When Wars Start to Rhyme

Summary

- Geopolitical conflicts are becoming increasingly interconnected, creating lasting economic and market consequences that extend well beyond the battlefield.
- The world is moving toward a more multipolar and resilience-focused order, where strategic dependencies and critical chokepoints are being reevaluated.
- Investors should position portfolios for structural change by emphasizing infrastructure, energy resilience, diversification and other beneficiaries of a less globalized, more security-conscious world.

Why I Asked the Question

One of the privileges of my role is the ability to tap into some of the most experienced geopolitical thinkers in the world through our investment managers and research providers. Geopolitics has long been an area of personal interest for me, and I read a great deal on the topic, but interest does not equate to expertise. When a question starts rattling around in my head, I find it valuable to put it in front of experts willing and able to challenge the premise.

Recently, I reached out to a small group of those individuals with a question that had been on my mind: are the wars in Ukraine and the Middle East beginning to converge? I was trying to test whether investors had become too comfortable treating these conflicts as separate events with separate market implications. The conversations that followed were valuable because the answers did not settle neatly into one camp. Several people pushed back on the idea of a single unified conflict, while still acknowledging that the wars are increasingly interacting through their second- and third-order effects. To illustrate, the Russia-Ukraine war has its own battlefield dynamics, yet the energy calculus around Iran can still influence how aggressively Ukraine is permitted (by the US) to target Russian energy infrastructure.

One framing that resonated with me was the idea of a constellation of linked conflicts, each with its own drivers, but increasingly connected through the way governments, markets, and companies respond to them. That framing feels more accurate than saying the wars are simply converging. These conflicts are increasingly creating feedback loops across markets, military resources, and political decision-making. For investors, that interaction is what makes the current environment so difficult to analyze versus prior conflicts that could be evaluated in isolation.

Geopolitics Is Moving Into Fundamentals

One theme that surfaced repeatedly during these conversations is one we have been writing about for several years. Geopolitics and economics are becoming harder to separate. For much of the post-Cold War period, investors were taught, including yours truly, to treat geopolitical shocks as events to look through as they proved to be transitory in their impact on the global economy and markets. That mindset doesn't appear likely to be effective as we continue to experience an unwinding of the post-Cold War globalization that opened markets, lowered interest rates and stabilized trade linkages, and evolving into a world more dependent on critical pathways that can be turned into negotiating leverage when the geopolitical environment changes.

We've called the friction created as these pathways are constrained "chokepoints" in the framework we introduced in recent LNW commentaries. For example, Covid exposed supply chain fragility whereas Russia's invasion of Ukraine exposed Europe's energy dependence. Episodes like these have made visible a vulnerability that had been easier to ignore when markets were more focused on efficiency than resilience. That is why these events have mattered beyond the immediate headlines. They have revealed how quickly a geopolitical event can become systemic by moving into the cost structure of the real economy.

However, the uncertainty surrounding the Iran War and the Strait of Hormuz makes the most striking point. The reported increase in war-risk premiums as a component of shipping insurance from roughly $300,000 to as much as $10 million illustrates how quickly assumptions can change (Blackrock). Those premiums will likely decline as tensions ease, but it is hard to imagine them returning fully to prior levels now that the vulnerability has been exposed. That higher cost structure creates an incentive for global trade to find alternative routes and for capital to flow toward resilience. That process may take years, but it is exactly the kind of adjustment that can outlast the crisis that set it in motion.

Moreover, markets seems to be focusing on when and how shipping eventually returning to the state it was in before the Iran conflict. As I have pointed out in recent media interviews, believing that it ever returns to the previous regime strikes me as wishful thinking. Europe already reevaluated its dependence on Russian energy after 2022 and now, the world may now be reevaluating dependence on a route through which such a large share of global energy flows. Once dependence is exposed, reducing it becomes a strategic objective and that is likely to have enduring fundamental consequences.

The Multipolar World Is Becoming Easier to See

In my discussions, the emergence of a multipolar world, a theme we at LNW been developing for several years and a once abstract idea, dominated as it has become more tangible. While the United States remains the dominant military power and the central actor in global capital markets both allies and enemies appear to be spending more time preserving flexibility and reducing dependence on any single relationship. That shift is especially important in regions where U.S. security guarantees were once treated as the foundation of the local order and, now, at best, seem unreliable and, at worst, closer to a paper tiger.

