

Friendvesting: the new architecture of investment in a fractured world



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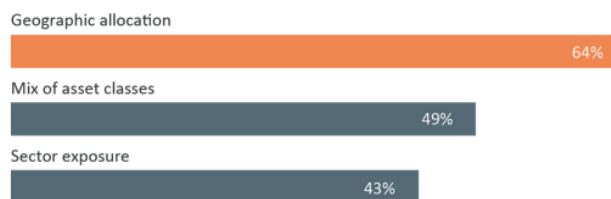
The Geopolitical Turn

For decades, institutional investors constructed global portfolios with a primary focus on economic fundamentals—growth prospects, sectoral trends, and market efficiency. Geography mattered, but mainly as a source of diversification: emerging versus developed markets, Asia versus Europe. Geopolitics, when considered at all, was the preserve of sovereign wealth funds and the occasional risk manager. That era has ended. The past several years have witnessed a succession of shocks: the war in Ukraine, renewed conflict in the Middle East, simmering tensions in the Taiwan Strait, and a proliferation of sanctions and tariffs emanating from Washington and Beijing alike. These events have not only unsettled commodity markets and bond yields but have also forced a fundamental reappraisal of risk itself.

An Economist Impact survey of 300 institutional investors across North America, Europe, and Asia reveals a decisive shift: geopolitics is now viewed as a structural, not episodic, variable in portfolio construction. An emerging pattern is friendvesting — aligning capital with jurisdictions where geopolitics is less intrusive and avoiding, or at least hedging against, rising risks. Two-thirds of respondents cite geography as the principal channel through which geopolitical risk shapes their portfolios. Yet this is not geography in the traditional sense of physical location; rather, it is a matter of political alignment and strategic exposure.

Chart 1. Geopolitics meet portfolios

Areas of portfolio management affected by geopolitical risk
Respondents could select all that apply



Source: Economist Impact survey, 1st July 2025. Friendvesting: The new architecture of investment in a fractured world

Redrawing the Risk Map

Friendvesting begins with geography, but not as previously understood. For real assets—ports, pipelines, or property—location remains fate. However, for most asset classes, investors are less concerned with where an asset is listed in Boston or Beijing, but whether it relies on suppliers, customers, or operations in volatile jurisdictions. The new geography of capital is defined less by proximity than by dependence.

The survey data are unequivocal: just over half of investors now favour countries with close political or economic ties, or those that appear less entangled in major-power rivalries. The logic is one of alignment and insulation. Yet, as recent events have shown, alignment can prove fleeting. Even the long-assumed friendship between America and Europe is now tested, not least under the shifting winds of US politics. Neutrality is even

harder to map in a world where power blocs are in flux. Friendvesting, then, is less about avoiding risk than about choosing the kind one is willing to hold.

Consider the case of India, which has emerged as a candidate for “tariff-proof” friendvesting, particularly for Western investors. India’s ties with the West are broadly stable, and its limited exposure to global trade offers insulation from sanctions or tariffs. A large internal market adds appeal, allowing firms to reweight sales away from contentious jurisdictions. Yet, valuations are steep, and structural problems—such as restricted currency access and high household debt—persist. Friendvesting in India, as with many geopolitically neutral geographies, offers only partial mitigation, and that too is subject to sudden change. Also, India is only one market comprising many building blocks of a globally diversified portfolio.

Entanglement, Not Just Location

Geopolitical exposure runs across a firm’s entire web of operations, including suppliers. The case of Apple is instructive: nearly nine in ten iPhones are still assembled in China, and while efforts to diversify supply chains are underway, replicating such scale elsewhere would take years and enormous capital. Geopolitical entanglement is not just about where goods are made; it is also about regulatory blowback, antitrust probes, and, increasingly, patriotic consumer behaviour. For investors, friendvesting often requires a repricing and reweighting of exposure, rather than wishing it away altogether.

A third of investors take a different approach: they spread risk by investing into global, market-cap-weighted indices, betting that losses in one asset class or geography will be offset by gains elsewhere. While this may reduce the risk of isolated geopolitical flare-ups, it misses out on friendvesting’s benefit—the ability to tilt deliberately towards friendlier jurisdictions, and those considered neutral, and avoid or hedge against the most acute risks.

Asset Classes and Sectoral Dynamics

If geography sets the boundary of friendvesting, asset allocation gives it form. Different asset classes absorb and transmit geopolitical risk in structurally distinct ways. Public equities—cited by 55% of global respondents—are the most affected asset class. Bonds, identified by half of global investors as geopolitically sensitive, hinge on legal enforceability: the ability to receive payments, invoke legal remedy, and, ultimately, move assets. The case of Russia’s default on foreign-currency debt in 2022, not due to fiscal collapse but because sanctions prevented payments from reaching creditors, is instructive. In a geopoliticised world, even dollar-denominated bonds held offshore offer limited respite if enforcement mechanisms fail.

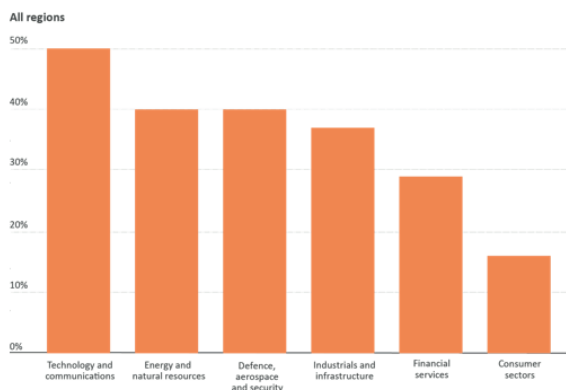
Real assets, such as property, infrastructure, and commodities, long valued for durability and inflation compensation, become sources of fragility in this context. A port cannot be relocated; a pipeline cannot be disentangled from the regime that governs it. The re-evaluation of asset classes is translating into portfolio changes: six in ten institutional investors say they are reducing exposure to assets they perceive as most exposed to geopolitics. The trouble lies in knowing which assets those are and, worse, quantifying the risk.

