

GEOPOLITICAL REGIME SHIFT • JUNE 2026

Diversified on Paper. One Bet in Practice.

A typical growth-oriented family office portfolio was, on the numbers, 98% a single equity-factor bet with almost no inflation protection. Here is the fix, and why it gives up no risk-adjusted return to make.

98.1%

of portfolio risk in a single factor: equity growth

+39 bps

geo-adjusted return uplift (estimate)

5 of 6

stress scenarios the realignment wins

Take an ordinary, sensible portfolio: 60% global equity, some bonds, a little private equity and hedge funds, real estate and infrastructure, cash. The kind of allocation a thousand family offices and wealth portfolios run today. Run it through a factor model and almost all of its risk comes from one place. This paper shows what that looked like when the 2026 energy shock arrived, and what a disciplined reallocation does about it, with its cost disclosed in full.

A word on the data: portfolio analytics are computed on JPMorgan's 2026 Long-Term Capital Market Assumptions. We verified the six asset-class returns this analysis turns on against our own JPM LTCMA data, and they match to the basis point. The geopolitical overlay and all scenario results are model-derived estimates, labelled as such throughout. The reference portfolio is analytically constructed, with no regional or strategy mandate, and is not based on any client's holdings.

01 · THE HIDDEN BET

Eleven holdings behaved as one risk.

On paper, a spread across four asset groups and eleven holdings. Under a factor lens, the diversification is largely cosmetic. **98.1% of the portfolio's variance loads on a single factor, equity growth**; stripped of labels, it is one large equity position with thin layers around it. The factor that protects a portfolio when inflation runs accounts for **0.05%**. There is no gold and no inflation hedge of any kind.

On the numbers, a textbook-diversified portfolio was 98% a single bet.

Share of total portfolio risk (variance) by factor, baseline portfolio

Equity-growth
the one bet

98.1%

Inflation protection
what an energy shock needs

0.05%

✓ Eleven holdings, four asset groups. And no gold at all, entering an inflation shock.

THREE HORIZONS CAPITAL

This is not a geopolitical observation; it is a structural one, and it was true before the first missile flew. Two equity positions alone, US Large Cap and AC World, account for roughly **65% of all portfolio risk**. A book that looks diversified by line item is, by risk, a single bet.

02 · THE REGIME & THE EXPOSURE

The regime that arrived is the one this portfolio cannot absorb.

The 2026 Middle East conflict did its real economic damage through the Strait of Hormuz, which carries roughly a fifth of the world's oil and remains effectively closed. The IEA called it the most significant supply shock in the history of the oil market, which points to one regime above all: persistent, energy-driven inflation and higher-for-longer rates. Mapped against that regime, the exposed positions are not exotic. They are the safe-sounding core.

Conventional bonds, 20% of the book — the clearest negative channel

Duration is the most direct casualty of energy-inflation persistence. As the Federal Reserve loses room to cut, the aggregate bond and high-yield positions carry the portfolio's sharpest negative transmission.

Core real estate, and nothing on the other side

Rate persistence keeps cap rates under pressure and delays normalisation. And with no gold and a near-zero inflation factor, the portfolio holds no asset positioned to gain from the very shock now defining the regime.

A portfolio entering an inflationary, conflict-driven regime with almost no inflation protection is mispositioned for it, independent of any view on where any single market goes next.

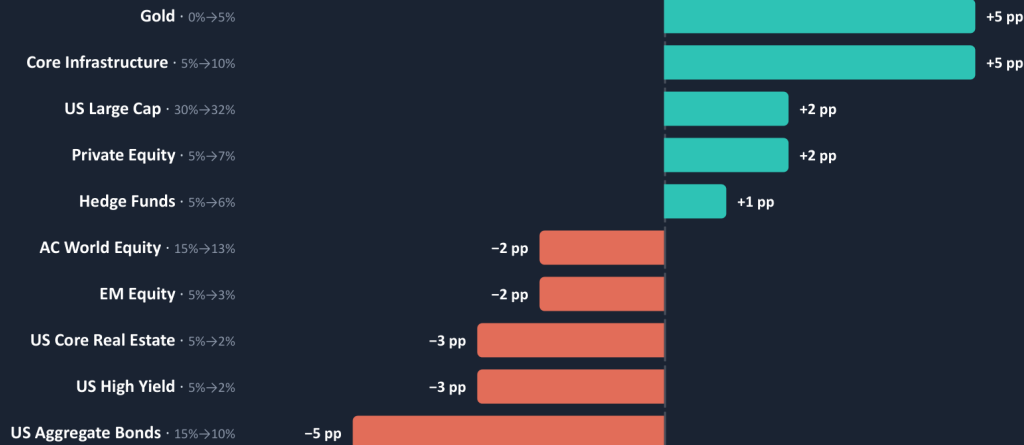
03 · THE FIX

Re-diversify the risk budget, without giving up risk-adjusted return.

