DORVAL ASSET MANAGEMENT
DONNER DE LA VALEUR À VOS VALEURS

Geopolitical risks, volatility, and hedging

June 23, 2025

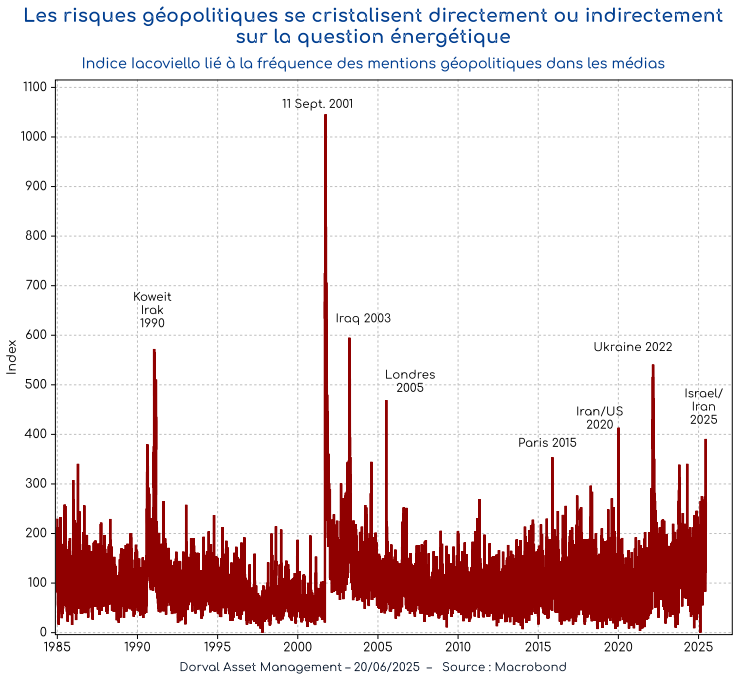
Dear clients, dear partners,

Geopolitical tensions, such as those we are currently experiencing, almost always lead to increased volatility in financial markets. In the case of the conflict between Israel and Iran, this increase has remained relatively contained, providing a window of opportunity to implement hedging strategies at a reasonable cost.

Geopolitical risks are frequently cited by savers and investors as key factors influencing their view of the markets. But how can we define this concept precisely? And, more importantly, how can we rank the significance of the events involved?

In a landmark article published in 2022, Dario Caldera and Matteo Iacoviello propose a rigorous definition of geopolitical risk: "the threat, occurrence or escalation of undesirable events—war, terrorism, diplomatic tensions—that could disrupt the peaceful course of international relations." Based on this definition, the authors constructed a geopolitical risk index based on the number of mentions of these tensions in a selection of major Anglo-Saxon newspapers since 1985 (see Chart 1).

Geopolitical risks crystallize directly or indirectly around the energy issue
Iacoviello index linked to the frequency of geopolitical mentions in the media