The Middle East is one place where that shift is easiest to see. Countries that historically relied heavily on U.S. security guarantees *may* still value the relationship and will continue to say so publicly. They are also exploring other arrangements that give them room to maneuver. The recent NATO like pact between Saudi Arabia, Turkey, and Pakistan is relevant because it reflects a broader search for alternatives, even if the practical value of any agreement remains uncertain. The significance lies in the motivation behind the behavior. Regional actors clearly believe they need more options outside of their relationship with the US.

One idea I raised in several conversations was whether China could increasingly be viewed as the steadier hand in global affairs, especially by countries frustrated with the volatility of the U.S. election cycle and the degree to which American policy can swing from one administration to the next. The reaction was striking because my colleagues wouldn’t dismiss the possibility outright. Several in fact agreed that China may have an incentive to build on that perception rather than disrupt it through an overt move against Taiwan for example.

When it comes to Taiwan / China tension the expectation in several of my conversations was a continued increase in what the strategist called, “gray-zone pressure” (i.e. economic, political, cyber, and military coercion that falls short of outright war) rather than a near-term invasion. That squares with the idea that China may prefer a slower campaign if it believes time is working in its favor. A direct military move could undermine the perception China may be trying to cultivate of being the geopolitical steadier hand, while a gradual tightening of pressure allows Beijing to keep building influence without forcing countries into immediate choices.

Countries will still try to maintain strong relationships with the United States, and many will continue to do so publicly. However, closer ties with China may feel more attractive when predictability itself becomes a form of geopolitical currency.

The Search for an Off-Ramp: Tying Iran and China Together

Iran may be weakened in some obvious ways by military pressure, economic strain, and domestic unrest. However, I'll argue that Iran has discovered a weapon that, in some ways, is more powerful than possessing nuclear weapons. Its ability to affect a critical chokepoint gives it tremendous leverage to hold the global economy hostage. Iran's actions in the Strait have sent a message to the world that a country does not need a dominant economy or military to influence markets if it can affect trade routes.

That said, the longer-term irony is that Iran's use of Hormuz may ultimately accelerate efforts to reduce dependence on Hormuz. As mentioned earlier, governments and companies respond when vulnerabilities become visible and costly enough. They find alternative routes and build redundancies. While that process takes time, we feel confident in saying Iran's leverage of the strait will influence where capital is deployed and where opportunities emerge.

And in the near-term, Iran faces domestic constraints. One point raised in my discussions was that Iran's leadership needs economic relief to manage internal pressure and fund the security apparatus that keeps protests contained. That makes the off-ramp complicated because ending the conflict without meaningful relief would likely create domestic risk for the current leadership regime. The sequencing problem is difficult as well. Iran is unlikely to surrender its remaining leverage before receiving sanctions relief, while the United States may struggle to deliver credible relief if the political calendar becomes more difficult.

One possible scenario we discussed was a more indirect path to a deal involving China. In that version, Saudi Arabia or another regional actor could ask President Trump to engage President Xi, creating a way for China to pressure Iran while allowing the United States to claim progress without looking like it had asked China for help. While this scenario is not a base case in terms of it happening or it being successful, the fact that it is plausible to discuss China as part of the diplomatic architecture in a conflict centered on the Middle East reinforces the emergence of China's influence on the geopolitical stage.

The Defender's Edge

One idea I raised in several of these conversations is that the wars we are watching seem to be favoring the defender more than many people would have expected. Both Ukraine and Iran have survived longer than many assumed showing that geography and asymmetric capabilities can complicate a stronger adversary's plans. Taiwan is surely studying those lessons, and so is China. When I floated this idea, it seemed to resonate because it reframed the discussion away from traditional measures of military power and toward the practical difficulty of forcing outcomes against a motivated defender facing existential risks.

The advent of cheap drones and other asymmetric tools may be one of the most important military lessons of the past several years. In one discussion, we talked about the cost imbalance between inexpensive drones and the far more expensive systems often used to intercept them. That kind of math changes the way countries think about deterrence because it allows weaker actors to impose costs on stronger ones in ways that were harder to imagine a generation ago.

