Circe Invest's Fiona Frick: Staying invested when the old rules break

Broken assumptions

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I have spent three decades allocating capital through bubbles, crises and recoveries. One lesson stands above all others: markets do not reward those who claim to predict the future. They reward those who can adapt when the music changes.

Image: Fiona Frick (pictured) is founding partner at Circe Invest

We begin by thinking we manage money. Over time, we realise we are really managing behaviour, patience and uncertainty.

Circe Invest's Fiona Frick: How climate risk is moving further into capital markets

This is one of the most consequential investment environments I have seen. Markets are not collapsing, at least not for now. But the assumptions that shaped portfolio construction are breaking.

For around 15 years, investors lived with globalisation, spare capacity, low inflation and central-bank support. That world is over. We are now in a regime shaped by industrial policy, geopolitical fragmentation and renewed capital investment priorities.

Old rules no longer apply

For more than a decade, investors built portfolios on comfortable assumptions.

Inflation would stay low. Central banks would rescue markets. Bonds would protect equities. Globalisation would suppress costs. The dollar would remain the anchor. Private markets would benefit from cheap debt, rising multiples and easy exits. Passive exposure would be enough.

One by one, these assumptions are breaking. The task is not to abandon risk but to rebuild portfolios for a world that no longer behaves like the last decade.

Fixed income and mixed asset funds garner lion's share of May inflows

For years, investors allocated capital as if the world were flat. Supply chains stretched across borders. Capital moved freely. Efficiency mattered more than resilience.

Politics influences economics which in turn shapes markets. Governments direct capital through defence spending, sovereign industrial policy, energy security, reshoring and strategic autonomy. Capital will not always flow to its most efficient use. Resilience and political alignment now matter.

Geography can no longer sit quietly behind sector allocation. A portfolio diversified by asset class may still be concentrated in the same political bloc, supply chain or strategic dependency.

Inflation from cyclical to structural

Another broken assumption is inflation. It was supposed to be solved. It is not.

Inflation is no longer only a demand problem. It is also a supply, fiscal and geopolitical problem. Energy disruption, industrial policy, defence spending, reshoring and AI infrastructure all increase demand for power, labour, capital and materials, at a time when fiscal deficits in many developed economies remain elevated.

These forces do not disappear because a central bank changes its tone.

UK investors pile into drone and defence stocks ahead of spending splurge

This leaves central banks in a difficult position. Keep rates too low and they risk reigniting inflation. Move too fast and they put pressure on fragile growth. The result is a macro regime with more volatile inflation and less reliable monetary support.

Deglobalisation means more volatile inflation. More volatile inflation means more volatile interest rates. This is not simply a cycle. It is a structural shift.

That changes the role of bonds. Government bonds used to provide income and protection when equities fell. Then came the inflation shock. Bonds forgot their job description.

The old 60/40 model cracked because bond and equity correlations stopped behaving when investors needed them most. Long-duration nominal bonds can no longer be treated as automatic anchors. Duration must be deliberate. Inflation-linked bonds, shorter maturities and real assets deserve a larger role.

Meanwhile, equities remain essential but the source of returns has changed. Falling rates lifted valuations for years. Multiple expansion did much of the work. That tailwind has faded. Future returns must come from fundamentals: revenue growth, pricing power, margin discipline and capital allocation.

Broad benchmarks deserve scrutiny. The world economy is not collapsing. It is concentrating. Passive investing is not neutral. Buying a global equity index can mean large exposure to the US, technology and expensive valuations. That is an active bet disguised as simplicity.

Wealth manager allocations to UK stocks fall by more than half since Brexit

The old core-satellite model should also be reconsidered. Active management, where investors can control risk, select managers with discipline and target risk-adjusted returns, should become more central. Passive exposure remains useful but more as a tactical tool than as an unquestioned foundation.

Private markets' own reset

Private markets face the same regime shift.

Cheap debt, rising multiples and easy exits defined the old playbook. That era is over. The question is no longer only: what did you buy? It is: what did you build?

Private equity returns must now come from operational value creation, not financial engineering. Venture must be targeted. Private credit must be senior, secured and structurally sound. Private companies face the same macro pressures as public ones. The difference is that valuation pain is often less visible, not less real.

The conclusion is simple: stay invested but not on autopilot.

Investors should shorten duration, own real assets, manage currency risk, diversify by geography and strategic exposure, and select managers with evidence of skill.

Humility is the only asset that compounds across every regime. The best allocators do not pretend to predict the future. They build portfolios that can survive scenarios they have not yet imagined.

Markets are likely to reward diversified portfolios that can withstand fragmentation, geopolitical disruption and a more uncertain mix of growth and inflation.

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