



GROUPE
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GEOPOLITICAL REPORT
EUROPEAN SUPPLY CHAIN RESILIENCE
2026

SUPPLY CHAIN RESILIENCE

In January 2026, we published a geopolitical lookahead report covering the broad trends that may occur over the course of the year. In that report, we identified a number of drivers of instability in Europe, including supply chain vulnerability. This report explores in more detail the themes of supply chain disruption in Europe, and asks what policies and plans have been put in place to mitigate these vulnerabilities.

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**Sent to press
on 08/2026**

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GEOPOLITICAL AND SYSTEMIC DRIVERS OF SUPPLY CHAIN DISRUPTION

The resilience of global supply chains has been repeatedly tested by a succession of major geopolitical and systemic crises over the past decade. These events have exposed vulnerabilities in production, transportation and resource networks while demonstrating that supply chains are no longer simply economic systems but increasingly instruments of geopolitical competition. Major powers – notably the United States, China and Russia – have sought to exploit these vulnerabilities to advance wider strategic objectives. The following sections examine how supply chains have become tools of statecraft and consider the systemic risks revealed by recent crises.

SUPPLY CHAIN PRESSURES AS A TOOL OF FOREIGN POLICY

Recent geopolitical developments demonstrate that supply chains are increasingly viewed as instruments of foreign policy and strategic competition.

States are able to use their influence over critical resources, manufacturing capacity, technologies, and trade relationships to pursue wider political, economic, and security objectives. This reflects a broader shift towards geoeconomics, in which economic interdependence is leveraged to influence the behaviour of other states.

Russia has demonstrated the strategic value of supply chain dependencies through its use of energy exports as a source of political leverage. Europe's long-standing reliance on Russian natural gas and oil constrained policy options in the early stages of the Russia-Ukraine conflict, while reductions in energy supplies contributed to significant increases in energy prices and manufacturing costs across Europe. More broadly, Russia's position as a major supplier of critical raw materials, fertilisers, and agricultural commodities has enabled it to exert influence beyond the energy sector. Russian foreign policy seeks to exploit strategic vulnerabilities of states it considers unfriendly. For example, owing to Europe's dependence on Russian LNG, the EU has more recently been forced to roll back Russia sanctions to allow it to increase orders of Russian LNG during the blockage of the Strait of Hormuz.

China has similarly integrated economic and industrial capabilities into its broader foreign policy. Its dominance in the processing of many critical minerals and rare earth elements, together with its central role in global manufacturing, provides significant strategic leverage. Export controls on materials such as gallium, germanium, graphite, and rare earth technologies, alongside the use of trade restrictions in response to political disputes, illustrate how supply chain dependencies can be employed to advance geopolitical objectives.

The US has increasingly adopted measures that also place supply chains at the centre of economic and national security policy. While maintaining different strategic objectives, successive administrations have expanded the use of tariffs, export controls, industrial subsidies, and investment restrictions to reduce dependence on strategic competitors and strengthen domestic manufacturing capacity. The tariff policies introduced under President Trump, particularly those targeting Chinese imports, reflected a broader shift towards using trade policy to reshape global supply chains in support of national economic and security interests.

For Europe, these developments present a significant strategic challenge. European industries remain highly integrated into global production networks and continue to depend on external suppliers for many critical inputs.

As major powers increasingly employ supply chains as instruments of statecraft, resilience is no longer simply an operational or commercial concern but has become a central component of economic security and strategic autonomy.

Consequently, diversification of suppliers, investment in domestic capabilities, and stronger partnerships with trusted allies have become increasingly important elements of European industrial and security policy.

SYSTEMIC RISKS REVEALED BY RECENT CRISES

Recent crises demonstrate three categories of systemic vulnerability within global supply chains: operational disruption, resource dependence, and geographic concentration.

OPERATIONAL DISRUPTION

The COVID-19 pandemic exposed the vulnerability of global supply chains to large-scale operational disruption. Measures introduced to contain the virus—including border restrictions, lockdowns, factory closures, and travel restrictions—interrupted the movement of goods, labour, and raw materials, disrupting production and distribution networks across most sectors. In Europe, where manufacturing depends on complex international supply chains, factory closures in Asia, together with port congestion, container shortages, and reduced air freight capacity, delayed the supply of essential inputs and slowed industrial production.

