



Geopolitical flashpoints: What markets may be underestimating

October 1, 2025

The reports that China requested the US to reword its stance on Taiwan did not register much on financial markets. Nor did the recent incursions of Russian jets and drones around Estonia, Poland, and Romania; or President Trump's subsequent comments that NATO countries should shoot down aircraft that violate their airspace.

This lack of market movement leaves us somewhat concerned that investors are underestimating the growing use of geopolitical- and war-related rhetoric in different regions around the world. Even Venezuelan President Maduro said he fears a "high-impact military conflict in South America" following the recent strikes against suspected drug smugglers in the Caribbean.

To be clear, we do not expect military conflict between major powers anytime soon. Yet, we do worry that investors may begin to fear conflict given the increasing level of war-related rhetoric. That may lead to sudden and more frequent periods where a catalyst sparks a self-reinforcing risk-off market event as investors move to pre-empt a conflict, even if it does not occur.

Markets are not attuned to the risk of such sudden investor fear. Indeed, there is a common trait among humans to believe that the status quo will prevail in a seemingly stable society. Andrei Amalrik, the Soviet dissident writer, termed it the "comfort cult".

The danger of assuming the status quo is particularly relevant for investors today. Many markets trade at all-time highs, or at levels that do not indicate the geopolitical world is at its most tense since the dissolution of the Soviet Union. That means the mere fear of a sharp escalation in geopolitical tensions may be enough to create a material market scare.

A sudden market shock could create lasting damage even if underlying indices eventually rebound from an initial sell-off. That is due to several factors (such as new leveraged products) that have emerged in recent decades. As a result, we argue that a growing number of geopolitical tension events and shocks may have an outsized impact on financial markets in the near term.

What signs should we be watching for as geopolitical tensions grow tighter? This piece highlights some signals for both regional issues and sectoral ones where we see the potential for conflict over resources. It also highlights some less-discussed geopolitical flashpoints. Consider that the threat of a 9/11-style attack was grossly underestimated before 2001 but it ended up having significant direct and indirect impacts on markets and broader geopolitical diplomacy.

Authors

[Luke Templeman, CPA](#)

Research Analyst
+44-20-754-10130

[Camilla Siazon](#)

Research Analyst
+44-77-876-06467



"The nation which indulges towards another an habitual hatred or an habitual fondness is in some degree a slave."

"A passionate attachment of one nation for another produces a variety of evils."

- George Washington, farewell address

How would investors have reacted to the Cuban Missile Crisis if r/WallStreetBets had been around? This question may sound flippant, but there is a very serious point to it: How will markets react today if investors suddenly fear that one of the many geopolitical flashpoints around the world may be about to escalate into something more?

As it was, the S&P 500 fell only about 7% throughout the Cuban Missile Crisis (although it had fallen 24% in the first half of the year for largely separate reasons).

Markets during conflicts

History shows that geopolitical flashpoints can have a significant impact on markets, particularly in the short term. Our equity strategists have described the major selloffs over the last 100 years [here](#), including during the two world wars. Importantly, the biggest market moves tend to happen early as the conflict begins.

They note that the beginning of World War I saw UK equities sell off by -30% peak to trough, while the entry of the US saw US equities sell off by -35%. World War II saw US equities sell off by -45%. Smaller conflicts such as the Korean War and the Gulf Wars saw declines of 10-20%, but some like the Vietnam War did not see any meaningful sell-off.

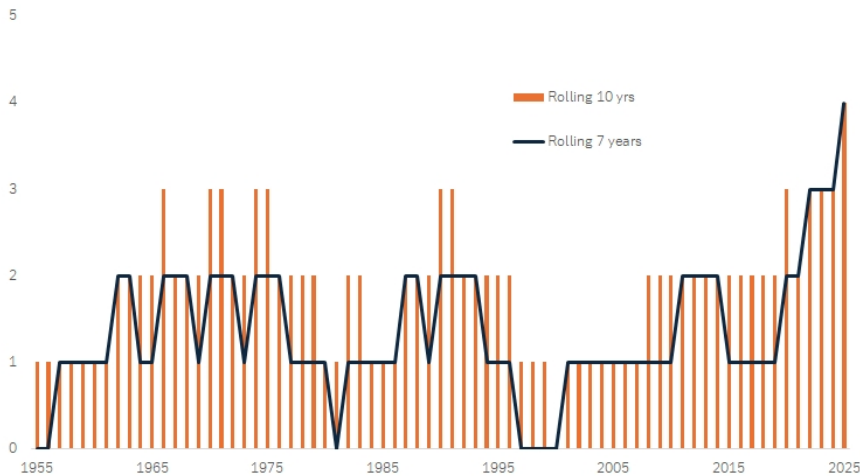
Many conflicts of the past have easy-to-determine starting dates. In contrast, the conflicts of the future may not be so binary – indeed, they may not have an official start or end date at all but, rather, be a series of increasing and decreasing tensions. That means the timing of market shocks may be more difficult to ascertain and, thus, dependent on investors watching for the signs that may be trigger points for rapidly escalating tensions.

