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Insight
INVESTMENT

GLOBAL MACRO RESEARCH BOTTLENECKS AND CHOKEPOINTS

THE NEW GLOBAL BATTLEGROUND

SEPTEMBER 2026





EXECUTIVE SUMMARY

- Geopolitical risk has become a persistent feature of the investment landscape, driven primarily by strategic competition between the US and China and a more fragmented global order.
- Globalisation is giving way to a world of strategic chokepoints, where trade routes, energy infrastructure, critical minerals, semiconductors, payment systems and capital markets are increasingly used as tools of geopolitical influence.
- Supply-chain security is replacing efficiency and cost as a priority, accelerating reshoring, regionalisation and investment in strategic industries, with implications for inflation, growth and corporate profitability.
- Low-cost drone technology is reshaping warfare and strategic geography, increasing the vulnerability of infrastructure, lowering the barriers to projecting power and elevating the importance of key trade routes and locations.
- Investors must adapt to a world of higher inflation, greater market volatility and increasing financial fragmentation, where sanctions, capital controls and geopolitical shocks can have material consequences for asset prices and liquidity.
- Competition for strategic chokepoints, from Greenland and the Arctic to Cuba and the Strait of Malacca, is likely to have lasting implications for global trade, security and investment risk.
- We believe this environment is likely to favour active fixed income investing, creating recurring market dislocations and opportunities to deploy capital when risk is being more attractively rewarded.

GEOPOLITICAL UNCERTAINTY HAS BECOME PERSISTENT

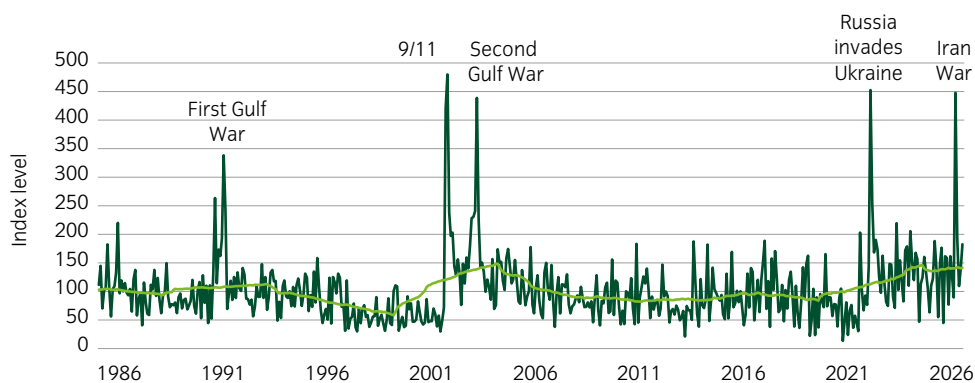
Geopolitical risk has always been a key consideration for investors. Historically, wars, terrorist attacks and other geopolitical shocks have triggered bouts of market volatility as investors reassessed growth prospects and risk. More recently, however, these episodic disruptions have evolved into a more persistent source of uncertainty, with geopolitical tensions becoming a near-constant feature of the investment landscape.

At its heart, this shift reflects the growing competition between the US and China. As the world's two dominant economic and military powers, their rivalry increasingly shapes trade, technology, supply chains and global security. Other nations are being drawn into this competition to varying degrees, reshaping political and economic alliances. Russia remains an important geopolitical actor, particularly through its military influence and energy exports, but it lacks the economic scale of either the US or China.

The two powers also approach international relations from markedly different perspectives. US policy often reflects a more transactional approach, driven by shorter political cycles and a focus on near-term outcomes. China, by contrast, tends to pursue strategic objectives over much longer time horizons, employing a more patient and coordinated approach to advancing its national interests. Understanding the interaction between these competing models is becoming increasingly important for investors seeking to navigate a more fragmented and uncertain world.

Two Fed economists, Dario Caldara and Matteo Iacoviello, have created a Geopolitical Risk Index, which captures this underlying shift. The index is based on key word searches across 10 major newspapers suggests that underlying global tensions are as high today as they were in the period of the 9/11 attacks and second Gulf War (see Figure 1).

Figure 1: Geopolitical risk has trended upwards since 2020¹



¹ Source: [Geopolitical Risk Index](#)

FROM GLOBAL SUPPLY CHAINS TO GLOBAL CHOKEPOINTS

With China shifting from trading partner to strategic rival, the model of high-consumption economies outsourcing production to economies with low labour costs has started to unravel. Security of supply has become more important than cost alone, and this sentiment has been compounded by the post-pandemic supply shock and the introduction of tariffs in the US.

