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Geostrategic Advisory

Financing Resilience

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Chair of Geostrategic Advisory, Rothschild & Co

The geostrategic context will continue to reshape the business environment, and the pace and complexity of events will only accelerate; for business leaders, that is now the norm.

A hot, dry summer, in which the intersection and amplification of climate and geopolitical risks served as a sharp reminder to governments and business of the need to better understand single points of failure and invest in resilience.

Yet this presents governments with a stark choice: which sectors should they control, which sectors can be secured through allied coalitions and which can be left to market forces. That is at the heart of economic statecraft.

In this geostrategic new-normal, resilience - whether in security, energy, resources, food or water - has a cost. The question is no longer whether resilience matters, but how it is funded and at what price.

WHAT TO WATCH?

1. **As climate amplifies geopolitical shocks, will investors reward resilience?**
   After a summer of heat and water stress demonstrated that physical climate risk now strikes many of the same chokepoints as conflicts, will investors reward resilience?
2. **Is food security now a geostrategic risk?**
   Weaponised grain corridors and a fertiliser shock have collided with climate stress, squeezing supply at both ends, with El Niño adding to the strain. Is food becoming the next tool of statecraft?
3. **In the new industrial order is supply-chain sovereignty deliverable and affordable?**
   Can the US and its allies loosen China's grip on processing? And will a widening trust deficit between the US and its allies push governments towards sovereign - but more expensive - solutions?
4. **In an era of economic security, what are the implications for capital flows?**
   From securing the physical inputs for an AI-led industrial build-out, from oil through Hormuz to critical minerals. How will this reshape capital flows?
5. **Are governments willing to make the hard trade-offs to deliver resilience?**
   How will governments navigate the trade-offs between sovereignty and resilience?

> "Resilience should become a source of competitive advantage, but it is not free. The question for boards and investors is how it is funded, and at what price."

Anne Imbach
Group Head of Sustainability, Rothschild & Co

As climate amplifies geopolitical shocks, will investors reward resilience?

Climate risks are amplifying geoeconomic vulnerabilities across supply chains and energy markets. Triodos[1] estimates heat and drought could cost Europe €180bn this year, around 1% of EU GDP. Trade infrastructure is under strain: record-low Rhine levels are forcing cargo rerouting, Danube constraints contributed to reactor shutdowns in Hungary and Romania, and low Panama Canal water levels, compounded by diversions following Iran's closure of the Strait of Hormuz, have pushed up transit queues and fees. Water scarcity is a material constraint on agriculture and the power sector, with much of global thermal capacity projected to operate in areas classified as high water-stress.

Questions about the best national and corporate risk mitigation response towards climate adaptation have grown louder, with policymakers starting to discuss different avenues to fund protections against extreme weather-related damages (such as climate adaptation funds[2], or issuance of additional common debt).

For now, the economic effects of this summer and uninsured losses are spread across sectors and geographies rather than concentrated on individual issuers. Combined with uneven value-chain impacts, localised physical risk, and adaptation spend often sitting within existing capex, this makes it harder for investors to benchmark or reweight environmental-equity strategies towards adaptation – it's one of several resilience questions boards and investors face navigating volatile energy markets, geopolitics, and capturing value from the AI build-out.

The picture is clearer where commercial upside is easier to identify in the "picks and shovels" of climate adaptation - from forest management, air conditioning, supply-chain risk monitoring, maintenance, repair and emergency-response infrastructure - where the Bloomberg Prepare & Repair Index outperformed the S&P 500 by 7.2%[2] annually over five years. On debt, Europe issued over 1,000 green bonds with adaptation use of proceeds – 10 x the US total – despite lower estimated long-term GDP losses from physical hazards.

As climate stress continues to intensify and strategic resilience becomes a defining feature of economic competitiveness, **climate adaptation has the potential to evolve from a risk-management exercise into a source of strategic differentiation.** For boards and investors alike, the question is no longer whether physical climate risks will materialise: but how quickly resilience can be built into operations, supply chains and capital allocation where it's most material and over what timeframe it needs to be deployed.