Since I believe stress testing issues for both negative and positive outcomes, I also raised a more optimistic possibility that initially may sound a little counterintuitive. If the cost of deterrence falls enough, the national defense playing field may become more level over time. Smaller countries may become harder to coerce, and larger countries may need to think more carefully before assuming that conventional superiority translates into achievable political outcomes. Several people I discussed this with had not thought about the issue that way, but they viewed it as a viable third-order effect, even if an optimistic one.

That possibility does not make the world safer in any simple sense (although, who knows, low cost defense could create an era of uneasy peace dividend, no?) It does remind us, however, that third-order effects can move in unexpected directions. The same technologies making conflict more disruptive may also reduce the appeal of initiating some conflicts in the first place.

What This Means for Investors

These conversations reinforced the regime-change framework we have been discussing since early 2022. We argued then that the investment environment was shifting toward a higher steady state for inflation, interest rates, and volatility. The current geopolitical backdrop fits within that broader framework because resilience usually costs more than efficiency. Supply chains become more redundant. Energy systems require more investment. Companies and governments pay more attention to where critical inputs come from and how exposed they are to disruption.

This is also where the energy discussion becomes more interesting. I have surprised a few people by suggesting that President Trump could ultimately in actual impact be the “greenest” president ever. Counterintuitively, the Iran conflict has forced countries to confront how dependent the global economy remains on fossil fuels moving through vulnerable routes. A war that exposes dependence on the Strait of Hormuz may do more to accelerate investment in alternative energy and energy resilience than years of policy speeches. The motivation may be security rather than climate, but capital does not care why the investment is made. It cares where the money flows.

That has implications for infrastructure. The world’s response to a more fragmented geopolitical environment will require investment in the physical systems that make economies more resilient. Some of that investment will support traditional energy. Some will support renewables, power grids, storage, and transmission. The common thread is that countries want more control over the systems that support economic activity. That is a very different world from the one where the primary objective was to produce wherever costs were lowest and move goods wherever shipping was cheapest.

From a portfolio perspective, the opportunity lies in understanding how these adaptations unfold over time and positioning portfolios accordingly. We have viewed the shift toward a more fragmented and resilience-focused world as an investment theme for several years, which is one reason we have maintained dedicated exposure to infrastructure across a wide range of areas including power generation, electrification, transmission, storage, and other assets that support economic resilience. It is also why we have sought opportunities tied to national security priorities identified by the U.S. government, where public policy and private capital are increasingly moving in the same direction.

The same thinking informs our interest in the commercial development of the space economy. While much of the investment world's attention has gravitated toward artificial intelligence, space remains an area where investment levels are small relative to the size of the long-term opportunity. Rather than pursuing headline-grabbing companies, these strategies focus on the suppliers and supporting ecosystem that enable the broader buildout. We view that as another example of investing in critical infrastructure that may become increasingly important in the years ahead.

We have also emphasized areas of the market where return opportunities are less tied to the dominant U.S. AI narrative. Part of that comes through investments outside the United States, where years of U.S. outperformance have left many investors with significant home-country bias. Part of it comes through diversifying strategies that can capitalize on dislocations created by a higher and more persistent level of volatility. In many respects, these portfolio decisions are connected by a common thread. They reflect our view that resilience is carrying a higher premium than it did during the globalization era and that capital will continue to flow toward the assets, businesses, and infrastructure that help countries and companies adapt to that reality.

Closing Thought

What I appreciated most about these conversations is that they moved beyond the conflicts themselves. They reinforced themes we have been discussing since early 2022, particularly the emergence of a more multipolar world, the growing importance of resilience, and the increasing overlap between national security and economic decision-making. Countries and companies are spending more time understanding vulnerabilities that were largely taken for granted during the post-Cold War era.

As investors, that is where I believe our focus belongs. The outcome of any individual conflict, or even a series of interconnected conflicts, is impossible to predict with confidence. What we can observe is how governments, companies, and markets are responding to the environment in front of them. To me, the most important takeaway from these discussions is the structural change the world is undergoing and the extent to which that change is making geopolitical developments more relevant to markets than they were for much of the last generation, an evolution consistent with the regime-change framework we have been discussing for several years.

