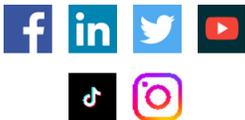




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Inflection Points: Five Risks for 2024 Keeping Us Awake

Inflection Points

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The season of good tidings and joy is upon us once again, and along with that comes the annual list of geopolitical risks that could roil markets in the year ahead. The operative word is “could.” These risks are not necessarily base case assumptions or predictions. They highlight diverse issues that may not be fully priced into the market. I compile the list after consultation with colleagues, policymakers, investors, and academics.

Heading into 2024, we remain reasonably optimistic about the outlook for financial markets with economic risks receding and a U.S. recession no longer the consensus forecast. Last year’s list covered China’s strategy, Fed inflation targeting, emerging market contagion, end of new stimulus, and the Ukraine conflict.¹ While some of them weighed on markets at times in 2023, the U.S. economic growth engine, highlighted by a surprise 5.2% GDP print in Q3, made some risks seem not so risky. With interest rates likely peaking, geopolitics may prove more salient for investors in the year ahead.

As we expected, equity markets proved relatively strong through November, and we believe that they may remain so even if growth slows amid higher rates. That said, here is a list of risks that could dampen my otherwise cheerful spirit.

Five Risks

- China and Taiwan: January Election Hastens Hostility
- Regionalization of Mideast Conflict: U.S. Involvement Triggered
- U.S. Ends Support for Ukraine: A Signal to the New Axis of Evil
- Neither Biden nor Trump: A Bumpy Road to November
- A Rebel Without a Clue: Civil Unrest in the Age of Misinformation and AI

China and Taiwan: January Election Hastens Hostility

Tensions between China and Taiwan are not new, but 2024 may prove pivotal in their long-running disagreement. Taiwan is set to hold elections in January, and the primary distinction between the two parties is how they view the country’s relationship with China.² The Democratic Progressive Party remains focused on independence and sovereignty, while the Kuomintang Party likely wants to improve ties with the mainland.

Taiwan and the electoral outcome takes on added significance as China grapples with a persistent economic slowdown. Exports contracted in 11 of the past 13 months, the real estate market remains



impaired, and consumers continue to save at very high rates.³ After three decades of rapid growth, a sluggish economy may put pressure on leadership to seek legitimacy from other sources, including more nationalist foreign policy.

Another concern that might factor in is that U.S. military modernization may erode China's strategic advantage in the coming years.⁴ China has over 2 million soldiers in the Peoples Liberation Army and a sizeable Navy. But as modern militaries turn to unmanned capabilities over time, fleets of small semi-autonomous weapons systems may negate conventional superiority. Experts assess that China's window of regional superiority may close faster than expected, possibly increasing the incentive to act in the Taiwan Strait.

With U.S. focus already split between the Middle East and Central Europe, China may consider actions to reclaim Taiwan should voters opt for greater independence.⁵ A full-scale military action seems unlikely, but China may step up a military buildout aimed at resolving the situation.

Related themes: Added tension and military activity should support Defense Technology, Cybersecurity, Robotics, and U.S. Infrastructure as U.S.-China competition heats up.

Regionalization of Mideast Conflict: U.S. Involvement Triggered

The brutal October 7 terrorist attack in Israel orchestrated by Hamas triggered a fresh round of violence in Middle East. Israel responded, much as the U.S. did after 9/11, by going after well-armed and well-hidden assailants.

The timing of Hamas' attack was not a coincidence. The act of terrorism was aimed at disrupting a potentially historic deal brokered by the U.S. to normalize relations between Israel and Saudi Arabia, two of Iran's regional enemies.⁶ Iran has a history of using proxies to achieve their goals, including funding militant and terrorist organizations.⁷ Iran's support for Hamas follows this mold, and the attack may have achieved their goals while setting back the Palestinian cause by years, maybe decades.

