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The Fracturing of the Global Economy: Implications for Asset Allocation in a Multipolar World

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The Fracturing of the Global Economy

IMPLICATIONS FOR ASSET ALLOCATION IN A MULTIPOLAR WORLD

BY MARIA KATSILEROS, CIMC®, CSRIC®

FOR NEARLY FOUR decades, globalization created a highly supportive backdrop for investors. Expanding trade, integrated supply chains, lower production costs, and the free movement of labor, capital, and goods contributed to disinflation, steady growth, declining interest rates, and rising asset valuations. Multinational corporations benefited from scale and global reach, and traditional portfolio frameworks such as the 60/40 stock-bond allocation delivered strong risk-adjusted returns.

Today, those assumptions are being challenged. The global economy is entering a more fragmented, multipolar era shaped by geopolitical competition, strategic industrial policy, divergent demographics, and structurally higher inflation. Resilience increasingly is taking precedence over efficiency, regional supply networks are gaining importance, and national security, self-sufficiency, and strategic autonomy have become central to policymaking.

For investors, the implications extend well beyond tactical positioning. This shift is reshaping trade relationships, capital flows, inflationary dynamics, and the sources of economic competitiveness. Asset allocation frameworks built for the globalization era may require substantial adaptation as growth becomes more regional, policy-driven, and uneven across countries, sectors, and asset classes.

The End of Hyper-Globalization

The modern era of globalization accelerated after the end of the Cold War, supported by the fall of the Berlin Wall, expanding trade institutions, and integrated global markets (see figure 1). Companies optimized production by shifting manufacturing to lower-cost regions, creating efficient global supply chains that reduced costs, expanded profit margins, and contributed to a prolonged period of economic growth and disinflation.

Between 1990 and 2008, global trade as a percentage of world gross domestic product (GDP) nearly tripled, reinforcing a cycle of lower production costs, rising profitability, and declining inflation (see figure 2). The Global

FIGURE 1 **Globalization's Evolution**

From hyper-globalization to a new era of regionalization and economic pragmatism

	1 EARLY GLOBALIZATION	2 HYPER GLOBALIZATION	3 GLOBAL FINANCIAL CRISIS TO COVID	4 POST COVID GLOBAL FRACTURING
	Beginnings of Globalization until 1989	**Rapid Increase in Globalization 1990–2008**	**Lower Global Trade 2008–2020**	**Rise of Protectionism 2020–current**
WHAT HAPPENED	Increase in global supply chains, particularly in manufactured goods through the fall of the Berlin Wall	Exponential increase in global supply chains and global export markets for large and multinational companies	Global trade dropped 12 percent in 2009, as world contended with the Global Financial Crisis	Covid exposed the difficulties of just-in-time global supply chains
KEY DEVELOPMENTS	• Companies begin outsourcing lower-skilled jobs to countries with far lower labor costs	• Increased efficiencies and lower cost of goods benefited U.S. consumer	• Trade recovered somewhat in 2011, but never returned to the pre-crisis growth path • Outsourcing slowed and there was more political demand for domestic manufacturing	• Resetting of major trade deals (NAFTA, China, European Union, Japan, United Kingdom) • Increasingly aggressive tariffs from the United States and retaliatory measures from trade partners
IMPLICATIONS	Laying the foundation for a globally integrated economy	Hyper-globalization delivered growth, innovation, and consumer benefits	Revealed vulnerabilities of excessive dependence and long supply chains	Fragmentation, regionalization, and strategic self-reliance take priority

Globalization is evolving, not ending. The world is moving from hyper-globalization to a more balanced system shaped by economics, security, and resilience.

Source: Maria Katsileros/Aristotle Capital Boston. NAFTA = North American Free Trade Agreement.

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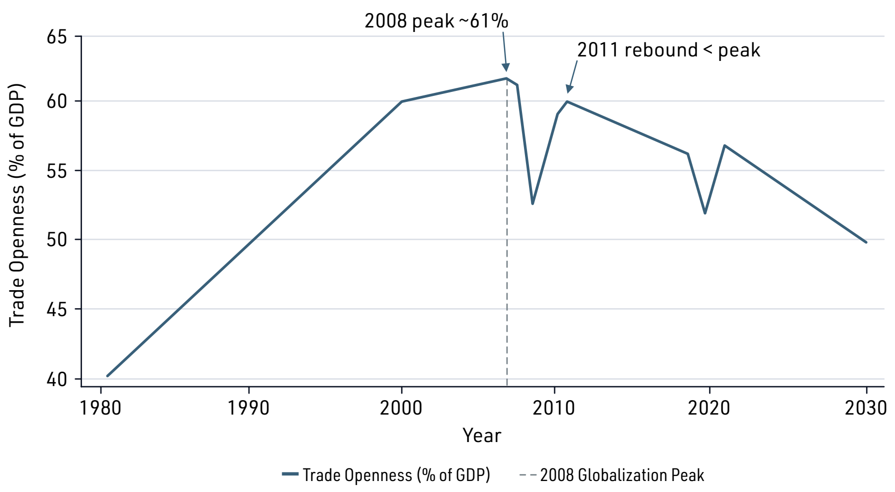
FIGURE 2 **Global Trade Openness (Percent of World GDP, 1980–2030 Projection)**



Source: "Trade as a Share of GDP," Our World in Data, https://ourworldindata.org/grapher/trade-as-share-of-gdp. Data adapted from national statistical organizations and central banks, Organisation for Economic Co-operation and Development national accounts, and World Bank staff estimates.