Markets can be more prone to shocks today

Some key markets appear more prone to shocks today than in the past. If we take the S&P 500 as a barometer of investor sentiment, the following chart shows that the frequency of large shocks (>20% drawdowns) is increasing.



Figure 1: Number of 20% drawdowns in the S&P 500 in the last 7 and 10 years



Source : Bloomberg Finance LP, Deutsche Bank (Note: Intra-day drawdowns included where data exists. The 20% intraday drawdown in late 2018 is included in 2025 7-year data due to its proximity)

There are always reasons to dismiss big market moves as being isolated events driven by unique factors. However, we believe the recent incidence of more frequent volatile markets is part of a longer-term trend that is only being amplified by geopolitical conflicts. As we move further into an era of heightened power competition, the flashpoints in the near future will likely become more frequent and have a greater impact on markets.

It is true that markets tend to bounce back from a 'fear event' (particularly equity markets); however, there are several reasons why short-term market shocks can have a more lasting impact today compared with 35 years ago, during the last great geopolitical shock.

1. A wider variety of investors are more leveraged than in the past, which means violent short-term movements can have severely damaging and systemic effects.
2. Trading is easier with electronic platforms and smartphones.
3. Valuations have trended higher over the last 30 years.
4. High-frequency and algorithmic trading arguably have the potential to build momentum and compound rapid market moves.
5. The variety of derivatives now available is wider.

All of this is happening against the backdrop of the move away from a world that is far more globalised than it was in any other period of serious conflict. That raises the chance that rapid changes in tensions will have knock-on effects that ripple across many countries in a more intense way than in the less-globalised world of decades past.

Consider the EU, which now acts as the world's largest free-trade bloc. As our economists write [here](#), the increasingly frictional geopolitical environment is revealing Europe's vulnerabilities: for example, the dependence on Russia for energy, on the US for defence, and on China for exports/supply chains/growth.



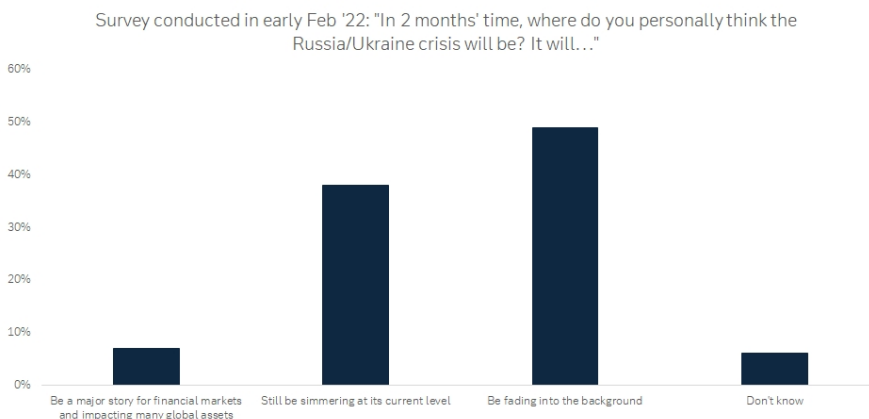
Steadying the ship during volatile periods may be more difficult. The chance of greater volatility means that central banks may struggle to bring economies back into balance quickly. That is because understanding the impact of shocks on economies is all the more difficult when several shocks are playing on the economy at once and interacting with one another.

These effects will be more drawn out for certain sectors of the economy as the world adjusts from a globalised one to a more nationalistic one. This adjustment will be quick for some things but take time for others.