The pandemic also prompted a shift in approaches to supply chain resilience, with businesses placing greater emphasis on flexibility, supplier diversification, supply chain visibility, and risk management alongside cost efficiency.

RESOURCE DEPENDENCE

The Russia-Ukraine conflict demonstrated how geopolitical instability can disrupt access to critical resources.

Sanctions, damaged infrastructure, and trade restrictions affected the availability of energy, raw materials, and agricultural commodities, exposing Europe's dependence on external suppliers.

Europe was particularly vulnerable because of its reliance on Russian energy. Reductions in gas supplies, combined with sanctions, drove sharp increases in energy prices, raising manufacturing costs and reducing industrial competitiveness. Disruptions to exports of fertilisers, grains, and other commodities from Russia and Ukraine also contributed to supply shortages, price volatility, and inflation across Europe.

Together with the COVID-19 pandemic, the conflict highlighted the strategic risks of dependence on external suppliers for critical goods. It reinforced the importance of diversification, domestic capability, and greater resilience in the supply of essential resources.

GEOGRAPHIC CONCENTRATION

The escalation of conflict in the Middle East since 2023 has demonstrated how regional instability can generate global economic consequences through the disruption of strategically significant transport corridors.

It has highlighted the risks associated with concentrating global trade through a small number of maritime chokepoints and reinforced the importance of geopolitical risk in supply chain management.

The strategic significance of these conflicts derives not only from the Gulf's role as a major energy-producing region, but also from the ability of both state- and non-state actors to exert pressure on critical transport routes. Proximity to strategic infrastructure allows actors with relatively limited military capabilities to exercise disproportionate influence over international trade. Missile attacks, unmanned aerial systems, and small attack vessels have demonstrated how low-cost asymmetric tactics can create widespread disruption and uncertainty. NATO-aligned militaries use sophisticated weapons designed for state-on-state conflict to deter attacks from these relatively cheap and unsophisticated systems, creating a significant cost imbalance in keeping critical trade routes open.

The Bab al-Mandeb Strait, which links the Red Sea with the Gulf of Aden, is a key shipping corridor between Europe and Asia. Beginning in late 2023, Houthi attacks on commercial shipping significantly increased the risks of transit through the Red Sea, prompting many shipping companies to reroute vessels around the Horn of Africa. The resulting increase in voyage times and transport costs disrupted global supply chains and reduced the reliability of established trade routes.

In 2025, similar concerns emerged in the Strait of Hormuz following heightened tensions between Iran, Israel, and the United States. Since the conflict escalated in February 2026, Iran has threatened and attacked commercial shipping and critical infrastructure in the region, and has implemented de facto restrictions on navigation. It has disrupted one of the world's most important energy corridors, through which around one-fifth of global oil consumption and a significant share of liquefied natural gas exports normally pass.

For Europe, these events reinforced an important lesson. While efforts to diversify energy supplies following the Russia-Ukraine conflict reduced dependence on individual suppliers, they did not eliminate vulnerability where replacement supplies remained dependent on other strategic maritime corridors. Today, European states have been forced to roll back Russia sanctions and increase orders of Russian LNG to make up shortfalls from the Middle East; analysts estimate Russian supply to Europe is up by 18% year-on-year.

This contributes to a renewed risk to the EU of adverse Russian influence, because its solution to reducing Russian energy dependence relied on another vulnerable waterway.

Collectively, these crises demonstrate that vulnerabilities extend beyond individual suppliers to encompass production networks, critical resources and strategic transport corridors. They illustrate how geopolitical competitors can exploit these dependencies to achieve wider political and economic objectives.

EUROPEAN POLICY

EUROPEAN PERSPECTIVES ON STRATEGIC SUPPLY CHAIN DEPENDENCIES

European policymakers increasingly view supply chains through the lens of economic security. In an international environment characterised by renewed great power competition, dependencies on external suppliers are no longer seen solely as commercial relationships but as potential sources of political leverage. European leaders now assume that reliance on foreign states for critical goods, technologies, energy, and data may be exploited to influence European decision-making during periods of political tension or crisis.

As a result, reducing strategic dependencies has become central to efforts to strengthen European sovereignty, resilience, and preparedness.