ABOUT THE AUTHOR

Ronald G. Albahary, CFA® is Chief Investment Officer at LNW. As head of the investment team (see below), Ron determines the firm's investment strategy, directs the investment selection process, and works in tandem with client advisory teams to deliver investment solutions structured to attain each client's unique goals. Prior to joining LNW, Ron served as CIO or CEO at regional investment firms focused on ultra-high-net-worth families and foundations. Earlier in his career, he held leadership positions in the private client business of major global financial institutions, including Merrill Lynch and Northern Trust Private Bank. Ron has a degree in economics from the Wharton School at the University of Pennsylvania and currently serves as advisor to the Center for High Impact Philanthropy at the University of Pennsylvania.

The LNW investment team is comprised of 12 analysts and strategists working together to design and implement investment solutions for client portfolios. Six analysts at the firm hold the Chartered Financial Analyst® designation, with expertise spanning macroeconomics, public and private asset classes across the global capital markets, and impact investing. Collaborating with each other and with client advisors, the investment team's overarching goal is to help clients and their families preserve and grow their wealth over many generations.

ABOUT LNW

LNW Advisors provides services to support exceptional families and individuals seeking to activate the full potential of their wealth. To help turn lifetime ambitions and multigenerational aspirations into reality, Laird Norton Wetherby (LNW) brings to each client a high level of care combined with deep expertise in wealth and legacy planning, investments, and trust and estate services.

Offering both RIA (registered investment advisor) and trust services, LNW is committed to providing clients with unbiased, independent guidance and solutions. LNW has offices in Seattle, San Francisco, New York, Los Angeles and Philadelphia, as well as an affiliated trust company in South Dakota, empowering clients across the U.S. and around the world.

LNW is owned by employees and majority owned by Laird Norton Company, one of the longest-sustained family enterprises in the United States. To learn more, please visit LNWadvisors.com

LNW

PERSONAL WEALTH ADVISORY BY
Laird Norton Wetherby

DISCLOSURES

LNW or LNW Advisors refers to Laird Norton Wetherby Trust Company, LLC, a State of Washington chartered trust company; LNW Trust Company of South Dakota, LLC, a state of South Dakota charted trust company; and an investment adviser registered with the Securities and Exchange Commission, Laird Norton Wetherby Wealth Management, LLC.

This presentation includes candid statements and observations regarding investment strategies, individual investments, economic and market conditions; however, there is no guarantee that these statements or forecasts will prove to be correct. These comments may also include the expression of opinions that are speculative in nature and should not be relied on as statements of fact. LNW Advisors views and opinions regarding the investment prospects of our portfolio holdings include "forward looking statements" which may or may not be accurate over the long term. While LNW believes there is a reasonable basis for the appraisals and there is confidence in our opinions, actual results may differ materially from that was anticipated.

All investments involve a level of risk, and past performance is not a guarantee of future investment results. The value of investments and the income derived from them can go down as well as up. Future returns are not guaranteed, and a loss of principal may occur. All investment performance can be affected by general economic conditions and the extent and timing of investor participation in both the equity and fixed income markets. Asset allocation, due diligence, and diversification do not guarantee a profit or protect against a loss.

This presentation is not intended as investment advice; LNW offers investment advice only on a personalized basis after understanding the client's individual needs, objectives, and circumstances. The information presented herein does not constitute and should not be construed as legal advice or as an offer to buy or sell any investment product or service. Any accounting, business or tax advice contained in this presentation is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. Any opinions or investment planning solutions herein described may not be suitable for all investors nor apply to all situations. All opinions expressed are those of LNW and are current only as of the date appearing on this material.

Certain information herein has been obtained from public third-party data sources, outside funds, and investment managers. All data presented is current only as of the date shown. Although LNW believe this information to be reliable, no representation or warranty, expressed or implied, is made, and no liability is accepted by LNW or any of its officers, agents or affiliates as to the accuracy, completeness or correctness of the information herein contained.

Should a reader have questions regarding the applicability of information presented to her/his individual situation, she/he is encouraged to consult with the professional adviser of her/his choosing. A copy of LNW's current ADV Part 2 & 3 discussing our advisory services, fees, and other relevant information is available upon request. LNW recommends individuals visit Investor.gov/CRS for a free and simple search tool to research us and our financial professionals.

