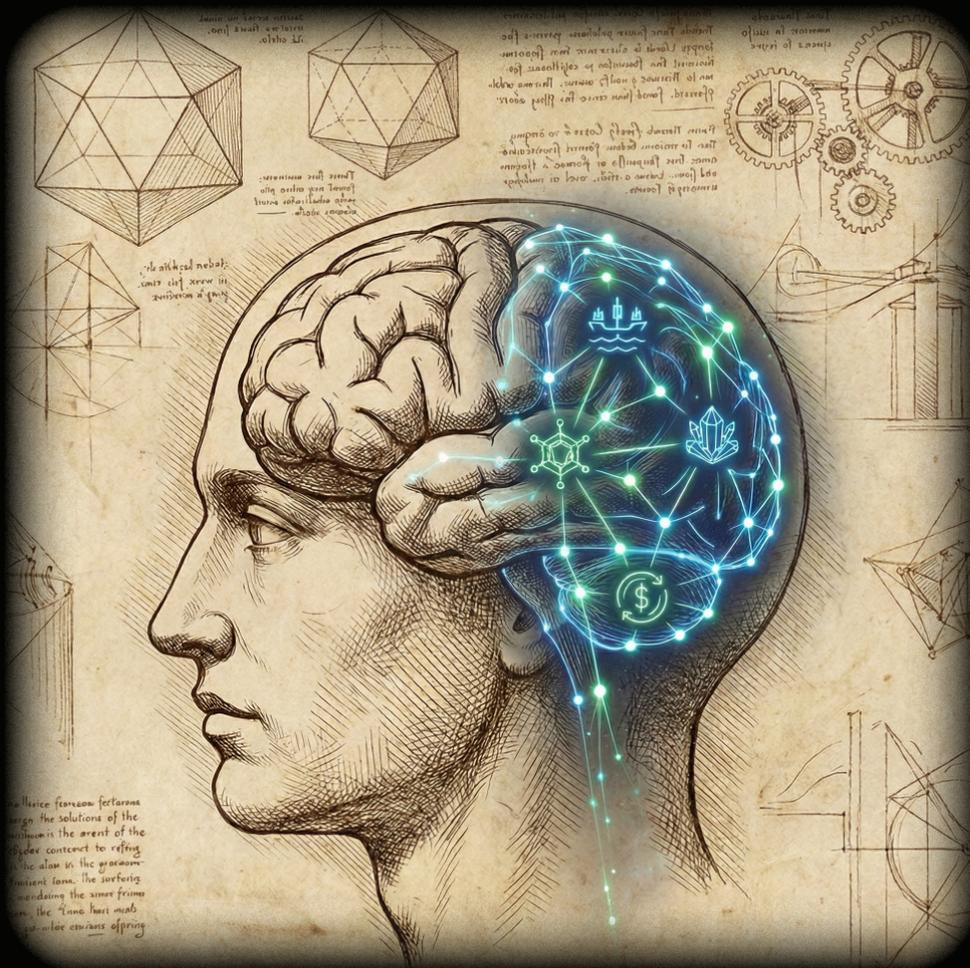


OLIVER HARTWICH

IN THE MEANTIME

Investing in a more tribal,
less rational world



Prepared for the Da Vinci Lecture at
Portfolio Construction Forum Markets Summit 2026

*For Graham and Deirdre,
fiduciaries in the fullest sense.*

Contents

Preface 7

Chapter 1: The world that stopped following the rules 9

Chapter 2: The great dumbing down 15

Chapter 3: From rules to chokepoints..... 21

Chapter 4: The map of what still works 25

Chapter 5: Investing in the post-rational era 31

Chapter 6: Builders in the dark 37

Endnotes 41

“I compare [fortune] to one of those raging rivers, which when in flood overflows the plains, sweeping away trees and buildings, bearing away the soil from place to place; everything flies before it, all yield to its violence, without being able in any wise to withstand it; and yet, though its nature be such, it does not follow therefore that men when the weather becomes fair should not make provision against it by the construction of levees and barriers, so that when it rises again the waters may pass away by the conduit, and their force be neither so uncontrolled nor so dangerous.

So it is with fortune, which shows her power where valour has not prepared to resist her, and thither she turns her forces where she knows that barriers and defences have not been raised to constrain her.”

- Niccolò Machiavelli, *The Prince*, Chapter XXV

Preface

Six months ago, I delivered the Da Vinci Lecture at the Portfolio Construction Forum Strategies Summit, an essay called *Leonardo's Legacy*. That lecture attempted something ambitious: to trace the civilisational architecture that connected the Renaissance humanists to our present moment, and to explain how that structure was failing us.¹

The diagnosis in *Leonardo's Legacy* identified five interconnected crises: eroding trust in institutions, decay at the institutional core, a civilisation so materially comfortable it had become complacent about the conditions sustaining it, a retreat from reason masquerading as wisdom and a hollowing of Western self-confidence.

My essay ended with a warning. The rules that had governed the international order for four centuries were being quietly emptied of content. The architecture was still standing but the foundations were shifting.

Six months later, the warning looks timid.

In the first three weeks of January 2026, the President of the United States demanded territorial control of Greenland, ordered the military capture of a sitting head of state, received a Nobel Peace Prize medal as thanks for the operation and imposed tariffs on eight allied nations to compel the sale of sovereign territory.

All these events happened in three weeks. They were not aberrations. They were the new pattern.

This essay picks up where *Leonardo's Legacy* left off. The diagnosis remains the same. But this time we attempt an answer to the practical question: what should investors do now?

I still believe in restoring a rules-based international order grounded in the principles Hugo Grotius articulated four centuries ago.

But in the meantime, here we are.

The rules are fraying visibly. The behaviour of major powers is becoming less predictable, more tribal, more driven by personal grievance and factional reward than by calculations of mutual benefit.

This requires thinking across disciplines usually kept separate: neuroscience and geopolitics, economic history and investment sense, our great societal cognitive decline and the unravelling of trade law.

It requires tracing the chain from degraded cognitive capacity to tribal politics, from tribal politics to unpredictable policy, and from unpredictable policy to financial market dislocation.

The thesis is stated without qualification: investors must adapt to a more tribal, less rational world.

Unfortunately, this is not a forecast of what might happen. It describes the world we already inhabit.

Wellington, February 2026.

Oliver Hartwich

Chapter 1: The world that stopped following the rules

On 18 January 2026, the Prime Minister of Norway sent a text message to the President of the United States, proposing a call to de-escalate the growing tensions over Greenland. The American President's reply arrived twenty-seven minutes later. "Dear Jonas," it began, as though addressing an old friend rather than a head of government.

The tone was personal, even intimate. It discussed the Nobel Peace Prize, which the American President believed he deserved. He noted that he had "stopped 8 Wars PLUS" and had therefore earned such recognition.

He then transitioned to his main point. He no longer felt "an obligation to think purely of Peace." And he had a demand. "Complete and Total Control of Greenland." This was, he wrote, in America's interests, and therefore it was going to happen.²

The Norwegian Prime Minister responded with courtesy and precision. The Norwegian government, he explained, does not award the Nobel Peace Prize. The Prize is awarded by an independent committee, as it has been since 1901, and the Norwegian government has no authority over its decisions.³

The distinction between a government and an independent institution is fundamental to the Enlightenment tradition. It is the principle on which judicial independence rests, on which central bank autonomy is founded, on which the separation of powers operates. The Norwegian Prime Minister was not being pedantic. He was defending a principle.

This should have been the end of the matter. A minor diplomatic exchange, polite, unremarkable, filed away in archives. But the White House did not leave it there.

The letter was circulated to American ambassadors and distributed through official diplomatic channels as if it represented considered American foreign policy.

Think carefully about what this represents. The leader of the world's largest economy, in writing to the leader of a NATO ally, announced a territorial demand based partly on his belief that he deserved a prize, and partly on the assertion that because he wanted something, it would happen. When his factual error was politely corrected, this was not a moment for recalibration. It was treated as confirmation that policy would proceed regardless.

A couple of weeks earlier, on 3 January 2026, something far more consequential occurred. At night, aircraft from twenty different bases launched a coordinated military operation against the presidential compound in Caracas. The scale was vast: one hundred and fifty aircraft in a single raid, coordinated across multiple bases and continents. The target was Nicolás Maduro, Venezuela's president. The mission succeeded. Maduro and his wife were captured, transferred to an American warship, and removed from Venezuelan territory.⁴

The operation was presented as something between an arrest and a military campaign, yet it proceeded without a declaration of war, without Congressional authorisation and without a United Nations mandate.

The American President stated publicly that America was "in charge" of Venezuela and would "run the country" until an acceptable transition was complete.⁵ Reports suggested more than one hundred Venezuelans were killed.⁶

The American public was asked, through polling, what it thought. The results were revealing: roughly a third approved, roughly a third disapproved, roughly a third had no opinion.⁷ A foreign military operation that captured a sitting head of state, killed over a hundred people and asserted American authority over a sovereign nation produced neither outrage nor approval but an overwhelming indifference. In a world of three-second attention spans, even the extraordinary becomes background noise.

The UN Secretary-General issued a statement. The language was measured but the message was unambiguous. This was “a dangerous precedent.”⁸

Twelve days later, on 15 January, Maria Corina Machado, the recipient of the 2025 Nobel Peace Prize, visited the American President at the White House. She brought with her the gold medal, the physical embodiment of the Prize. She presented it to him, mounted in a gold-framed display. Its inscription was a personal message of gratitude from the Peace Prize laureate to the man who had ordered the military operation that killed over one hundred people.⁹

The Nobel Committee issued a statement: the medal could change hands, but the laureate title could not.¹⁰ A peace prize had been handed from the woman who received it to the man who ordered a military operation. The contradiction was complete and unadorned.

Days later, on 17 January, the American President threatened to impose tariffs. Ten per cent on eight nations, all of them American allies. Denmark, Norway, Sweden, France, Germany, the United Kingdom, the Netherlands, Finland – so, NATO members, trading partners, nations whose security depended on American guarantees. The tariffs on them had an explicit purpose: to compel the sale of Greenland, a Danish territory.¹¹

The parliament of Greenland had issued a joint statement. It said, collectively, that the people of Greenland did not wish to become American.¹² The tariffs were set to rise to twenty-five per cent by June. They were paused four days later, after diplomatic outreach from European leaders.¹³ The pause did not undo the precedent. Tariffs had been imposed (and then lifted) on NATO allies to compel the sale of sovereign territory, and they could be reimposed at will.

These four events happened within twenty-one days. Not in four separate years or four different administrations but in less than four weeks. In any previous era, any single one would have consumed months of diplomatic crisis, emergency meetings of international bodies, urgent consultations, recalibrations of security arrangements. The world would have paused. Governments would have convened. Serious people would have asked: what does this mean? What follows?

Instead, the world scrolled on. Each event was absorbed and normalised almost as it occurred. The unthinkable had become merely the news cycle.

Notice the pattern connecting these events. The Greenland letter treated a diplomatic channel as a platform for personal grievance. The Venezuela operation treated a sovereign country as a law-enforcement target. The Nobel medal transfer repackaged military intervention as moral victory, and the tariffs treated allies as adversaries while dressing territorial ambition as trade policy.

Each event, taken alone, might be explained as an aberration, an overreach or an isolated misjudgement by an unconventional leader. But taken together, they describe something structural. The machinery of international relations, built over centuries to constrain exactly this kind of behaviour, is no longer constraining it.

Consider what did not happen. NATO convened no public emergency session over the tariffs imposed on some of its members. No formal legal challenge was mounted at the International Court of Justice over the capture of a sitting head of state. The eight tariffed nations coordinated no trade retaliation. No alliance of democracies issued a joint statement on the precedent being set.

The institutions designed to respond to exactly these provocations did not respond. They could not, because the nation violating the norms was the same nation that had underwritten the institutions enforcing them.

This is the fundamental paradox of the current moment. The rules-based order was always, at bottom, an American project. American power guaranteed the shipping lanes. American courts underpinned the financial architecture. American willingness to submit to multilateral constraints, however imperfectly, gave those constraints their credibility. Yet when the guarantor becomes the violator, the system has no internal mechanism for self-correction. This is aberration no longer but the new pattern.