Although economic leverage has always been a feature of international relations, the COVID-19 pandemic and the Russia-Ukraine conflict fundamentally changed Europe's perception of supply chain risk. The pandemic exposed the fragility of highly optimised global supply chains, while Russia's use of energy exports during the lead-up to and aftermath of its invasion of Ukraine demonstrated how strategic dependencies could be deliberately exploited for geopolitical purposes. Together, these events accelerated a shift from viewing supply chain resilience as a commercial concern to treating it as a matter of national and economic security.

European concerns extend beyond Russia. China's dominance in the production and processing of many critical raw materials and rare earth elements has highlighted the risks associated with concentrated supply chains, particularly for advanced manufacturing sectors such as automotive, aerospace, and clean technologies. At the same time, dependence on the US for cloud infrastructure, advanced semiconductors, artificial intelligence, and wider digital services has generated debate over Europe's long-term technological sovereignty.

More broadly, European policymakers increasingly recognise that leverage can also be exercised by non-G7 or regional powers where they control strategically important resources, infrastructure, or investment. The UAE is seen as an important example. It has used its role as a key energy supplier to ensure that acquisitions by its sovereign wealth fund are tolerated in Europe under EU Foreign Subsidies Regulations (for example, the Abu Dhabi National Oil Company's acquisition of German chemicals company Covestro). EU leaders expect non-aligned and smaller countries to use whatever leverage they have to try and extract concessions on issues that are important to them.

This evolving assessment has given rise to the European Union's de-risking agenda. Rather than pursuing broad economic decoupling, the objective is to reduce excessive dependencies in strategically important sectors while maintaining the benefits of open international trade. De-risking seeks to preserve Europe's freedom of action by diversifying suppliers, strengthening domestic industrial capabilities, increasing stockpiles of critical goods, and developing trusted international partnerships.

The emphasis is therefore on resilience rather than self-sufficiency.

The principal areas of concern identified by the European Union include defence capabilities, pharmaceuticals, energy, critical raw materials, and digital technologies. In each case, reducing dependence on a single supplier or country is viewed as essential to protecting Europe's strategic autonomy and ensuring that political or economic coercion cannot undermine its ability to act independently. NATO has similarly identified resilient supply chains as a core element of collective security, reinforcing the view that economic resilience has become an integral component of European defence and preparedness.

The principal risks, as viewed by the EU, are the following:

Subject area	Dependency	Country focus	Sovereignty goal
Security	US defence industry supply chain, and reliance on weapons with potential kill switches	USA	Build up European military industrial base and develop relationships with alternative sources of supply such as South Korea
Pharmaceuticals	Active pharmaceutical ingredients from third countries, fill and finish capacity undertaken in facilities outside of Europe	India, China	Onshore production facilities
Energy	Gas/LNG, crude oil, jet fuel, diesel, renewable technologies such as wind turbines and solar panels, nuclear fuel	Russia, USA, Gulf countries	Diversified supply base through energy diplomacy, onshore stockpiles and build up European renewable energy
Rare earths / Critical Raw Materials	EU list of critical raw materials published approximately every three years	China	Diversified supply base, multi-sourcing for companies and stockpiling to mitigate supply interruptions
Tech stack	Advanced chips/semi-conductors, cloud stack, data centres, AI stack	USA, China (lesser extent)	Onshore data centres/FABS in the short-term, develop European owned capabilities over time

EUROPEAN POLICY APPROACHES TO BUILDING RESILIENCE

The need to address supply chain vulnerability is recognised at a very high level in Europe. The European Commission has addressed this issue in many meetings; systematically, EU sanctions avoid penalising countries or products where the bloc has supply chain dependence. G7 and NATO leaders have also acknowledged the need to progress resilience at a state and multilateral level.

Supply chain resilience for Europe means gaining the ability to function in a crisis situation, where critical inputs are denied to supply chains, and disruptions are normalised. Disruption caused by climate-related incidents, and cyber-attacks are also increasingly viewed as central to building resilience by European leaders.