Thus far, the conflict has not spread across the region. Iran's better-armed and better-organized proxy, Hezbollah, sits just north of Israel in Lebanon, and yet, they have not attacked.⁸ While difficult to say, there may be an uneasy tacit agreement between Iran and the U.S. Iran restrains Hezbollah and the U.S. puts aside the Israel-Saudi agreement.

If this tenuous status quo falls apart and Hezbollah attacks Israel in force, the U.S. might respond with airstrikes. A failure to act, would essentially condone Iran's escalation using their closest regional proxy. This scenario would likely draw in Turkey, Egypt, Jordan, Saudi Arabia, Lebanon, and Syria.

Related themes: Should oil prices increase, alternative energy themes like CleanTech and Renewable Energy could gain favor along with areas like Defense Technology.

U.S. Ends Support for Ukraine: A Signal to the New Axis of Evil

President George W. Bush spoke of an "Axis of Evil" in the 2002 State of The Union speech. At that time, Iran, Iraq, and North Korea were referenced, despite little evidence of collaboration.⁹ Fast forward 21 years, and the axis of Iran, North Korea, and Russia is a reality.¹⁰

The decision to cut Ukraine military aid, currently being debated in Congress, would be akin to giving the Iran, North Korea, and Russia axis a win while causing European allies to lose faith in U.S. leadership. Should the U.S. signal a withdrawal, an emboldened axis may choose a fresh target such as Korea or expansion in Eastern Europe.



In spring 2023, Ukraine seemed well-positioned to make tactical gains in the counter-offensive against Russia.¹¹ Those gains never really materialized with the conflict at a standstill. Nevertheless, neither party seems exhausted and ready to negotiate an end to hostilities.

One of last year's risks warned of the potential for Russia to use weapons of mass destruction following the announcement of a potential transfer of tactical nuclear weapons to Belarus.¹² Russia eventually moved those weapons into Belarus in June. Use of nuclear weapons does not make much military sense, but if Russia is truly backed against a wall, the option is on the table.

U.S. support for Ukraine, once bipartisan, has unraveled. Numerous Republican primary presidential candidates openly call for an end to U.S. military support.¹³ Those same voices argue in favor of diplomatic settlement. Withdrawing U.S. aid makes such an agreement almost impossible because it empowers Russia on the battlefield and at the negotiating table. Meanwhile, Ukraine desperately needs U.S. support to maintain the military campaign.

Related themes: Natural resources could be at the center of future conflicts, and the Disruptive Materials, Agricultural Technology, and Lithium & Battery Technology themes could draw interest.

Neither Biden nor Trump: A Bumpy Road to November

In recent months, we have been talking to clients about the seemingly unlikely possibility that neither President Biden nor former President Trump are their party's nominees for president. The mere mention is generally greeted quite well, even if dismissed as optimistic. A different presidential match-up might be a welcome thought for market participants, but the path to that point could be unnerving.

President Biden would not be the first incumbent to not seek reelection. Seven former presidents did not run again, including Harry Truman and Lyndon Johnson. The White House claims Biden will run, but there has been little campaigning thus far. Many observers thought he was a caretaker, one-term president from the start, and he may no longer have the support of big donors.¹⁴

Should Biden not run, a full-fledged primary fight is possible, but the contest would occur in a compressed time frame and cannibalize funds from the general election. Alternatively, a new nominee could be crowned, though reaching consensus would be a challenge.¹⁵ Some in the party would argue that Vice President Kamala Harris is the obvious choice. Then again, California Governor Gavin Newsom recently went to China to meet with President Xi and travel the U.S. to do a victory lap on the Infrastructure Bill, two activities that a president, or vice president, would ordinarily take on.

Former President Trump maintains a commanding lead in the polls.¹⁶ Derailing the Trump train is more complicated. Primary timing and strategy could matter with Iowa, New Hampshire, and South Carolina setting the stage. A candidate like Nikki Haley could well gain momentum in early primaries.