Investors have a hard time accepting big change

One example of how investors today lean towards the status quo comes from a survey we conducted just before the Russian invasion of Ukraine. In February 2022, just two weeks before the invasion, and when Russian troops were massing on the Ukraine border, we asked several hundred institutional investors where they thought the crisis would be in two months' time. Overwhelmingly, these investors thought it would be insignificant. Indeed, just 7% of people thought it would be a major story for financial markets.

Figure 2: Conflict is hard to imagine



Source : dbDataInsights

This mix of normalcy bias, confirmation bias, and status quo bias caught investors out in 2022. With this error so fresh in their minds, we believe that during the next period of escalating tensions, investors may quickly become fearful and move to pre-empt action that may not necessarily occur. And with an increasing number of potential geopolitical flashpoints around the world, there are more triggers that may cause a rapid escalation in tensions.

Accident risk

The Russian invasion of Ukraine and 9/11 are two examples of deliberate decisions by leaders to engage in war. However, perhaps the biggest risk of a sudden surge in geopolitical tensions comes from the threat of an accident or small trigger, which cascades into tensions between key powers and, thus, a market fear event.



Joel Wuthnow from the US National Defence University points to three factors that can combine to increase the chance of an accidental escalation in military tensions. It is concerning that we see these three factors occurring in various hotspots around the world. This raises the risk of an accident inflaming tensions, and causing a market risk-off event, even if those tensions eventually de-escalate:

1. Where there is frequent contact between opposing military forces.
2. Where internal politics has a strong culture of reputation and prestige that can make de-escalation difficult.
3. Where various nations mobilise a military.

The first factor, concerning contact between militaries, is certainly becoming more frequent. Just a few examples include:

- Russian jets and drones have violated NATO airspace in Estonia, Poland, and Romania in recent weeks.
- US and allied ships have made recent transits through the Taiwan Strait, prompting warnings from China and shadowing by its military.
- China conducts various military exercises around Taiwan, and also Australia and New Zealand – members of Five Eyes (both) and Quad (Aust.).
- There are multiple flashpoints in the Middle East, including the military involvement of the US in Iran.
- India and China have long had conflict around their border; in 2020, soldiers on each side were killed.
- The South China Sea is the setting for spats between China and the Philippines over contested territory.
- Russian backing for cable and pipeline cuts is suspected.

The second factor is reinforced by the increase in nationalism across the world that has been palpable for at least a decade. Meanwhile, the third factor can be seen in:

- The US has military spread across Europe and Asia and maintains bases in many countries. It has recently deployed various military vessels, and reportedly aircraft, into the vicinity of Venezuela and the Caribbean.
- China is growing its access arrangements, particularly around the Pacific, but it also has BRI agreements with various countries around the Indian Ocean. The build-out of naval power helps project influence in the Indo-Pacific.



Potential flashpoints

The fear of action, rather than action itself, is enough to cause aggressive risk-off events in markets. Below we very briefly outline some potential geopolitical situations where a catalyst may cause a sudden risk-off market event even if no action eventuates.

Taiwan

State of play

Taiwan has a population of over 23m and an economy worth \$805bn, just a little less than Poland or Switzerland. Economically, Taiwan's crown jewel is TSMC which last year generated 70% of its revenue from the US compared with just 11% from China. Globally, 12 states recognise Taiwan.

Beijing views Taiwan as a breakaway territory that must be "unified" with the mainland under its One China policy and recognises Taiwan as part of the Republic of China. Since taking office, Chinese President Xi Jinping has reiterated his commitment to Taiwan as being under "one country, two systems" as the PRC has done with Hong Kong since 1997.

Taiwan is not an isolated issue for China. Rather, China's desire to reunify with Taiwan is part of its process of national rejuvenation. Beijing seeks to integrate Taiwan with other tools of national power, including control over the South China Sea, ongoing yuan internationalisation, dominance in critical minerals and semiconductor supply chains, and the race for AI development.

Taiwan is also strategic for its geographic location. Beijing has maintained its longer-term goal of island-building and navel buildup to help project itself in the Indo-Pacific and, particularly, within the 'First Island Chain': an archipelago that places Taiwan as the linchpin between Japan and the Philippines.

Tensions have escalated since the 2000s, when the pro-nationalist Democratic Party of Taiwan became the ruling party for the first time in over 50 years. The current President and DPP member Lai Ching-te appears keen to maintain the ongoing cross-Strait status quo. China's military activity in the Strait has increased, including regular incursions across Taiwan's de facto air defence identification zone. Meanwhile, US and allied military craft and vessels have made transits through the Taiwan Strait.

