

From the **CIO'S** Desk



When "Unknown Unknowns" Dominate: Investing Through the Next Market Megaquake

When uncertainty shifts from the measurable to the unknown, precision in forecasting becomes, at best, a polite fiction. Most conventional investment frameworks built on probabilities, correlations, and precedent are designed for volatility, not discontinuity.

They work until they don't.

Markets are no strangers to tremors. Episodes of geopolitical friction, policy shifts, or social unrest are typically absorbed, repriced, and normalised within existing models. But at rare intervals, the system encounters something more disruptive - a shock that cascades across layers and reshapes assumptions.

Consider the 2011 Tōhoku earthquake. What began as a natural disaster evolved into a tsunami, a nuclear crisis, and ultimately a rethinking of global energy policy. More recently, the Covid-19 pandemic demonstrated how quickly a localised event can translate into a synchronised global economic reset.

The ongoing geopolitical tensions in the Middle East, while still unfolding, carry the potential though not certainty of becoming another such inflection point, particularly if second-order effects begin to influence energy markets, supply chains, or fiscal responses.

In such moments, the challenge for investors is not merely managing volatility, but operating in conditions where outcomes are non-linear and base probabilities offer limited guidance.

Drawing on Nassim Nicholas Taleb's concept of fragility, portfolios can be viewed in simpler terms:

The Fragile

Businesses structurally exposed to disruption. Price declines here can be deceptive what appears inexpensive may simply be impaired. Exposure is best reduced with discipline.

The Robust

Enterprises that can absorb shocks without lasting damage. Periods of dislocation may offer opportunities to build exposure selectively.

The Antifragile

A smaller set of businesses that benefit from volatility and disruption. As conditions evolve, their relative strength can justify increased allocation.

This is not about prediction. It is about positioning.

Because in periods of systemic stress, the objective is not to forecast the precise path of events, but to ensure portfolios are built with resilience and where possible, a degree of optionality.

In a world of shifting tectonic plates, the question is not whether the ground will move, but whether portfolios are constructed to endure and adapt when it does.

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