> As climate stress narrows the margins of national resilience and geopolitics reshapes the global operating environment, adaptation and decarbonisation are not separate agendas but twin pillars of long-term strategic resilience. Where resilience can be translated into competitive advantage, capital is increasingly starting to reward both."

Companies that demonstrate how adaptation protects earnings, secures assets and competitiveness are likely to be best positioned: **capital will flow where resilience is investable, not as a matter of virtue.**

WHAT TO WATCH?

- Which companies will be best prepared to turn climate resilience from a risk-management challenge into a source of competitive advantage?
- As governments prioritise defence and strategic resilience, will climate policies shift to resilience - and how will adaptation be funded?

[1] Source: Triodos August 2026 - Hot summer economics
[2] Source: Bloomberg

Is food security now a geostrategic risk?

Food has re-emerged as an instrument of statecraft. Russia's renewed strikes on Ukrainian Black Sea grain infrastructure, and Ukraine's retaliatory hits on Russia's export terminals, have halted exports from Black Sea ports that normally carry 80-90% of both countries' grain, with Ukraine's exports down 75% in early August. There is also a growing risk that shipowners will consider it too risky, or the insurance costs too high, to continue trading[2].

The impact is global — Ukraine and Russia supply nearly 30% of world wheat, and Ukraine around 40% of sunflower oil – the impacts falling hardest on the import-dependent MENA economies. The partial closure of the Strait of Hormuz has compounded the effects choking fertilizer flows. European grain production has also been hit hard by summer droughts, while US output is set to fall on adverse weather.

Prices tell the story: Wheat and other grains climbed steadily through the first half of 2026 - in early September, US wheat and corn prices were up by >20% since June. Fertiliser constraints may impact 2027 and 2028 harvests, compounded by a strong El Niño forecast for this winter. **Africa and the Middle East look particularly vulnerable.** Both regions are heavily reliant on grain imports from the Black Sea region, not least because they are often competitively priced. Global grain stocks were high going into 2026, which will provide a cushion and act as a ceiling on prices in the near term. However, any prolonged closure of the Black Sea ports would see these stocks depleted.

Thinking the unthinkable: The "localise" response is already underway at the state level, as Rothschild & Co Redburn Review's East of Eden[1] notes, as 'China's grain reserves are slipping below its food-security comfort threshold, and confronted by an enormous yield gap compared to the Americas and the unsettled decision of importing ever more grain from countries it would rather not depend on, Beijing is choosing to embrace genetically modified technology it long spurned. The EU is also on the verge of unlocking gene-edited cereals.'

What this demonstrates is that a single chokepoint can quickly create a global food shock. In a contested world, with interconnected crises testing fragile supply chains, food supply-chain resilience has increasingly become a matter of national security and local agendas.

WHAT TO WATCH?

- Whether an agreement between Russia and Ukraine on Black Sea can be secured and Hormuz dependent fertiliser flows stabilise or face renewed disruption
- Export controls on certain foods, with consequent effects on food prices, which test governments' ability to respond, increasing the risk of instability.

> Nations in the Middle East and Africa and in Asia are highly dependent upon Ukrainian and Russian grain and food oils for their own food security, that is not just a question for them of inflation but of shortages. And as we know, food shortages lead to political instability.

Early warning: Mark Sedwill – June 2022, IISS Shangri La Dialogue

[1] Redburn Review: June 2026 essay ("East of Eden — Making Choices in Agrichemicals," Tony Jones)
[2] IISS insights on Russia and the Black Sea grain corridor, September 2026

Simon Thompson
Senior Advisor, Rothschild & Co

In the new industrial order; is critical minerals supply chain sovereignty deliverable and affordable?

With growing recognition that both economic and national security depend on the availability of critical minerals, the US has announced a wave of multilateral, bilateral and unilateral initiatives to onshore or create resilient offshore supply chains for critical minerals. These initiatives are designed to reduce US dependency on China. Over the past few decades, China has established a dominant position in the upstream extraction and processing of numerous critical minerals and has leveraged this position to develop equally dominant positions in numerous downstream advanced manufacturing industries.

