



Don't put geopolitics on the back burner!



The direct and indirect effects of COVID-19 are manifold and for some people are a subject for ongoing debate. However, there is one effect that is not widely discussed but has an influence upon our view of the world. Indeed, the omnipresence of the virus in the daily news poses questions as, in addition to the worrying talk to which it gives rise, its continual discussion drapes a mantle of silence over other important geopolitical developments. In our view, this represents a risk as the rise in international tensions is having an obvious impact on the economy.

For example, last April more than 100,000 Russian soldiers were massed at the border of Ukraine. This mobilisation of troops was worrying as the last time we observed such movements in 2014, Russia annexed Crimea and attempted to destabilise Donbass. In the headlines for several months, this “frozen” conflict cost about 15% of the European market at the time. Today, if Vladimir Putin is once again seeking to flex his muscles, it is not by chance.

Volodymyr Zelensky, the current president of Ukraine, had previously sent troops to the border, threatening to take back the occupied zone and to freeze the assets of oligarchs close to the Russian president. The Russian president immediately reacted by mobilising armoured regiments, the air force, and war ships.



Although Russia justified these actions by claiming that it was carrying out full-scale exercises, it is clear that Vladimir Putin's intention was to show the Western powers that he would not allow a territory within his sphere of influence to join NATO. At any rate, these are the kind of tensions that could create strong increases in volatility even though the markets are relatively calm.

Elsewhere in the world, China is very pointedly threatening Taiwan. This is all the more disturbing as there is currently a substantial shortage of semiconductors.

In view of the rapid and sustained action by China against the democratic initiatives in Hong Kong, fears for the future of Taiwan are manifest as its status is still somewhat vague.

Indeed, no country of diplomatic importance recognises the island as having independent status even though it has been established that it is not officially administered by China.

Xi Jinping has not concealed his desire to reunify the two states. Geographically and industrially strategic, Taiwan also possesses the only company able to carry out miniature engraving onto silicone plates of 2 to 3 nanometres. Given the importance of semiconductors in tomorrow's economy, China has an obvious interest in nationalising this expertise.

In any case, it is reason enough to explain China's aggressive stance. Recently, China did not hesitate to send its fighter planes and bomber aircraft to fly over Taiwanese air space or to send its entire fleet of fishing vessels into



the island's territorial waters. If China were to cross the red line, it would certainly be a major event that would have repercussions at every level, both diplomatic and economic.

Despite their importance, both of these events are now overshadowed by news that is completely focused on the pandemic and the recovery plans. Make no mistake, we are not in any way denying the importance of COVID-19 or the inflation resulting from the measures taken to curb the pandemic.

We are simply drawing your attention to the fact that geopolitics remains a major subject that cannot be ignored. We are now living in a transitional period, and as we know, transitional periods can give rise to episodes of sudden volatility.