



The Weaponisation of Capital: Risk, Return and Resilience

The global investment landscape is undergoing a significant transformation, with escalating geopolitical tensions, shifting trade alliances and structural changes in global growth reshaping long-term asset allocation decisions. For pension funds and institutional investors, these developments arrive at a time of elevated valuations across equities, credit and even traditional safe-haven assets, increasing the importance of disciplined risk management and sustainable sources of return.

Geopolitical headwinds reshaping global markets

A series of financial, health, energy and geopolitical shocks has exposed the vulnerabilities of deep global integration, as major powers increasingly weaponise economic integration - using tariffs as leverage, financial infrastructure as a tool of pressure and supply chains as strategic vulnerabilities.

Recent developments, including renewed US trade tensions, discussions around Greenland's strategic importance, and European investors reassessing their exposure to US assets, highlight how geopolitics is now directly influencing capital allocation decisions. In some cases, institutional investors have already reduced US dollar exposure amid concerns around fiscal discipline, currency stability and policy uncertainty. While this environment introduces risks, including higher volatility

and shifting correlations, it also creates opportunity as countries pursue greater strategic autonomy in energy, food, minerals and finance. For investors, the challenge and opportunity lie in adapting portfolios to a more multipolar world where geopolitical awareness, diversification and disciplined allocation increasingly drive long-term outcomes.

Europe remains heavily exposed to US financial markets, with European investors holding an estimated USD 8 trillion in US bonds and equities - nearly twice the exposure of the rest of the world combined. In an environment where geoeconomic stability is increasingly tested, such concentration highlights the growing importance of portfolio diversification, capital allocation, currency risk management alongside a growing investor shift toward safe-haven assets.

Precious metals and portfolio protection

Precious metals retain their role as both a hedge and a diversifier. While momentum in 2025 was supported by a combination of cyclical factors, the outlook for 2026 is increasingly shaped by evolving asset correlations and physical fundamentals. Gold and silver have been seen at record levels, reflecting sustained demand and shifting dynamics across global markets. This structural shift has been reinforced by sustained central bank demand, with gold holdings continuing to rise as part of a broader move to diversify away from U.S. Treasuries - a trend we believe remains at an early stage.

In a world where the weaponisation of capital is becoming more pronounced, gold's role as a neutral, non-sovereign asset remains particularly relevant. Silver's dual nature as both a monetary and industrial metal also warrants close attention as market conditions evolve. Monitoring indicators such as rising yields in US Treasuries and Japanese bonds may provide insight into how this transition unfolds. Japan has long been a source of low-cost funding, with investors borrowing in yen to invest in higher-yielding US assets, creating a strong link between Japanese bond markets and US equities. As Japanese yields rise and the yen strengthens, the potential unwinding of the yen carry trade - estimated at up to USD 20 trillion in gross exposure - risks triggering capital repatriation, reduced global liquidity and heightened volatility across US equities and bonds. This dynamic highlights how currency and rate shifts in one market can shape global asset allocation decisions.

In addition to physical metals, mining companies can offer operating leverage, meaning that increases in gold and silver prices can translate into a much larger uplift in earnings. This allows investors to complement direct metal holdings with selective exposure to mining assets to enhance upside potential.

Supply constraints are also becoming an increasingly important driver across precious metals. There are far fewer primary silver miners than gold producers, limiting the ability of supply to respond to rising demand and creating the potential for price appreciation. Platinum faces even tighter supply conditions, making it particularly sensitive to changes in demand. In our view, these structural changes in supply point to distinct opportunities, with platinum offering the strongest upside, followed by silver and then gold.

Private credit as a portfolio stabiliser

For institutional investors and pension funds, private credit enhances portfolio stability, diversification, and returns. Unlike traditional fixed income, it offers floating and fixed-rate structures that help manage interest rate risk while avoiding public bond market volatility. As a result, private credit stabilizes fixed-income allocations, providing consistent yields with low correlation to equity markets. Private credit has emerged as one of the fastest-growing segments of the global financial system over the past decade. Since our entry into the asset class in June 2023, the private credit market has expanded rapidly, growing from USD 1.7 trillion in assets under management to around USD 3.5 trillion at the turn of 2025.

