CIBC PRIVATE WEALTH



JAMES DIXON, CIM®: MACRO THOUGHTS – OCT 21, 2026

THE NEW GEOPOLITICAL ARCHITECTURE

EXECUTIVE SUMMARY

The global geopolitical landscape is undergoing a structural transformation. What was once an interconnected economic system built around globalization, free trade and efficient capital allocation is increasingly being reshaped by national security, resource control and strategic competition.

At the center of this transition is the intensifying rivalry between the United States and China. Conflicts in the Middle East, Russia's war with Ukraine, tensions surrounding Taiwan and the growing importance of the Arctic should no longer be viewed exclusively as isolated geopolitical developments. Rather, they increasingly intersect with a broader contest for economic and strategic influence.

My investment thesis rests on four observations:

- **Energy.** Energy is becoming an instrument of geopolitical power. Control over oil production, refining capacity and transportation infrastructure increasingly determines economic resilience and negotiating leverage.
- **Globalization**. Globalization is giving way to strategic fragmentation. Governments are prioritizing secure supply chains, domestic industrial capacity and access to critical resources over economic efficiency alone.
- **US vs China.** The US–China rivalry is reshaping global alliances. Countries are facing growing pressure to align their trade, tech, defense and energy policies with competing economic blocs.
- **Geopolitics & Monetary policy**. Geopolitics is becoming a more important determinant of asset prices. Energy disruptions, inflation expectations, sovereign borrowing costs and currency movements are increasingly interconnected.

My medium-term outlook for equities remains constructive, consistent with my previously articulated mid-cycle expansion thesis. However, the geopolitical environment reinforces my conviction that quality, pricing power, strong balance sheets and durable free cash flow are increasingly important determinants of investment performance.

The opportunity for investors is not simply to anticipate the next geopolitical crisis, but to identify the companies and assets positioned to benefit from a world in which economic security increasingly takes precedence over economic efficiency.

1. ENERGY: THE NEW CURRENCY OF GEOPOLITICAL POWER

For decades, global energy markets operated largely under the assumption that oil and refined products would flow toward the highest bidder. Even when geopolitical tensions periodically disrupted supply, the underlying system remained globally integrated.

That assumption is increasingly being challenged.

The conflict involving Iran demonstrates how energy infrastructure can become a strategic weapon. The Strait of Hormuz, the Red Sea, the Bab el-Mandeb passage and Saudi Arabia's East–West pipeline represent critical arteries of global energy supply. Disruption to any one of these routes can affect global prices. Simultaneous disruptions introduce the possibility of a more significant supply shock.

Importantly, the greatest vulnerability may not be crude oil itself, but refined products, particularly diesel. Diesel is essential to agriculture, freight transportation, manufacturing and global logistics. Unlike crude oil, which can often be redirected between markets, refined-product availability is constrained by refinery configuration, storage infrastructure and regional distribution networks.

The ongoing Russia–Ukraine conflict compounds these vulnerabilities. Attacks on Russian refining infrastructure, alongside disruptions in the Middle East, create the potential for simultaneous pressure on global diesel supplies.

The economic implications extend well beyond energy markets. Higher diesel prices increase agricultural production costs, transportation expenses and ultimately consumer prices. This creates the possibility of renewed inflationary pressure even as underlying economic growth moderates.

The investment implication is significant. Energy security is no longer simply a commodity-market consideration. It is increasingly central to inflation, monetary policy, corporate profitability and sovereign economic resilience. It has become a measure of geopolitical power.

Key Insight: In this environment North American energy production, refining infrastructure, pipelines and associated logistics assets should command greater strategic importance as the global architecture reshapes.

2. FROM GLOBALIZATION TO ECONOMIC STATECRAFT

The second structural shift is the gradual fragmentation of the global economic system.

For much of the past three decades, multinational corporations optimized supply chains around cost, productivity and access to global markets. Governments generally encouraged this integration, recognizing the benefits of lower prices and greater economic efficiency.

Today, national security considerations are increasingly superseding those objectives.

The United States has demonstrated a willingness to employ tariffs, export restrictions, sanctions and industrial policy to advance strategic interests. China has similarly prioritized domestic manufacturing capacity, critical minerals, technological independence and supply-chain redundancy. In short a move from globalization to protectionist policies.

