RESEARCH

BRIEFING NOTE

Geopolitical Risk and Real Estate Exposure

Sweden – August 2026

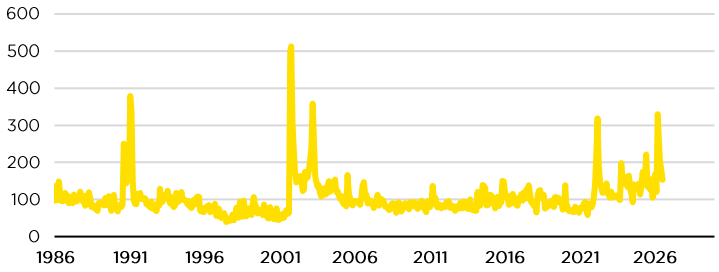
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Amid global uncertainty, the case for real estate grows clearer

More geopolitical risk in the world the 'new normal'?

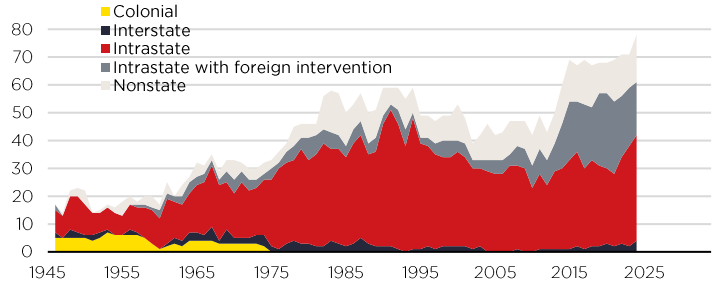
During recent years, different measures of geopolitical risk levels have reached new heights. For example, The World Geopolitical Risk Index, which measures geopolitical tensions based on keywords in newspaper articles, have higher and more frequent spikes after 2020 than during the whole period 2005-2020 (see Chart 1). The war in Ukraine, the US tariffs, the Greenland crisis and the war in the Middle East are a few examples of geopolitical episodes in recent years. Even more simple measures, like the number of conflicts in the world, supports the argument that geopolitical tensions have increased lately. There are almost 80 conflicts going on in the world right now, which is the highest number since the 1940s (see Chart 2). Among conflict types, intrastate conflicts with foreign intervention have risen the most in recent years.

CHART 1. WORLD GEOPOLITICAL RISK INDEX



Source: Macrobond

CHART 2. NUMBER OF CONFLICTS IN THE WORLD

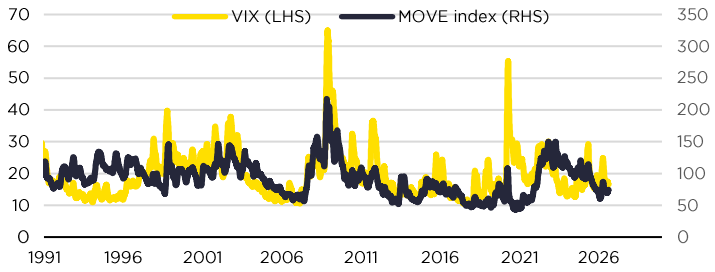


Source: International Monetary Fund (IMF)

Increased volatility on financial markets from time to time

These geopolitical episodes tend to affect financial markets when they occur, depending on the character of the specific tension or conflict. Typically, investors are worried about either risk of recession, or risk of higher inflation (and subsequently higher central bank policy rates), or both (stagflation). The result is higher volatility, both realised and implied (i.e. expected volatility), which is a sign of stress in the financial system and could affect investors' risk appetite and subsequently financing conditions for different types of real estate owners. From the Covid outbreak in 2020, there has been several periods of stress in the financial system. Both when it comes to equity markets and fixed income markets. For example, both the Cboe Volatility Index (VIX) and the ICE BofAML MOVE (Merrill Lynch Option Volatility Estimate) Index, which are calculated implicitly from US option markets, has experienced several spikes and periods of high levels in a historic perspective from Covid and onwards (see Chart 3). These episodes have typically also been reflected on the Euro and Swedish financial markets.

CHART 3. IMPLIED VOLATILITY ON US EQUITY AND TREASURY MARKETS

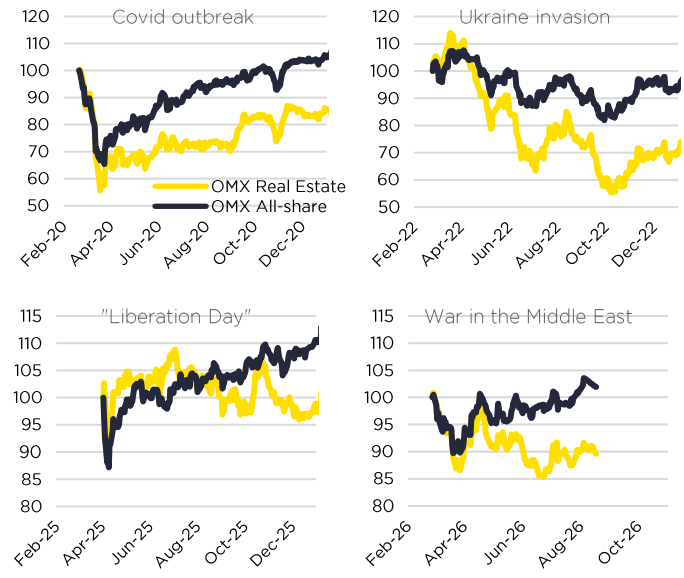


Note: 30 days moving averages.
Source: Macrobond

Swedish real estate companies often hit hard by financial stress

When there are more stressful episodes on financial markets, the Swedish listed real estate companies tend to be punished more by investors than the broader equity market. This has been evident during the Covid outbreak, when Russia invaded Ukraine and the start of the war in the Middle East, to name a few examples. This is illustrated in Chart 4. An exception to this was the announcement of US tariffs in 2025 ('Liberation Day'). Both the broader market and real estate stocks initially suffered a downturn, but real estate companies bounced back quicker this time.