For more than seventy years, the international system operated on a specific foundational assumption: that the powerful would voluntarily constrain themselves through rules. This was not natural. It was constructed, slowly, across centuries. Hugo Grotius articulated the principle in the seventeenth century: even the strongest sovereign is bound by the law of nations. Westphalia in 1648 established that states would respect each other's sovereignty. The Concert of Europe after Napoleon attempted to manage great power competition through agreed rules, and Bretton Woods after 1945 embedded that principle in institutions and agreements.

Each stage represented an advance in humanity's capacity to channel conflict through rules rather than through force. The progression was neither smooth nor inevitable. The gold standard collapsed; the Concert of Europe gave way to the catastrophe of 1914; the League of Nations failed spectacularly. But after each failure, the reconstruction was more ambitious than what had preceded it.

The architects of Bretton Woods, having lived through two world wars and a depression, built institutions more comprehensive and more binding than anything attempted before. They understood, from direct experience, the cost of a world without rules.

The underlying conviction was Enlightenment in character: that reason constrains power, that law binds the strong, that mutual benefit is more durable than zero-sum domination. The results were undeniable. World trade grew from approximately twenty-five per cent of global GDP in 1960 to over sixty per cent by 2008.¹⁴ Foreign direct investment exploded from thirteen billion dollars in 1970 to nearly two trillion by 2007.¹⁵ Interstate war among developed nations became virtually extinct. Modern finance, globalised supply chains, the entire architecture of cross-border commerce: all of it rested on the plumbing of rules and the assumption that powerful nations would honour them.

In August 2025, I traced this history in detail.¹⁶ I identified five specific crises within that system: erosion of trust, institutional decay, civilisational complacency about the preconditions of freedom, retreat from reason and hollowing of confidence in Western institutions themselves. The argument suggested that these crises were interconnected, mutually reinforcing and structural rather than cyclical.

Six months later, that warning reads as optimistic. Every crisis I described had not only continued but intensified, and the acceleration was not coming from failing states or authoritarian regimes at the margins of the international system but from the centre: the nation that had built and guaranteed the system for seventy years.

The rules are not being formally repealed. They are being emptied. The World Trade Organization still exists. It still convenes. Communiqués are still released. But the dispute settlement system has been inoperative since 2019. The United States blocked the appointment of new members to the Appellate Body over ninety times. Thirty or more disputes remain appealed into the void, unresolved, unchallenged, undecided.¹⁷ New cases have fallen to roughly one third of pre-crisis levels.¹⁸

The legal architecture of international trade remains on paper. The substance has evaporated.¹⁹

What we now see is institutional theatre: the performance of order without its substance. The organisations still convene, the procedures are still followed, the communiqués are still issued. But the foundational assumption has been abandoned: that powerful nations would voluntarily submit to rules. When that assumption collapses, the institutions survive as shells.

The pattern extends well beyond the WTO. The Paris Climate Agreement sets targets no major emitter is on track to meet. The UN Security Council, designed to manage great-power conflict, cannot pass resolutions on the conflicts that matter because the parties to those conflicts hold vetoes. International humanitarian law is invoked in press conferences and violated on battlefields, while the Non-Proliferation Treaty's grand bargain has produced neither disarmament nor non-proliferation.

None of these institutions has been formally dissolved or explicitly repudiated. They continue to operate, to issue reports, to convene sessions. But the gap between their formal authority and their practical effectiveness widens each year. They are like medieval walls around a city that has expanded far beyond them: still standing, architecturally impressive, functionally irrelevant to the actual defence of the place.

This is your problem to price into your portfolios, today.

Pause on this for a moment. You are an investment professional. You allocate capital based on assumptions about the future. Those assumptions are embedded in your risk models, your discount rates, your scenario analyses, your due diligence frameworks. Every single one of those tools was built during a period when the rules-based order, however imperfect, was functioning.

The models do not contain a variable for "what happens when the guarantor of the system becomes its principal threat." When the leader of the world's largest economy announces trade policy based on a personal grievance about a prize, when military operations proceed without declaration of war, when tariffs are imposed on allies to compel territorial concessions, those assumptions require not refinement but wholesale revision.

The thesis is direct: investors must adapt to a more tribal, less rational world. This is not speculation but description, not a forecast of what might happen if current trends continue but an account of the world we already inhabit.

Every asset in your portfolio carries embedded assumptions about the world in which it will generate returns. A US Treasury embeds the assumption that Congress will pay its debts and the Federal Reserve will maintain its independence. So does a European government bond, albeit about different institutions. A supply chain running through the South China Sea bets on open maritime passage. An intellectual property right in a country with weakening courts is worth precisely as much as those courts are willing to enforce.

Go through your holdings. Count the assumptions. Then ask yourself, honestly, how many of those assumptions are as reliable today as they were when you made the investment.

In *Leonardo's Legacy*, I argued that the civilisational foundations were being eroded. I left open the practical question: what follows? This essay attempts an answer through three arguments in sequence.

The first concerns the erosion of deep thinking, why it matters and what it implies for markets and governance. The second traces how the system is being rewired, not from rules to anarchy but from rules to chokepoints: the substitution of reciprocal obligation with personal leverage, of law with coercion, of mutual benefit with extraction. The third attempts something harder: a practical framework for portfolio construction in this environment.

I should be clear about what this essay does not argue. It does not claim the world is ending, that markets will collapse or that all international cooperation is finished. History does not move in straight lines. Even as some institutions erode, others adapt or emerge. Even as some countries slide toward tribalism, others maintain their institutional integrity.

What it does argue is that the assumptions on which modern portfolio theory rests, legal stability, contract enforceability, policy predictability, rational state behaviour, can no longer be taken as given across the developed world. Some jurisdictions will continue to honour these assumptions. Others will not. Telling them apart, and allocating capital accordingly, is the central investment challenge of the coming decade.

There is no reassuring language here. But neither is there despair. Opportunities exist for those willing to see the world as it is, rather than as they wish it to be.

The first step is to look clearly at what has changed.

Chapter 2: The great dumbing down

Investment professionals do not usually worry about whether people read books. They should.

The connection between declining literacy, degraded cognitive capacity and financial market risk is direct and powerful. It runs through governance quality, policy predictability, political stability and the maintenance of complex institutions.²⁰ When that connection frays, every asset class in a jurisdiction becomes riskier. When it breaks, crisis becomes probable.

The evidence is measurable and thoroughly documented. Data from neuroscience, educational assessment, political science and the bond markets themselves each contributes a piece. Together, these disciplines describe a mechanism so clear and so consequential that ignoring it amounts to professional negligence.

Start with the neuroscience. Maryanne Wolf, a Harvard cognitive neuroscientist, has spent decades studying how the brain engages with the written word.²¹ Reading is not an instinctive human capacity. Speech is. The human brain is hardwired for language. Reading is different. Reading is a cultural achievement. It must be learned, and the learning rewires the brain itself. Wolf describes this process as the development of the “reading brain,” a distributed neural circuit that connects background knowledge to new information, that holds multiple perspectives simultaneously and that enables insight formation and evidence weighing.

The act of reading a complex sentence requires holding multiple clauses in mind, understanding how they relate, anticipating where the argument is going and then integrating the conclusion with prior knowledge. This is cognitively demanding. It is also powerful.

Deep reading activates background knowledge, enables the weighing of competing evidence and produces what Wolf calls the “deep reading circuit”: a network that connects linguistic processing to comprehension, emotional empathy and abstract reasoning.

The scrolling brain works differently. Information consumption shifts from sustained linear engagement to rapid fragmented bursts. The brain enters a different mode: searching for keywords, scanning for relevance, reacting to novelty. This mode activates only surface cognition, allowing the contemplative dimensions of the deep reading circuit to atrophy, whilst it proves adequate for different purposes altogether.

Wolf describes the ideal as the “biliterate brain”: a mind capable of switching between deep reading and digital scanning, deploying each mode when appropriate. The concern is not digital technology per se. Screens are tools. The concern is what happens when a generation develops only the scanning mode and never builds the deep reading circuits at all. Those circuits take years of sustained practice to construct. They can atrophy in months of disuse.

A child who spends the formative reading years swiping rather than reading may never develop the neural architecture for sustained analytical thought, not because the child is less intelligent but because the brain was shaped by a different environment.

This observation is neurobiological rather than judgmental about technology or young people. The brain you exercise develops whilst the brain you do not exercise declines. When information consumption shifts from books to scrolls, the relevant neural circuits change, and they do so remarkably quickly.

The data confirms what the neuroscience suggests. In the United States, the National Assessment of Educational Progress tracked reading and mathematics achievement among thirteen-year-olds over the past decade. Reading scores declined by approximately seven points. Mathematics scores fell by fourteen points. More alarmingly, the percentage of students scoring below basic proficiency in reading rose from twenty-five per cent to thirty-three per cent. In mathematics, the proportion below basic rose from twenty-eight per cent to forty per cent.

These declines began before the pandemic. They represent structural shift, not temporary disruption.²²

Globally, the picture is worse. The 2022 PISA assessment, conducted by the OECD, found what researchers called an “unprecedented drop” in academic performance. Mean scores in reading fell by ten points compared to 2018. Mathematics fell by fifteen points. These declines are equivalent to three-quarters of a year’s normal learning erased in four years. One in four fifteen-year-olds in OECD countries now scored in the “low performer” category.²³

These are not scores from struggling nations or poorly resourced economies. These are OECD countries. The developed world is getting measurably less capable of engaging with complex thought. Many of the steepest declines coincided with high smartphone penetration among adolescents. The correlation is not proof of causation. But the alignment between the timing of the smartphone revolution and the collapse of reading scores is difficult to dismiss as coincidence.

Some countries resisted the trend. Singapore, as we shall see, maintained and even improved its educational outcomes. The Nordic nations held relatively steady. East Asian systems continued to outperform. But the aggregate direction across the OECD was unambiguous: the generation entering the workforce and the electorate over the coming decade will, on average, be measurably less equipped to engage with complexity than the generation it replaces.

Those teenagers become voters. Those voters determine the policy environment. The Enlightenment project depended on electorates capable of processing complex arguments, weighing consequences, holding officials accountable and engaging in good faith with people holding different views. Democracy was not designed for three-second information bursts. It was not designed for an electorate incapable of holding more than one thought in mind simultaneously.

When electorates lose the capacity for deep engagement, something specific happens. They do not disappear from politics. Instead, they become tribal. Not stupid but tribal. The distinction matters.

Research from the Brookings Institution traces the rise of what researchers call “digital tribalism”: the tendency of algorithmic platforms to curate content that confirms existing beliefs, that triggers emotional response, that rewards tribal signalling.²⁴ The London School of Economics examined the correlation between access to mobile internet and the rise of nationalism and political hostility. The effect was strongest in economically deprived areas, where political disengagement was highest.²⁵

Jonathan Haidt and his colleagues have documented something specific about contemporary political movements. Activists on both the progressive left and the devoted conservative right share one trait: they are angry, uncompromising, convinced of the righteousness of their cause. Traditional liberals, capable of holding nuance, of acknowledging the legitimacy of competing values, of preferring negotiation to victory: they are shrinking. The centre cannot hold because the centre requires cognitive capacities that have become uncommon.

Electorates stripped of the ability to engage with complexity do not default to careful deliberation. They default to tribal identity and to leaders who perform rather than govern.

Cognitive decline is not the only force driving this shift. Economic insecurity, the structure of party selection systems, the economics of media markets and the amplifying effects of algorithmic platforms all contribute. But educational decline is the accelerant that makes the others harder to reverse.

A society facing economic disruption but equipped with an electorate capable of analytical thought can debate trade-offs and choose wisely. A society facing the same disruption with a population trained only to scroll cannot. The other forces create the conditions for tribalism. The erosion of deep reading removes the capacity to resist it.

The mechanism is worth spelling out, because it runs directly through the policy environment you invest in. The attention economy, which funds the platforms through advertising, rewards content that maximises engagement. Engagement is maximised by emotional arousal, particularly outrage. Outrage in turn rewards tribal signalling: content that identifies enemies, simplifies complex trade-offs into moral binaries, offers the satisfying clarity of “us against them.”

Tribal signalling rewards leaders who perform that clarity most convincingly. Those leaders, once in office, discover that the tribal instincts which won them power are incompatible with the analytical rigour that governing requires. But analytical rigour does not win re-election. Performance does. So the performance continues, and policy drifts further from evidence.