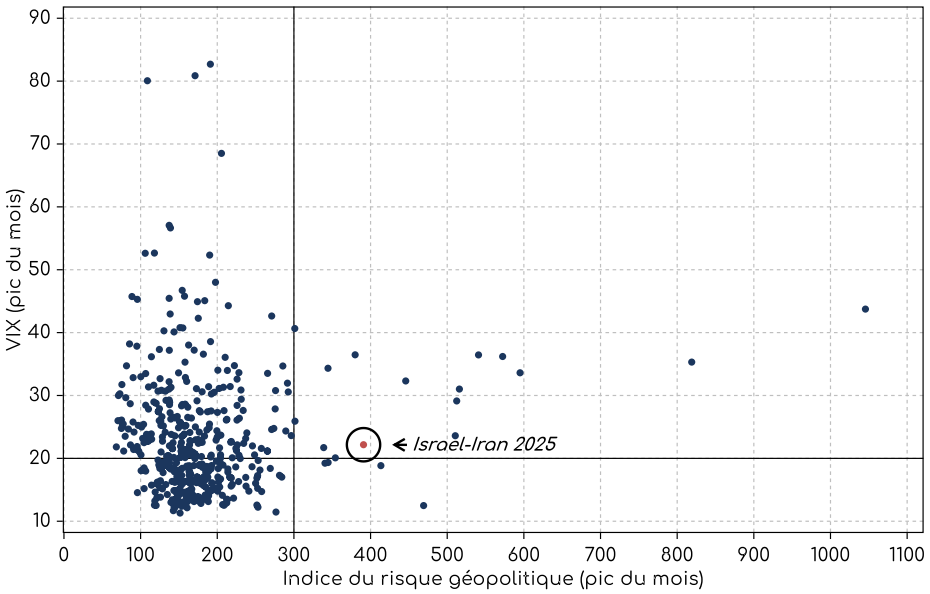


As in the 1970s—the Yom Kippur War in 1973, the Iranian Revolution in 1979—energy issues dominate, almost always in connection with the Middle East. The invasion of Ukraine is a geographical exception, but not an energy one: it has profoundly disrupted Europe's supply of oil and, above all, Russian gas. As for the attacks in New York, London, and Paris, their economic impact was less due to the emotion they aroused than to potential reprisals against oil-producing countries.

One way of measuring the effect of these events on the markets is the VIX index—sometimes known as the "fear index"—which reflects the implied volatility of the S&P 500. When a geopolitical shock pushes the index above 300 (three times its average level), the VIX generally rises above its historical median (see Chart 2).

Volatility (VIX) and geopolitical risk
Monthly data since 1985

Volatilité (VIX) et risque géopolitique
Données mensuelles depuis 1985



Dorval Asset Management – 20/06/2025 – Source : Macrobond

The current episode of tension between Israel and Iran is notable for the relative calm on the markets (as of June 19, 2025): volatility has not exceeded 22, which is close to its historical average. Investors remain cautious but are not rushing to sell risky assets, as the conflict could remain contained and/or short-lived. It could even pave the way for positive prospects: a weakening of the Iranian regime would reduce regional risks (terrorism, maritime disruptions) and could, in the long term, encourage the lifting of international sanctions. Iran, it should be remembered, accounts for around 4% of global oil production and has the third largest proven reserves.

From a portfolio protection perspective, this context of limited volatility offers opportunities. Too often, major geopolitical events lead to a very rapid increase in volatility, which significantly increases the cost of hedging. This is not the case today, which has enabled us to implement a moderate-cost hedging strategy that we believe is appropriate following the sharp market rally since early April.

We have therefore initiated a combination of put options on the Euro Stoxx 50 across all of our flexible and diversified funds, with a view to providing partial protection for our portfolios. We chose the Euro Stoxx 50 because it is generally more sensitive to oil prices than other indices such as the S&P 500. Opting for an option strategy rather than reducing equity exposure allows us to remain well invested should the conflict subside.

Our exposure rates are as follows:

Fund	Net equity exposure	Breakdown by theme (as a percentage of total equities)	Other
Dorval Convictions	59%	- Core basket excluding themes: 55% - Financials: 26% - Reflation: 16% - Small caps: 3%	Euro Stoxx 50 futures hedges

Dorval Asset Management

Public limited company with share capital of €964.968

Paris Trade and Companies Register No. B 391392768
APE 6630 Z - AMF accreditation no. GP 93-08

111, boulevard Pereire, 75017 Paris – Tel.: +33 1 44 69 90 44 – F: +33 1 42 94 18 37

www.dorval-am.com

Legal notices

This promotional document is intended for professional and non-professional clients within the meaning of the MiFID. It cannot be used for a purpose other than that for which it has been designed and cannot be reproduced, circulated or communicated to third parties in whole or in part without the prior and written authorisation of Dorval Asset Management. No information contained in this document can be interpreted as having any contractual value whatsoever. This document is produced purely for information purposes. It constitutes a presentation designed and produced by Dorval Asset Management from sources that it deems reliable. Dorval Asset Management reserves the right to amend the information presented in this document at any time and without notice and particularly regarding the description of the management processes that in any case do not form a commitment on the part of Dorval Asset Management. Dorval Asset Management cannot be held responsible for any decision made or not made based on information contained in this document or use that could be made of it by a third party. The UCITS is authorised to be marketed in France and possibly in other countries where the law authorises it. Prior to any investment, it should be verified whether the investor is legally authorised to subscribe to units in a UCITS. The characteristics, fees, risk and yield profile relating to investment in a UCITS are set

out in the Key Information Document (KID) of the latter. The KID and the periodic documents are available free of charge on request, from Dorval Asset Management. You must read the KID, which must be sent to you prior to subscription. The definition of the risk indicators stated in this document feature on the website: www.dorval-am.com.