Financial Crisis marked a turning point. Although trade recovered, it never regained its prior trajectory. Subsequent developments, including rising geopolitical tensions, U.S.-China trade disputes, the COVID-19 pandemic, and renewed industrial policy, accelerated the shift toward fragmentation.

Governments and corporations are increasingly prioritizing resilience and security over efficiency. Supply chains are being redesigned around reliability rather than lowest cost, and investment in semiconductors, energy security, defense, critical minerals, and other strategic industries continues to accelerate. Trade and capital flows are increasingly driven by geopolitical alignment rather than comparative advantage.

This does not signal the end of globalization but rather a reordering of priorities. Capital, trade, and production are becoming more regionalized, giving rise to competing economic blocs and distinct growth trajectories, inflation dynamics, and investment opportunities.

The Forces Driving Global Fracturing

Global forces are behind this new fracturing of the world economy. These forces include the return of geopolitical competition and the growing demand for supply chain resilience, as discussed below.

Geopolitical Competition: The Gathering Storm

One defining feature of the fractured global economy is the return of geopolitics as a major driver of economic policy, capital allocation, and investment outcomes. For much of the post-Cold War period, investors assumed economic integration would continue to deepen and geopolitical tensions would remain secondary. Today, that assumption no longer holds.

At the center of this shift is the strategic rivalry between the United States and China, which extends beyond trade into technology, manufacturing, finance, energy, and national security. What began as a trade dispute has evolved into a broader competition for economic and technological leadership. Tariffs, export controls, technology restrictions, and industrial policy initiatives have accelerated the decoupling of supply chains and investment flows between the world's two largest economies.

The share of U.S. imports sourced from China has declined steadily since 2018 as policymakers and corporations have diversified supply chains and reduced dependence on a single manufacturing hub. At the same time, China has sought to lessen its reliance on Western markets by expanding economic relationships throughout Asia, Africa, Latin America, and the Middle East with programs such as the Belt and Road Initiative[1] and BRICS+.[2] The result is a shift from deep economic integration toward greater competition, redundancy, and parallel systems.

Technology provides perhaps the clearest example of this rivalry. U.S. restrictions on advanced semiconductors, chipmaking equipment, and certain artificial intelligence (AI) technologies have prompted China to accelerate efforts to develop domestic alternatives. As a result, competing technology ecosystems are emerging, with important implications for corporate profitability, supply chains, and long-term economic growth.

Beyond U.S.–China competition, geopolitical tensions elsewhere have reinforced the importance of security and resilience. Russia's invasion of Ukraine exposed vulnerabilities in global energy markets and transformed Europe's approach to energy security. Meanwhile, tensions involving Iran, instability in the Middle East, and risks surrounding Taiwan and the South China Sea continue to threaten critical energy, trade, and semiconductor supply chains. A good example of this is the U.S. conflict with Iran and how it's played out in the Strait of Hormuz, with effects on oil prices that have rippled through the global economy in 2026. Even temporary disruptions can trigger significant volatility across commodity markets, inflation expectations, manufacturing activity, and economic growth.

These developments are reshaping economic priorities. Governments are investing heavily in domestic manufacturing, energy security, critical minerals, defense, and strategic technologies; and industrial policy has re-emerged as a key tool for strengthening resilience and reducing external dependencies.

For investors, geopolitical developments are no longer peripheral risks; they have become central drivers of economic

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outcomes, corporate profitability, and asset returns. Understanding alliances, trade relationships, resource dependencies, and policy priorities may become as important as analyzing traditional economic indicators in a more fragmented world.

Supply Chain Resilience

One of the most visible consequences of economic fragmentation has been the rethinking of global supply chains. For decades, corporations optimized operations around a “just-in-time” model, minimizing inventories and sourcing components from the lowest cost producers worldwide. This approach improved efficiency, reduced working capital needs, and contributed to the disinflationary environment that characterized the globalization era.

The COVID-19 pandemic exposed the vulnerabilities of this model. Factory shutdowns, transportation bottlenecks, and labor shortages disrupted industries ranging from automotive manufacturing to health care. Semiconductor shortages constrained global auto production, and shortages of pharmaceuticals, personal protective equipment, and other critical supplies highlighted the risks associated with concentrated manufacturing networks.