This describes what has already occurred across the United Kingdom, the United States, Brazil, India, Italy, Hungary and Poland within the past decade. Each case followed a recognisably similar pattern and produced policy outcomes that, by conventional economic analysis, proved markedly destructive.

This produces policy disconnected from evidence. And when policy disconnects from evidence, markets convulse.

Consider the United Kingdom in September 2022. The new Prime Minister, Liz Truss, announced a mini-budget. It proposed significant unfunded tax cuts. No Office for Budget Responsibility forecast was published. The Office for Budget Responsibility is the independent fiscal watchdog, the guardian of analytical rigour in British fiscal policy. For the first time since the OBR's creation, a major fiscal announcement occurred without its assessment.²⁶

The market reaction was immediate and severe. The yields on thirty-year government bonds spiked by more than one hundred basis points in four days. Liability-Driven Investment funds, holding portfolios constructed to protect pension schemes, were forced into fire sales of the safest assets in their holdings.²⁷ The Bank of England was forced to execute emergency bond purchases to prevent cascading failure of pension funds.

The mini-budget was a product of political faction capturing the Conservative Party through appeals to tribal sentiment. The political process had become entirely disconnected from analytical constraint.

“Post-rational” policy proceeds without evidence, without analysis, without regard for the consequences that trained professionals had flagged. It maintains internal logical consistency even as it abandons evidential grounding.

The United States faces similar dynamics. Debt ceiling negotiations have become entirely performative. They are conducted as if there is genuine uncertainty about whether the United States will default on its obligations, when everyone involved understands that it will not. But the performance serves tribal purposes: showing strength to your faction and demonstrating willingness to risk catastrophe if necessary to extract concessions.

The IMF has documented that these crises produce real volatility. Repo markets move by twenty to thirty basis points on the performance of brinksmanship.²⁸

Central bank independence is also eroding. The Federal Reserve Chair has stated publicly that the administration threatened him with criminal prosecution.²⁹ The White House sought to remove a sitting Federal Reserve governor.³⁰ The nomination of Kevin Warsh as Federal Reserve Chair reinforced concerns that monetary policy could become more openly politicised. Markets recalibrated inflation expectations sharply. Gold lost a fifth of its value in a matter of days.

The market's traditional assumption had been that the Federal Reserve would make decisions based on economic evidence and the Fed's dual mandate of price stability and employment. When that assumption collapsed, heightened volatility was the result.³¹

These patterns are not new. Turkey under Erdogan pursued the politicisation of the central bank, with predictable results: the currency collapsed, inflation soared, purchasing power evaporated. Argentina experienced decades of central bank interference and political pressure. The peso has been destroyed. The currency is now barely functional as a medium of exchange.

Now the same patterns are visible in the G7.

France provides another instructive case. Political fragmentation in 2024 produced a parliament in which no faction could form a stable government. Bond spreads widened as markets priced in the risk that France's fiscal consolidation plans would be abandoned. The spread between French and German 10-year bonds reached levels not seen since the eurozone crisis. No economic fundamentals had changed. No external shock had occurred.

The repricing was entirely a function of political dysfunction, of a system unable to produce governance because its electorate had fragmented along tribal lines.

Political tribalism is eroding the independence of major institutions, and the damage is structural because these institutions, once corrupted by political pressure, cannot be quickly restored. Central bank credibility built over decades of demonstrated independence can be destroyed by a single politically motivated appointment. Judicial independence sustained by generations of convention can be compromised by a single court-packing exercise. The United Kingdom discovered in September 2022 that fiscal credibility accumulated through years of responsible management can evaporate in one afternoon.

The connection between literacy decline and these market events is causal and runs through a specific mechanism. Electorates incapable of engaging with fiscal and monetary complexity cannot hold leaders accountable, reward tribal appeal over evidence and become susceptible to politicians offering simple answers to genuinely complex problems.

Once in power, such politicians break the institutional constraints that previously prevented the pursuit of these answers, causing rules to dissolve, institutions to hollow and policy to become unpredictable.

The market consequence is what might be called the "irrationality premium": additional yield that investors must demand for the risk of sudden, unpredictable policy shifts driven by tribal politics rather than evidence.

This premium is different from conventional political risk. Conventional political risk analysis assumes that governments, whatever their ideology, will act within a broadly rational framework: maximising national interest, responding to economic incentives, seeking to avoid outcomes that are clearly self-destructive.

The irrationality premium captures the risk that this assumption no longer holds. Policy driven by tribal reward rather than national interest. Leaders pursuing actions they know to be economically destructive because those actions serve their political base. Institutional constraints weakened to the point where they can no longer prevent such actions from being pursued.

The irrationality premium is structural rather than temporary, reflecting a permanent change in governance quality driven by permanent shifts in the cognitive habits of electorates.

Look at the data. The United Kingdom mini-budget was three years ago. Inflation has subsequently declined significantly. The fiscal and monetary environment has normalised. And yet thirty-year gilt yields remain elevated above their pre-crisis level. The additional yield is still being demanded.

Why? Because the electorate and political class proved that they would abandon analytical constraint when tribal sentiment demanded it. The market is pricing the risk that they will do so again.

American ten-year Treasury yields have remained in the 4.25 to 4.50 per cent range despite declining inflation.³² In the period when policy was more predictable and governance quality was higher, those same yields were 2 to 3 per cent.

Not all of that gap reflects governance risk; term premia, quantitative tightening and inflation expectations play their part. But the component attributable to institutional credibility – the irrationality premium – is substantial and new.

This premium cannot be hedged through traditional diversification. When the problem is governance quality, all assets denominated in a sovereign currency are affected. Stocks and bonds, property and commodities: everything priced in a currency is hostage to the credibility of the institutions managing that currency.

In *Leonardo's Legacy*, I described how Enlightenment civilisational achievements were being consumed without replenishment. The great dumbing down is precisely that process in action. A society loses its ability to maintain inherited institutions through the slow atrophy of the cognitive capacities required to sustain them.

The practical implication is direct. Sovereign risk in developed economies can no longer be assessed through traditional metrics alone: debt-to-GDP ratios, current account balances, inflation trajectories. These metrics assume a basic level of governance quality and institutional coherence. When those assumptions break, new metrics become necessary.

Investors must incorporate what might be called “cognitive solvency”: the capacity of an electorate and political class to sustain rational governance and evidence-based policy. Where cognitive solvency is declining, risk premiums should rise. Where institutions are hollow and electorates are tribal, additional yield must be demanded.

The practical test is straightforward. Take any jurisdiction in your portfolio. Ask: if the next election produces a government hostile to institutional constraints, can the legal system contain it? Can the central bank resist it? Can the judiciary override it? Can the bureaucracy slow it? If the answer to all four questions is yes, the jurisdiction has institutional resilience. If the answer to any of them is uncertain, the irrationality premium should be priced into your holdings.

Accounting for the world as it is rather than as we wish it to be constitutes prudence, not pessimism.

Chapter 3: From rules to chokepoints

The international system is being structurally rewired. The shift is not merely toward less rationality but is concrete, measurable and has specific consequences for capital allocation. The system that governed from 1945 to roughly 2016 operated on a multilateral logic in which the WTO adjudicated disputes, financial flows moved through efficiency-designed networks and maritime routes stayed open as global public goods. The underlying principle was almost naive in its clarity: rules applied consistently produce better outcomes than arbitrary power.

That principle is dead.

What replaces it is a principle of control. The rules-based order is giving way to a network-based order, where the architecture itself is the weapon. The nation-state that controls a hub controls the outcome. It is not law that governs access to these networks. It is proximity to power.

Henry Farrell and Abraham Newman, in their landmark 2019 paper “Weaponized Interdependence,” identified something that liberal theory had missed entirely.³³ Global networks, they argued, did not evolve into flat decentralised webs as conventional wisdom predicted. Instead, they centralised into hub-and-spoke architectures. A few critical nodes channelled the flows of capital, information, goods and energy for the entire global system.

The insight was elegant. Two mechanisms explain this centralisation. The first is the panopticon effect. A hub state monitors all flows passing through its network, gaining an informational advantage that would be prohibitively expensive to replicate elsewhere. The second is the chokepoint effect. A hub state can simply restrict or deny access entirely. The efficiency gains from central architecture are so enormous that alternative routes are prohibitively expensive to build. Exclusion devastates the target.

The framework amounts to an operating manual for 21st-century statecraft, one already being followed by states that understand the leverage their network positions provide.

The United States understood this first, which is why it controlled the dollar system, the internet’s root servers, and the chokepoints of global finance for decades. Now other states have learned the lesson. China is building alternative networks. Russia is weaponising energy infrastructure. Regional powers are leveraging their control of physical chokepoints. The result is not a return to autarky; the networks are too valuable for that. The result is a new kind of competition in which the networks themselves are the battlefield.

This reshaping is occurring across three critical domains: physical infrastructure, technological supply chains and financial plumbing. Each domain has its own chokepoints, its own vulnerability architecture, its own implications for capital allocation.

Start with physical chokepoints.

The Strait of Hormuz is just over 20 miles wide. Approximately 20 million barrels of oil flow through it daily. This is equivalent to around one fifth of global petroleum consumption and more than a quarter of total seaborne oil trade. Additionally, 20 per cent of global liquefied natural gas trade passes through, primarily from Qatar. When Oxford Economics modelled a closure of the strait, the assumptions were stark: oil prices would surge above \$130 per barrel, American inflation would approach 6 per cent and eurozone inflation would nearly double.³⁴

But Hormuz is not alone.

The Bab el-Mandeb chokepoint connecting the Red Sea to the Indian Ocean saw traffic decline 60 per cent below pre-2023 levels by early 2026. What began as a regional security crisis has evolved into a permanent structural feature. The diversion of cargo around Africa via the Cape of Good Hope adds 3,000 to 4,000 nautical miles per journey.³⁵

The Strait of Malacca connects the Indian Ocean to the Pacific and accounts for around 24 per cent of global seaborne trade,³⁶ including the majority of East Asia's energy imports. Any disruption would sever the supply lines that sustain the manufacturing economies of China, Japan, South Korea and Taiwan simultaneously.

The Panama Canal, once reliable as clockwork, demonstrated its vulnerability during the 2023-2024 drought, when daily transits fell to as low as half their normal levels. Operations have since stabilised, but transits remain below pre-drought levels, and climate modelling suggests such disruptions will become more frequent. The canal must now be treated as climate-exposed infrastructure rather than the clockwork it once was.³⁷

These risks are not independent but correlated. The same geopolitical forces that make the Red Sea dangerous make the Strait of Hormuz vulnerable, and the same great-power competition that militarises the South China Sea raises the stakes around the Strait of Malacca.

The traditional assumption of open neutral sea lanes has been replaced by something uglier: regionally controlled corridors where geographic proximity to a contested chokepoint is now a greater determinant of economic stability than almost any national policy variable.

For investors, the practical implication is immediate. A company whose supply chain passes through two or more of these chokepoints is carrying compounded geopolitical risk that no insurance policy covers and no diversification strategy addresses. The cost of rerouting, when rerouting is even possible, falls directly on margins.

Now move to semiconductors, where the chokepoint logic is even more concentrated.

ASML is a Dutch company. It holds a 100 per cent global monopoly on extreme ultraviolet lithography machines, with no competitor, no near-competitor and no plausible path to one within the next decade. These instruments represent more than thirty years of research and development. Each machine costs upwards of \$300 million, weighs 180 tonnes, and requires months to install and calibrate. They are not commercial products optimised for profit. They are instruments of geopolitical denial.³⁸

The United States leveraged its influence over the Netherlands to block ASML exports to China. Without extreme ultraviolet lithography, advanced semiconductor manufacturing at scale becomes physically impossible. China faces a minimum 10-to-15-year gap to develop equivalent capability. This gap cannot be compressed by funding alone. It is a physics problem, not an economics problem.³⁹

Taiwan Semiconductor Manufacturing Company produces 90 per cent of the world's most advanced chips.⁴⁰ The island lies approximately 160 kilometres from mainland China. When the United States announced a \$52 billion investment to relocate advanced fabs to Arizona,⁴¹ it was not a market transaction. It was a strategic relocation of America's most critical technological vulnerability.

But the dependencies run deeper than this suggests.