We could envision the status quo being loosened under scenarios where the risk of clashes along the Strait escalates, whether accidental or on purpose. This has the potential to spur a sudden fear in investors about whether US commitments amongst its Allied partners in the region would be tested, and discussion about the extent of Washington's interest in TSMC.

Signs to watch

- Restriction on Taiwanese trade, travel, access, or exercises that may appear to be preparing for imposing these restrictions.



- Repeated, closer approaches by Chinese military vessels and aircraft into Taiwan's ADIZ.
- A change in language used by China on Taiwan. When we look over the last five years, the rhetoric used has been broadly similar.
- The political strength of the KMT party which leans more towards China. Currently, the DPP's political position is mixed. While the party kept the presidency in the 2024 national elections, it lost control of the Legislative Yuan, handing the opposition Kuomintang (KMT), the historically pro-reunification party, control in blocking key initiatives such as cutting military spending.
- Ongoing Taiwanese nationalism. One recent study showed 63% of citizens said they identify as Taiwanese in July 2025, compared with 31% who identified as both Taiwanese and Chinese. This is a change from 2018, when 55% said they identified as Taiwanese vs. 38% who identified as Taiwanese and Chinese.¹
- Key dates:
 - 2027 is the 100-year anniversary of the PLA.
 - 2028 is the next party Congress.
 - 2035 is the date China is targeting to become a "moderately developed" economy and when it expects its "national strength will have risen significantly".
 - 2049 is the 100th anniversary of the founding of the People's Republic of China and the date at which China wants to achieve national rejuvenation.

NATO and Russia

State of play

Relations between the two have been the most hostile since the Cold War. Russia recently tested NATO's boundaries with drone incursions in Poland and Romania. After those two incidents, many observers said the barrier to sending in crewed aircraft was much higher. Just a week later, Estonia reported that three Russian MiG-31 fighter jets violated its airspace for 12 minutes – an unusually long time. Russia rejects the claim.

Incursions are designed to test not just NATO's defence response, but also its political, societal, and cultural response. The immediate takeaway from the Russian probes will be how NATO acts in the coming weeks and months. Will there be complete unity or will there be cracks in the alliance? Indeed, some Western European countries have previously indicated less interest in the defence of NATO's eastern flank.

In the medium term, any changes in public attitude will be telling. For now, the Article 4 discussions at, and on the sidelines of, the UN General Assembly should be closely watched for signals of unity. The frequency and style of further incursions will also be telling. Although Russia has been engaged in hybrid warfare with NATO countries for some time, the recent events are emblematic of how covert activities are becoming more overt and involve more serious military hardware.

¹ [Election Study Center, NCCU-Taiwanese / Chinese Identity](#)



The threat of a Russian invasion of a NATO country appears to remain very low for now. Russia's military and economy have been depleted by the war in Ukraine. Furthermore, there is considerable uncertainty as to how President Trump might react. Already, he is pressuring countries to implement more tariffs and sanctions on countries that purchase Russian energy. That could easily escalate and create a market fear event. The big question is, what is Putin's risk appetite? Clearly it is not zero.

Signs to watch

- More intrusive incursions by Russia into NATO territory.
- Domestic support for President Putin.
- Disagreement among the Intermarium countries – those in central and eastern Europe that line the stretch between the Baltic, Black, and Adriatic Seas.
- A disconnect between the rhetoric in Eastern Europe and that in Western Europe. In other words, where leaders in the East are alerting the West to dangers that the West is under-appreciating.
- The increase (or not) in NATO Article 4 discussion requests.
- Calls from within NATO for a change of policy from deterrence to punishment.

The Arctic

State of play

The rhetoric from President Trump since his election about wanting to take control of Greenland has refocused attention on the Arctic. This is, after all, the quickest way from Russia to the US. Hence it is the location of North America's NORAD North Warning System for atmospheric air defence. In response, Denmark in January announced an investment of \$2bn to boost Arctic security around Greenland and the Faroe Islands.