Sectoral exposure is equally critical. Technology, energy, and defence are the sectors most affected by geopolitical risk, with regional variations in perceived vulnerability. North American investors, operating against a backdrop of record-high defence budgets and increasingly muscular export-control policies, are far more likely to single out defence, aerospace, and security. European investors worry most about the plumbing of sanctions and supply-chain sovereignty, while Asian respondents present the most even spread, with technology, energy, and industrials all ranking highly.

Chart 2. Risky sectors

Industry sectors most affected by geopolitical risk

Respondents could select up to three options



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Technology remains the most visible example. Once at the height of cross-border capital, the sector now sits in the crosshairs of geopolitical concerns, including digital sovereignty and the dual-use dilemma of certain technologies. Firms making the chips behind the AI “arms race” can turn from lucrative business assets into geopolitical liabilities overnight. The dilemma facing investors is how to price growth when demand may be strong but sales are subject to sovereign veto.

Institutional Adaptation: Bureaucratisation of the Unpredictable

Turning geopolitical awareness into an institutional process is difficult. The survey suggests that two challenges loom especially large. The first is the fog of forecasting: just under half of respondents say that their biggest hurdle in incorporating geopolitical risk into their investment process is the lack of clarity around geopolitical developments. Conflicts often escalate without market consensus, while tariffs and sanctions can be broadly expected but, as recent events attest, shocks are unavoidable. Without accurate information, investors often feel they might be acting prematurely. About a third cite this as one of their primary operational constraints, alongside the risk of appearing politically biased.

Traditional metrics—credit spreads, volatility indices, and beta coefficients—break down when politics intrudes. The majority of investors say that forward-looking country-risk models and scenario-based analysis would help them better understand not just the likelihood of geopolitical events but also their potential magnitude. About a third say that better tools to distinguish geopolitical from market risk would help them. This reflects the complex relationship between the two: they often move together but not always for the same reason. Misreading one for the other can lead to poor decisions.

Governance structures are adapting in response. More than a third of investors now rely on formal risk policies to guide geopolitically sensitive decisions. A further third have created cross-functional committees or working groups, blending investment staff with compliance, legal, and public-affairs teams. The world’s biggest institutional investors are taking the lead: Schroders has integrated foreign-policy advisers into its portfolio oversight function; Rothschild & Co includes geopolitical input at the risk-committee level; and Goldman Sachs has created a dedicated advisory unit focused on national-security risk, cross-border investment, and regulatory exposure.

Not all investors are establishing dedicated internal structures. Almost

one-fifth say that their decisions remain case-by-case, and one-tenth fully outsource geopolitically sensitive decisions to external managers or consultants. The space of geopolitical advisory firms is booming, drawing on ex-diplomats, intelligence professionals, and policy veterans to decode foreign intent and assess investment exposure.

Mandates governing institutional capital have become increasingly consequential. For some investors, they are a hurdle: roughly a third report that existing investment guidelines constrain their ability to adjust geographic allocations in response to geopolitical developments. Simultaneously, those setting new mandates are taking a different tack: over eight in ten say that they now embed, or plan to embed, geopolitical criteria. These criteria can vary widely. For example, Norway’s sovereign wealth fund refuses to hold companies that violate international law, a policy that in 2025 prompted divestment from nine Israeli firms on the grounds that they were contributing to the occupation of Palestinian territories.

Investment options are evolving in tandem with mandates. Exposures such as “Emerging markets ex-China” are a first step allowing investors to independently adjust their China allocation. Europe’s first “sovereignty” vehicles have launched, aimed at strengthening strategic resilience. Themed exchange-traded funds (ETFs) in the US now screen investments through a lens of critical technology and national interest. The gap between those who value passive, index-based approaches and those who prefer hands-on management is not large: roughly two-thirds rate passive screens as helpful, while three-quarters say the same of active allocation. This reflects the scale of the challenge investors face and that neither static filtering nor discretionary shifts alone can fully satisfy the demand for geopolitical resilience and call for active allocation using active and passive, or rules-based, building blocks. All of this should be embedded in an overarching framework that helps identify which political geographies are considered friendly, neutral, or risky.

Hybrid Models: Towards a Resilient Friendvesting Framework

Investors are signalling a preference for investment options that blend broad, screen-based exposures with the flexibility to adjust as events unfold—linking the thematic clarity of passive vehicles with the responsiveness of active overlays. A hybrid model, which combines thematic screening with dynamic hedging—active or rules-based —, could be a viable approach. Such investment options would exclude jurisdictions deemed most exposed to geopolitical risk, yet layer on currency or sector tilts that can be adjusted promptly if sanctions, tariff changes, or other geopolitical flare-ups occur. They would allow investors to retain a strategic direction, while also deploying protective overlays that kick in when needed.

In practice, this would mean that the two-thirds of respondents who appreciate passive building blocks gain broad, consistent exposure, and the three-quarters who want nimble risk management obtain the rapid response they prioritise. This approach comes close to a resilient friendvesting framework: one that can withstand both slower policy shifts and sudden shocks, without forcing wholesale portfolio upheavals.

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