Before the 2022 invasion of Ukraine, 50 per cent of semiconductor-grade neon, critical for lithography, came from Ukrainian steel mills. Russia can weaponise materials without controlling the finished chips.⁴²

The concept of the “silicon shield” deserves scrutiny. The theory holds that Taiwan’s semiconductor dominance is its best defence against Chinese invasion because China needs the chips too much to risk destroying the fabs. There is an elegant logic to this argument. TSMC’s facilities are so valuable, so irreplaceable, so essential to every modern technology from smartphones to missile guidance systems, that no rational actor would risk their destruction.

But this reasoning contains a fatal assumption: that the relevant actors will behave rationally. In a world where the American President imposes tariffs on allies to compel territorial concessions, where military operations proceed without Congressional authorisation, where trade policy is driven by personal grievance, the assumption of rational state behaviour in geopolitical crises is precisely the assumption under greatest strain.

The silicon shield works only as long as production cannot be replicated elsewhere. The \$52 billion Arizona investment is explicitly designed to ensure that it can be. Once Arizona reaches production parity, the shield weakens materially, and Taiwan becomes a small island 160 kilometres from a much larger power that has never renounced its claim to sovereignty over it. Investors pricing Taiwan exposure should be modelling this transition, not assuming the shield holds indefinitely.

Now consider financial plumbing, the domain where the chokepoint logic operates most invisibly and, for investors, most consequentially.

The Society for Worldwide Interbank Financial Telecommunication, SWIFT, combined with US dollar dominance, created an unparalleled panopticon. Established in 1973, SWIFT processes roughly 53 million messages per day, connecting more than 11,000 financial institutions in over 200 countries.⁴³

Any transaction touching the dollar, which means the vast majority of international transactions, fell under American jurisdiction. The United States did not need to control global finance through regulation. It controlled it through architecture. This was the ultimate hub-and-spoke system.

The weaponisation of this advantage predates the 2022 Russia sanctions. Iran was disconnected from SWIFT in 2012 and partially reconnected in 2016. North Korea has been effectively excluded for years. But the 2022 action against Russia was different in scale and consequence.

Russia was a major economy, a G20 member, deeply integrated into European energy markets. Removing major Russian banks from SWIFT demonstrated that even the largest economies could be financially isolated if they fell afoul of the hub state’s preferences. The world took note, and the predictable counter-reaction began: the construction of alternative financial infrastructure.

Project mBridge is a multi-central bank digital currency platform developed with the participation of several central banks, including those of China, Hong Kong, Thailand, the United Arab Emirates and Saudi Arabia. By late 2025 it had processed over \$55 billion in cumulative transactions, with the digital yuan accounting for about 95 per cent of volume.⁴⁴ The mechanism allows peer-to-peer settlement in local currencies, bypassing SWIFT and the dollar entirely. Pilot work on similar platforms has suggested transaction costs could fall by as much as half.

The Bank for International Settlements withdrew from mBridge in late 2024.⁴⁵ What began as an efficiency experiment had become a geopolitical instrument. India is hosting the 2026 BRICS summit with a focus on the “BRICS Bridge,” linking the digital rupee, digital yuan and digital ruble.⁴⁶ The aim is not a single BRICS currency but a parallel payment rail designed as a shock absorber against Western sanctions.

Kenneth Rogoff, in *Our Dollar, Your Problem*, argues that the dollar’s imperial dominance faces a different threat than most analysts assume.⁴⁷ It is not being replaced by a single alternative. It is being challenged by a proliferation of alternatives. The transition is from a single hub to a fragmented system

where no single currency commands the flows. This is what Farrell and Newman call the “Double Panopticon”: two surveillance systems watching each other, neither dominant.

What happens when dollar settlements fragment? The consequences ripple through every portfolio with international exposure. Hedging costs rise because the depth and liquidity that made dollar hedging cheap depended on the dollar’s ubiquity. Counterparty risk assessment becomes more complex because settlement in multiple currencies introduces multiple jurisdictional risk frameworks.

The assumed liquidity of dollar markets, the bedrock assumption beneath global fixed income, cannot be taken for granted once a meaningful fraction of global trade settles outside the dollar system.

This does not require the dollar to lose its reserve currency status. Even a partial fragmentation, in which 15 to 20 per cent of global trade shifts to alternative settlement mechanisms, would materially alter the liquidity characteristics of dollar-denominated assets. The costs of this fragmentation are real and immediate for any investor holding significant foreign exchange exposure.

Edward Fishman’s recent book *Chokepoints: How the Global Economy Became a Weapon of War* captures the full logic.⁴⁸ The global economy, he argues, has become so interdependent that interdependence itself is weaponised. Efficiency is no longer the governing principle. Control is.

This rewiring has three immediate practical consequences for investors.

Traditional country risk analysis has become obsolete. The relevant question is no longer whether a country has sensible macroeconomic policy or institutional competence but where it sits in network topology. Does it control a chokepoint? Is it dependent on one? Can it be cut off entirely?

Supply chain exposure now equals first-order investment risk. Every portfolio carrying global manufacturing exposure must be assessed for chokepoint dependence across physical infrastructure, technological capability and financial settlement mechanisms. A company’s supply chain vulnerability is now as material to valuation as its debt ratios.

The assumption of neutral global commons must be abandoned: trade routes are now contested, financial networks are weaponised and access depends entirely on geopolitical alignment. “Friend-shoring” has evolved from an inefficient accommodation of political pressure into a structural feature of the global economy.

Companies that diversified their supply chains in 2022 and 2023, when the costs were moderate and the urgency seemed exaggerated, are now reaping competitive advantage. Companies that waited, hoping the world would return to the efficiency-first logic of the 2010s, are paying premium prices for the same resilience or discovering that some routes cannot be diversified at any price.

The implications for portfolio construction are fundamental. Asset allocation models built on the assumption of open, rules-governed global markets must be rebuilt for a world of contested networks. This does not mean abandoning international diversification. It means understanding that diversification across geopolitical blocs is now more important than diversification across asset classes within a single bloc.

A portfolio concentrated in Western assets may look diversified by traditional measures while carrying enormous, correlated risk if the Western network architecture faces a serious challenge.

The rules-based order has ceded to the network-based order. The question now is not what the rules say. The question is who controls the hub.

Chapter 4: The map of what still works

The previous chapters have painted a picture that borders on dystopian: cognitive decline degrading governance, systems rewired to chokepoints, global commons weaponised, trust collapsing across institutions. But the picture is not uniformly bleak.

Not every jurisdiction has succumbed to these pressures. The world is not (yet) descending into a Hobbesian state of nature. Some places still work, and identifying them represents the first step toward building resilient portfolios.

These are what might be called “Enlightenment Islands”: jurisdictions that have maintained institutional integrity, social trust and cognitive capital even as the global tide runs strongly against them. Islands of reliability surrounded by a sea of institutional decay. They are real, measurable and investable.

The 2025 World Justice Project Rule of Law Index surveyed 143 countries and produced a sobering assessment.⁴⁹ Sixty-eight per cent of nations experienced overall decline in rule of law scores. Freedoms of expression, assembly and association eroded in more than 70 per cent of countries. Judicial constraints on government power declined in 61 per cent.⁵⁰

This is a global rule of law recession of historic proportions. Within this decline, however, a handful of jurisdictions maintained their defences.

Denmark sits at the top of the rankings with an overall score of 0.90. Its absence of corruption rate stands at 0.95. Constraints on government power are at 0.94. Norway follows closely at 0.89. Finland and Sweden complete the Nordic top tier. These scores have held consistently across the five-year measurement period as most of the world deteriorated around them.

The Nordic resilience is not accidental. It rests on centuries-old foundations. Decentralised governance structures dating to medieval times, unusually high social trust, strong civic institutions all contributed to what might be called a “cool water condition.” Certain geographic and climatic environments fostered cooperative resource management over centuries, producing institutional cultures resistant to contemporary pressures.

Denmark’s constitutional tradition reaches back to 1849. The Nordic model combines comprehensive welfare states with extraordinarily flexible labour markets and genuine social capital. Corruption is not merely statistically low. It is culturally alien. The expectation that officials will behave honestly is so deeply embedded that violations provoke genuine shock and swift consequences. Patronage, by contrast with most democracies, is almost unknown.

These societies possess an unusual capacity to resist populist pressures precisely because the institutions have accrued such deep trust over time that they function effectively without requiring constant coercion or monitoring. When government is assumed to be competent and honest, compliance with regulations becomes voluntary rather than imposed.

The hypothesis deserves elaboration. The long northern winters required collective action: shared granaries, communal heating, cooperative labour in conditions where individual survival was difficult. These practical necessities generated cultural norms of reciprocity, trust and collective responsibility that became embedded in institutions over centuries and proved remarkably durable.

The theory is contestable and causation is difficult to establish over centuries, yet the correlation between Nordic geography and institutional quality is striking enough to offer a useful framework for understanding why these specific societies proved resilient when others did not. Their institutional strength is not a policy choice that can be replicated by fiat but the product of deep historical processes.

Enlightenment Island status cannot be manufactured quickly. The jurisdictions that possess it have accumulated it over generations, whilst those lacking it cannot acquire it by legislation.

Singapore represents a different model entirely.

The city-state ranks in the top 10 globally for absence of corruption and leads the world in educational performance. In the 2022 PISA assessment, Singapore outperformed all other systems in mathematics, reading and science.⁵¹

This systemic superiority in producing students capable of engaging with complexity goes far beyond marginal outperformance.

Singapore's framework prioritises institutional predictability as a core competitive advantage through clear, stable legal structures that have made the jurisdiction a leading global centre for international arbitration and high-value asset storage. The Monetary Authority of Singapore operates with a technocratic rigour that most Western central banks can only envy, maintaining transparent regulation, consistent enforcement and a legal system among the world's most efficient for commercial dispute resolution.

This model proves a crucial point: "security-first" approaches can maintain economic dynamism without sacrificing institutional foundations, and economic freedom rests on institutional strength rather than institutional looseness.

Singapore's founding under Lee Kuan Yew was explicitly about constructing institutional capital from nothing by rebuilding rather than inheriting. This proves that Enlightenment values are not the exclusive inheritance of European societies but can be deliberately constructed even within Asia and starting from minimal institutional capital.

Switzerland operates on a different principle entirely: centuries of neutrality combined with decentralised federal structures that disperse power and limit executive overreach. The Swiss Constitution guarantees property rights, requiring any restriction on property to have formal legal basis and demonstrated public interest. After Western powers immobilised Russian central bank reserves in 2022, Swiss jurisdiction attracted significant repatriation of gold held by central banks seeking custodial safety.

The Swiss system of direct democracy, whilst deliberately slow, creates institutional stability resistant to capture by any single faction, with referendum requirements ensuring that policy changes must command broad public support.

Estonia rebuilt its institutions entirely from Soviet occupation, now ranking 10th globally in Rule of Law through digital governance that enhances transparency and accountability whilst reducing corruption opportunities. One of the world's most equitable education systems, it produces students performing comparably to Finnish neighbours, with student background not being a significant predictor of performance, suggesting institutional strength resistant to hereditary advantage.

Estonia is proof of a crucial proposition: civilisational capital can be accumulated rapidly when political will exists.

Within three decades of regaining independence from the Soviet Union, Estonia built a digital governance platform that has become the global standard for transparency and administrative efficiency, with every citizen-state interaction logged, auditable and accessible. Tax returns are completed in minutes, business registration takes hours and the system makes corruption technically difficult by removing the discretionary intermediaries that corruption requires rather than merely reducing it.

This matters for investment far beyond Estonia's small economy, demonstrating how technology can strengthen rather than weaken institutional integrity. Whilst most countries have used digitalisation to extend state surveillance, centralise control and expand executive power, Estonia took the opposite approach through decentralisation of enforcement via digital systems.

The paradox is that this produces greater reliability than centralised bureaucratic administration because algorithmic enforcement removes dependence on the goodwill of individual officials.

Enlightenment Islands must be evaluated on specific mechanisms rather than aggregate scores alone. No island offers equal protection across every dimension.

Japan, South Korea, Canada, Australia and New Zealand form a secondary tier of institutional strength. All five maintain robust institutional frameworks. All five face specific vulnerabilities that prevent them from joining the primary tier.

Japan's institutions are remarkably stable. Its judiciary is independent. Its bureaucracy is competent. Its social cohesion, while fraying at the margins, remains stronger than in most Western democracies. But Japan's demographic trajectory presents a challenge that no institutional quality can fully offset. A shrinking working-age population means a contracting tax base supporting an expanding elderly population. The institutional machinery may remain intact, but the resources flowing through it will diminish. For investors, Japan offers institutional safety with demographic risk, a specific combination that requires specific analysis.

