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GREENLAND AND THE NEW GAME OF RISK

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In summary:

- **Trump wants control of Greenland but has stepped back for now.**
- **The old geopolitical rules no longer apply, as Great Power politics returns.**
- **This can cause volatility but risks also create opportunities.**

As the world's great and good gathered in snowy Switzerland for the annual World Economic Forum meetings in Davos, minds were focused on another icy part of the world: Greenland. American President Trump insists that the world's largest island, an autonomous part of Denmark, should join the US. Denmark and its European allies firmly said no. Trump in turn threatened tariffs on eight European countries for daring to disagree. The trade deal he personally signed with the European Union last year seemingly went out the window.

The recent US hostile takeover of Venezuela was unsettling enough (even though few will shed any tears for Nicolas Maduro, a tyrant who ran his country into the ground). However, threatening to take territory from a close ally is something else entirely. As Canadian Prime Minister Mark Carney noted at Davos, the international rules-based order is "in the midst of a rupture, not a transition" as Trump tears up the rule book. Quoting the ancient Athenian general and historian Thucydides, Carney said it means "the strong do what they can, and the weak suffer what they must" as the era of Great Power politics returns. Or as many social media memes implied, it resembles a version or Risk – the popular boardgame where players must build alliances or battle opponents to conquer territory on a world map where, incidentally, Greenland is shaded the same colour as the US.

GRASS NOT GREENER

Economically speaking, Greenland is tiny, with a population of 55 000. While it appears to hold considerable mineral wealth, it is not clear how much of this can be commercially exploited. However, its importance increases as the melting of the Arctic ice sheet potentially opens a new maritime economy around the North Pole. The US already has a military presence on the island and its treaties with Denmark allow it to scale this up at any moment,

suggesting that Trump's obsession with Greenland seems to be more about his ego than US strategic interests. Expanding the surface area of the US by a quarter would be his ultimate real estate deal. However, it would come at the cost of the NATO alliance, thereby weakening the US in its competition with Russia and China, rather than strengthening it.

In the end, there was a collective sigh of relief when Trump too spoke at Davos and said there would be no military takeover of Greenland, though he reiterated his insistence that it should be part of the US and that he would not forget those who stood in his way. The reasons for Trump backing down probably have more to do with domestic politics than the niceties of international law. There is little appetite among ordinary Americans for this kind of imperialism. Opinion polls show broad opposition to acquiring Greenland, while several high-ranking Republican politicians spoke out against the idea, a rare rebuke of Trump. They know that mid-term elections are looming and people care about bread-and-butter issues, not foreign adventurism. More tariffs and counter tariffs would make things worse for voters, not better.

Despite Trump stepping back, for now at least, this episode will linger in the minds of European leaders and investors. The market response was telling.

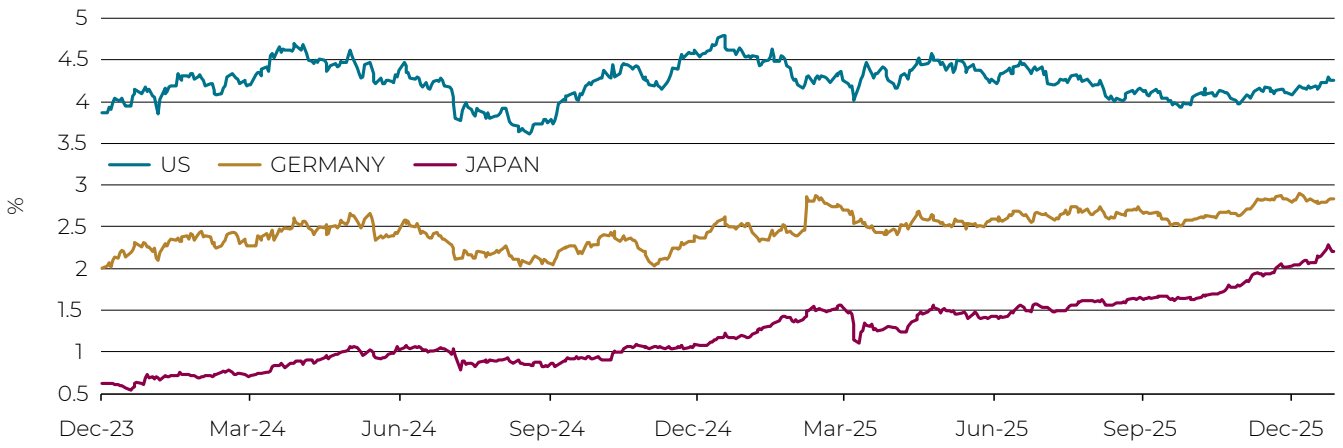
CHART 1: US DOLLARS NEEDED TO BUY ONE EURO