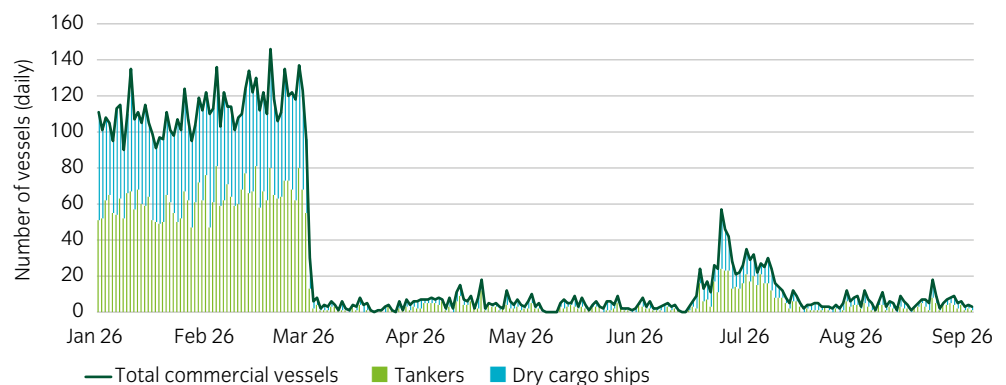
Globalisation led to an influx of cheap goods, which had a disinflationary effect across major economies, counterbalancing high domestic service inflation. In some periods the impact was so dramatic that central banks became more worried about deflation than inflation. In our view, deglobalisation is now a key factor in the persistent inflation we're seeing across the world.

GLOBAL CHOKEPOINTS ARE THE NEW BATTLEGROUND

More recently, the concept of bottlenecks has shifted into focus.

On a geographical level, this has been most apparent in the Strait of Hormuz, one of the world's most critical routes for energy and trade. Following the conflict between the US and Iran, shipping traversing the Strait has dropped dramatically (see Figure 2), effectively creating a new global supply shock, although not as dramatic as the one seen post-pandemic when the shipping industry faced severe crew shortages.

Figure 2: The number of vessels travelling through the Strait of Hormuz has dropped to close to zero²



Beyond the Strait, the conflict has exposed broader vulnerabilities across the global energy supply chain. One example is the sharp rise in diesel refining margins. Historically, diesel traded at only a modest premium to crude oil, but margins have widened significantly (see Figure 3). This reflects not only disruption to Gulf infrastructure but also damage to Russian refining capacity and a decline in Chinese exports of refined petroleum products. Natural gas markets have also come under pressure. While prices remain well below the peaks reached during the 2022 energy crisis, they are still materially higher than a year ago (see Figure 4) and continue to feed through into elevated European energy costs.

The consequences extend well beyond energy markets. A wide range of products, from fertilisers and sulphuric acid to other industrial chemicals, rely on highly energy-intensive production processes. As a result, supply disruptions and higher energy costs can ripple through supply chains, raising costs and creating bottlenecks across both manufacturing and agriculture. The EU has already accelerated its shift to renewables, but many developed market governments are likely to be viewing recent events as reinforcing the economic vulnerability that over-reliance on global supply chains brings.

² Source: Insight and Bloomberg. Data as at 2 September 2020.

Figure 3: The spread has dramatically widened between EU gasoil (diesel) and Brent crude³



Figure 4: The European natural gas price has more than doubled³



CHOKEPOINTS AREN'T ONLY GEOGRAPHICAL

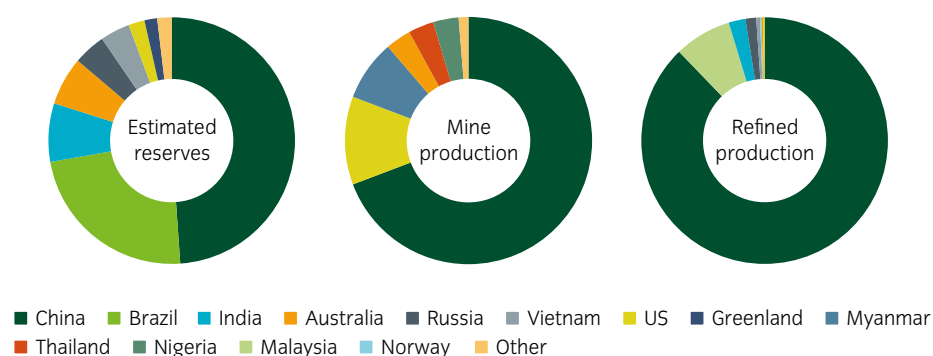
CRITICAL MINERALS AND RARE EARTH METALS

China has spent years executing a patient and deliberate industrial strategy to secure dominance in the refining of a wide range of critical minerals – none more so than rare earth metals. While many critical minerals underpin a wide range of technologies, rare earths, particularly the six used in high-performance magnets, are uniquely vital to aerospace and defence applications. China controls around 69% of rare earth element mining production, and around 61% of those elements used for magnets. Its influence is even more pronounced in the refining stage, with roughly 88% of global processing taking place within China⁴. This gives Beijing substantial leverage to restrict access to these critical materials – leverage that could become existential in the event of a major conflict that saw military stocks rapidly depleted.