South Korea's institutional strength is genuine but volatile. The country's democratic institutions have proven their resilience through multiple presidential scandals, impeachments and power transitions. That resilience is impressive. But the frequency of political crisis suggests that Korean institutions are being tested repeatedly, and each test carries the risk of a different outcome. The recent impeachment saga demonstrated both the system's capacity to hold and the strain under which it operates.

Canada's rule of law is robust by global standards. Its judiciary is independent. Its regulatory environment is predictable. But Canada's economy is so heavily integrated with the American economy that American institutional decay transmits directly into Canadian economic outcomes. Canadian energy exports, manufacturing supply chains and financial services all depend on American stability. This creates a form of indirect institutional dependence that complicates Canada's otherwise strong position.

Australia and New Zealand share a legal tradition, a region and a common problem. Both possess genuine institutional strength. Australia ranks 11th globally in the World Justice Project Rule of Law Index; New Zealand ranks 5th, higher than every primary-tier country except Denmark and Norway.⁵² Their judiciaries are independent. Their regulatory frameworks function. Property rights are protected, though New Zealand carries a historical weakness in having less formally entrenched constitutional protections than other OECD peers.

On paper, both belong in the top tier. The reason they do not is trajectory.

Both countries were transformed by ambitious economic reforms a generation ago. The Hawke and Keating governments in Australia and the Rogernomics programme in New Zealand opened protected economies, floated currencies, dismantled tariff walls and built regulatory frameworks that delivered decades of prosperity.⁵³ Australia's market-sector labour productivity grew at 3.1 per cent annually in the decade to 2000, more than double the rate of the preceding decade.⁵⁴ The reforms worked.

That was thirty years ago. The reform energy has not been replaced. Australia's Productivity Commission now describes the country's productivity as stagnant, with output per hour back to where it was in the weak years between 2015 and 2019. The Commission's deputy chair has been explicit: the disruption of COVID inflated a short-lived productivity bubble, but the bubble burst, and what remains is the same stagnation that preceded it.⁵⁵ The Reserve Bank's August 2025 assessment traced the causes: declining business dynamism, weak capital deepening and a steady shift of employment into lower-productivity sectors.⁵⁶

New Zealand's position is worse. The IMF's 2025 assessment found that New Zealand's GDP per hour worked, roughly comparable to Scandinavian peers in 1970, had fallen approximately 40 per cent below them by 2022. Capital stock per hour worked was half the level of Australia and Finland, 60 per cent below Denmark. The gap is not closing. It is widening.⁵⁷

Both countries are living off the institutional capital accumulated by reformers who have retired or died. The compound interest on that inheritance is running out.

The educational story reinforces the pattern. Both countries spent decades under the influence of whole-language reading instruction -- a pedagogical approach that treated reading as natural rather than as the learned cognitive achievement Wolf describes in the preceding chapter. Australian fifteen-year-olds now score 37 points lower in mathematics and 30 points lower in reading than their counterparts in the early 2000s, a decline equivalent to more than a year of lost learning.⁵⁸ New Zealand recorded its worst-ever PISA results. Mathematics scores fell 44 points since 2003 -- roughly one and a half years of schooling. The proportion of high performers halved. Low performers doubled.⁵⁹

Both countries are belatedly reversing course. New Zealand mandated structured literacy in all state schools from the first term of 2025, backed by \$67 million in professional development and resources.⁶⁰ Victoria became the first Australian state to require systematic synthetic phonics instruction, mandating a minimum of 25 minutes daily from 2025.⁶¹ The reforms are welcome. They are also correcting a mistake that persisted for a generation. The damage to the cohorts educated under the old approach cannot be undone.

The deeper deficit is historical awareness. Australia's 2024 National Assessment Program for Civics and Citizenship recorded the lowest scores since testing began. Only 28 per cent of Year 10 students demonstrated proficient understanding of Australia's civic institutions and democratic principles, down from 38 per cent five years earlier.⁶² A generation is entering the electorate without the vocabulary to understand what institutional independence means, why separation of powers matters or what the reform generation was fighting for. You cannot defend an inheritance you do not know you possess.

For Australian and New Zealand investors, none of this is abstract. These are home jurisdictions. Their institutional foundations remain sound by global standards. But foundations are not self-maintaining. Productivity has stagnated. Educational methodology has only recently begun recovering from decades of misdirection. The rising generation lacks the historical consciousness to value what previous generations built. The question is not whether Australia and New Zealand belong on the map

of what still works. They do, today. The question is whether they will in fifteen years, and that depends on choices being made now.

The Enlightenment Islands share common characteristics across seemingly different systems: all possess genuine separation of powers preventing authority concentration in any single branch, their education systems produce citizens capable of engaging with complexity rather than tribal narratives and social trust allows institutions to function efficiently without constant coercion. These jurisdictions lack immunity to global pressures but have built institutional buffers strong enough to absorb pressure whilst remaining functional.

The evidence is striking in the trust data.

The World Values Survey and the World Social Report 2024 document a global crisis in institutional trust.⁶³ Trust in government, courts, police and media has declined sharply across most countries. Enlightenment Islands break this pattern through a positive feedback loop: effective governance produces enforceable contracts; enforceable contracts produce genuine trust; trust produces civic engagement; civic engagement sustains governance.

In Denmark, approximately 40 per cent of the adult population engages in volunteer work, with youth participation at 36 per cent.⁶⁴ This deep, broad engagement far exceeds civic participation at the margins and creates community resilience capable of absorbing external shocks.

The contrast with low-trust societies is instructive. When people do not trust institutions, transaction costs rise across the entire economy. Contract enforcement becomes expensive and unreliable. Courts are avoided because they are seen as corrupt or capricious. Regulatory compliance becomes more costly than violation, so violation becomes the norm.

Informal networks replace formal institutions, concentrating power in the hands of those with the best personal connections rather than the best legal claims. Everything corrodes simultaneously, and the corrosion is self-reinforcing: institutional failure breeds distrust, distrust breeds evasion, evasion breeds further failure.

Russia is the extreme case. A society in which institutional trust collapsed so completely that the entire economy reorganised around personal networks, oligarchic control and the weaponisation of legal institutions against business rivals. The cost, measured in lost economic potential, is staggering. Russia's per capita GDP should be comparable to Poland's or Czechia's, given its natural resources and educational heritage. Instead, it is less than half. The difference is civilisational capital, the difference between institutions that function and institutions that prey.

The lesson is not that Russia is a bad investment. The lesson is that the trajectory from high-trust to low-trust is visible in the data long before it becomes visible in asset prices. And many Western democracies are on that trajectory now.

For investors, Enlightenment Islands represent something increasingly rare globally.

They are the last reliable jurisdictions where the foundational assumptions of modern portfolio theory still hold: contracts enforced reliably, property rights respected in fact and in law, policy shaped by analysis rather than tribal impulse, institutions functioning predictably even under stress.

As the global system rewires toward chokepoints and fragmentation, directing capital toward jurisdictions demonstrating genuine institutional integrity becomes a first-order portfolio decision. This is fiduciary responsibility, not sentimentality. These islands do not provide superior returns

through aggressive positioning or clever trades. They provide something more fundamental: the reliability necessary for long-term capital preservation.

Think of it like foundations and floors. In a stable building, you focus on furnishings, layout and views; in a building where the foundation is cracking, nothing else matters because the chandelier becomes irrelevant if the ceiling is coming down. For decades, investors could afford to take institutional quality for granted and focus on asset selection within jurisdictions whose foundations were solid. That luxury is disappearing as the foundation itself becomes the primary risk in an increasing number of jurisdictions.

Enlightenment Islands are the jurisdictions where the foundation still holds. Everything else in this essay, the analysis of cognitive decline, the mapping of chokepoints, the documentation of institutional theatre, has been leading to this practical conclusion: the most important portfolio decision you will make over the coming decade is not which assets to hold but where to hold them.

The practical question becomes how to translate this insight into an investment framework.

Chapter 5: Investing in the post-rational era

The diagnosis is complete. We have traced the tightening of cognitive capacity across advanced democracies, mapped the rewiring of supply chains toward chokepoints controlled by the few and watched the erosion of rules-based order while a handful of Enlightenment Islands preserve what the rest abandon. The picture is coherent and the implications are severe.

The question that matters most to anyone in this room is this: what do you do with your money? Your portfolios are not merely financial vehicles but mechanisms for allocating capital across jurisdictions, institutions and assets that are experiencing fundamentally divergent trajectories.

In a rational era, asset allocation followed a logic of diversification across asset classes and geographies; that logic no longer holds. In a post-rational era, allocation must follow the deeper logic of institutional quality and systemic resilience.

I should be direct about what this essay does not offer: I am not an investment adviser and offer no specific recommendations for your holdings, no allocation percentages and no target asset classes. Instead, I offer a framework derived from the analysis in these chapters. How you implement it varies by your circumstances, your liabilities and your time horizon, but the principles are universal.

Start with the most fundamental shift. In the post-rational era, where you hold assets matters more than what they are.

A government bond from a declining jurisdiction carries risks that no credit rating captures. Rating agencies assess fiscal fundamentals: debt ratios, revenue trajectories, borrowing costs. They do not assess whether the political system will continue to honour its obligations when tribal incentives point otherwise.

Consider property rights. Two properties of identical market value in identical locations become worth different amounts depending on whether one is protected by independent courts or subjected to political caprice.

The same applies to business franchises: contract enforcement in a weakening jurisdiction is not the same asset as contract enforcement where courts function regardless of government preference.

Conventional diversification is no longer adequate. Spreading investments across asset classes within a single jurisdiction offers no protection when that jurisdiction's institutions are decaying. Spreading investments across jurisdictions while ignoring institutional quality offers no protection when you have concentrated risk in places where rules no longer constrain power.

The framework is simple: Enlightenment Islands should form the core of any serious long-term allocation. These are jurisdictions where rule of law holds, executive power is constrained, property rights are protected across political cycles and the machinery of government has been insulated from capture by tribal faction.

The primary tier consists of countries like Denmark, Norway, Switzerland, Singapore and Estonia: nations where protection against corruption and executive overreach is structural rather than aspirational, where constitutional traditions run deep and institutional independence is non-negotiable. None are perfect, but these are the places where the foundations are holding.

The secondary tier includes countries like Japan, South Korea, Canada, Australia and New Zealand: strong institutions with track records of stability but notable caveats. Japan faces demographic crisis, South Korea experiences political volatility, Canada's deep economic integration with the United States means American institutional decay transmits directly into Canadian risk, and New Zealand has experienced sharp swings in policy competence. These remain far safer than the weakening tier but require active monitoring.

The exclusion list is straightforward: jurisdictions with significant rule of law declines belong either on the sidelines or on the due diligence table for enhanced scrutiny. The traditional credit analyst asks one question: can this government pay its debts? The institutional analyst asks another: will this government remain bound by its own laws? The second question matters more.

The framework rests on a different starting point from conventional wisdom. Conventional analysis asks: what does the fiscal position look like today? That is a lagging indicator. The more important question is this: will the institutional framework remain intact in five years?

Consider the concept of institutional arbitrage. In a world where some jurisdictions are maintaining institutional quality while others are losing it, capital will flow toward institutional quality. Not all at once, but the flow will accelerate as decay becomes visible.

Early movers in this reallocation will benefit from stable institutions and from rising asset values in places where capital is concentrating. Those who wait for institutional collapse to become fully visible in credit ratings will arrive too late. The ratings agencies, after all, rated subprime mortgage securities AAA mere weeks before those securities became worthless. They will be equally slow to capture the architecture of institutional decay.

Now consider not just where you hold assets but what you hold. A government bond, a fiat currency, an unsecured sovereign obligation: each depends for its value on the credibility of the institution standing behind it. When that credibility was a reasonable assumption, these assets were safe. When it is not, they become bets on promises that may not be kept.

In a world where institutional credibility is eroding, these assets carry risks that conventional yield analysis does not capture. A government bond yielding 4% from a jurisdiction where executive power is escaping legal constraints carries hidden risks that are not priced into the yield. When the authority on which the asset depends loses credibility, value evaporates faster than analysts forecast. The Turkish lira lost 80 per cent of its value in five years once central bank independence was compromised. The Argentine peso has lost more than 90 per cent of its purchasing power over the past decade.⁶⁵

These were not exotic risks. They were the predictable consequences of institutional erosion applied to trust-dependent assets.