Although the Arctic is unlikely to be a flashpoint in the near term, the region's potential to become a military stronghold makes it increasingly of interest to the three great powers: the US, Russia, and China. Although Beijing puts the Indo-Pacific higher on its list of priorities, China's involvement in the region has still intensified in recent years, with Beijing announcing its Polar Silk Road initiative in 2017 and formulating an official Arctic Policy in 2018. For the US, which has historically placed less emphasis on the region, the Trump administration is now paying serious attention, with \$25bn of funding to go into Arctic investment for infrastructure, such as polar security cutters.² Meanwhile, Russia has been quietly militarizing in the region via re-opened Soviet military bases and an expanded North Fleet navy. Russia has over 40 polar icebreakers vs the US's 3.³ Russia is also the only country with nuclear-powered icebreakers. The country also gains operational advantage in the Arctic as it has so much contiguous territory (over 50% of the Arctic coastline). Lastly, unexploited hydrocarbon resources in the Arctic could be

2 [Historic: Trump Administration Commissions First Arctic Icebreaker in Quarter of a Century | Homeland Security](#)
3 [How the United States Can Overcome Icebreaker Construction Woes and Grow the Maritime Industrial Base](#)



crucial, particularly for Russia's economic future post-Ukraine.

Since Russia's invasion of Ukraine in 2022, both NATO and Russia have stepped up their military exercises in the Arctic.⁴ While the EU maintains its own Arctic policy focused on climate change, the war has heightened focus in this theatre: 7 of its NATO members have territories within the Arctic, including Finland, Iceland, Norway and Sweden. So, geographically, the Arctic should be viewed as a region with longer-term military ramifications for both Europe and the Indo-Pacific.

Signs to watch

- Military build-up – especially submarine basing and nuclear deterrence – poses risks if Western surveillance or navigation increases.
- Further pushes towards Greenland independence. The Danish territory can also be crucial as a defence line linking the US via Alaska to Greenland, with the second line extending from Greenland to northern Norway via Svalbard.
- The extension of settlements on Svalbard. The wording of the Svalbard treaty from 1925 allows other countries to settle on the archipelago – there is a town with a strong Russian presence – but also prohibits any militarisation of the islands.
- Increasingly fragmented multi-lateral governance.
- Accelerated melting, which will change transform shipping routes in the region and potentially leading to further territorial disputes amongst the great powers. Polar melting means the number of ships traversing the Arctic has jumped about 40% over the last decade.
- Breakthroughs in critical mineral discovery. While competition for the Arctic's natural resources seems unlikely to escalate into any conflict in the near term, resource nationalism is a likely trend into the medium term.

The Middle East & India/Pakistan

The various conflicts in the Middle East are deeply concerning for many reasons. Yet, the market implications (the focus of this paper) tend to be limited to the oil market. Of course, regional instability can cause ructions that impact energy supplies and prices – and thus inflation – across the world. However, given the number of events that have occurred in the region over the years, there is some visibility into how those events usually affect broader Western equity and bond markets.

The main pivot point in the region that could create a 'fear moment' for global markets would be an escalation in nuclear rhetoric, even if no action ends up occurring. This is particularly pertinent for discussions with Iran, which have become increasingly fractured over the years and have become more complicated since the US bombing of Iranian nuclear facilities in June. RAND notes that this will cause Iran to "adjust its strategy, not its strategic objective" of acquiring nuclear weapons and more.

A recent development worth watching is the agreement signed between Saudi Arabia and Pakistan that contains a clause similar to NATO's article 5, which

4 [NATO steps up presence near Russia's Arctic coast | Euractiv](#)



provides that aggression against one country is considered aggression against the other(s). Although it is uncertain how this would be implemented in practice, Pakistan is a nuclear-armed state. That may amplify the investor reaction to any future fears of a relevant conflict. It also has potential ramifications for Pakistan's delicate relationship with India.

For Türkiye as an adjacent country, its recent offshore gas discoveries make it less dependent on Russia and better able to assert itself as a regional powerbroker. Coinciding with this, the fall of the Assad regime in Syria was a positive as the country moves from being a Russian ally to, potentially, a Turkish ally.

North Korea

State of play

North Korea is currently quiet amidst an amelioration of relations with South Korea. South Korean President Lee-Jae Myung appears more eager for détente with the North than former President Moon Jae-in did.

North Korea has a defence agreement with China, although this is a legacy of the Korean War and its implementation has not been tested in recent decades. It also ratified a defence treaty with Russia last November. This commits each country to provide "immediate military assistance" when the other country is at war, somewhat emulating NATO's "collective defence" principle. Russian Security Council Secretary Sergei Shoigu has visited Pyongyang three times in just three months. Kim Jong Un has personally welcomed the Russian delegation at his office, expressing his unconditional support for Russia. North Korean troops are also supporting the Russian war effort against Ukraine – and at the same time acquiring valuable experience in a modern 'drone-forward' theatre.