For investors, this represents an important structural shift:

- **Globalization era**. The beneficiaries of globalization were often those businesses capable of minimizing costs through international integration. Think Apple.
- **Fragmentation era**. The beneficiaries of strategic fragmentation may increasingly be those capable of securing essential resources, controlling critical infrastructure and operating within protected domestic markets. Think Exxon/Williams.

Key Insight: Governments increasingly appear willing to accept some economic inefficiency in exchange for greater strategic control.

3. US VS CHINA: THE STRATEGIC RIVALRY

While geopolitical attention remains focused on the Middle East and Ukraine, I believe the most consequential long-term development is the competition between the US and China.

This rivalry extends well beyond tariffs or bilateral trade balances. It encompasses energy security, semiconductor manufacturing, artificial intelligence, critical minerals, maritime transportation, financial infrastructure and military influence.

China has spent years strengthening its strategic resilience through resource stockpiling, supply-chain diversification, domestic manufacturing and investment in alternative trade relationships. The US, meanwhile, retains considerable advantages in energy production, financial markets, advanced technology, military capabilities and control of the worlds reserve currency.

THE MIDDLE EAST

The geopolitical significance of the Middle East becomes clearer when viewed through this lens.

China remains heavily dependent on imported energy, making secure access to Middle Eastern supplies strategically important. The US, in contrast is supported by substantial domestic production and broader North American resources. It duly enjoys greater relative energy flexibility.

Consequently, prolonged instability in global energy markets can impose disproportionate economic costs on energy-importing economies. Importantly, this does not imply that Washington deliberately seeks instability. Higher energy prices also damage American consumers and complicate domestic monetary policy. Rather, it illustrates how the same geopolitical shock can produce materially different consequences across competing economies.

When it comes to the outcome, China would clearly prefer stability without a decisive geopolitical defeat for important partners such as Russia or Iran. The US, conversely seeks to preserve its strategic influence while limiting China's ability to challenge the existing international order.

Neither objective is easily reconciled which complicates the issue!

Key Insight: Competition between the two powers is likely to remain a defining characteristic of the investment landscape, even during periods of diplomatic engagement. Talks should be closely monitored for potential escalation.

RUSSIA-UKRAINE & STRATEGIC ALIGNMENT

The Russia–Ukraine conflict increasingly intersects with the broader competition between the major economic powers.

Russia remains a significant supplier of energy, agricultural commodities and critical raw materials. Its relationships with China and other non-Western economies have become increasingly important as Western sanctions have restricted traditional commercial relationships.

For Europe, the conflict has exposed several structural vulnerabilities including: Dependence on imported energy; limited domestic refining flexibility; elevated defense requirements; and relatively weak industrial growth. These vulnerabilities have created a challenging economic backdrop.

Further disruption to Russian refining capacity could intensify these pressures, particularly if Middle Eastern energy supplies remain constrained. This creates an increasingly difficult policy environment.

European governments must balance continued support for Ukraine with the economic consequences of higher energy prices, rising defense expenditures and deteriorating industrial competitiveness. These commitments are increasingly challenging given fiscal constraints and tepid growth.

Key Insight: The broader lesson is that geopolitical alignment increasingly carries an economic price, and countries with limited energy independence may face the greatest adjustment costs.

CANADA: A STRATEGIC OPPORTUNITY?

Canada occupies an important position in this emerging geopolitical order. Its abundant energy reserves, agricultural production, critical minerals, established institutions and geographic proximity to the United States provide meaningful strategic advantages.

However, those advantages must be considered alongside Canada's deep economic integration with the American economy. The US remains Canada's most important trading partner, particularly in manufacturing, automotive production, energy and other high-value industrial sectors.

While efforts to diversify Canadian trade relationships are economically sensible (particularly where they expand access to international markets), diversification should not be confused with replacing the American economic relationship.

Canada's manufacturing infrastructure and supply chains are deeply integrated with those of the United States. Recreating these relationships with Europe or Asia would require considerable investment, time and economic adjustment. This is why I believe more US integration, not less is the likely outcome of the existing trade war (Jul 29 - CUSMA UNDER REVIEW).

Canada's strongest strategic position therefore lies in leveraging its North American integration while expanding its capacity to supply energy, critical minerals, agricultural commodities and other strategically important resources to global markets.

This thesis furthermore supports my recent more constructive outlook for the Canadian economy. For years, our concerns centered on weak productivity, declining GDP per capita, insufficient business investment and the inability to commercialize Canada's substantial resource wealth.

