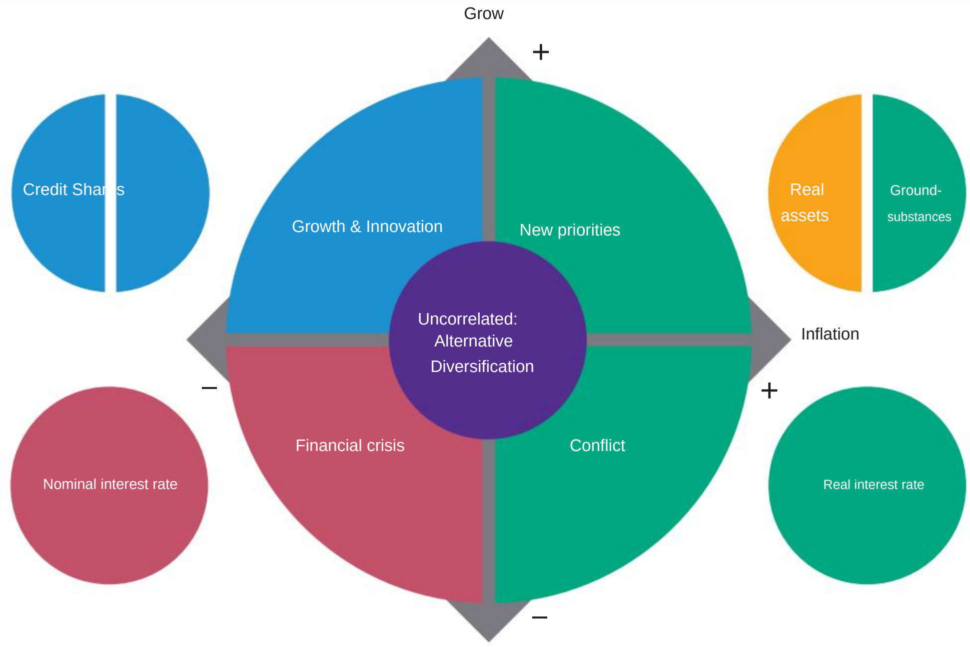
Figure 3
Scenario diagram
portfolio construction

Regime-aware investing requires multiple sources of diversification; not every scenario requires the same protection.



That calls for a recalibration of our thinking. Models remain necessary, but must be supplemented with scenarios. Diversification remains essential, but must take inflation, geopolitics and into account institutional credibility. Portfolios remain built on expected returns and risks, but those assumptions call for more regime awareness.

The greatest vulnerability of a porte-feuille is often not volatility itself, but dependence on a single worldview. The investor with the best prediction does not automatically have the strongest porte-sheet. Stronger is the investor who has the least is dependent on a world that slowly disappears.

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Note

1 The author has contributed to the CFA Society Netherlands' MiFID II Stay Compliant Programme 2026 for Macroeconomics.