Real assets operate differently. Their value derives from physical scarcity or productive capacity, not from institutional promises. A hectare of productive land retains use value that does not depend on the credibility of a central bank or the solvency of a sovereign borrower, though it remains exposed to other institutional risks: title enforcement, expropriation, taxation and regulatory change. A manufacturing facility with competitive advantage generates cash flows based on market demand, not government credibility. Strategic minerals command prices based on supply scarcity, not faith in a counterparty.

Arguing for systematic rebalancing away from institutional promises requires distinguishing between commodity bubbles and genuine scarcity. The history of commodity speculation is littered with

enthusiasts who bought tin, or silver, or oil at the peak of a structural-sounding narrative and discovered that structural narratives can coexist with violent price corrections.

In a world where institutional quality is diverging sharply, capital should rebalance systematically away from assets dependent on institutional promises and toward assets whose value is rooted in physical reality. The key word is “systematically”: not a panicked rush but a deliberate reweighting based on assessment of which promises are most likely to hold and which are most likely to break.

Consider the case of strategic minerals. The shift in geopolitical power is repricing metals critical to semiconductors and energy transition. Hafnium prices have surged to near-record highs, with U.S. market prices mostly above \$7,000 per kilogram. Gallium prices have more than doubled since China imposed export restrictions in July 2023.⁶⁶ These are not speculative bubbles driven by irrational exuberance. They are markets repricing assets whose value is determined by a new geography of power. As China controls more of the supply chain, possession of alternatives becomes valuable. The market is pricing that fact.⁶⁷

Gold demands a word of caution. It is the archetypal real asset. Central banks have been accumulating gold at the fastest pace in decades. Goldman Sachs raised its end-2026 gold forecast to \$5,400 per ounce, but spot gold had already surpassed that level, briefly touching \$5,600 before the Warsh nomination triggered a roughly twenty-one per cent drawdown from the late-January peak to an early-February low.⁶⁸

The lesson cuts both ways. Real assets reduce institutional risk. They do not eliminate market risk. Even assets whose value does not depend on government promises can be subject to irrational repricing when sentiment shifts.

A more stable anchor lies in productive land and infrastructure. Productive land retains use value regardless of the institutional environment. A dairy farm in Denmark produces milk whether the government keeps its promises or not. That use value is a floor beneath which the asset price cannot fall. Infrastructure funds, especially in Enlightenment Island jurisdictions, show a stable link to expected inflation. They are less volatile than equities and depend far less on institutional credibility than sovereign bonds.

Swiss National Bank holdings in gold, New Zealand farmland and Scandinavian hydroelectric infrastructure represent the intersection of physical scarcity and jurisdictional quality. A gold bar stored in a Zurich vault under Swiss law is a fundamentally different asset from the same bar stored in a jurisdiction where the government might confiscate it. The asset is identical. The context is everything.

The third dimension of this framework concerns what runs beneath the assets themselves.

Every portfolio with global manufacturing exposure must be assessed for dependence on the chokepoints mapped in Chapter 3. This is no longer a question for the logistics department. It is a first-order investment risk.

The questions to ask are precise. Semiconductor exposure through Taiwan represents a concentration risk that geopolitics could make undiversifiable. Energy imports through the Strait of Hormuz or Bab el-Mandeb flow through narrows that can be shut in hours. Payment systems depending on SWIFT or the dollar raise questions about how partial migration to alternatives would affect settlement risk and counterparty exposure. Supply chains built on just-in-time delivery from single sources face the problem that a geopolitical shock could force holding months of safety stock.

Companies anticipating the shift in geopolitical power have built what might be called contingency optionality. They have restructured supply chains before the restructuring was forced upon them. The divergence in 2025 confirmed this pattern.⁶⁹ Strategic reshoring is no longer something companies do after a crisis. It is something they do in advance of one.

Apple diversified from Chinese manufacturing concentration toward alternative production sites. In 2025, Apple surpassed Samsung in global smartphone shipments for the first time in 14 years.⁷⁰ BYD vertically integrated critical mineral supply and production. In 2025, BYD overtook Tesla in global battery-electric vehicle sales.⁷¹ In both cases, the winning strategy was resilience engineering, not cost optimisation. The companies that built redundancy into their supply chains gained competitive advantage. The companies that pursued lowest-cost sourcing from single suppliers found themselves exposed.

This lesson should filter through your portfolio. A company that has engineered supply chain resilience is taking a hit to short-term margins and seeing returns depressed by the cost of that resilience, but it is accumulating an option on survival. A company still optimised for lowest-cost sourcing from fragile suppliers looks profitable today yet appears exposed tomorrow.

The defence industry learned this years ago. Defence contractors restructured supply chains well before commercial businesses recognised the need. Supply chain resilience has a cost, but supply chain fragility can have a far greater one. Companies that treated reshoring as an expense to be minimised are now scrambling whilst those treating it as insurance maintain uninterrupted production.

Finally, the framework requires a metric that no Bloomberg terminal provides.

Traditional country risk analysis relies on economic indicators: GDP growth, inflation rates, fiscal balance, external debt ratios and current account positions. These metrics are important. They are also insufficient for assessing jurisdictional risk in a post-rational era.

The framework proposed here requires adding indicators of cognitive and institutional health: PISA scores, rule of law indices, trust metrics, civic engagement data and media literacy measures. Whilst these sound soft, they are not. They are leading indicators of the policy environment that will emerge three to five years hence.

A country with strong economic fundamentals but declining education and falling institutional trust is headed for trouble even if not yet visible in today's economic data. The UK gilt crisis of 2022 did not appear in economic forecasts one year before it struck. It did appear in decade-long data on political polarisation, declining institutional trust, mainstream party capture by tribal faction and the slow erosion of parliamentary norms. Economic indicators lag. Civilisational indicators lead.

The data is available. The World Justice Project publishes annual rule of law scores. The OECD publishes PISA results every three years. The World Values Survey tracks institutional trust across countries and decades. Transparency International measures corruption perceptions. Freedom House tracks civil liberties and political rights. All of this data is freely accessible, rigorously collected and regularly updated. The frameworks exist. What is required is not methodology but mindset.

The willingness to look beyond the Bloomberg terminal requires asking questions that universities teach in political science and neuroscience but not in MBA programmes. What is happening to the quality of public discourse? Are educational outcomes improving or declining? Is the institutional culture of the judiciary deepening or eroding? Is civic engagement strengthening or hollowing?

These are not soft questions. They are not externalities to the investment process but its most important inputs. A country's PISA trajectory tells you more about its policy environment in 2035 than its current GDP growth rate.

Imagine two countries with identical GDP growth, identical debt ratios, identical monetary policy settings. One has stable educational outcomes, high social trust and a long tradition of judicial independence. The other has declining test scores, falling trust in institutions and a recent history of executive interference with the courts. Traditional analysis treats these countries as equivalent risks. The framework proposed here does not. And the events of the past five years suggest it would have been the more profitable framework.

These questions are not academic but determine whether your investments in that jurisdiction will remain protected. A portfolio that looks perfectly diversified by conventional measures but is concentrated in jurisdictions with declining cognitive solvency is not diversified at all but carrying a single, correlated risk: the risk that the institutional environment will deteriorate faster than the market prices in. This is the risk that conventional analysis misses because conventional analysis was designed for a world where institutional quality was a given rather than a variable.

Chapter 6: Builders in the dark

This essay has covered considerable ground, from Donald Trump's "Dear Jonas" letter to the neuroscience of reading, from maritime chokepoints to digital currencies, from PISA scores to portfolio construction. The range is deliberate. In a world where everything is connected, narrow specialisation is a form of blindness.

Leonardo da Vinci understood this principle. His genius did not lie in mastery of any single discipline. It lay in seeing connections others missed. The mind that studied water flow designed siege engines. The hand that painted the Mona Lisa sketched flying machines. His power was synthetic. He saw the whole where others saw fragments.

Investment professionals need that synthetic vision today. Understanding the connection between literacy and sovereign risk demands both neuroscience and economics. Tracing the path from chokepoints to portfolio construction draws on political science and supply chain analysis. Identifying Enlightenment Islands calls for legal scholarship and demographic research. Building resilient portfolios demands all of the above, plus practical judgement earned through experience.

This is not an argument for becoming a generalist. Generalism is diffuse and shallow. It is an argument for becoming the kind of specialist who understands the system in which their specialism operates. The banker who understands only banking will miss the political risks about to reshape regulation. The political analyst blind to market mechanisms will never trace how geopolitical shifts land in portfolios. Neither will the educator who ignores the financial consequences of declining outcomes, nor the supply chain manager who sees only logistics while geopolitical forces redraw the map of viable routes.

The challenge of our time is that the problems are interdisciplinary but the professionals are not. Universities train specialists. Firms hire specialists. Career paths reward depth in a single domain. But the risks that will determine portfolio outcomes over the coming decade do not respect disciplinary boundaries.

A decline in PISA scores in the United Kingdom is, eventually, a problem for UK gilts. A shift in semiconductor manufacturing from Taiwan to Arizona is a problem for anyone invested in Chinese technology ambitions. A central bank digital currency launched by the BRICS nations is a problem for anyone whose hedging strategy assumes dollar liquidity.

Leonardo understood that the engineer who knew nothing of anatomy would build worse machines, and the painter who knew nothing of optics would render worse light. The disciplines informed each other. They were not separate pursuits but different perspectives on a single reality. We need that perspective now.

In *Leonardo's Legacy*, an argument was made that investment professionals had become guardians of a civilisational inheritance. That argument stands. It gains urgency monthly.

Rules-based order was not natural. It was not inevitable. It was built deliberately by people who experienced its absence. Every treaty, every institution, every norm represented investment by a previous generation in the possibility of a more rational world. The Westphalian system, the Concert of Europe, the League of Nations for all its failures, the United Nations and the Bretton Woods institutions: none of these were natural features of the landscape. They were constructed at great cost by people who understood what it meant to live under chaos.

That investment is being drawn down, consumed without replenishment in a way that distinguishes civilisational capital from financial capital. Whilst civilisational capital takes generations to accumulate, it can be destroyed in years.

Consider what it took to build the institutional infrastructure we are now losing. The rule of law did not emerge from a single conference but evolved over centuries through the accumulated wisdom of legislators, judges and scholars, each generation refining the inheritance it received. The scientific method was not invented in a moment of inspiration but refined through generations of experimentation, argument and institutional support. The tradition of loyal opposition in democratic politics, the idea that you can lose an election and accept the result because you trust the system that produced it, was hard-won through centuries of violent alternatives.

All of these are being eroded simultaneously, and none has an obvious mechanism for rapid reconstruction. Trust cannot be legislated into existence, an electorate cannot be decreed into engaging with complex ideas and a judiciary cannot be ordered to be independent if the political culture no longer values independence.

These are civilisational achievements, and like all such achievements, they are far easier to destroy than to create.

The financial analogy is precise. A company that spends its accumulated cash reserves whilst investing nothing in maintenance or development will show strong short-term returns with rising dividends and an impressive balance sheet. But the productive capacity of the enterprise is being consumed. At some point the machinery fails, the talent leaves, the competitive position collapses and the balance sheet reveals what the income statement had concealed.

Western democracies are doing something similar with their civilisational capital. The short-term returns of populist politics, the easy wins of tribal mobilisation, the electoral dividends of institutional capture: all of these are being extracted at the expense of the foundations on which long-term prosperity depends.

Yet there remains something that can be done. Investors cannot rebuild international order alone. That is work for statesmen, diplomats and citizens who engage in their communities. But investors can allocate capital to reward institutional quality and penalise its absence, direct investment toward Enlightenment Islands, build resilient portfolios and create incentives that make civilisational capital worth preserving.

Enlightened self-interest, rather than idealism, animates this approach. When Leonardo wrote to Ludovico Sforza seeking patronage, he led with military engineering because that was what the Duke needed, relegating art to second place. Yet the art endured while the fortifications became dust and the medallion now sits in a museum; the mind that conceived both is remembered across centuries.

The practical framework offered in Chapter 5 serves immediate needs: jurisdictional allocation protects against institutional decay, real asset tilting reduces dependence on promises that may not be kept, supply chain awareness hedges against geopolitical surprise and cognitive solvency assessment provides early warning of systemic erosion. These principles help construct portfolios that will protect capital through transition.