Source: LSEG Datastream

Stocks sold off modestly after Trump's tariff threats but rebounded when he backtracked. Many investors remain convinced that the TACO principle (Trump always chickens out) still applies, namely that he will make outlandish demands but back off in the face of financial, economic or political pressure. That might be the case, but each such episode weakens the trust global investors have long placed in the US, an additional straw added to the camel's back. And the straws are not only in the realm of foreign policy. The recently threatened criminal inquiry into the Federal Reserve, one of several attempts to get the independent central bank to bend to the will of the White House, is a whole bushel.

The more interesting moves were made in other markets, however, namely those for precious metals, US government bonds and the dollar – the traditional safe-havens. As chart 1 shows, the dollar lost ground against the euro as the issue was escalating, despite negative consequences for Europe. Notably, unlike equities, the dollar stayed down even when things calmed down.

CHART 2: 10-YEAR GOVERNMENT BOND YIELDS IN LOCAL CURRENCY



Source: LSEG Datastream

In the bond market, part of the selling pressure emanated from Japan, whose specific challenges is a topic for another day. What it shares with the US and most other developed countries is an elevated government debt level. These debt levels are mostly growing, not stabilising, partly due to geopolitical risk as countries expand defence spending.

This is unfolding alongside a global private sector capex boom linked to artificial intelligence. Therefore, there is natural upward pressure on interest rates as private and public sectors compete for longer-term funding, even as central banks have cut short-term interest rates. This is not the ideal environment for a country to do things that harm its credibility in the eyes of global investors.

However, this does not imply that there is a rush for the exit from the US. Many large global investors don't have anywhere else to go. US markets are large and liquid, meaning no single transaction is likely to move the price. The US market for government bonds, for instance, is bigger than all other countries combined. In smaller markets, a large investor – a giant Canadian pension fund, Japanese insurer or Gulf sovereign wealth fund – would need to proceed slowly and carefully to avoid prices moving against them. The US equity market is still home to most of the world's best and most exciting companies, while US bond yields are higher than in the US and Japan. No wonder then that until recently, most large global investors were overweight to the US. You could achieve better returns with the same level of risk than in other developed markets and, for most of the last 15 years, a rising dollar boosted your returns.