Away from the primaries, court challenges in key states are possible. A Colorado court heard a case arguing that Trump cannot be on the ballot based on his potential involvement in the January 6 riots.¹⁷ Trump faces 91 felony charges, another a potential impediment, along with civil charges in New York State that threaten to undermine his ability to self-finance a campaign. Currently, big donors are not lining up support. Should Trump not make the cut, civil unrest in numerous states is possible.¹⁸

Related themes: Both parties are likely to talk up several themes during the 2024 election cycle, including U.S. Infrastructure and themes tied to nearshoring, such as Robotics, AI, and AgTech.

A Rebel Without a Clue: Civil Unrest in the Age of Misinformation and AI

Political activism is on the rise. From 2017-2019, four significant protest events occurred, and they lasted only for a couple of weeks, as tracked by the Carnegie Endowment for International Peace.¹⁹ From 2020-2023, that number grew to nine major actions, with most lasting multiple months.

Academic research and policymakers highlight increased challenges in the information environment.²⁰ Misinformation is the spreading of inaccurate information, and disinformation is the spreading of intentionally false information. Social media serves as echo chambers and amplifiers for both, and new generative AI capabilities may exacerbate the problem. AI opens the possibility of higher volumes of inaccurate content to drown out legitimate voices, better quality material such as deep fake images or videos, and even personalized disinformation intended to weaponized political or psychological biases.²¹

In recent years, U.S. protests focused on wars, race, elections, and economic inequality, all issues that could resurface in 2024. A politically charged population susceptible to malicious or uninformed information providers may prove disruptive to economic activity and introduce volatility into markets. Typically, markets remain relatively indifferent to such activities, but the risk seems elevated going into next year.

Related themes: Civil unrest could increase engagement with social media. AI and cloud computing tools could be helpful in countering false information. Blockchain could benefit as a store of value.

The information contained in this piece represent the views and opinions of the authors and does not necessarily represent the views of Global X Management Company LLC or any of its affiliates.

Footnotes

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Theme Reference index:

- Blockchain – Solactive Blockchain Index
- Disruptive Materials – Solactive Disruptive Materials Index
- Lithium & Battery Technology – Solactive Global Lithium Index.
- FinTech – Indxx Global FinTech Thematic Index
- Cloud Computing – Indxx Global Cloud Computing Index



Robotics & AI – Indxx Global Robotics & Artificial Intelligence Thematic Index
China Biotech Innovation – Solactive China Biotech Innovation Index
Artificial Intelligence – Indxx Artificial Intelligence & Big Data Index
Cybersecurity – Indxx Cybersecurity Index
Millennial Consumer – Indxx Millennials Thematic Index
E-commerce – Solactive E-commerce Index
Genomics & Biotechnology – Solactive Genomics Index
Data Center REITs & Digital Infrastructure – Solactive Data Center REITs & Digital Infrastructure Index
Social Media – Solactive Social Media Total Return Index
Solar – Solactive Solar Index
Autonomous & Electric Vehicles – Solactive Autonomous & Electric Vehicles Index
Education – Indxx Global Education Thematic Index
Telemedicine & Digital Health – Solactive Telemedicine & Digital Health Index
Hydrogen – Solactive Global Hydrogen Index
Internet of Things – Indxx Global Internet of Things Thematic Index
Emerging Markets Internet – Nasdaq CTA Emerging Markets Internet & E-commerce Net Total Return Index
U.S. Infrastructure Development – Indxx U.S. Infrastructure Development Index
Cannabis – Cannabis Index
CleanTech – Indxx Global CleanTech Index
AgTech & Food Innovation – Solactive AgTech & Food Innovation Index
Health & Wellness – Indxx Global Health & Wellness Thematic Index
Renewable Energy Producers – Indxx Renewable Energy Producers Index
Aging Population – Indxx Aging Population Thematic Index
Metaverse – Global X Metaverse Index
Clean Water – Solactive Global Clean Water Industry Index
Wind Energy – Solactive Wind Energy Index
Video Games & Esports – Solactive Video Games & Esports Index
Green Building - Solactive Green Building Index

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