Our main concern on the Korean Peninsula is that an accident triggers fears of a conflict that may pull in larger powers. North Korea has a recent history of conducting missile tests around both South Korea and Japan. An accident here could catalyse a chain of events that could place both the US and China in a difficult situation. Even if nothing eventuated, the escalation in tensions could well spur a market risk-off event.

Defence spending is still building in the region. South Korea recently announced plans to increase its defence budget. North Korea also recently rejected denuclearisation talks with the US again. Today, North Korea possess about 50 nuclear warheads and missiles capable of being delivered to the continental United States. Now, it is focused on developing smaller nuclear warheads and submarine-launched ballistic missiles, with Russia's technological support.

Signs to watch

- Increased frequency of missile tests that come close to, or violate, Japanese or South Korean airspace.
- Signs of technology transfer between Russia and North Korea.
- An absence of conciliatory comments between Kim Jong Un and New South Korean President Lee-Jae Myung.



Venezuela

The US campaign against alleged drug smuggling from Venezuela has caused some to worry about how tensions in the Caribbean may escalate. In September alone, US actions have ranged from launching strikes against boats to deploying a military flotilla to the region.

The potential for further escalation was highlighted by President Maduro's comments after one US strike, saying that US military action was "the greatest threat that has been seen on our continent in the last one hundred years." Maduro has also alluded to the potential for conflict with the US saying that, "none of our differences justify a high-impact military conflict in South America."

Arguments have been made both for and against the current US administration potentially retreating its defence doctrine to the Western Hemisphere, as it focuses on domestic homeland security issues like illegal immigration and drug trafficking. Regardless, monitoring US-Venezuela relations for signs of further deterioration should be considered, given the ongoing activity on both sides. Consider that the US currently has a \$50m reward for information leading to Maduro's arrest.⁵

South China Sea

Over recent years, collisions and near-misses between the Chinese and Philippines coast guards fall into the realm of an increased risk of a miscalculation or accident. The latest flashpoint was on August 11, when a destroyer from the PLA's navy and a Philippine coast guard ship had a near clash. The South China Sea (SCS) has long been a point of contention for both countries, with Beijing claiming over 90% of its territory.

The potential flashpoints in the SCS, though, so far appear to be contained regionally. However, the growing prevalence of alliances between countries raises the risk that a miscalculation or accident could increase tensions and set off investor risk alarms. For one, the US commitment to the Philippines is clear. Both countries are bound by the 1951 Mutual Defence Treaty which commits the US to defend the Philippines. The treaty was amended in 2023 to include attacks on the Philippine coast guard in the SCS.⁶ The current Trump administration upheld this "ironclad commitment" in January.⁷

So the threat of US involvement in the SCS will be much higher should a collision result in injuries or worse. Within the region, the Philippines is also branching out. One example is the defence pact signed with Japan, which will allow for joint military access to each country – something that until recently may have been unthinkable given Japan's occupation of the Philippines during the 20th century. The ongoing alliance build-up in the South China Sea is therefore a notable sign to watch.

⁵ [Nicolás Maduro Moros - United States Department of State](#)

⁶ [The United States and the Republic of the Philippines Bilateral Defense Guidelines](#)

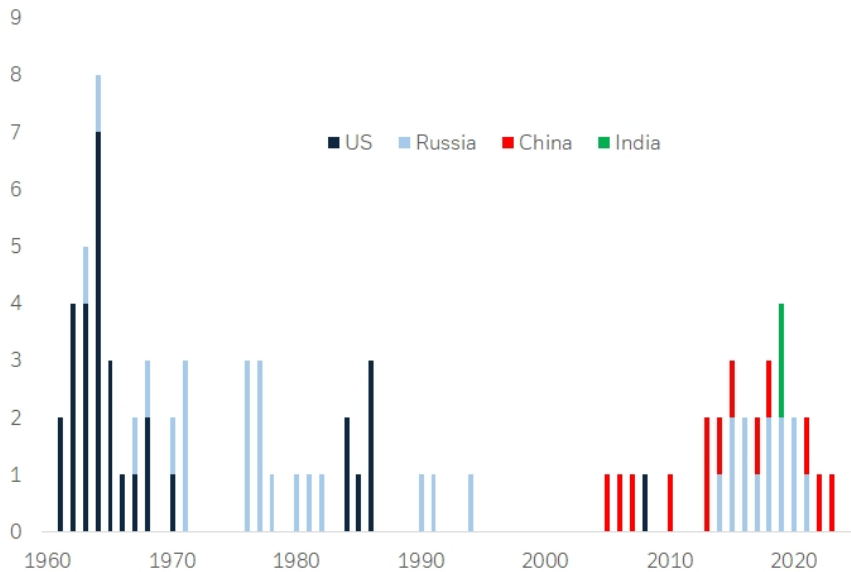
⁷ [Secretary Rubio's Call with Philippine Secretary of Foreign Affairs Manalo - United States Department of State](#)



