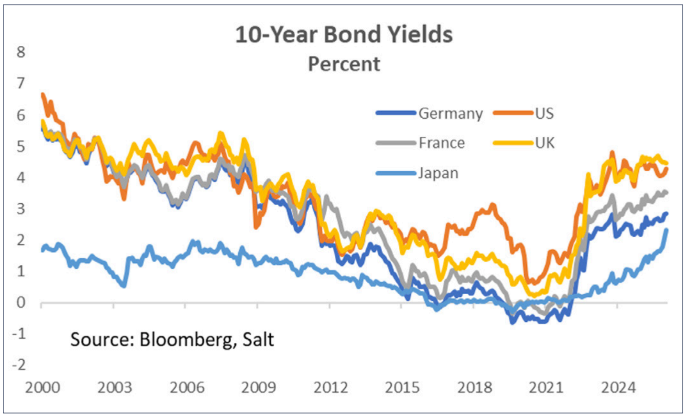
By: **Bevan Graham**, Economist
22 January 2026

The End of the Rules-Based Order? Implications for Long-term Investors

The recent escalation in geopolitical tensions, alongside the erosion of the global rules-based order, represents a structural rather than cyclical challenge for long-term investors across all asset classes. Unlike episodic geopolitical shocks, the current environment points to a more persistent rise in uncertainty around trade, security, and international economic governance. This shift is likely to raise risk premia across asset classes, dampen potential growth through reduced trade and investment, and increase the volatility of macroeconomic outcomes.

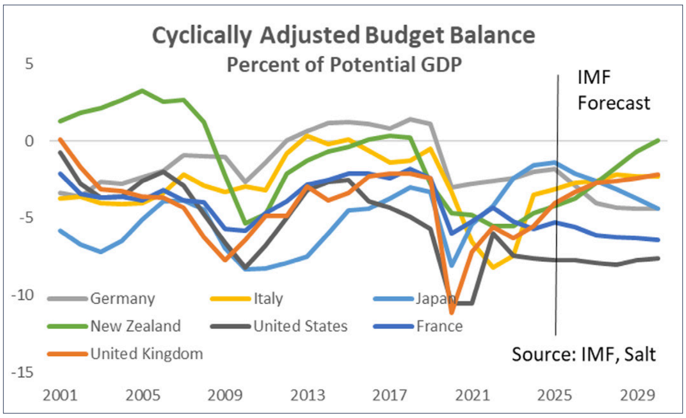


The implication for long-term investors is not simply higher short-term market volatility, but a reassessment of the assumptions underpinning valuation, diversification, and expected returns. In such an environment, reliance on static, market-capitalisation-weighted exposures becomes more challenging, increasing the value of active decision-making around risk, sector exposure, and capital allocation.

For global equities, a sustained period of geopolitical fragmentation is likely to result in a higher required return on capital, reflecting elevated political and policy risk. While this may mechanically lift long-run expected equity returns, it is also likely to compress valuation multiples relative to the unusually benign conditions that characterised the post-GFC period. Globalisation supported earnings growth, margin expansion, and lower discount rates for more than a decade; a reversal of that trend implies greater dispersion in equity outcomes across sectors, regions, and business models. Yet at present, there is a rare equity risk "discount" (i.e. no risk premium) on key US indices, implying that many investors have been effectively willing to "pay" to take on equity risk, compared to sovereign debt. Any prospect of a multi-year equity bear market seems far from investors' minds, as dip-buying has been consistently rewarded since 2022, and the success of higher-risk and momentum factors have skewed some equity market participants away from robust portfolio construction and towards a trading- and crowding mentality. However, history shows that market cycles and reversions are inevitable.

In this environment, quality characteristics become increasingly important. Companies with strong and durable returns on invested capital, conservative balance sheets, resilient cash flows, and demonstrable pricing power are better positioned to absorb higher costs, supply-chain disruptions, and policy uncertainty. By contrast, firms reliant on leverage, fragile margins, or finely tuned global supply chains are more exposed to adverse shocks. This growing dispersion, and the premium placed on balance-sheet strength and earnings durability, materially strengthens the case for active equity management over passive exposure.

The implications for bond markets are equally structural. Heightened geopolitical risk tends to push up term premia, as investors demand greater compensation for uncertainty around inflation, fiscal sustainability, and policy credibility. At the same time, increased defence spending and supply-chain duplication place additional strain on public finances, particularly in economies already facing ageing populations and elevated debt levels. This combination suggests that long-duration government bonds may deliver lower real returns over time than investors have come to expect, even if they continue to provide protection in acute risk-off episodes. In this context, active duration management and yield-curve positioning become increasingly important, as passive exposure to long-dated bonds may embed a structural headwind from higher neutral rates and rising fiscal risk.



Credit markets are also likely to be more sensitive to a weakening global rules-based framework. Slower trend growth and more frequent geopolitical and policy shocks raise default risk, particularly for highly leveraged corporates and sovereigns with limited fiscal space or weaker institutional credibility. While wider spreads may improve headline yields, the dispersion of outcomes across issuers is likely to increase. This environment favours active credit management, where rigorous credit analysis and issuer selection can help distinguish between those borrowers able to absorb higher funding costs and those more vulnerable to refinancing or policy shocks.

From a strategic asset-allocation perspective, these developments point to a gradual shift away from portfolio construction frameworks built on assumptions of stable global integration and predictable policy responses. This will mean capital markets returns assumptions which imply fairly smooth compounding rates of return over the decade ahead must be interrogated. Long-term investors may need to place greater emphasis on scenario analysis, stress testing, and portfolio resilience across a wider range of geopolitical outcomes. As is always the case, diversification remains essential, but its sources may increasingly lie across policy regimes, asset types, carefully selected real assets and currency holdings, rather than simply across geographies. Infrastructure, inflation-linked securities, and assets tied to essential services may play a larger role as hedges against supply-side disruptions and policy-driven inflation, with active management helping to navigate regulatory, political, and valuation risks within these sectors.

The breakdown of the global rules-based order does not signal an end to attractive long-term returns in equities or bonds, but it does materially alter the balance between risk and reward. Expected returns may be similar, but they will come with greater uncertainty, more frequent regime shifts, and less reliance on valuation expansion or policy backstops.

For long-term investors, the challenge is less about forecasting individual geopolitical events and more about constructing portfolios that can adapt to a world in which economic policy, security considerations, and financial markets are more tightly, and unpredictably, intertwined. In that context, active investment management is likely to play a more important role than it has during the era of low volatility, abundant liquidity, and steadily deepening global integration.