The deeper purpose is preservation of the institutional foundations on which returns ultimately depend. Markets require rule of law, capital requires property rights, contracts require enforcement and credit requires trust, all depending fundamentally on institutional coherence. When that coherence is threatened, everything built atop it becomes threatened.

This dual purpose, practical survival and deeper preservation, is not a contradiction. It is the same impulse. The merchant bankers of Renaissance Florence did not separate their commercial interests from their civic commitments. The Medici funded art and architecture not despite their banking business but as an extension of it. They understood that a city worth living in was a city worth investing in, and that the cultural and institutional fabric of Florence was the foundation on which their commercial empire rested. When that fabric frayed, as it eventually did, the empire frayed with it.

Return to the passage with which this essay opened. Machiavelli wrote of fortune as a raging river that sweeps all before it. But when the weather is fair, he wrote, men can construct levees and barriers so that when the waters rise, their force is “neither so uncontrolled nor so dangerous.”⁷²

We are still in the last days of the fair-weather period, if only just. The full flood of institutional collapse has not yet arrived, and there is still time to build the barriers: to identify the jurisdictions worth investing in, to rebalance toward assets that do not depend on promises that may not be kept, to restructure supply chains before geopolitical shock restructures them for us.

We are building in the dark between the death of one system and the birth of another, where confusion, opportunity and danger exist in roughly equal measure. This interregnum may last years or decades, and the honest answer to “when will the new order emerge?” is that it will emerge from the choices being made now by people who may not realise they are making them.

What we do know is this: choices made during such periods determine what comes next. The architects of Westphalia built from the ruins of the Thirty Years’ War. The designers of Bretton Woods built from the devastation of two World Wars and the Great Depression. In both cases, the new order was shaped by those who engaged with complexity, not those who retreated from it. It was shaped by people willing to think in terms of systems and structures. By people who saw capital not merely as financial value but as enabling force for human endeavour.

Our task is to navigate the transition with clear eyes and practical intelligence, refusing both to pretend the old order functions when it plainly does not and to despair that nothing can replace it, whilst maintaining the conviction that what we build today will matter for generations to come.

We are in the meantime. Between the death of one era and the birth of another. That is uncomfortable. It is also the only time that matters. The interregnum is not a pause. It is when the foundations of the next order are laid, for better or for worse, by those who are willing to act while others wait for clarity.

This essay has offered a diagnosis and a framework. It has not offered a model.

The translation of institutional quality, chokepoint exposure and cognitive solvency into portfolio weights and allocation percentages is work that belongs to investment practitioners, not to the essayist who identified the variables. I have done what I can do: traced the connections between disciplines that are usually kept apart, mapped the terrain and marked where the ground is solid and where it is not.

The rest belongs to those whose craft is building portfolios, not analysing civilisations.

Here we are. Let us get to work.

Endnotes

- ¹ Oliver Hartwich, *Leonardo's Legacy*, Da Vinci Lecture, Portfolio Construction Forum Strategies Summit, August 2025.
- ² Donald J. Trump, "Exchange of Messages with Prime Minister Jonas Gahr Støre of Norway," 18 January 2026, The American Presidency Project, <https://www.presidency.ucsb.edu/documents/exchange-text-messages-between-the-president-and-prime-minister-jonas-gahr-store-norway>.
- ³ The Nobel Peace Prize has been awarded by the Norwegian Nobel Committee since 1901. See <https://nobelpeaceprize.org>.
- ⁴ "How the military operation to capture Maduro unfolded," The Washington Post, 3 January 2026, available at <https://www.washingtonpost.com/world/2026/01/03/maduro-capture-venezuela-visuals/>; "From order to extraction: Inside the US capture of Nicolás Maduro," CNN, 3 January 2026, available at <https://www.cnn.com/2026/01/03/politics/nicolas-maduro-capture-venezuela>.
- ⁵ "Trump says U.S. is 'in charge' of Venezuela," CBS News, January 2026, available at <https://www.cbsnews.com/live-updates/venezuela-us-military-strikes-maduro-trump/>.
- ⁶ "Venezuela says 100 killed in U.S. military operation that captured Maduro," CNBC, 7 January 2026, available at <https://www.cnbc.com/2026/01/07/us-venezuela-military-operation-maduro-injuries-casualties.html>.
- ⁷ Reuters/Ipsos survey, January 2026: 33% approved, 34% disapproved, 33% unsure, available at <https://www.ipsos.com/sites/default/files/ct/news/documents/2026-01/Reuters%20Ipsos%20Venezuela%20Maduro%20Capture%20Survey%20January%204-5%202026.pdf>.
- ⁸ United Nations Secretary-General's spokesperson, statement on US military operation in Venezuela, January 2026, available at <https://press.un.org/en/2026/sgsm22973.doc.htm>.
- ⁹ "María Corina Machado gives Trump her Nobel Peace Prize medal in White House visit," NBC News, 15 January 2026, available at <https://www.nbcnews.com/politics/white-house/venezuelas-opposition-leader-machado-visits-trump-white-house-nobel-rcna253635>.
- ¹⁰ Terje Solsvik and Gwladys Fouche, "Nobel Prize Inseparable from Winner but Medal Can Be Given Away, Award Body Says," *Reuters*, 16 January 2026, <https://www.reuters.com/world/americas/nobel-peace-prize-inseparable-laureate-award-body-says-after-trump-gets-medal-2026-01-16/>.
- ¹¹ "Trump announces 10% tariff on eight European countries until there is a deal to buy Greenland," NBC News, 17 January 2026, available at <https://www.nbcnews.com/business/economy/trump-denmark-european-tariffs-greenland-deal-rcna254551>.
- ¹² "'We Do Not Want to Be Americans': Greenland Parties Reject Trump's Threats," *Al Jazeera*, 10 January 2026, <https://www.aljazeera.com/news/2026/1/10/we-do-not-want-to-be-americans-greenland-parties-reject-trumps-threats>.
- ¹³ "Trump pauses Greenland-linked tariffs on 8 European countries," NBC News, 21 January 2026. <https://www.nbcnews.com/business/economy/trump-pauses-greenland-tariffs-rcna255270>.
- ¹⁴ World Bank data. See also Hartwich, *Leonardo's Legacy*, endnote 29.
- ¹⁵ UNCTAD, World Investment Report. See also Hartwich, *Leonardo's Legacy*.
- ¹⁶ Hartwich, *Leonardo's Legacy*.
- ¹⁷ Kristen Hopewell, "Unravelling of the Trade Legal Order: Enforcement, Defection and the Crisis of the WTO Dispute Settlement System," *International Affairs* 101, no. 3 (March 2025), <https://doi.org/10.1093/ia/iiaf055>.
- ¹⁸ "Unravelling of the trade legal order," *International Affairs*, Oxford Academic, 2025. See also <https://saisreview.sais.jhu.edu/multilateralism-on-the-brink-the-wtos-crisis-and-the-search-for-reform/>.
- ¹⁹ "Can the WTO be Saved from Its Existential Crisis?" *Harvard International Law Journal*, December 2025, available at <https://journals.law.harvard.edu/ilj/2025/12/can-the-wto-be-saved-from-its-existential-crisis/>.
- ²⁰ Oliver Hartwich, "The Warmth of the Herd," *Quadrant*, Fourth Column, 1 January 2026, available at <https://quadrant.org.au/magazine/fourth-column/the-warmth-of-the-herd/>.
- ²¹ Maryanne Wolf, *Reader, Come Home: The Reading Brain in a Digital World*, Harper, 2018. See <https://www.maryannewolf.com/reader-come-home-1>.
- ²² NAEP Long-Term Trend Assessment Results: Reading and Mathematics, National Center for Education Statistics, 2023. Available at <https://www.nationsreportcard.gov/highlights/ltt/2023/>.

- ²³ PISA 2022 Results (Volume I), OECD Publishing, 2023. Available at https://www.oecd.org/en/publications/pisa-2022-results-volume-i-and-ii-country-notes_ed6fbcc5-en/united-states_a78ba65a-en.html.
- ²⁴ “Technology, tribalism, and truth,” Brookings Institution. Available at <https://www.brookings.edu/articles/technology-tribalism-and-truth/>.
- ²⁵ London School of Economics, “Mobile internet and the rise of political tribalism,” CEP Discussion Paper No. 1877, October 2022. Available at <https://eprints.lse.ac.uk/118001/1/dp1877.pdf>.
- ²⁶ House of Commons Library, “The September 2022 Mini-Budget and Market Reaction,” Research Briefing, October 2022, <https://commonslibrary.parliament.uk/research-briefings/cbp-9600/>.
- ²⁷ “Fire sales of safe assets,” Bank of England Working Paper, 2024. Available at <https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2024/fire-sales-of-safe-assets.pdf>.
- ²⁸ “Repo Market Volatility and the U.S. Debt Ceiling,” IMF Working Papers, Volume 2025, Issue 127. Available at <https://www.elibrary.imf.org/view/journals/001/2025/127/article-A001-en.xml>.
- ²⁹ Jarrett Renshaw and Howard Schneider, “Fed Chair Powell says Trump administration threatened prosecution,” Reuters, 12 January 2026. <https://www.reuters.com/world/us/fed-chair-powell-says-trump-administration-threatened-prosecution-over-rate-cuts-2026-01-12/>.
- ³⁰ Howard Schneider, “Trump to fire Fed Governor Lisa Cook,” Reuters, 22 January 2026. <https://www.reuters.com/world/us/trump-fire-fed-governor-lisa-cook-accusing-her-fraud-2026-01-22/>.
- ³¹ “Why the Erosion of Central Bank Independence Matters,” The Daily Economy. Available at <https://thedailyeconomy.org/article/why-the-erosion-of-central-bank-independence-matters/>.
- ³² Federal Reserve Bank of St. Louis, “Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity, Daily” (FRED series DGS10), accessed February 2026. <https://fred.stlouisfed.org/series/DGS10>.
- ³³ Henry Farrell and Abraham Newman, “Weaponized Interdependence: How Global Economic Networks Shape State Coercion,” *International Security* 44, no. 1 (2019): 42–79, https://doi.org/10.1162/ISEC_a_00351.
- ³⁴ “Geostrategic Chokepoint: The Strait of Hormuz,” MUFG Americas, June 2025. Available at https://www.mufgamericas.com/sites/default/files/document/2025-06/Chart%20of%20the%20Day_6_18_Geostrategic%20Chokepoints%20and%20The%20Strait%20of%20Hormuz.pdf; “Systemic impacts of disruptions at maritime chokepoints,” PMC/NIH, 2025. Available at <https://pmc.ncbi.nlm.nih.gov/articles/PMC12644514/>; U.S. Energy Information Administration, “The Strait of Hormuz is the world’s most important oil transit chokepoint,” Today in Energy, 21 November 2023. <https://www.eia.gov/todayinenergy/detail.php?id=61002>.
- ³⁵ “Analysis of maritime geopolitics in early 2026: The Red Sea Factor,” ISDO. Available at <https://isdo.ch/analysis-of-maritime-geopolitics-on-early-2026-the-red-sea-factor/>.
- ³⁶ UNCTAD, Review of Maritime Transport 2024: Navigating maritime chokepoints (Geneva: UNCTAD, 2024), Table I.8. https://unctad.org/system/files/official-document/rmt2024_en.pdf.
- ³⁷ For operational recovery, see “Panama Canal has plenty of water but transits still below pre-drought levels,” Lloyd’s List, 10 July 2025. <https://mykn.kuehne-nagel.com/news/article/panama-canal-has-plenty-of-water-10-jul-2025>. On long-term climate vulnerability, see Samuel E. Muñoz et al., “Drying of the Panama Canal in a Warming Climate,” *Geophysical Research Letters*, 17 September 2025. <https://agupubs.onlinelibrary.wiley.com/doi/10.1029/2025GL117038>.
- ³⁸ “Clash or Consensus?: The Conflicting Economic and Security Imperatives of Semiconductor Supply-Chain Collaboration,” Air University. Available at <https://www.airuniversity.af.edu/JIPA/Display/Article/3212581/clash-or-consensus-the-conflicting-economic-and-security-imperatives-of-semicon/>; “Techno-Geopolitics and Semi-conductor Chokepoints,” Brill, *Journal of World Investment and Trade*, Vol. 26, No. 4. Available at https://brill.com/view/journals/jwit/26/4/article-p749_6.pdf.
- ³⁹ “The Advanced Semiconductor Supply Chain: Why Money Is Not Enough,” Marc Bara Iniesta, Medium, 2025. Available at <https://medium.com/@marc.bara.iniesta/the-advanced-semiconductor-supply-chain-why-money-is-not-enough-e39325015d01>.
- ⁴⁰ Saif M. Khan, “The Semiconductor Supply Chain: Assessing National Competitiveness,” Center for Security and Emerging Technology, Georgetown University, January 2021. <https://cset.georgetown.edu/publication/the-semiconductor-supply-chain/> See also Chris Miller, *Chip War: The Fight for the World’s Most Critical Technology* (New York: Scribner, 2022), Chapter 38. The 90 per cent figure refers to chips manufactured at the leading edge (sub-10 nanometre nodes).
- ⁴¹ The White House, “FACT SHEET: CHIPS and Science Act Will Lower Costs, Create Jobs, Strengthen Supply Chains, and Counter China,” 9 August 2022. <https://bidenwhitehouse.archives.gov/briefing->