These disruptions revealed a fundamental weakness of globalization’s efficiency-driven framework: Supply chains were optimized for cost rather than resilience.

In response, companies and governments are adopting the “just-in-case” approach. Firms are diversifying suppliers, maintaining more inventory, and relocating critical production closer to end markets through reshoring, nearshoring, and friendshoring initiatives. The semiconductor industry provides a notable example. The U.S. CHIPS and Science Act, Europe’s Chips Act, and similar programs across Asia seek to reduce dependence on a small number of manufacturing centers and strengthen domestic production capacity.

Similar efforts are occurring across pharmaceuticals, energy infrastructure, defense systems, batteries, critical minerals, and other strategic industries. Supplier decisions are being driven more by reliability, geopolitical alignment, and supply continuity rather than cost alone.

Greater resilience, however, comes with trade-offs. Higher inventories, duplicated production facilities, and domestic manufacturing often increase costs and reduce economies of scale. As a result, many economists view supply chain reconfiguration as a structural contributor to higher inflation. J. P. Morgan characterizes this shift as a move from “the cheapest origin” to “rules of origin,” reflecting a growing preference for security and reliability over pure efficiency.[3]

For investors, this transition creates both risks and opportunities. Companies reliant on complex global supply chains may face margin pressure. Firms involved in logistics, industrial automation, infrastructure, domestic manufacturing, and transportation networks may benefit from increased capital spending. Regional manufacturing hubs such as Mexico, India, Vietnam, and parts of Southeast Asia also stand to gain from supply chain diversification.

Ultimately, the shift from efficiency-driven globalization to security-focused regionalization represents more than an operational adjustment. It is a structural economic transformation that is reshaping inflation dynamics, corporate profitability, capital investment, and asset allocation decisions.

Demographic Divergence: The New Geography of Growth

Demographics may prove to be one of the most powerful long-term drivers of economic performance. Population growth, workforce participation, age distribution, and migration patterns influence labor availability, productivity, consumption, savings, housing demand, and capital formation.

The globalization era benefited from a powerful demographic dividend. The integration of China, Eastern Europe, and other emerging economies dramatically expanded the global labor force, helping suppress wages, reduce production costs, and support corporate profitability. This abundant labor supply became a key driver of globalization’s disinflationary environment.

That dynamic is now changing. Rather than converging, demographic trends are diverging across regions, creating distinct economic winners and losers.

The Aging of Developed Economies

Many developed economies are aging rapidly. Japan remains the most advanced example, with nearly 30 percent of its population older than age 65 and a shrinking working-age population.[4] Europe faces similar challenges, and China’s workforce has begun to decline as it faces the legacy of its one-child policy.

Aging societies tend to experience slower labor force growth, lower potential GDP growth, rising healthcare and pension costs, and increased demand for income-producing investments. For investors, aging populations often support sectors such as health care, pharmaceuticals, biotechnology, medical devices, senior housing, and income-generating assets. At the same time, slower labor force growth can constrain overall economic expansion and reduce long-term productivity gains unless offset by technological innovation.

The Rise of the New Growth Economies

In contrast, several regions possess demographic profiles that position them for stronger long-term growth (see figure 3).

India stands out as perhaps the most compelling example. With a median age of approximately 28 years—more than a decade younger than China and significantly younger than most developed economies—India possesses one of the largest and youngest labor forces in the world. Its working-age population is projected to expand substantially through mid-century, providing a powerful foundation for economic growth.

Southeast Asia presents a similar, though more diverse, opportunity. Countries such as Indonesia, Vietnam, and the Philippines

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FIGURE 3 **Demographic Divergence**

Region	Median Age	Working-Age Growth 2025–2050
Japan	49	-10%
Europe	43	-8%
China	39	-5%
United States	38	-2%
India	28	+20%
Africa	19	+35%

Source: United Nations, World Population Prospects 2024; Oxford Economics.

benefit from relatively young populations, expanding middle classes, and growing integration into global supply chains. As multinational companies diversify production away from China, these countries are becoming important beneficiaries of foreign direct investment and manufacturing expansion.

ONE OF THE MOST IMPORTANT CONSEQUENCES OF DEMOGRAPHIC DIVERGENCE IS THE GRADUAL EROSION OF THE CHEAP LABOR ARBITRAGE THAT FUELED GLOBALIZATION.

Parts of Latin America also retain favorable demographic characteristics. Although population growth has slowed relative to previous decades, countries such as Mexico and Brazil continue to benefit from relatively younger populations compared to developed economies. Combined with abundant natural resources and proximity to major markets, these demographic trends support long-term economic potential.