The changing geopolitical environment creates a potential catalyst for reversing some of these structural weaknesses. As governments prioritize secure access to resources and reliable supply chains, Canada's natural advantages become increasingly valuable. (Oct 14 – CANADA: A CHANGE IN OUTLOOK).

Key Insight: Canada possesses significant resources but the opportunity extends because the geopolitical value of those resources are rising. Importantly however, realizing that opportunity will require greater infrastructure investment, regulatory efficiency, improved productivity and a more competitive environment for capital ie strong leadership.

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4. GEOPOLITICS INFLUENCE ON MONETARY POLICY

One of the most important implications of this evolving environment is the growing relationship between geopolitics and monetary policy. (Mar 4 - STATECRAFT & THE REPRICING OF CAPITAL).

Historically, central banks have primarily responded to domestic inflation, employment and economic growth. Those variables remain fundamental, but geopolitical developments are increasingly influencing each of them.

An energy supply disruption can raise inflation expectations, increase bond yields, weaken consumer purchasing power and pressure corporate margins. At the same time, higher energy prices can slow economic activity, creating a difficult policy trade-off.

This is particularly relevant given the already elevated level of sovereign debt and substantial government refinancing requirements. Higher yields increase debt-servicing costs and tighten financial conditions, while also raising the discount rate applied to future corporate earnings. The result is a more complex investment environment in which geopolitical developments can quickly transmit across energy, fixed income, currencies and equities.

Nevertheless, we must distinguish between temporary inflationary shocks and a sustained deterioration in underlying economic fundamentals. This is critical as it underscores whether tightening is warranted.

My broader expectation remains that softer labor-market conditions, weaker interest-sensitive sectors (like housing) and the increasing fiscal burden of elevated borrowing costs will constrain the extent of additional monetary tightening. This remains consistent with my constructive mid-cycle equity thesis. (Aug 5 - POSITIONING FOR THE NEXT PHASE OF THE BULL MARKET).

The risk is that energy shock becomes prolonged forcing central banks to maintain restrictive policy despite moderating economic activity. The irony is tighter policy will have limited impact of pricing because the shock is supply not demand driven (Apr 22 - NAVIGATING THE ENERGY SHOCK).

Key Insight: Geopolitics could force greater collaboration between the Treasury and the Central Bank as both work together to achieve state objectives, slightly blurring independence lines.

5. POSITIONING: INVESTING THROUGH STRATEGIC FRAGMENTATION

I do not believe geopolitical uncertainty, by itself, warrants a defensive retreat from equities. Rather, it reinforces the importance of disciplined security selection.

My investment approach continues to favor quality equities. These are businesses with durable competitive advantages, strong free cash flow, healthy balance sheets and the ability to protect margins through changing economic conditions.

Within that framework, several structural themes warrant particular attention.

- **Energy and infrastructure**. Greater value placed on secure production, refining, transportation and storage.
- **Defense and aerospace**. Sustained rearmament and higher national-security expenditure.
- **Critical minerals and materials.** Supply-chain diversification, electrification and strategic stockpiling.
- **Technology and AI**. Competition for computing capacity, semiconductors and technological leadership. AI is quickly becoming a geopolitical tool. (Mar 18 – AI TRADE: A GEOPOLITICAL TOOL).
- **Quality equities**. Pricing power, resilient margins and balance-sheet flexibility amid volatility. (Aug 26 – QUALITY MATTERS: THE RAISED BAR FOR EQUITIES)

CONCLUSION

The global economy is transitioning from an era dominated by globalization and economic efficiency toward one increasingly shaped by national security, strategic resources and competition between major powers.

Energy security, industrial capacity, technological leadership and access to critical infrastructure are becoming central instruments of geopolitical influence. The US and China are at the center of this transformation, while conflicts in the Middle East and Eastern Europe continue to influence the balance of economic and strategic power.

For Canada, the transition presents an important opportunity to leverage its natural resources, geographic advantages and integration within the North American economy.

For investors, the implications are equally significant. I remain constructive on equities and believe the current mid-cycle expansion can continue, supported by technological investment, corporate earnings growth and the longer-term opportunities associated with artificial intelligence. However, geopolitical fragmentation introduces additional inflationary, fiscal and supply-chain risks that cannot be ignored.

My conviction remains that quality businesses, supported by durable cash flows, disciplined capital allocation and strong competitive positions, will be best equipped to navigate this environment.

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