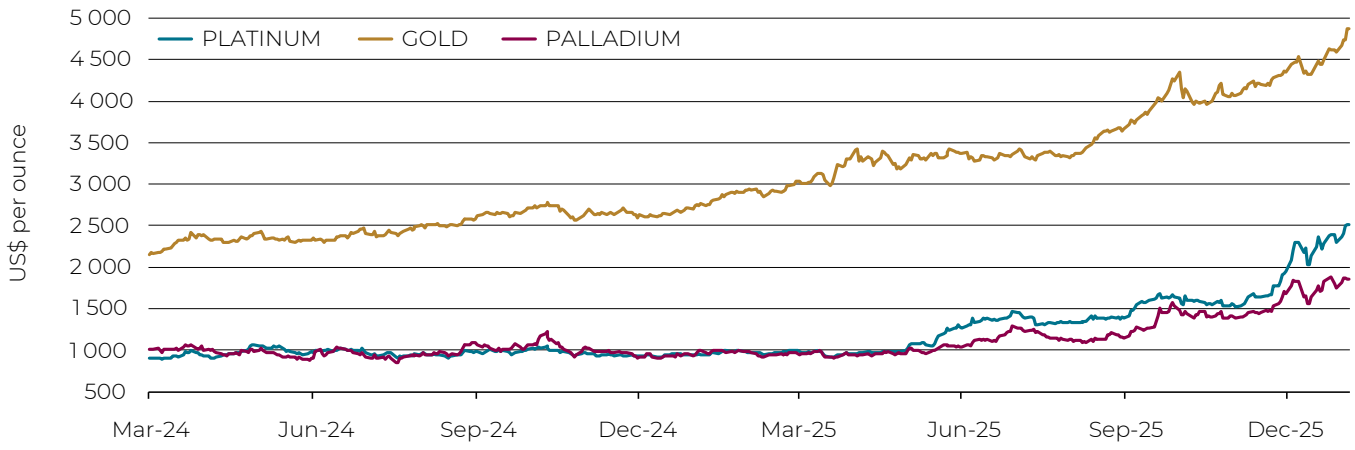
Now, however, the risks have changed, irrespective of return prospects. Investors might not be pulling out capital from America, but every marginal allocation is under scrutiny. They are also increasingly hedging their foreign exchange exposure, which puts downward pressure on the dollar.

GOLDEN PARACHUTE

Two final questions: where does South Africa fit into this shifting geopolitical environment? And how should local investors navigate it?

For South Africa there is good news and some bad news. The biggest beneficiary of this geopolitical uncertainty has clearly been gold and other precious metals. Gold has hit a new record and moved above $5 000 per ounce on Monday morning. Its march higher was barely interrupted by Trump backing down. This has also pushed the prices of platinum group metals (PGMs) higher, a major boost for South Africa's currency, financial markets and ultimately its fiscus (though sadly, it struggles to turn higher prices into higher output and employment).

CHART 3: PRECIOUS METALS PRICES IN DOLLARS



Source: LSEG Datastream

The bad news is that, as a small open economy, the last thing South Africa needs is for trade barriers to go up everywhere while large countries fight for dominance. Even when the trade war is between Europeans and Americans, or Americans and Chinese, smaller countries will suffer collateral damage. The old African proverb that the grass suffers most when two elephants fight applies. Smaller countries can also be bullied into detrimental concessions or forced to choose sides.

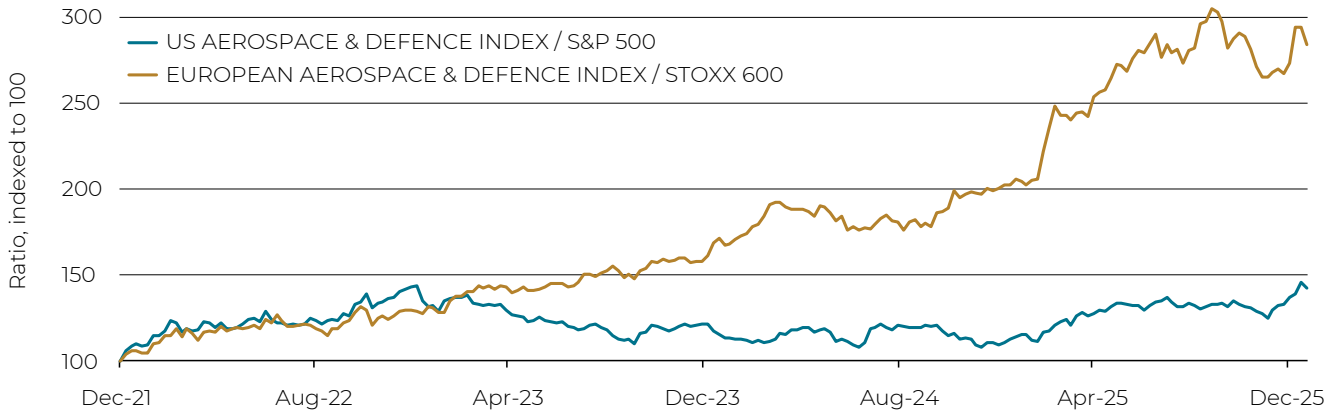
Yet, as Carney noted, Thucydides' aphorism doesn't have to be inevitable. Smaller countries can maintain sovereignty and look after their domestic interests without completely rolling over before the Great Powers or needlessly antagonizing them. This will require skilful implementation of foreign policy, however. The recent debacle over Iran's participation in naval exercises off the Cape coast is an unfortunate reminder of how South African diplomacy often falls short. Perhaps, with Trump's attention firmly fixed on his neighbourhood in the Western Hemisphere, he might ignore South Africa, especially now that it is no longer the rotating chair of the G20.