- These initiatives include FORGE, a US-led coalition of friendly nations for defence and advanced manufacturing supply, Project Vault, a US$12bn public-private strategic stockpile and Pax Silica, aimed at the full technology stack from minerals to chips.
- Since 2025 the White House has also embarked on state capitalism, enabling over 160 mineral-related deals worth around US$40bn.

The initiatives face a number of challenges and long lead times, including technological risk, price volatility and competition from established producers in China and elsewhere. **The economics are the hard part.** New entrants are likely to have higher costs, at least initially, than established players. The US is therefore proposing price support mechanisms. Where minerals are a small share of end-product cost, manufacturers may pay a small premium for security of supply; where they are a large share, they may resist locking in uncompetitive pricing.

International coalitions such as FORGE also need to navigate the conflicting interests of producing and consuming nations. Resource-rich developing nations are likely to be suspicious of mechanisms designed to onshore value-added processing and manufacturing to the US and other developed nations

China's export controls on critical minerals are increasingly biting in defence supply chains. IISS[1] observe that although Beijing's measures are aimed at US military suppliers, the spillovers are already affecting the European defence industry. European rearmament is colliding with a harsher geoeconomic reality: tighter Chinese export controls and intensifying US-China competition. European defence companies are layering resilience measures, but stockpiling remains the backbone. The core short-term hedge against supply-chain disruptions is still inventory.

Against this backdrop America's allies will want to understand, how 'America First' policies would operate if a major supply disruption or further conflicts occur.

WHAT TO WATCH?

- Whether Europe supports US-led initiatives or will it seek 'strategic autonomy.'
- Increasing 'resource nationalism' in resource-rich nations.
- Whether uncoordinated stockpiling by firms, nations and blocks creates artificial scarcity and increases prices, and the impact of that on European rearmament, AI and energy transition.

> "The question is not whether dependence on China can be reduced, but whether governments and manufacturers are prepared to pay for the resilience needed to secure supply chains for the defence, AI and critical minerals that will shape future strategic competition."

[1] GSIS26_executive_briefing_April26_archive.pdf

George Karamanos
Global Strategist, Rothschild & Co Redburn

In an era of economic statecraft, what are the implications for capital flows?

Governments and corporates are shifting from a mindset of supply chain optimisation to resilience.

The first shift is physical: supply-chain security is back in focus, with Strait of Hormuz instability raising the stakes on energy autonomy and tariffs pushing supply chains from efficiency towards resilience. **The contest is over access, not just price:** critical-mineral supply still depends on Chinese-controlled processing, and 14 of the top 30 resource-rich countries are effectively off-limits to the US and Western Europe, so the focus is on de-risking, not decoupling.

The second shift is digital: as AI turns data centres, semiconductors and domestic IP into strategic assets, security and infrastructure increasingly hinge on innovation and domestic IP retention; digital sovereignty has become an extension of national security.

This is reshaping who counts as strategic. The definition of a "national champion" is widening beyond utilities, energy and defence to include "too big to fail" institutions, major employers and IP-holding technology such as Nvidia. And the state's role is deepening from arm's-length backing to ownership: the US is shifting towards state capitalism through direct stakes and golden shares, China is scaling its SOE and "Little Giants" complex, and Europe is refining its merger rules towards scale and resilience.

How this will reshape capital flows is the question. Over the next decade, we expect \$7–10 trillion of capex spend on AI in the US, infrastructure in Canada and Germany, and NATO's spending increases in Europe. This is expected to be increasingly funded by private credit. Taking the lower end of the estimate, \$7 trillion, and applying a project-finance-type funding structure would require roughly \$1.4 trillion of equity, primarily from corporate free cash flow, and \$6 trillion of debt. While government funding will account for the majority of European capex spending, in Canada and the US, large corporate bank lending will need to support private credit, particularly as banks' funding advantage builds and leverage ratios are relaxed.

WHAT TO WATCH?

- State capitalism and champions. Direct state stakes, golden shares and rewritten EU merger rules redefining which assets are "strategic"; and how markets value them versus governments.
- Continued re-regionalisation of cashflows to fund reindustrialisation and resilience.