At the EU level, specific strategies have been implemented to manage dependence:

- To build **security** resilience and a more independent European military industrial base, the EU has defined its own Security Strategy, which bridges defence, supply chains, and crisis preparedness. In addition, the European Defence Industrial Strategy marks the EU's first comprehensive shift towards achieving war economy capability.
- In the **pharmaceutical** sector, the focus has been on onshoring production, making permits and financing more available, identifying vulnerabilities, and boosting research and development funding. To achieve this, the EU has adopted a Pharmaceutical Strategy in 2020, which establishes tougher anti-shortage rules, among other aims. It has also revised the General Pharmaceutical Legislation and Critical Medicines Act, which made it possible to speed up medicine approvals and prevent shortages.
- **Energy** sector initiatives are geared towards reducing single-supplier dependence on fossil fuels, while accelerating the move towards renewable energy. The RePowerEU initiative aims to end dependence on Russian fossil fuels, while AccelerateEU aims to reduce price volatility in fossil fuels. The Net Zero Industry Act introduces regulation designed to scale up domestic manufacturing of clean energy technologies.
- The EU is seeking to onshore late-stage production of **critical raw materials** and **rare earth materials**. The EU Critical Raw Materials Act, aims to increase the domestic production of 34 raw materials by boosting domestic processing and recycling to reduce dependence on single suppliers. Furthermore, the ResourceEU Action Plan seeks to reduce single-supplier dependency for rare earth, battery, and defence raw materials by up to 50% by 2029.
- The goal in the **technology** sector will be to strengthen digital autonomy and resilience, and to increase R&D funding for frontier technologies, such as satellite communications, edge computing, and supercomputing. The European Chips Act aims to secure semiconductor supply chains and increase EU-based chip production, and the Cloud and AI Development Act defines plans to reduce dependence on non-EU cloud and hardware providers.

BARRIERS TO IMPLEMENTATION

At a policy level, there is a clear commitment to de-risk critical industries. However, the actual availability of energy and manufacturing capacity in Europe, and a tight regulatory framework create friction in implementing the policies explored above. Furthermore, the fiscal headroom needed to pay for these investments is limited. Amid an inflationary environment, passing the cost of resilience-building measures onto consumers risks causing political backlash. In addition, the commitment to the on-shoring agenda may be read as protectionism by important EU trading partners such as the US and China. There is a fear among policymakers that this could result in tariffs or other trade counter-measures being levied against the EU. Indeed, such threats continually lead to the watering-down of European initiatives in the formative development stages within the European Commission, before they become public.

The balance between well-intentioned policies to improve European independence butt up against energy constraints and the reality of the competitive market situation.

Examples of EU initiatives that have encountered stiff opposition from member states and commission members include the EU Industrial Accelerator Act and the Tech Sovereignty Package. The Industrial Accelerator Act introduces “made in EU” criteria and low-carbon targets for public procurement and sets conditions for foreign direct investment on European industry and manufacturing. EU officials and German industry bodies have criticised it on the grounds that it is protectionist and will invite retaliation that could make German manufacturing globally uncompetitive. Similarly, the Tech Sovereignty Package, which is designed to reduce reliance on non-EU technology suppliers, was criticised by international industry associations for imposing discriminatory processes that are designed to exclude international providers. Warnings raised over this alleged protectionism risk inviting retaliatory measures against the EU in other areas. While the EU has a relatively coherent policy to onshore, monitor, and diversify supply chains, the commitment across member states is inconsistent. For example, supply chain resilience in France is generally taken to mean building up native capacity to produce industrial strategic products. Whereas the Netherlands are typically more outward-looking, and less likely to favour home-grown or European companies over others; it values sustaining longer-term relationships with global trading partners – for fear of incurring tariffs or other penalties – over reducing dependence.

On the other hand, industry actors are more likely to act with commercial priorities front-of-mind. Automotive manufacturers, for example, want continued access to Chinese-made chips, which are subject to EU Russia sanctions packages, and this has led to the postponement of import restrictions.

In the NATO context, dependence on other nations is seen as a potential security threat, but there remains a delicate balance between remedying capability gaps and solving dependency. Often, capability gaps can only be solved by creating some degree of dependence on another state. This means that, for many NATO states, dependence will likely remain and can only be partially mitigated, for example through stockpiling. Further complicating the picture from the NATO perspective, is the role of the US. While the EU is seeking to move supply chains away from US dependence, it remains the core NATO member, and cannot be cut out of NATO procurement. This leads to tensions between the broader NATO policies and those of the EU that seek to address supply chain vulnerabilities.

HAVE THESE POLICY MEASURES BEEN EFFECTIVE?

So far, there has been a flurry of policy and legislative packages, strategies, and political discussions about building resilience by design. Proposals include funding onshoring through state aid and national initiatives, accelerating production permits, developing product buffers through stockpiling, diversifying sources, and developing new trading partners.