Most importantly, the grass is greenest where it is watered. If South Africa can create a business-friendly climate, investors will want to be here irrespective of the geopolitical noise. Geography also still matters, even in this high-tech age. Deepening trade integration in South Africa's own neighbourhood, the African continent, should therefore remain a priority.

KEEPING CALM AND CARRYING ON

For ordinary investors, all this can be bewildering. Risk is not just the name of a boardgame but something investors worry about a lot. Here there are two thoughts to bear in mind. Macquarie strategist Viktor Shvets notes that geopolitics is a process, not an event. Yes, there are incidents, such as with Greenland, Venezuela or Iran, and these can cause market volatility. But it is the underlying trends that really matter, and they tend to be slow moving. If Carney is correct about a rupture, it will have been a long time coming. The era of hyper-globalisation after the fall of the Berlin Wall was good for investors by keeping a lid on inflation and supporting company profits. The era we're entering could have a different set of winners and losers. For instance, shares of defence companies have been large beneficiaries, especially in Europe, as chart 4 shows. It also means that some of the tried and tested market and economic relationships investors have long relied on might send false or conflicting signals.

CHART 4: AEROSPACE AND DEFENCE INDICES VERSUS THE BROADER MARKET



Source: LSEG Datastream

Another way to think about geopolitical events is that, while they cause market volatility, the big bear markets have historically been driven by factors endogenous to the economy and financial system. In other words, when it comes to the kinds of bear markets that can derail a financial plan for several years, history suggests investors should fear recessions, interest rate shocks, financial crises, bubbles, and excessive debt more than conflict.

There are a few exceptions, notably the two World Wars, which caused widespread devastation and were communist revolutions (Russia in 1917 and in China 1949). But even with these World Wars, it mattered whether you were in a winning or losing country. The 1970s was also full of geopolitical drama, with conflict in the Middle East causing two oil shocks, a decade of stagflation, and negative real returns across bonds and equities. However, the world was particularly dependent on oil in those days, while central banks were negligent on inflation. An oil-driven global crisis is much less likely today, since the world uses considerably less oil for each unit of economic output. Central banks are (for now) strongly committed to keeping inflation in check.

In other words, while political and geopolitical twists and turns grab attention, over the longer-term, portfolio returns tend to be driven by more mundane factors, namely business cycles, company profits, interest rates and so on. Moreover, with every risk there is an opportunity. As some doors close, others open. So, while volatility should be expected, and will require investor patience and flexibility, it is not doom and gloom. Britain's famous "Keep Calm and Carry On" poster, produced in 1939, an even more unsettling time than the present, still applies. Risk is not just what can happen to your portfolio when you are invested. Not being invested due to unsettling news headlines is probably a greater risk to your long-term financial wellbeing.