A benchmark is an unmanaged index, and its performance does not include any advisory fees, transaction costs or other charges that may be incurred in connection with your investments. Indices are statistical composites and are shown for informational purposes only. It is not possible to invest directly in an index. Indices are unmanaged and are not subject to management fees. Any benchmark whose return is shown for comparison purposes may include different holdings, a different number of holdings, and a different degree of investment in individual securities, industries, or economic sectors than the investments and/or investment accounts to which it is compared. Comparisons of individual account or portfolio performance to an index or benchmark composed of indices are unreliable as indicators of future performance of an actual account or portfolio. Actual performance presented represents past performance net of investment management fees unless otherwise noted. Other fees, such as custodial fees or transaction related fees may not be reflected in the actual performance results shown.

DEFINITION OF INDEXES

Global REITs = FTSE EPRA NAREIT Global Index

A global equity benchmark designed to track the performance of publicly traded real estate companies and REITs worldwide. It includes property owners and operators that meet strict criteria for real estate activities, liquidity, and transparency.

Intermediate Muni Bonds = Bloomberg Municipal 1-10 Year Index

A bond index measuring the performance of U.S. investment-grade municipal bonds with maturities between 1 and 10 years. It includes tax-exempt bonds issued by state and local governments and their agencies, focusing on the short-to-intermediate segment of the muni market.

US Core Taxable Bonds = Bloomberg U.S. Aggregate Bond Index

A broad, market-capitalization-weighted benchmark for the U.S. investment-grade fixed income market. It includes U.S. Treasuries, government-related bonds, corporate bonds, mortgage-backed securities (MBS), asset-backed securities (ABS), and commercial mortgage-backed securities (CMBS).

Hedge Funds = HFRX Global Hedge Fund Index

An investable index designed to represent the global hedge fund industry using a rules-based selection of hedge funds. It covers multiple strategies (e.g., equity hedge, event-driven, macro, relative value) and emphasizes transparency, liquidity, and lower survivorship bias.

US High Yield Bonds = Bloomberg U.S. High Yield Bond Index

A benchmark tracking the performance of U.S. dollar-denominated, below-investment-grade corporate bonds publicly issued in the U.S. domestic market. It reflects the high-yield (or "junk") segment of the corporate bond market.

US Large Cap Equities = S&P 500 Index

A widely followed equity index measuring the performance of approximately 500 large-capitalization U.S. companies. It is market-cap-weighted and designed to represent the core of the U.S. equity market across multiple sectors.

US Small-cap Equities = Russell 2000 Index

A U.S. equity index that measures the performance of approximately 2,000 small-cap companies drawn from the broader Russell 3000 Index. It represents the small-cap segment of the U.S. stock market and is widely used as a benchmark for U.S. small-cap equities, which typically exhibit higher growth potential and higher volatility than large-cap stocks.

Global Equities = MSCI ACWI (All Country World Index)

A global equity index capturing large- and mid-cap stocks across both developed and emerging markets. It represents the broadest commonly used benchmark for global equity performance, covering roughly 85% of global investable market capitalization.

Emerging Markets = MSCI Emerging Markets (MSCI EM)

An equity index representing large- and mid-cap companies across emerging market countries. It provides exposure to faster-growing economies with higher potential returns and higher volatility relative to developed markets.

Developed Int'l Equities = MSCI EAFE

An equity index covering large- and mid-cap stocks in developed markets outside the U.S. and Canada, specifically Europe, Australasia, and the Far East. It is a standard benchmark for international developed-market equities.

Commodities = Bloomberg Commodity Index

A broadly diversified benchmark tracking the performance of futures contracts on physical commodities. It provides exposure across major commodity sectors, including energy, metals, and agriculture, with weighting constraints to limit concentration in any single commodity or sector.

Global Infrastructure = S&P Global Infrastructure Index

A global equity index designed to measure the performance of publicly traded infrastructure companies around the world. It includes firms involved in infrastructure-related businesses such as transportation (airports, toll roads, railways), utilities (electricity, gas, water), and energy infrastructure (pipelines and storage). The index is structured to provide diversified exposure across regions and infrastructure subsectors and is commonly used as a benchmark for global listed infrastructure investments.