Perhaps the greatest demographic opportunity lies in Africa. With a median age of roughly 19 years, the youngest of any major region, the continent is positioned to contribute a significant share of future global labor force expansion. By 2050, Africa is expected to account for a substantial portion of global population growth, with its working-age population projected to grow by more than 35 percent between 2025 and 2050,[5] creating a potentially powerful foundation for economic development, consumption growth, and capital investment. If accompanied by improvements in education, infrastructure, governance, and capital investment, this demographic expansion could transform parts of Africa into major contributors to global growth.

The End of Cheap Labor Arbitrage

One of the most important consequences of demographic divergence is the gradual erosion of the cheap labor arbitrage that fueled globalization. As China's workforce ages and wages rise, multinational corporations are shifting production to countries such as India, Vietnam, Indonesia, and Mexico. This trend reinforces broader movements toward regionalization and supply chain diversification.

At the same time, labor shortages in developed economies are contributing to wage pressures and higher inflation, helping explain why inflation may remain structurally higher than during the pre-pandemic era.

Automation as a Demographic Solution

As working-age populations stagnate or decline across much of the developed world, labor is becoming an increasingly scarce resource, making automation an important structural investment theme of the coming decade. Businesses are investing in AI, robotics, automation, and advanced manufacturing technologies to offset workforce shortages and sustain productivity growth.

In many respects, the AI revolution is not simply a technological story, it also is a demographic one. Countries facing shrinking labor forces tend to view productivity-enhancing technologies as essential to maintaining economic growth and competitiveness. As a result, companies involved in AI, automation, robotics, semiconductors, and advanced software stand to benefit from this long-term structural trend.

Capital Flows Follow Demographics

Demographic differences also influence global capital flows. Aging economies tend to accumulate savings and seek stable income streams. Pension funds, insurance companies, and retirees often prioritize yield, capital preservation, and lower volatility investments. Younger economies, by contrast, require capital. Expanding populations need infrastructure, housing, transportation systems, healthcare facilities, educational institutions, and productive businesses. As a result, capital flows from older, wealthier economies toward younger, faster-growing regions.

Historically, this process supported industrialization in emerging markets. In the future, it may benefit countries such as India, Indonesia, Vietnam, and selected African economies that combine favorable demographics with improving institutions and economic reforms.

Consumption Patterns and Economic Leadership

Demographics also shape consumption. Younger populations spend differently than older populations. They purchase homes, raise families, consume more goods and

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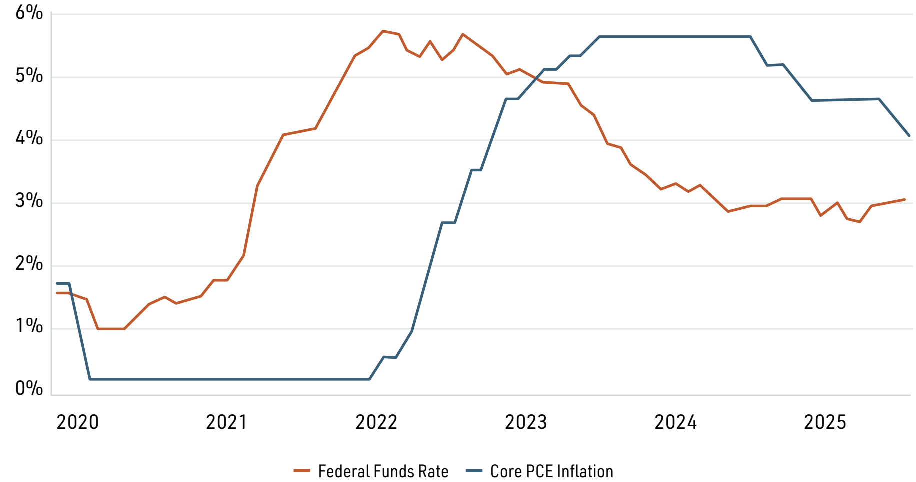
services, and drive demand for education, technology, transportation, and financial services. Older populations spend more on health care, retirement services, and income-oriented products. These differing consumption patterns create distinct investment opportunities across regions and sectors.

Over time, countries with expanding middle classes and growing labor forces have the potential to become more important sources of global demand, gradually shifting the center of economic gravity away from aging developed markets.

FIGURE 4 Where Inflation Goes from Here Could Impact Portfolios



Source: Bloomberg Finance L.P. PCE data as of August 31, 2025. Fed funds rate data as of October 31, 2025.

Investment Implications

Demographic divergence influences both capital flows and consumption patterns. Aging economies tend to accumulate savings and seek income, younger economies require investment in infrastructure, housing, education, health care, and productive capacity. Younger populations also drive demand for housing, transportation, technology, and financial services, and aging populations spend more on healthcare and retirement-related services.

For investors, the most compelling opportunities may emerge where favorable demographics intersect with improving governance, technological adoption, capital investment, and supply chain diversification. India stands out today, and parts of Southeast Asia, Latin America, and Africa may become more important over the coming decades.