EQUITIES - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Global	MSCI World	US$	4 505.0	-0.22%	1.69%	1.69%	16.83%
United States	S&P 500	US$	6 916.0	-0.35%	1.02%	1.02%	13.03%
Europe	MSCI Europe	US$	2 715.0	0.30%	2.72%	2.72%	29.10%
Britain	FTSE 100	US$	13 838.0	1.05%	3.41%	3.41%	30.81%
Germany	DAX	US$	2 495.0	0.69%	2.46%	2.46%	31.87%
Japan	Nikkei 225	US$	345.9	1.38%	7.65%	7.65%	35.09%
Emerging Markets	MSCI Emerging Markets	US$	1 501.0	1.08%	6.91%	6.91%	38.85%
Brazil	MSCI Brazil	US$	1 884.0	10.30%	14.46%	14.46%	49.29%
China	MSCI China	US$	85.8	-0.53%	3.88%	3.88%	36.59%
India	MSCI India	US$	987.5	-4.11%	-6.40%	-6.40%	0.56%
South Africa	MSCI South Africa	US$	819.0	4.20%	10.23%	10.23%	85.71%

EQUITIES - SOUTH AFRICA (TOTAL RETURN UNLESS INDICATED OTHERWISE)

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Share (Capital Only)	All Share (Capital Index)	Rand	122 281.0	1.76%	5.57%	5.57%	45.67%
All Share	All Share (Total Return)	Rand	23 128.0	1.79%	5.65%	5.65%	50.56%
JSE Capped ALSI	Capped ALSI Total Retu	Rand	133 089.1	1.86%	5.77%	5.77%	50.42%
TOP 40/Large Caps	Top 40	Rand	21 311.0	1.88%	5.96%	5.96%	55.84%
Mid Caps	Mid Cap	Rand	35 911.0	4.61%	9.06%	9.06%	44.38%
Small Companies	Small Cap	Rand	55 702.0	1.10%	3.56%	3.56%	30.56%
Resources	Resource 20	Rand	13 062.2	7.16%	18.61%	18.61%	156.23%
Industrials	Industrial 25	Rand	30 178.0	-2.95%	-2.77%	-2.77%	18.73%
Financials	Financial 15	Rand	20 457.0	1.18%	2.45%	2.45%	34.22%
Listed Property	SA Listed Property	Rand	3 185.3	0.75%	1.51%	1.51%	37.35%

FIXED INTEREST - GLOBAL

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
IBOXX Global Government Overall (USD Unhedged)	S&P	US$	76.5	0.34%	-0.22%	-0.22%	3.77%

FIXED INTEREST - SOUTH AFRICA

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
All Bond	BESA ALBI	Rand	1 382.1	1.24%	0.89%	0.89%	25.02%
Government Bonds	BESA GOVI	Rand	1 356.4	1.23%	0.89%	0.89%	24.59%
Inflation Linked Bonds	BESA CILI	Rand	432.5	0.42%	-0.51%	-0.51%	15.40%
Cash	STEFI Composite	Rand	642.2	0.13%	0.43%	0.43%	7.46%

COMMODITIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
Brent Crude Oil	Brent Crude ICE	US$	65.9	2.73%	8.00%	8.00%	-15.54%
Gold	Gold Spot	US$	4 918.0	7.03%	14.16%	14.16%	78.64%
Platinum	Platinum Spot	US$	2 640.0	13.65%	31.41%	31.41%	179.07%

CURRENCIES

DESCRIPTION	INDEX	CURRENCY	INDEX VALUE	WEEK	MONTH-TO-DATE	YEAR-TO-DATE	1 YEAR
ZAR/Dollar	ZAR/USD	Rand	16.12	1.81%	2.78%	2.74%	14.84%
ZAR/Pound	ZAR/GBP	Rand	22.00	-0.23%	1.36%	1.36%	3.91%
ZAR/Euro	ZAR/EUR	Rand	19.06	-0.17%	2.03%	2.03%	1.14%
Dollar/Euro	USD/EUR	US$	1.18	-1.69%	-0.51%	-0.51%	-11.86%
Dollar/Pound	USD/GBP	US$	1.36	-1.93%	-1.04%	-1.04%	-9.10%
Dollar/Yen	USD/JPY	US$	0.01	-1.53%	-0.64%	-0.64%	-0.25%

Source: I-Net, figures as at 23 January 2026

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