The fix is not a dramatic de-risking. It moves fifteen percentage points out of the positions the regime works against and into the ones it favours, with a tilt inside equities, while keeping the portfolio's growth orientation intact.

The realignment moves 15% of the book out of duration and into real assets, with a tilt inside equities.

Proposed change in portfolio weight (percentage points)



THREE HORIZONS CAPITAL

Each addition has a real claim on the regime: **gold** as the war-risk and inflation hedge with near-zero equity correlation, **infrastructure** as the energy-security capex cycle with contracted, inflation-linked cashflows, and **private equity** as a longer-horizon, structural play on the same themes (defence, critical minerals, reshoring), with its 2026 vintage an attractive entry point. We are honest about the sequencing: the immediate protection comes from **gold, liquid today**, with the cash buffer held at 5%; private equity draws down over years and earns its place on the long-run view, not as a hedge against this quarter's shock.

The part that makes it easy: on JPMorgan's long-run assumptions the realignment is **essentially return-neutral** (the displayed return moves about 5bps) and the portfolio's **volatility barely changes** (11.28% to 11.29%). On the correct, arithmetic Sharpe basis it is in fact a marginal improvement (0.384 to 0.390). In other words it does not cost risk-adjusted return to make; the geopolitical upside sits on top and is the conditional part.

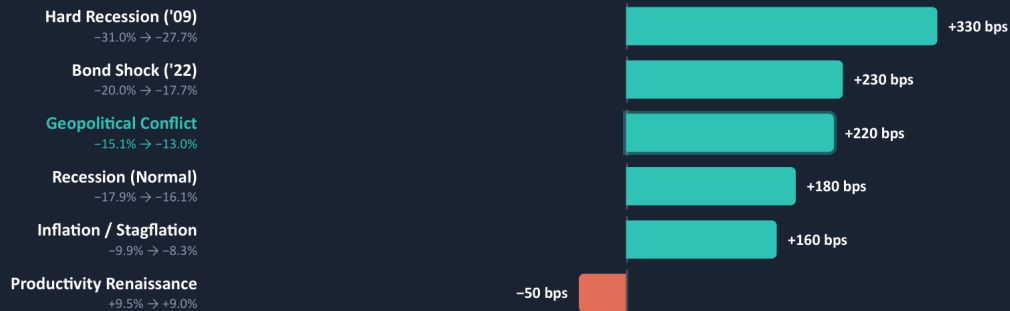
04 · THE RESULT, HONESTLY

Resilience first, geopolitics as upside.

Because the trade gives up no risk-adjusted return on the long-run view, the case for it does not need a geopolitical forecast to stand up. It rests on how the portfolio behaves under stress, and there the realignment **wins in five of six standard scenarios**, with the largest gains exactly where the original portfolio was most exposed.

The realigned portfolio wins in five of six stress scenarios, most where it was most exposed.

Modelled return improvement of the proposed portfolio vs. the current portfolio (basis points). Estimate.



THREE HORIZONS CAPITAL

These improvements are mechanical, not view-dependent: the bond-shock gain comes from cutting duration, the stagflation gain from introducing inflation hedges where there were none, the conflict gain from gold and infrastructure, and the largest of all, in a 2009-style hard recession (+330bps), from stripping out the correlated credit and real-estate risk. They hold in the standard scenario framework regardless of what you believe about the Strait of Hormuz.

The honest part: the geopolitical view is upside layered on top, and we label it an estimate. If our six conflict-driven return adjustments prove directionally right, the realignment earns an additional **39 basis points** of expected return (and lifts the geo-adjusted Sharpe from 0.399 to 0.438). That number is conditional; a smooth de-escalation would unwind part of gold's war premium and trim it. The resilience does not depend on it; the extra return does. An allocator does not need a free-lunch promise. They need to see, separately, what is structural and what is a view, and be told which is which.

05 · WHAT THIS MEANS

The portfolio is ordinary on purpose. So is the blind spot.