Ultimately, demographic trends unfold slowly but powerfully. Unlike interest rates or election cycles, they operate over decades, making them one of the most enduring forces shaping economic growth, capital markets, and investment opportunities.

Why Inflation May Remain Structurally Higher

Perhaps the most important investment consequence of economic fragmentation is its impact on inflation. For much of the past four decades, globalization has acted as a powerful disinflationary force as cheap labor, expanding production capacity, and efficient supply chains helped suppress prices across developed economies. Today, that dynamic is reversing.

Several structural forces suggest inflation may remain higher and more volatile than investors became accustomed to during the post-2008 era. The reasons for this include supply chain reconfiguration, aging populations, persistent fiscal deficits, energy transition investment, and strategic efforts to reshore critical industries.

SEVERAL STRUCTURAL FORCES SUGGEST INFLATION MAY REMAIN HIGHER AND MORE VOLATILE THAN INVESTORS BECAME ACCUSTOMED TO DURING THE POST-2008 ERA.

Inflation is no longer following the old playbook and may remain more volatile and prone to upward shocks than investors have expected historically (see figure 4).

This shift matters because inflation affects virtually every asset class. Higher inflation raises discount rates, pressures bond valuations, increases equity volatility, and weakens traditional diversification relationships. Most notably, periods of elevated inflation can place simultaneous pressure on stocks and bonds, reducing the diversification benefits that have long supported balanced portfolios.

Regional Growth Replaces Global Synchronization

One of the defining characteristics of globalization was synchronized growth. Economic expansions and contractions increasingly moved together as trade and capital flows integrated global markets. Today, economic outcomes are diverging as growth is becoming more regional and policy-driven (see figure 5).

The United States benefits from technological leadership, energy independence, and relatively favorable demographics. India is emerging as a major beneficiary of supply chain diversification and demographic expansion. Parts of Latin America possess critical resources needed for energy transition and AI infrastructure. Europe is undergoing a significant defense and industrial investment cycle.

Meanwhile, China is transitioning from a growth model centered on exports and property development toward one focused

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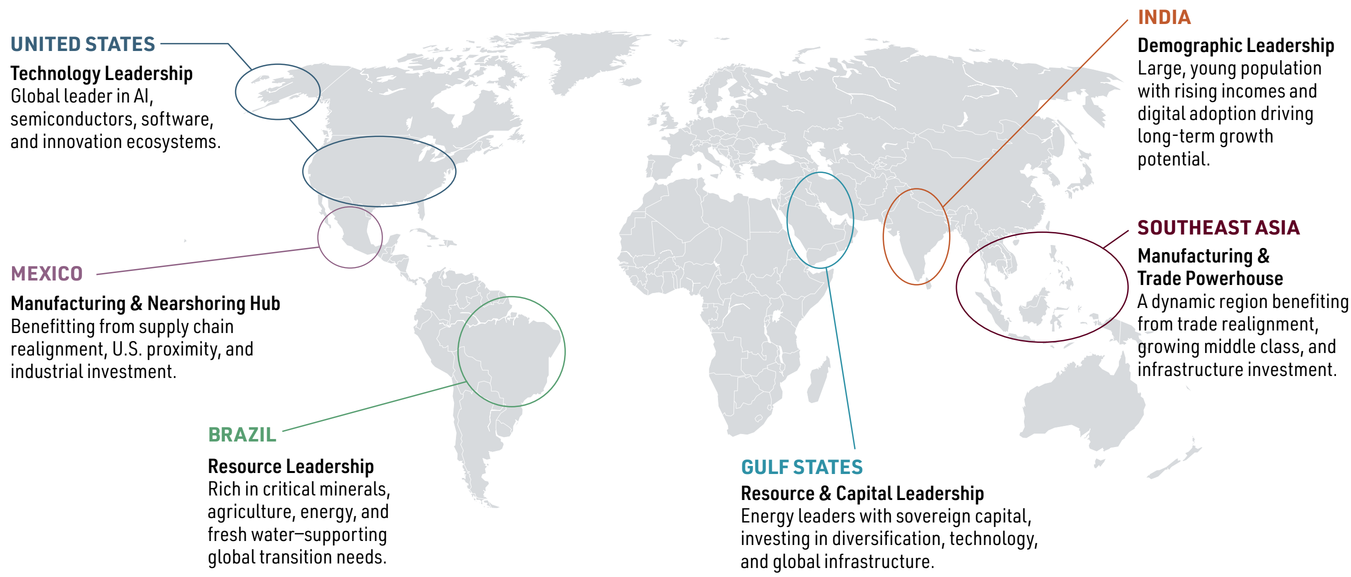
FIGURE 5 Future Growth Is Becoming Regional

Distinct strengths are emerging across regions, driving investment opportunities in a fragmented world.