³ Source: Bloomberg, Insight September 2026.

⁴ Source: <https://www.mining-technology.com/analyst-comment/china-global-rare-earth-production/>

Figure 5: China dominates rare earth metals, and the rest of the world is playing catch-up⁵



To push back against Chinese dominance, the US government has invested heavily in domestic firms, including private partnerships, granting access to federal land for exploration and offering price floors for future sales.

SEMICONDUCTOR TECHNOLOGY

Since 2022, the US has imposed controls not only on advanced semiconductor chips bound for China, but also on the machinery and software required to produce them. These rules extend beyond US firms to include foreign-made products that incorporate US technology. This reflects the deeply globalised nature of the semiconductor supply chain, with critical stages and companies based in allied nations such as the Netherlands, Japan, and Taiwan.

In response, China introduced export controls on gallium and germanium – key metals used in semiconductor wafer production – and escalated to a full export ban to the US (but not other countries) in December 2024. The ban was then suspended for a 12-month period between November 2025 and November 2026 following a meeting between President Xi Jinping and President Trump. China has also invested over \$100bn to build out its domestic semiconductor industry, underpinned by the National Integrated Circuit Industry Investment Fund.

GLOBAL PAYMENT SYSTEMS/SWIFT ACCESS

The global payments landscape is becoming increasingly fragmented as countries have been excluded from parts of the international financial system in efforts to isolate them economically and restrict cross-border trade. In response, alternative payment networks have emerged, most notably in Russia and China, reducing reliance on Western-dominated infrastructure.

At the same time, blockchain-based payment systems offer the potential to facilitate cross-border transactions without relying on traditional intermediaries such as SWIFT, the messaging network that underpins much of global banking communication. While these developments may increase resilience and provide alternatives to existing networks, they also risk creating new forms of fragmentation.

If competing payment systems, blockchain networks and settlement technologies evolve in parallel without interoperability, the result could be a more complex global payments ecosystem. Rather than eliminating bottlenecks, fragmentation may simply create new ones, as countries and trading blocs coalesce around different standards, technologies and financial infrastructure.

⁵ Source: US Geological Survey 2025.

MARINE INSURANCE

Following the closure of the Strait of Hormuz, marine insurance costs for vessels transiting the region rose sharply as insurers imposed additional war-risk premiums. In response, several governments stepped in with state-backed reinsurance programmes to maintain the flow of critical goods. The US established a \$40bn reinsurance facility through the International Development Finance Corporation⁶, prioritising essential energy and fertiliser shipments. Saudi Arabia and India subsequently launched similar schemes, each focused on safeguarding domestic economic interests. Meanwhile, Iran mandated that all vessels transiting the Strait carry insurance approved by its Persian Gulf Strait Authority, creating further uncertainty around future operating costs.

While these developments are currently concentrated around the Strait of Hormuz, they highlight the growing strategic importance of marine insurance as a potential chokepoint in global trade. Historically, access to shipping lanes has been secured primarily through naval power. However, advances in drone technology are lowering the cost of monitoring and disrupting maritime traffic, allowing states to exert influence over critical trade routes at a fraction of the cost of maintaining a traditional blue-water navy.

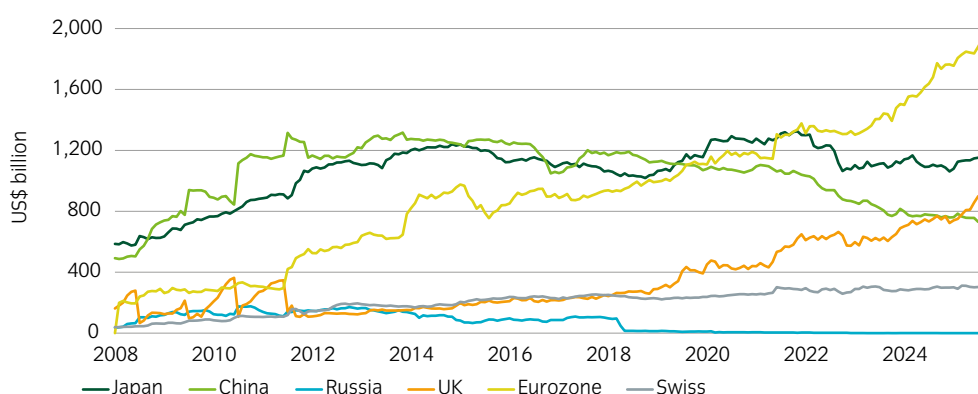
As a result, marine insurance may become an increasingly important geopolitical tool. If governments begin to use insurance requirements, reinsurance facilities, or regulatory approvals to influence access to key shipping corridors, trade flows could become more fragmented and politically contingent. In that scenario, marine insurance would evolve from a largely technical risk-management function into a strategic bottleneck with significant implications for global commerce.