Space

Tensions in space have increased this year as various countries continue to develop military applications in orbit. In April, a US satellite reportedly “buzzed” two Chinese satellites; in March, Chinese satellites reportedly practised “dogfighting” manoeuvres.

Figure 3: Number of anti-satellite weapon tests each year



Source : Secure World Foundation, Deutsche Bank

A conflict in space could be a high-impact event given the potential to heavily disrupt communications. Committed at scale, it might signal an imminent conflict. Still, space conflict seems likely to be a lose/lose proposition. That is because even though it is easy for one side to deny access to an adversary's satellites for a short time, it is also easy for the second side to take out the satellites of the first. For the US specifically, it is relatively easy to replace satellites.

Critical minerals

The US-China trade truce almost collapsed earlier this year over Beijing's ban on rare earth exports. That caused global supply chain disruptions until the crisis was averted in June when Beijing agreed to renew approval for export licenses for six months. Still, the episode is a wake-up call for western governments (the US imports 70% and Europe imports 39% of rare earth minerals from China) and illustrates that disagreements over these minerals could prove a tipping point in escalating tensions. China's stranglehold on the market for many critical minerals puts it in the driver's seat in the short term as planned mines in Western countries will take some time to produce the quantities needed to satisfy domestic demand.

Currently, the US is prioritising rare-earth self-sufficiency, exploring domestic production, foreign partnerships (Ukraine, Greenland, Saudi Arabia), and deep-sea mining. However, actual US self-sufficiency is many years away, with processing capabilities significantly lagging behind China. Europe remains further behind,



with no rare earths mine supply, although they are actively working towards 10% mining, 40% processing (separating rare earths), and 25% recycling of rare earths targets by 2030. The IEA projects China will remain the dominant rare-earth supplier in refining (76%) and mining (52%) by 2035.⁸

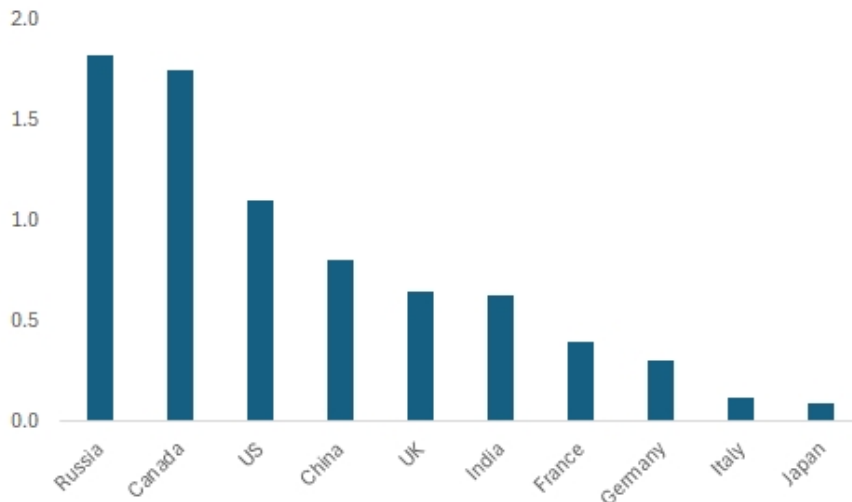
Western companies cannot quickly “design out” these elements or find alternate sources – for instance, rare earth magnets have no ready replacement without sacrificing performance. So even if we see an acceleration of US efforts to look elsewhere and innovate domestically, it will take years to catch up to China. That raises the risk that investors may fear that geopolitical tensions may spill over into the trade in critical minerals.