GROWTH DRIVERS

Technology Leadership
Innovation, digital leadership, AI, semiconductors, and advanced technology ecosystems.

Resource Leadership
Abundant natural resources, energy, critical minerals, agriculture, and environmental assets.

Demographic Leadership
Large, youthful populations, rising incomes, urbanization, and expanding consumer markets.

In a fractured world, growth is no longer global and uniform—it is regional, driven by unique strengths and strategic positioning.

Invest where structural advantages create sustainable, long-term opportunities.

Source: Maria Katsileros/Aristotle Capital Boston.

on technology and domestic innovation. Although China's long-term growth challenges remain significant, its role in global manufacturing, electric vehicles, and AI continues to evolve.

Skeptics argue that globalization has not disappeared but is merely changing form. Global trade volumes remain substantial, multinational corporations continue to operate across borders, and digital connectivity remains highly integrated. Although these observations are valid, the relevant question for investors is not whether globalization survives but whether the drivers of returns are becoming more regional and policy dependent. Evidence suggests they are.

For investors, broad global beta may no longer provide the same advantages it did during the globalization era. As economic growth, capital flows, and policy initiatives become more regionalized, investment outcomes are likely to diverge more significantly across countries and sectors. Success will depend less on broad market exposure and more on identifying regions, industries, and companies that benefit from favorable demographic trends, supportive policy environments, and strategic competitive advantages.

Rethinking the Traditional 60/40 Portfolio

Higher inflation, changing stock–bond correlations, and increasing regional divergence are challenging traditional asset allocation frameworks. The classic 60/40 portfolio was built for a world of falling interest rates, declining inflation, and integrated global markets, where bonds provided effective diversification by typically appreciating during periods of economic weakness.

In an environment where inflation is a dominant macroeconomic risk, stocks and bonds can come under pressure simultaneously, reducing the diversification benefits investors historically have relied upon. As a result, portfolios may require a broader and more diversified framework (see figure 6).

Fixed income remains an essential component, but greater emphasis may be placed on duration management, inflation-linked securities, and selective credit exposure. Equity allocations may increasingly tilt toward value stocks, small- and mid-cap companies, and sectors aligned with resilience, security, and domestic investment, including industrials, infrastructure, defense, energy, health care, and selected technology segments.

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Alternative assets are assuming a more prominent role within diversified portfolios. Infrastructure, real estate, commodities, inflation-protected income strategies, and selected hedge fund investments can provide additional sources of return, diversification, and inflation resilience beyond traditional equity and fixed income allocations.

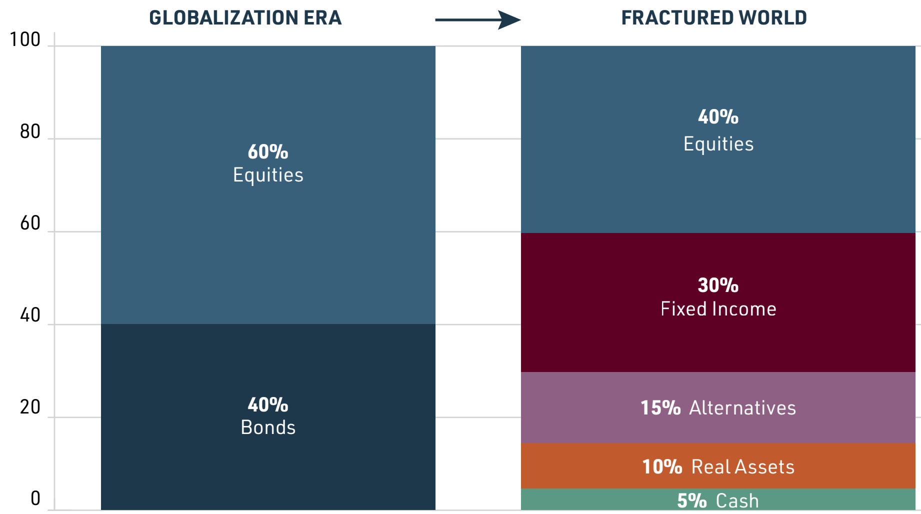
Equity Allocation in a Fragmented World

The transition from globalization to a more fragmented and multipolar world has important implications for equity investors. During the globalization era, portfolios were tilted heavily toward large-cap growth companies and multinational corporations that benefited from expanding trade, global supply chains, and declining interest rates. Technology platforms, consumer brands, and export-oriented businesses came to dominate major equity indexes, and passive investing flourished as global growth became more synchronized.

Today, the environment looks markedly different. As supply chains regionalize, industrial policy returns, and inflation remains structurally higher, equity returns are likely to become more diverse and regionally differentiated. Rather than a single global growth engine, investors now are confronting multiple growth stories shaped by demographics, policy priorities, energy security, and technological competitiveness.