INTERNATIONAL CAPITAL MARKETS

Historically, capital tended to flow wherever expected returns were highest. Today, political alignment increasingly influences investment decisions. Restrictions on investment into certain countries, export controls, national security reviews and sanctions have all made cross-border investment more difficult. For example, several US states have restricted state funds from investing in Chinese equities, while more broadly the presidential Executive Order 14105⁷ restricts US investment that could support the development of sensitive technologies in adversarial nations.

China has in turn been gradually reducing its holdings of US Treasuries in recent years, leaving the US increasingly reliant on European buyers (see Figure 6). Critically this comes at a time when debt service costs are rising, with interest payments exceeding defence spending in the US for the first time in decades.

Figure 6: China has been slowly decreasing its US Treasury holdings⁸



⁶ Source: DFC, Chubb Announce Additional American Reinsurance Partners and up to \$40B in Coverage for Maritime Reinsurance, April 2026, DFC.

⁷ Source: Executive Order 1405, August 2023

⁸ Source: Bloomberg, US Treasury. Data as at 30 December 2025.

SPECIAL SECTION: THE ERA OF THE DRONE

LOW-COST DRONES HAVE OVERTURNED DECADES OF MILITARY THINKING

Recent conflicts, particularly in Ukraine, have demonstrated how relatively inexpensive technologies can fundamentally change the nature of warfare. Drones can identify targets many miles behind the front line, and strike infrastructure and military assets deep within enemy territory.

At sea, Ukraine has demonstrated the effectiveness of uncrewed naval systems. Despite having virtually no conventional navy left in the Black Sea, Ukraine has successfully forced much of Russia's fleet away from its traditional operating areas and back into port.

Similarly, land-based robotic systems are becoming increasingly important. Today's systems are largely remotely operated, but many already contain semi-autonomous features, and fully autonomous capabilities may not be far away.

The broader consequence is a shift away from traditional warfare involving large tank formations, as concentrated forces can be quickly identified and targeted with drones.

AIR SUPERIORITY IS NO LONGER GUARANTEED

For decades, air superiority was one of the decisive advantages in modern conflict. Countries that controlled the skies could target enemy infrastructure, disrupt supply chains and project force deep into hostile territory through conventional bombing campaigns.

Increasingly, however, drones are providing a cheaper and more accessible alternative. Rather than risking expensive aircraft and highly trained pilots, states can launch large numbers of expendable drones capable of penetrating air defences and striking targets far from the front line. This lowers the barrier to conducting long-range attacks and reduces the military advantage traditionally associated with superior air forces. Military experts have noted that "A critical lesson from recent conflicts is: 'Quantity has a Quality all of its own.' The sheer volume of drones and inexpensive ballistic missiles can overwhelm even the most sophisticated high-tech air defence systems."⁹

The conflict in Ukraine illustrates this shift particularly clearly. Despite possessing only a fraction of Russia's conventional air power, Ukraine has been able to repeatedly strike oil refineries, military airfields, logistics centres and industrial facilities deep inside Russian territory. At the same time, Russia has used similar systems to target Ukrainian infrastructure and energy networks. The result is a form of economic warfare in which neither side requires complete control of the skies to impose costs on the other.

DRONES MAKE PREVIOUSLY SECURE ROUTES AND ASSETS INSECURE

The range, precision and expendability of drones are allowing states to project power into areas that were previously beyond their reach, while exposing infrastructure once considered secure to attack. As a result, defence planners will need to rethink assumptions about geography and vulnerability. This is likely to increase costs, broaden the range of assets requiring protection, and elevate the strategic importance of locations that would previously have been regarded as unimportant.

⁹ Source: [Challenged Air Superiority: Adapting to the Drone and Missile Age](#), August 2024, Joint Air Power Competence Centre.