Energy

When Winston Churchill pushed for the Royal Navy to transition from coal to oil power in the early 20th century, it was part of the process that changed geopolitics, particularly with regard to the importance of the Middle East. That also occurred as electricity was scaling dramatically throughout the world.

Today, the current energy issue affecting geopolitics is not necessarily the shift from one energy to another but the shift from sourcing energy from foreign suppliers to being energy self-sufficient. As countries become more self-sufficient, they will be able to assert themselves more. The following chart shows that this is hard for most countries, but the direction of travel is rapidly moving towards self-sufficiency.

Figure 4: Energy self-sufficiency of 10 key global economies - Primary energy production relative to consumption, 2022



Source : EIA, Deutsche Bank

8 [Global Critical Minerals Outlook 2025 – Analysis - IEA](#)



For most countries, the move towards self-sufficiency is being driven by renewables and nuclear. Within this subset, solar has become the fastest-growing energy source in history. Still, the world's major powers are a long way from becoming electro-states. Heavy industry and the military are almost exclusively fuelled by fossil fuels. In other words, we are a long way from an electric fighter jet.

The competition to drive down energy costs has become more acute with the increase in expectations for the power needed for AI development. And all this comes before considering potential oil price shocks.

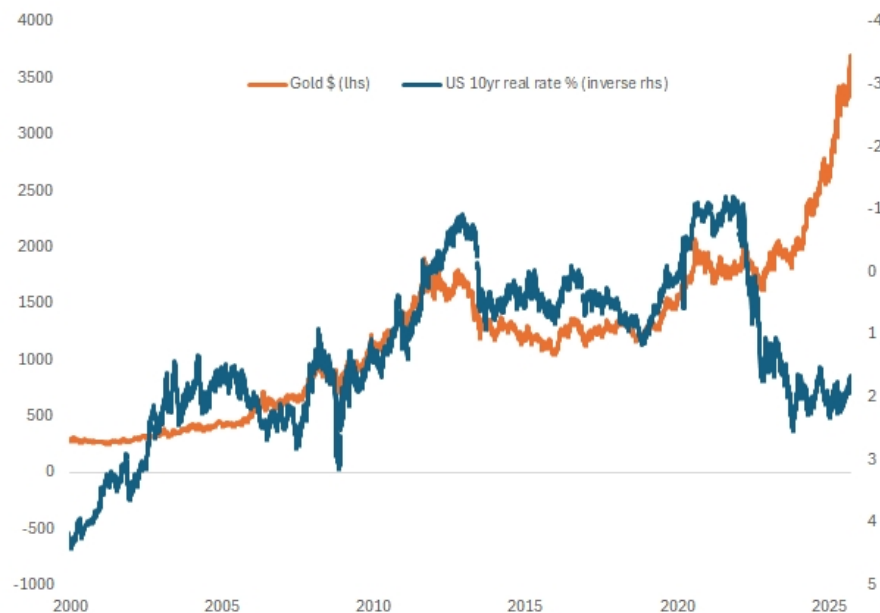
International waters

It is telling that the US, Russia, and China have not ratified the High Seas Treaty (although the US and China have signed the document). In an era of multi-polar competition, international waters are becoming more contested. Beyond the fact that undersea cables and pipelines have become targets for hybrid warfare, the big risk exists around territorial occupation whether for mining, military, or some combination of both. Already, the US has approved mining in international waters. Any big finds – or hopes of them – will likely bring contestation.

Gold producing areas

The gold price has usually moved with the inverse of real US rates. However, over the past two years, that relationship has changed dramatically. A big driver of the gap that has opened up has been rising geopolitical risks.

Figure 5: Gold and US real rates (10yr inverse)



Source : Bloomberg Finance LP, Deutsche Bank



That makes countries with large gold reserves potential ones to watch in the context of how that gold allows them to assert themselves.

Water

In April this year, tensions between India and Pakistan escalated after the attack in India-administered Kashmir. Of particular concern was India's threat to cancel an agreement that allows sharing of the Indus river water. Pakistan responded that should that occur, it will consider the move an "act of war".

Other key regions where water has been a source of tension include Türkiye and Iraq, which have argued over the Tigris and Euphrates rivers, and Iraq and Afghanistan over the use of the Helmand river.

Recent water-based conflict is rare in the Western World; however, climate change should put it on investors' radar as droughts become more frequent. Consider that in Europe, the Danube flows through ten European countries, and the Dnieper flows through Russia and Belarus into Ukraine.



Appendix 1

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