One implication is the potential resurgence of value-oriented sectors and small- and mid-cap companies. Energy, industrials, financials, materials, and infrastructure-related businesses tend to benefit from higher inflation, increased capital expenditures, and domestic investment cycles. Many also possess tangible assets and pricing power that become more valuable in a world where capital is no longer abundant. Small- and mid-cap companies may be particularly well positioned, as they often generate a larger share of revenues domestically and stand to benefit directly from reshoring, infrastructure investment, and regional economic development.

FIGURE 6 From 60/40 to Multi-Asset Resilience



Source: Maria Katsileros/Aristotle Capital Boston.

This does not mean growth investing becomes obsolete. Rather, growth becomes more selective. The most compelling opportunities are likely to emerge in areas aligned with long-term structural trends such as AI, semiconductors, automation, cybersecurity, healthcare innovation, and digital infrastructure. These sectors continue to benefit from powerful secular tailwinds, although investors may need to be more valuation sensitive than during the era of ultra-low interest rates.

Regional allocation decisions also are becoming more important. The United States remains a leader in innovation and capital formation, but India stands out as one of the most attractive long-term growth markets due to favorable demographics, increasing foreign investment, and supply chain diversification. Parts of Southeast Asia and Latin America also may benefit from demographic expansion and strategic resource advantages.

The result is a shift away from broad global beta toward greater selectivity. As economic and market outcomes become more differentiated across countries, sectors, and company sizes, active management may be better positioned to identify opportunities created by regional growth drivers, policy support, and structural competitive advantages.

THE TRANSITION FROM GLOBALIZATION TO A MORE FRAGMENTED AND MULTIPOLAR WORLD HAS IMPORTANT IMPLICATIONS FOR EQUITY INVESTORS.

Equity allocation in the fractured world becomes less about maximizing exposure to globalization and more about balancing innovation with resilience through value-oriented sectors, small- and mid-cap companies, regional champions, and strategically important industries.

Fixed Income in a Fragmented World

The fixed income landscape also is undergoing a significant transformation. During the globalization era, bonds provided both income and diversification. Falling interest rates, declining inflation, and abundant global liquidity created a favorable environment for long-duration government bonds and investment-grade credit. When growth slowed, central banks typically cut rates,

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causing bond prices to rise and helping offset equity market declines.

That environment has become more complex. As inflation becomes more persistent, stocks and bonds can come under pressure simultaneously, weakening the diversification benefits that have long supported traditional portfolio construction. The broad decline across both asset classes in 2022 served as a reminder of this risk. As a result, fixed income remains a critical portfolio component, but its role is evolving from passive diversification toward income generation, capital preservation, and active risk management.

Greater emphasis is likely to be placed on duration management. Although higher yields have improved forward-looking return prospects, long-duration bonds remain vulnerable to inflation surprises, shifting central bank policies, and changing yield curve expectations. As yield curves continue to diverge across regions, investors may favor shorter-duration strategies that offer income while reducing interest-rate sensitivity.

Inflation-linked securities also warrant greater consideration. Treasury Inflation-Protected Securities and similar instruments can help preserve purchasing power in an environment where inflation is influenced by economic cycles as well as structural forces such as supply chain reconfiguration, demographics, and industrial policy.

Credit markets also are likely to become more differentiated. Sectors benefiting from energy security, infrastructure investment, defense spending, and technological modernization may exhibit stronger fundamentals than industries dependent on highly globalized supply chains. Similarly, emerging market debt warrants a selective approach. Although commodity-exporting countries may benefit from evolving trade dynamics, economies that rely heavily on imports are likely to face heightened economic headwinds. For investors, the key takeaway is that fixed income no longer can be viewed solely as portfolio ballast. In a fragmented world characterized by higher inflation, greater volatility, and increasingly divergent economic outcomes, successful fixed income investing may depend less on broad market exposure and more on selective positioning across duration, credit quality, sectors, and regions.

The Growing Role of Real Assets and Alternatives

In an environment characterized by higher inflation, increased volatility, and regional fragmentation, real assets and alternative strategies assume greater importance.

Infrastructure investments offer inflation-linked cash flows while benefiting from substantial public and private capital spending. Power generation, transmission networks, transportation assets, and digital infrastructure all stand to benefit from long-term investment trends.

Real estate remains valuable, particularly in sectors benefiting from demographic and economic shifts, including logistics, data centers, industrial facilities, and residential rental housing.

Commodities and natural resource investments provide direct exposure to energy security, resource scarcity, and inflation protection.

Gold also has re-emerged as an important portfolio diversifier. Rising geopolitical uncertainty, reserve diversification by central banks, and concerns regarding sovereign debt levels have supported renewed interest in precious metals.

Infrastructure, real estate, commodities, and natural resources can provide both inflation protection and exposure to long-term investment themes tied to energy security, digital infrastructure, and supply chain resilience. Together, these asset classes provide diversification that traditional stock-bond portfolios may struggle to deliver.