A key driver of this expansion is direct lending and asset-backed finance, where non-bank funds provide capital directly to companies, bypassing traditional banks. Private credit opportunities are likely to continue expanding following the Trump administration's August 2025 Executive Order, which broadened access to alternative assets within 401(k) plans. This policy change could channel substantial amounts of retail capital - previously limited to equities and bonds - into private markets.

In April 2025, BlackRock CEO Larry Fink highlighted how the traditional 60/40 equity-bond portfolio is evolving toward a more diversified 50/30/20 framework. Under this approach, portfolios allocate 50% to equities, 30% to bonds and 20% to other investment alternatives such as private credit. He outlined that incorporating private markets into strategic allocation can help investors achieve stronger returns and improve portfolio resilience as public market dynamics and correlations continue to shift. In July 2025, BlackRock completed the acquisition of HPS Investment Partners, strengthening its presence in the rapidly expanding private credit market and reflecting its growing role within global private asset allocations.

Across Africa, pension funds and institutional investors are increasingly recognising these advantages, both within local markets and through offshore exposure. Allocations to US private credit allow investors to access USD-denominated returns, offering an additional layer of protection against local currency volatility.

Defensive investing focused on capital preservation

With markets shaped by geopolitical uncertainty, higher volatility and shifting correlations, preserving capital has become just as important as generating returns. Defensive investing, in our view, is not about avoiding opportunity, but about being selective and disciplined in how risk is taken. By combining capital-protective elements with carefully chosen growth exposure, investors can reduce drawdowns while remaining positioned for upside as conditions change. For pension funds managing long-term liabilities, this balanced approach offers a pragmatic way to navigate uncertainty without stepping away from opportunity.

Volatility and high-alpha real asset opportunities

Volatility often creates compelling investment opportunities. A potential weakening of the US dollar, for example, could improve the competitiveness of US manufacturing and exports, thus supporting local growth while reshaping global trade dynamics. At the same time, rising public debt levels across developed economies increase the likelihood of higher taxation, as governments seek to address budget deficits and fiscal pressures. For investors, these shifts reinforce the importance of positioning portfolios with knife-edge precision to benefit from relative value opportunities rather than relying on broad market direction.

Market volatility can also unlock attractive location-specific opportunities, particularly within real assets. Florida provides a clear example, where favourable tax conditions

and sustained population inflows from both within the US and abroad have supported strong property demand. This trend has been reinforced by corporate relocation and expansion, with firms such as Citadel and Citadel Securities establishing their headquarters in Miami, Wells Fargo relocating its wealth management operations to West Palm Beach, and companies like ServiceNow and FC Barcelona's US business expanding their presence in the state.

Together, demographic migration and corporate inflows have created sources of high-alpha opportunity in Florida's property market, highlighting the importance of selectivity and active allocation during volatile periods.

Looking ahead

As capital itself becomes an instrument of geopolitical strategy, institutional investors cannot view markets in isolation from global power dynamics. The weaponisation of trade, finance and currencies is reshaping how investors think about diversification, safe havens and capital mobility. For pension funds, this reinforces the need for disciplined allocation frameworks that prioritise capital preservation, diversification and adaptability.

At the same time, heightened volatility is creating unique opportunities across real assets, where regional dynamics and selective allocation can generate sustainable alpha. In a more fragmented and multipolar world, portfolios built with a clear understanding of geopolitical risk while being supported by assets and strategies that can withstand volatility and capture opportunity, will be better positioned to meet long-term investment objectives and navigate the years ahead.

Sources: Global Institute of Credit Professionals - Navigating the Boom: The Evolution of Private Credit | Morgan Stanley - Understanding Private Credit's Rapid Growth | Alternative Investment Management Association | Fortune | Reuters