

From globalization to resilience: a new market framework



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Since Donald Trump came to power, geopolitical tensions have escalated, calling into question alliances that were once considered set in stone. This was expressed openly by several leaders at the World Economic Forum in Davos at the end of January. Canadian Prime Minister Mark Carney gave a speech described as historic, calling for the formation of an “*alliance of middle powers*” capable of exerting influence between rival blocs. Emmanuel Macron, for his part, denounced “*a world now governed by the law of the strongest*” and stressed the urgent need for far-reaching reform of the European Union so that it can emerge as an autonomous strategic power. These statements, delivered in a location emblematic of globalization, highlighted the growing gap between yesterday’s international order and the one now taking shape.

Everything suggests that the cycle that began in the 1980s, founded on the belief that trade would automatically spread peace, is drawing to a close. In this new context, states are seeking to protect their vital interests, secure their supplies, and strengthen their defense capabilities—whether physical, digital, or energy-related. For investors, this represents not only a source of risk: this paradigm shift is also reshaping the opportunity set, to the benefit of those players that place resilience at the heart of their priorities.





How is today's geopolitical paradigm shift reshaping investment decisions?

Against this backdrop of geopolitical realignment, a growing share of value creation is shifting toward companies that help make our societies safer and more resilient. This is the rationale behind the “Global Resilience” strategy, which focuses its investments on four main pillars.

The first is defense and cybersecurity. European defense companies are expected to post growth close to 10% per year over the next decade¹, while cybersecurity budgets, driven by rising cyber risk, are projected to expand by around 15%². The second pillar covers security and protection, in a context where healthcare spending already accounts for nearly 10% of global GDP³.

The last two pillars concern access to strategic resources and critical infrastructure. The new geopolitical landscape calls for greater sovereignty in key sectors such as agriculture, energy, and critical materials, placing center stage those companies that secure the production, processing, and distribution of these resources. As for infrastructure operators (water, gas, transport, energy, and logistics networks), they perform essential activities in environments that are often regulated and relatively stable, providing visible, low cyclical growth that is only marginally exposed to geopolitical uncertainties.

Resilience is also assessed at the level of each individual company, based on three criteria: financial strength (low leverage, positive cash flow), vertical integration (control of the value chain, diversified suppliers and clients), and local roots (limited dependence on exports and therefore reduced sensitivity to customs duties).

To what extent have recent market developments influenced your portfolio construction?

Recent market developments have reinforced the relevance of this investment framework, particularly regarding the “strategic resources” and “critical infrastructure” pillars, which are often neglected because they are seen as unfashionable. Exposure to these players-under-represented in portfolios and undervalued despite being central to the modernization and security of economies- has therefore been strengthened.

1. Source: Edmond de Rothschild AM (France).

2. Source: Edmond de Rothschild AM (France).

3. Source: World Health Organization, september 2024.



Could you give us some concrete examples of stocks that illustrate this approach?

Among the portfolio's core positions is GTT⁴, which has developed the most efficient membrane technologies for the maritime transport of liquefied natural gas (LNG). The group's technological edge is such that it holds more than 90% of the global market in this segment. At a time when many countries are seeking to diversify their energy supplies and secure access to LNG, these transport solutions are a major asset. The portfolio also includes exposure to Severn Trent⁴, which operates water networks in the Birmingham area. This business is non cyclical by nature -water consumption is largely unaffected by economic fluctuations- and operates in a regulated framework, offering good revenue visibility and steady growth in line with the need to modernize essential infrastructure.

Where do you see the main pockets of risk in markets today?

Several areas of concern call for a selective approach. One of these is generative artificial intelligence, which is likely to encounter three major obstacles over the next 12 to 18 months: physical constraints on electricity supply, increasingly visible financing constraints, and challenges related to the monetization of AI. The substantial investments made in this field raise questions about the economic returns that can realistically be achieved, especially given that they can no longer be financed through operating cash flows, but only through debt. In this context, the riskiest segments linked to this theme are deliberately avoided.

The management team is also monitoring developments in the private debt market very closely, in light of recent defaults (Tricolor and First Brands). Even though banks now boast stronger capital ratios and appear better equipped to absorb potential shocks, increased stress in this segment would still have repercussions for them. This is why the decision has been made to avoid pure financial stocks, in order to preserve the portfolio's resilience profile.

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