The Rise of Resilience as an Investment Theme

Ultimately, the defining investment theme of the fractured world may be resilience. Countries are prioritizing energy security, defense, domestic manufacturing, and technological sovereignty. Corporations are redesigning supply chains to reduce vulnerability. Investors are seeking assets capable of preserving purchasing power and generating durable cash flows under a wider range of economic outcomes.

This transition creates both risks and opportunities. The winners of the globalization era may not necessarily be the winners of the fragmentation era. Likewise, sectors previously overlooked during years of abundant liquidity and low inflation may regain strategic importance. Sectors tied to energy security, infrastructure, defense, automation, health care, and critical resources appear well positioned. Conversely, businesses heavily dependent on globally optimized supply chains or export-driven growth may face greater challenges.

Asset allocation therefore becomes less about maximizing exposure to global growth and more about balancing growth, resilience, inflation protection, and regional opportunity. The shift also reinforces the importance of active management. As regional differences widen and economic outcomes become more dispersed, broad market exposure may become less effective than selective allocation and security selection.

Conclusion

The global economy is undergoing a structural transformation that extends far beyond normal business cycle fluctuations. The forces of fragmentation, inflation, demographic change, industrial policy, and technological competition are reshaping economic growth, capital flows, and the investment landscape in ways that may persist for years, if not decades.

For investors, the challenge is not to predict or react to every geopolitical development or economic shock. Rather, it is to build portfolios capable of adapting to a world characterized by greater uncertainty, higher inflation, and wider dispersion of outcomes.

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The globalization era rewarded efficiency, scale, passive exposure, and duration. The emerging fractured world favors resilience, flexibility, regional specialization, real assets, and active management (see figure 7). Although diversification remains as important as ever, the definition of diversification itself must evolve. In a world characterized by more regionalized growth, persistently higher inflation, and increasingly influential geopolitical risks, successful asset allocation will depend less on maximizing exposure to global integration and more on constructing resilient portfolios adapted for a multipolar and rapidly changing economic landscape.

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ENDNOTES

1. The Belt and Road Initiative is a global infrastructure development strategy adopted by the Chinese government in 2013 to invest in nearly 150 countries and international organizations. https://en.wikipedia.org/wiki/Belt_and_Road_Initiative.
2. BRICS is an intergovernmental organization comprising 10 countries: Brazil, China, South Africa, Egypt, Ethiopia, India, Indonesia, Iran, Russia, and the United Arab Emirates. BRICS+ has been used informally to reflect new membership since 2024. https://en.wikipedia.org/wiki/BRICS.
3. "Outlook 2026: Promise and Pressure," J. P. Morgan Wealth Management, https://www.jpmorgan.com/content/dam/jpmorgan/documents/wealth-management/outlook-2026.pdf.
4. Statistics Bureau of Japan, https://www.stat.go.jp/english/data/jinsui/2022np/index.html.
5. World Economics Working-Age Population as a Percentage of the Total Population Database, https://www.worldeconomics.com/Indicator-Data/Demographics/Population-Of-Working-Age.aspx.

FIGURE 7 Five Portfolio Implications of Global Fracturing

1

Increase exposure to real assets

Infrastructure, commodities, and real assets can help hedge inflation and geopolitical risk.

Infrastructure	Real Estate	Natural Resources	Royalties & Resource Income
• Utilities • Power generation • Transmission networks • Pipelines • Transportation assets • Cell towers • Data centers	• Industrial / logistics facilities • Data centers • Self-storage • Multifamily housing • Healthcare properties • Senior housing	• Energy • Critical minerals • Agriculture • Timberland • Farmland	• Energy royalties • Mineral rights • Timber royalties • Agricultural royalties

2

Favor regional diversification over broad global beta

Regional growth trajectories are becoming increasingly differentiated.

3

Manage duration actively

Persistent inflation may reduce the diversification benefits of long-duration bonds.

4

Consider alternative sources of income

Alternative assets can provide diversified income streams and improve portfolio resilience in a higher-inflation, higher-volatility environment.

Private Credit	Dividend-Paying Equities	Preferred Securities	Alternative Credit	Energy Infrastructure
• Direct lending • Asset-backed lending • Specialty finance • Infrastructure debt • Mezzanine financing	• Utilities • Midstream energy • Telecommunications • Infrastructure companies • Financials • Mature industrial firms	• Bank preferreds • Utility preferreds • Hybrid securities	• CLO debt • Asset-backed securities • Insurance-linked securities • Specialty credit	• Master limited partnerships • Pipelines • Liquified natural gas facilities • Storage assets

5

Emphasize active management

Higher dispersion across countries, sectors, and industries creates opportunities for security selection.

Source: Maria Katsileros/Aristotle Capital Boston.

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