STRATEGIC GEOGRAPHY IS CREATING POTENTIAL FLASHPOINTS

GREENLAND

With the concept of strategic chokepoints in mind, the US interest in Greenland may be driven by more than resource considerations. President Trump has repeatedly stated that Greenland is “vital to US national security in terms of countering Russia and China in the Arctic and bolstering missile defence”¹⁰.

Greenland occupies a strategically important position between North America, Europe and Russia. It also sits next to the Greenland-Iceland-United Kingdom (GIUK) gap, a critical naval chokepoint. Future Arctic shipping routes could further increase its importance as ice coverage declines, allowing faster shipping routes between Asia, Europe, and North America and cutting out the Suez and Panama canals.

CUBA

An even more interesting strategic argument relates to Cuba. In presidential Executive Order 14380, President Trump noted that “Cuba blatantly hosts dangerous adversaries of the United States, inviting them to base sophisticated military and intelligence capabilities in Cuba that directly threaten the national security of the United States.”¹¹

If countries can deploy low-cost drone systems capable of threatening shipping routes from hundreds of miles away, the geography of trade becomes increasingly important. Around 40-50% of US trade flows through the Gulf of Mexico. Access to that trade depends on a relatively narrow set of maritime routes. If a hostile state were to transfer advanced drone technologies to Cuba, it could theoretically gain leverage over some of America’s most important trade corridors.

This suggests a strategic rationale for why the US may become increasingly focused on Cuba in coming years. While much discussion centres on Venezuela, Cuba may prove equally significant from a geopolitical perspective.

Figure 7: Cuba could become a potential chokepoint too strategic to remain outside US influence¹²



¹⁰ Source: [Greenland, Denmark, and U.S. Relations | Congress.gov | Library of Congress](#)

¹¹ Source: [Addressing Threats to the United States by the Government of Cuba – The White House](#)

¹² Source: Insight, for illustrative purposes only.

SUEZ CANAL

China has its own strategic concerns. 60% of China's trade with Europe currently traverses the Suez Canal, which connects the Red Sea and the Mediterranean. The security of the Canal has become intertwined with the US/Iran conflict, with drone attacks close by causing some vessels to be rerouted and an increase in insurance premiums. The Polar, or Ice Silk Road, would be one way for China to diversify its risk to this key chokepoint. This is a northern sea route along the Arctic coast that would allow China to directly connect to European ports, but control of the Arctic has become a source of geopolitical tension in its own right.

STRAIT OF MALACCA

Another key risk for China is the narrow Strait of Malacca which connects the South China Sea to the Indian Ocean. China relies heavily on this much-used chokepoint, with Chinese leader Hu Jintao coining the phrase the "Malacca dilemma" to describe the strategic vulnerability China faced from its overreliance on the Strait. China is exploring several ways to reduce usage of this route, including the use of Arctic Sea routes¹³.

For investors, the manoeuvring of these two major powers as they seek to secure strategic locations is likely to be an ongoing issue, keeping geopolitical tensions elevated for years into the future.

POSITIONING FOR A GEOPOLITICALLY COMPLEX WORLD

In our view, there are several key conclusions that can be drawn from this analysis:

- **Geopolitical risk is likely to remain structurally higher than during the post-Cold War era.** In our view, this will continue to create periodic market dislocations, as investors are forced to reprice risk in response to geopolitical events. This reinforces our belief that risk should only be taken when investors are adequately compensated, as such episodes can create attractive opportunities to deploy capital at more compelling valuations.
- **Defence spending is likely to increase and remain elevated for the foreseeable future, putting pressure on fiscal spending at a time when interest costs are becoming problematic.** For those countries that choose to delay increasing defence budgets, there may be political repercussions as previous allies consider them unreliable.
- **Economic resilience and productive capacity matter more in an era of prolonged conflict and supply disruption.** Governments are likely to draw this conclusion to varying degrees and adjust policy appropriately.
- **Companies are likely to continue reshoring or diversifying supply chains from a global to regional level.** With globalisation turning to deglobalisation we would expect inflation to be structurally higher going forward, keeping interest rates higher and more volatile than in the recent past.
- **In aggregate we expect this all to result in a compelling environment for active fixed income investment in the years ahead.** Periods of market volatility have often triggered indiscriminate selling in credit markets, creating opportunities for active security selection and relative value trades as pricing dislocations emerge.
- **Investors should be wary of the potential for significant disruption.** The experience of Russian assets following the invasion of Ukraine provides an important example of how some assets can become effectively untradeable due to sanctions and geopolitical events, regardless of their underlying fundamentals. Understanding these risks is becoming increasingly important.

¹³ Source: [The Malacca Dilemma and Strategic Chokepoints of Chinese Trade](#)

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