However, these measures are all in an implementation phase, with little progress being made on the ground.

In the energy sector, Europe has repeatedly suffered affordability problems, inflation, de-industrialisation, and demand destruction. Root causes related to being a resource-poor, import-dependent jurisdiction have never been fully addressed. Energy security measures, such as stockpiling, are often postponed, and the energy transition is disorderly and expensive. Delays to a switch to renewables has caused continued dependence on fossil fuels. A slow energy transition in Europe together with net zero obligations puts further constraints in the way of the bloc building independent data centres. Where progress is made towards the energy transition, fossil fuels are often being replaced by alternative sources which depend on raw materials supplied by China and other non-aligned jurisdictions, which undermines the move towards resilience.

Efforts to build resilience more generally are undermined when dependence on one state is replaced with dependence on another.

Trade flows remain subject to geographic pinch points such as the Suez Canal, Straits of Malacca, Strait of Hormuz, Danish Straits, Straits of Gibraltar and Panama Canal. Leverage and coercion against European nations and the EU may yet be exerted by multiple actors, due to the dependencies that exist today. Despite this continued dependence, effective resilience-building policies are still unforthcoming in the EU, due to binding net zero obligations, a lack of political will, and the associated higher costs.

Recent discussions around EU access to US-based frontier technology lay bare how far Europe lags behind the US and China, and typifies a lack of a framework to build cyber independence. The EU has been in discussions to gain access to an early-release program of Anthropic's Claude Mythos. While this has been granted to the EU's cybersecurity agency ENISA, most European commercial financial entities have been blocked from previews, and are unable to trial the platform against their systems.

In response, the European Commission is treating the block as a strategic vulnerability, and the European Central Bank has mandated urgent AI defence plans across Eurozone banks.

However, EU countries ultimately lack the technology to compete with US and Chinese firms, and will likely remain dependent on them in the near-term. In the meantime, OpenAI has offered an alternative cybersecurity model, ChatGPT 5.5 Cyber, which is under review from European majors such as Deutsche Telekom and Telefonica.

While the political will to enact change remains high, progress across different critical sectors has been inconsistent. The pharmaceutical sector has shown significant progress towards onshoring supply lines since the COVID-19 pandemic. Likewise, the energy sector has been forced to diversify sources as supply constraints follow the Russia-Ukraine conflict and Strait of Hormuz crisis. The technology sector has been slower to move, and US companies remain entrenched in frontier technologies and AI. Over time, policy rules may be introduced that demand a 'European preference' in public procurement, which will prompt market share slowly to shift towards European players.

Resilience in the financial sector is more secure, as a robust legislative framework with capital buffers and strong regulatory oversight is already in place. The growth of cryptocurrency platforms may undermine this, but as risks emerge in this sector, they are likely to be regulated further.

Overall, the fiscal headspace needed for short-term measures is very limited. The next EU budget is likely to make room for state and EU support for de-risking in strategic sectors. However, a large burden will likely fall on private sector actors to sure-up their own resilience measures. This includes managing supply chain dependencies through multi-sourcing strategies, moving away from just-in-time to just-in-case supply chains and managing a variety of risks, from climate to conflict, without substantial government help.

National behaviour also differs from European strategy. Despite the reliance and de-risking agendas identified at EU level, national foreign policy, including on bilateral engagements with the US and China, trend towards increasing, rather than decreasing dependence.

CONCLUSION

Europe has completed the stage of problem identification. However, implementing workable policies and new trade relationships will be extremely challenging. If anything, European countries are trying to increase outreach and engagement with countries on which there are high levels of dependence, in order to address short-term requirements, in the defence and energy sectors. Increased engagement comes with the creation of greater leverage, which can be exerted to coerce European behaviour.

To date, de-risking, preparedness and resilience remain buzzwords, with little on-the-ground concrete action.

This may be because we are at an early stage in the process, or because political will is not backed up by firm resolve to make difficult changes which will incur heavy cost implications for citizens, businesses, and governments.

Until Europe gains the ability to stockpile and produce energy and pharmaceutical products at larger scale, and to host Europe-based data centres, it will remain vulnerable to pressure from third countries.

To do this, the EU will need to overcome self-imposed constraints, its regulatory regime, and net-zero targets which affect both energy resilience and the ability power AI innovation.

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