The deepest change is in the shape of the risk, not the headline return. The portfolio gains a real inflation hedge where it had effectively none. We will not oversell the factor-variance figure, which barely moves (0.05% to 0.33% of variance), because in a book that is 98% equity that share is the wrong lens: equity risk swamps everything, so even a genuine hedge hardly registers as a share of variance. The honest evidence that the hedge works is the stress test, where the realignment gains **160 basis points in the stagflation scenario**. The reference portfolio carries no special mandate and no regional tilt, which is the point: the single-factor concentration and the absence of inflation protection are the **default state** of a great many growth portfolios that have never been put through a factor and scenario lens.

01 Count the risk, not the line items

Any portfolio, decomposed into the factors and positions that actually drive its variance, so a hidden single-factor bet shows up before the market finds it.

02 Ground it in reconciled assumptions

Computed on capital-market assumptions with the baseline figures verified against source data, then stress-tested across the standard scenario matrix.

03 Overlay a view, honestly

A defensible regime overlay with structural resilience and conditional upside shown separately, so the recommendation reads as analysis, not a sales pitch.

One honest note: every geopolitically-adjusted return and scenario result in this report is a model estimate, not a forecast. The realignment's resilience holds on long-run scenario grounds alone; the +39bps of geo-adjusted return is conditional on the stated views and would weaken under a rapid de-escalation. The baseline JPM LTCMA figures are verified; the overlay is a scenario. Sharpe ratios are computed on an arithmetic-return basis (the standard mean-variance convention).

METHODOLOGY NOTES

Private and real assets. Private equity, real estate and infrastructure use standard, unadjusted JPMorgan capital-market assumptions. Appraisal-based valuations can understate short-run volatility, a fair challenge to any mean-variance result. Here, however, the assumptions already assign private equity a volatility near 20%, well above naive appraisal-based estimates, and the +2pp private-equity position sits above the portfolio's own volatility, so it adds risk rather than suppressing it. The near-unchanged portfolio volatility (11.28% to 11.29%) reflects the duration-for-real-assets rotation, not a smoothing artefact. Private equity is included as a long-horizon structural play on reshoring and defence capex, not a liquid tactical hedge.

BASIS FOR THE SIX GEOPOLITICAL RETURN VIEWS (ALL ESTIMATES)

ASSET CLASS	VIEW	ANALYTICAL BASIS
Gold	+300bps	Conservative realisation of the historical war-risk premium (gold has rallied roughly 2% per 100-point rise in the Geopolitical Risk Index in threat-of-war regimes); active conflict and an unresolved Hormuz sustain the premium.
Core Infrastructure	+220bps	Secular energy-security capital-expenditure increase; G7 and ASEAN policy acceleration; contracted, inflation-linked revenues.
US Large Cap	+130bps	Contained global-growth damage; AI and technology trajectory intact; capital-flight beneficiary; defence-spending tailwind.
US Core Real Estate	-160bps	Persistent cap-rate expansion under a higher-for-longer rate regime; energy-driven operating-cost pressure.
US High Yield	-160bps	Credit-spread widening in a risk-off, energy-stressed regime; energy-sector credit concentration.
US Aggregate Bonds	-110bps	Duration risk from energy-inflation persistence; deferred Federal Reserve rate cuts.

These magnitudes are analyst-derived estimates grounded in the transmission channels above; they are scenario views for sensitivity analysis, not probability-weighted forecasts.

Sources: JPMorgan 2026 Long-Term Capital Market Assumptions (USD), verified against Three Horizons Capital's analytics estate; JPMorgan standard stress-scenario shocks; Three Horizons Capital portfolio analytics and three-factor model; geopolitical and energy detail from publicly available information as of 25 June 2026 (IEA, Strait of Hormuz reporting). For research and platform-demonstration purposes; not investment advice.

Want this run against your own book?

We can take any portfolio, ground it in reconciled capital-market assumptions, decompose its real risk, and show, with the cost disclosed, how to make it behave better when it matters most.

READ THE FULL PIECE ONLINE

www.threehorizonscapital.com/insights/geopolitical-regime-shift

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Analytical framework: JPMorgan 2026 Long-Term Capital Market Assumptions (USD), verified against Three Horizons Capital's analytics estate. All geopolitically-adjusted returns and scenario results are model estimates, not forecasts; the geo-adjusted return advantage is conditional on the stated views proving directionally correct. The reference portfolio is analytically constructed and not based on any client's actual holdings. For professional and institutional investors only. Not investment advice. Three Horizons Capital is not affiliated with J.P. Morgan Asset Management.