Nicola King
Co-Head of Geostrategic Advisory, Rothschild & Co

Are governments willing to make the hard trade-offs to deliver resilience?

Economic security. Sovereignty. Strategic Autonomy. Resilience. This is the new lexicon of statecraft: from securing supply chains and controlling the levers of energy security, to asserting digital sovereignty, protecting critical infrastructure and delivering defence reindustrialisation.

Defence sits at the sharp end of this shift. Europe's rearmament and higher NATO spending targets are running into a harder supply reality: fragmented national industrial bases, tighter Chinese export controls on the inputs defence depends on, and lengthening lead times. The result is a scramble to secure defence supply chains, in which stockpiling and inventory remain the main hedge in the near term, and a rising premium on trusted, allied capacity.

What is much less clear in policy frameworks is what needs to be truly sovereign and what can be better, more efficiently and cost effectively achieved through trusted coalitions and alliances.

Statecraft is expanding to defend national interests. The industrial strategies and tools deployed to defend markets and control the levers are an increasingly interventionist set of industrial policies and economic-security frameworks: expanded investment screening, domestic-preference and "buy local" bias, and export controls that are spreading well beyond their original scope.

AI has become a defining arena in this contest. Quantum technologies, compute capacity, advanced semiconductors and the data and energy that underpin them are now treated as strategic assets, subject to a tightening framework of restrictions. Governments are moving beyond regulating AI to actively taking a stake in it, with sovereign compute programmes, national AI champions and state-backed data centre capacity becoming instruments of economic security. AI is reshaping defence too, from autonomous systems to the intelligence edge. Trust issues have fuelled the sovereignty agenda, with a premium on sovereign data, access to chips and AI models, even as the pace of AI change is demanding real time cybersecurity solutions that doctrines struggle to match. Against this backdrop, **investment screening has widened from a narrow national-security backstop into a routine feature of dealmaking**, now reaching inbound and, increasingly, outbound investment across critical technologies and inputs, adding cost, conditionality and completion risk to cross-border M&A.

In critical sectors states are investing or enabling investment. The direction, or redirection, of state capital points to the emergence of state-led co-investment models: the US Office of Strategic Capital (US Department of War), the EU's European Investment Bank, the UK's National Wealth Fund and the Nordic Investment Bank, all focused to a greater or lesser extent on securing national interests and crowding in private capital on their terms.

Beijing's established industrial strategies have given it temporal and sector advantages, which it leverages through chokepoints in critical minerals, supply chains, market access and data and, since 2020, China has built its own economic-security architecture to project Chinese jurisdiction beyond its borders. The effect is that multinationals are increasingly trapped between competing sovereigns: over- compliance with US or EU measures can now itself create legal exposure in China, so "de-risking" has become a risk in its own right.

What these frameworks do not yet deliver is a coordinated approach to resilience, embedded through trusted partnerships and coalitions rather than purely national solutions.

The consequence may not be just a cost premium for national security, but a slower pace of reindustrialisation and competitiveness at the very moment it is most needed. NATO offers a template for defence reindustrialisation, yet member states have struggled to pool demand and coordinate a fragmented industrial base – emerging vehicles such as a Defence, Security and Resilience Bank may help. In Europe, the signature 'Made in Europe' response to the twin shocks from the US and China aims to reindustrialise, but risks disrupting core supply chains and disenfranchising natural allies of the bloc, from the UK to Japan.

As long as resilience is bolted on rather than financed by design, it will keep raising the cost of supply and capital rather than being priced efficiently.

WHAT TO WATCH?

- Whether the EU, through Made in Europe and other such initiatives, can evolve to build coalitions for resilient supply chains, or whether it will prioritise EU centred solutions.
- Whether NATO and European rearmament can pool demand and coordinate a fragmented defence industrial base, or whether national agendas fragment allied supply chains.
- Whether public and private capital can converge on financing models that de-risk and align around strategic resilience.
- Whether the contest over AI compute and advanced semiconductors, and the export controls around them, become an increasingly ubiquitous feature of economic security frameworks,
- Whether "trusted capital" frameworks emerge that value resilience rather than simply regulate ownership and sovereignty.