- [room/statements-releases/2022/08/09/fact-sheet-chips-and-science-act-will-lower-costs-create-jobs-strengthen-supply-chains-and-counter-china/](#).
- ⁴² “Cross-Network Weaponization in the Semiconductor Supply Chain,” *International Studies Quarterly* 68, no. 1 (2024), <https://doi.org/10.1093/isq/sqae003>.
- ⁴³ SWIFT, “Who We Are,” accessed February 2026. <https://www.swift.com/about-us/who-we-are> SWIFT now reports an average of 53 million+ FIN messages per day. For historical traffic data, see SWIFT FIN Traffic & Figures: <https://www.swift.com/about-us/discover-swift/fin-traffic-figures>. The 2023 annual review reported a peak day of 55 million messages.
- ⁴⁴ Rishabh Jaiswal and Aftab Ahmed, “RBI proposes linking BRICS central bank digital currencies,” Reuters, 19 January 2026. <https://www.reuters.com/markets/currencies/rbi-proposes-linking-brics-central-bank-digital-currencies-2026-01-19/> Michael Holden, “China-backed mBridge platform could undermine U.S. sanctions,” Reuters, 16 January 2026. <https://www.reuters.com/world/china/china-backed-mbridge-platform-could-undermine-us-sanctions-diplomats-2026-01-16/>.
- ⁴⁵ “TickerTape 164: Week of 18 Jan 2026,” Chavanette Advisors. Available at <https://chavanette.com/news/tickertape-164/>.
- ⁴⁶ “India to add BRICS CBDC Bridge to 2026 agenda,” Ledger Insights. Available at <https://www.ledgerinsights.com/india-to-adds-brics-cbdc-bridge-to-2026-agenda-report/>.
- ⁴⁷ Kenneth Rogoff, *Our Dollar, Your Problem: An Inside Account of the Dollar’s Reign and Its Uncertain Future*, Yale University Press, 2025.
- ⁴⁸ Edward Fishman, *Chokepoints: How the Global Economy Became a Weapon of War*, Penguin, 2025.
- ⁴⁹ WJP Rule of Law Index 2025, World Justice Project. Available at <https://worldjusticeproject.org/rule-of-law-index/downloads/WJPIndex2025.pdf>.
- ⁵⁰ WJP Rule of Law Index 2025, Global Press Release, World Justice Project. Available at <https://worldjusticeproject.org/news/wjp-rule-law-index-2025-global-press-release>.
- ⁵¹ PISA 2022 Results, OECD. See also endnote 23.
- ⁵² WJP Rule of Law Index 2025, World Justice Project. Australia country profile available at https://worldjusticeproject.org/sites/default/files/documents/Australia_2.pdf. Full index available at <https://worldjusticeproject.org/rule-of-law-index/downloads/WJPIndex2025.pdf>.
- ⁵³ Paul Kelly, “The Politics of Economic Change in Australia in the 1980s and 1990s,” address to the Reserve Bank of Australia Conference, 2000, <https://www.rba.gov.au/publications/confs/2000/kelly-address.html>. For New Zealand, see “New Zealand’s Remarkable Reforms,” Reserve Bank of New Zealand, June 1996, <https://www.rbnz.govt.nz/hub/publications/speech/1996/speech1996-06-04>. See also Australian Treasury, “Reflections on Australia’s Era of Economic Reform,” <https://treasury.gov.au/speech/reflections-on-australias-era-of-economic-reform>.
- ⁵⁴ Australian Treasury, “Reflections on Australia’s Era of Economic Reform.” Market-sector labour productivity grew at 3.1 per cent annually in the decade to 1999-2000, compared with 1.4 per cent during the 1980s.
- ⁵⁵ Productivity Commission, Quarterly Productivity Bulletin, March 2025, <https://www.pc.gov.au/ongoing/productivity-insights/bulletins/quarterly-bulletin-march-2025>.
- ⁵⁶ Reserve Bank of Australia, “In Depth: Drivers and Implications of Lower Productivity Growth,” Statement on Monetary Policy, August 2025, <https://www.rba.gov.au/publications/smp/2025/aug/in-depth-drivers-and-implications-of-lower-productivity-growth.html>.
- ⁵⁷ International Monetary Fund, “New Zealand’s Productivity Challenge,” Selected Issues Paper SIP/2025/075, 2025, <https://www.imf.org/-/media/files/publications/selected-issues-papers/2025/english/sipea2025075.pdf>. See also IMF Staff Concluding Statement of the 2025 Article IV Mission, 11 March 2025, <https://www.imf.org/en/news/articles/2025/03/11/cs-031125-new-zealand-staff-concluding-statement-of-the-2025-article-iv-mission>.
- ⁵⁸ PISA 2022 Results, OECD Country Note: Australia, https://www.oecd.org/en/publications/pisa-2022-results-volume-i-and-ii-country-notes_ed6fbcc5-en/australia_e9346d47-en.html.
- ⁵⁹ PISA 2022 Results, OECD Country Note: New Zealand, https://www.oecd.org/en/publications/pisa-2022-results-volume-i-and-ii-country-notes_ed6fbcc5-en/new-zealand_33941739-en.html.
- ⁶⁰ New Zealand Government, “Transforming How Our Children Learn to Read,” Beehive.govt.nz, 2024, <https://www.beehive.govt.nz/release/transforming-how-our-children-learn-read>.
- ⁶¹ Premier of Victoria, “Making Best Practice Common Practice in the Education State,” June 2024, <https://www.premier.vic.gov.au/making-best-practice-common-practice-education-state>.
- ⁶² National Assessment Program -- Civics and Citizenship 2024 Public Report, ACARA/ACER, <https://nap.edu.au/docs/default-source/nap-sample/nap-cc-2024-public-report.pdf>.

- ⁶³ World Social Report 2024: Trust in a Changing World, United Nations Department of Economic and Social Affairs. Available at https://social.desa.un.org/sites/default/files/inline-files/World%20Social%20Report_Dec2024.pdf; World Values Survey, Wave 8. Available at <https://www.worldvaluessurvey.org/>.
- ⁶⁴ “Youth volunteering at national level: Denmark,” European Union National Policies Platform. Available at <https://national-policies.eacea.ec.europa.eu/youthwiki/chapters/denmark/24-youth-volunteering-at-national-level>.
- ⁶⁵ The Turkish lira traded at approximately 7.4 per dollar in January 2021 and above 36 per dollar by January 2026, a depreciation of roughly 80 per cent. See Federal Reserve Bank of St. Louis, “Turkey / U.S. Foreign Exchange Rate” (FRED series DEXTURS), accessed February 2026. <https://fred.stlouisfed.org/series/DEXTURS> For the Argentine peso, consumer price inflation exceeded 200 per cent annually in 2023 and 2024, eroding purchasing power by more than 90 per cent over the decade. See International Monetary Fund, World Economic Outlook Database, October 2025. <https://www.imf.org/en/Publications/WEO>.
- ⁶⁶ “China Restricts Exports of Gallium and Germanium,” *Reuters*, 3 July 2023, <https://www.reuters.com/markets/commodities/china-restrict-exports-gallium-germanium-2023-07-03/>.
- ⁶⁷ Ashitha Shivaprasad, “Hafnium prices near record highs in Europe on China export curbs, AI boom,” *Reuters*, 3 November 2025. <https://www.reuters.com/world/china/hafnium-prices-near-record-highs-europe-china-export-curbs-ai-boom-2025-11-03/> Andy Home, “A gallium lens on China’s minerals dominance and how to break it,” *Reuters*, 12 May 2025. <https://www.reuters.com/markets/commodities/gallium-lens-chinas-minerals-dominance-how-break-it-andy-home-2025-05-09/>.
- ⁶⁸ Goldman Sachs, “Gold Price Forecast Update,” note dated 21 January 2026, reported in *Reuters*: <https://www.reuters.com/world/india/goldman-sachs-raises-2026-end-gold-price-forecast-by-500-5400oz-2026-01-22/>. Spot gold peaked at approximately \$5,600 on 29 January 2026 before the Warsh-triggered selloff. See “Gold and Silver Price Crash January 2026,” Bullion Trading LLC, January 2026: <https://bulliontradingllc.com/blog/gold-and-silver-price-crash-january-2026/>.
- ⁶⁹ “Securing supply chains: The rise of friendshoring,” RSM US, 2025. Available at <https://rsmus.com/insights/industries/manufacturing/securing-supply-chains-the-rise-of-friendshoring-in-modern-manuf.html>; “Security First: How Industrial Policy Changed in 2025,” Global Trade Alert. Available at <https://globaltradealert.org/reports/how-industrial-policy-changed-in-2025>.
- ⁷⁰ Counterpoint Research, “Global Smartphone Forecast for 2025.” Available at <https://counterpointresearch.com/en/insights/Global-Smartphone-Forecast-for-2025>.
- ⁷¹ *Reuters*, “Tesla Loses EV Crown to China’s BYD as Global Sales Shift,” *Reuters*, 2 January 2026, <https://www.reuters.com/business/autos-transportation/teslas-quarterly-deliveries-fall-more-than-expected-lower-ev-demand-2026-01-02/>; Jasper Jolly, “China’s BYD overtakes Tesla as world’s biggest electric car seller,” *The Guardian*, 2 January 2026. <https://www.theguardian.com/business/2026/jan/02/china-byd-tesla-worlds-biggest-electric-car-seller-elon-musk-donald-trump-ev>.
- ⁷² Niccolò Machiavelli, *The Prince*, Chapter XXV, 1532. Translation by W.K. Marriott.

In August 2025, Dr Oliver Hartwich delivered the inaugural Da Vinci Lecture at the Portfolio Construction Forum Strategies Summit, an essay called Leonardo's Legacy. That lecture attempted something ambitious – to trace the civilisational architecture that connected the Renaissance humanists to our present moment, and to explain how that structure was failing us.

The diagnosis in Leonardo's Legacy identified five interconnected crises: eroding trust in institutions; decay at the institutional core; a civilisation so materially comfortable it had become complacent about the conditions sustaining it; a retreat from reason masquerading as wisdom; and, a hollowing of Western self-confidence.

Leonardo's Legacy ended with a warning. The rules that had governed the international order for four centuries were being quietly emptied of content. The architecture was still standing but the foundations were shifting.

Six months later, that warning looks timid.

In the first three weeks of January 2026, the President of the United States demanded territorial control of Greenland, ordered the military capture of a sitting head of state, received a Nobel Peace Prize medal as thanks for the operation, and imposed tariffs on eight allied nations to compel the sale of sovereign territory. All these events happened in three weeks. They were not aberrations. They were the new pattern.

This essay picks up where Leonardo's Legacy left off. The diagnosis remains the same. But this time, we attempt an answer to the practical question – what should investors do now? The thesis is stated without qualification. Investors must adapt to a more tribal, less rational world. Unfortunately, this is not a forecast of what might happen. It describes the world we already inhabit.

Dr Oliver Hartwich is the Executive Director of The New Zealand Initiative. Born in Germany, with a PhD in Law and Master's in Economics, he has worked at think tanks in London and Sydney. He writes regularly for The Australian, Newsroom and Quadrant.



<https://portfolioconstructionforum.edu.au/>