CHART 4. SWEDISH EQUITIES DURING PERIODS OF FINANCIAL STRESS



Note: Indices where 100 equals the start of each episode.
Source: Macrobond

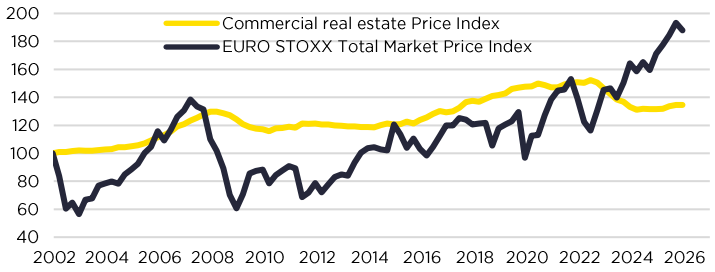
There are several explanations to why the Swedish real estate companies tend to be harder hit than many other listed companies during times of stress on financial markets. It is not mainly because they have real estate assets on their balance sheets, but rather other aspects, like their financing structure. Real estate companies typically have a large share of debt financing. And Swedish real estate companies also have a large share of market-based debt financing, as a complement to traditional bank loans, which makes them even more sensitive towards market fluctuations and scenarios that increases perceived credit risk among investors. In addition, the real estate companies that mainly finance themselves on the Swedish bond market must handle shorter maturities and more frequent refinancing risk, which also means a more frequent repricing of loans, than real estate companies that finance themselves mainly on the Eurobond market.

Broad stock market indices also capture the top performing companies, which tend to make up a disproportional share of market growth, while often being resilient through distress, depending on the character and the depth of the stress. On the contrary, real estate companies follow the state of the economy closely, as almost all underlying value is derived from rental income from a broad base of companies.

Direct real estate exposure useful in stressful times

Real estate allocations could provide investors with valuable stability during volatile times. As Chart 5 illustrates, real estate prices are typically not as volatile as equity prices. The long-term expected returns are usually not as high as for equities, but the downside is on the other hand also more limited. In the UK, for example, the average annual income return from real estate during periods of recession was 5.7 per cent, which is just slightly below the non-recessionary average of 5.9 per cent, according to MSCI data spanning the past 55 years (Salmon & Rushton 2026). This is in line with many other studies, which often refer to long-term historical returns of about 5-7 percent annually for real estate globally. Global equities often have long-term historical average returns of about 7-9 percent, as a reference.

CHART 5. EUROPEAN REAL ESTATE PRICES AND EQUITIES



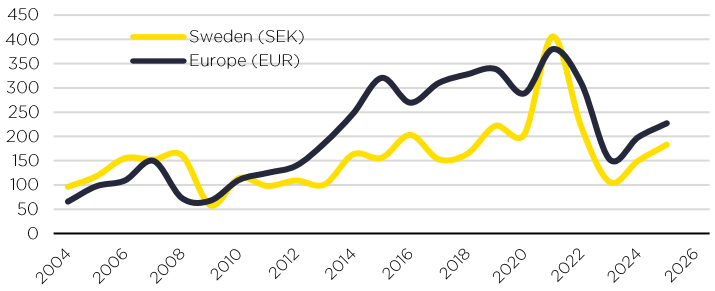
Note: 2002-01-01 = 100.
Source: European Central Bank (ECB) and Macrobond

The equity market serves as a good example to illustrate differences in volatility, but real estate is much more like a bond investment, with stable cashflows over a longer period. One of the main benefits of real estate as an asset class is its negative correlation with other major investable asset classes, in particular equities, which makes it good for diversification purposes. Diversification benefits for a multi-asset portfolio are also the reason that investors state as the largest driver for their real estate investments (Salmon & Rushton 2026).

Property owners have shown resilience

The expansionary policy response to the pandemic was seen across global markets and was followed by rising inflation and interest rates. In conjunction, transaction activity in the European real estate market reached record levels before falling sharply. The low point in 2023, and the modest recovery since then, reflects limited distress rather than weak demand for real estate investment. Relatively stable property values and CPI-linked lease contracts helped property owners meet debt obligations, which kept the gap between buyers' and sellers' price expectations in place.

CHART 6. REAL ESTATE TRANSACTION VOLUMES, BILLIONS



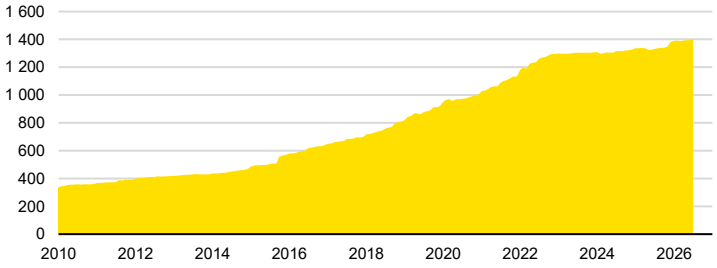
Source: Savills Research

Real estate allocation and portfolio theory

According to established portfolio theory, like the Yale Endowment Model, real estate allocation should constitute about 10 percent of an investment portfolio. In particular, real estate assets could be good for certain institutional investors, like pension institutes, as they have long-term claims from their customers. Real estate assets provide a way to match their duration on their asset side against their liabilities in a more accurate way. According to data from the European Insurance and Occupational Pensions Authority (EIOPA), European insurance and pension companies typically have about 5-10 percent of their portfolios invested in direct real estate assets (insurance and pension companies in the Netherlands stand out with over 20 percent of their assets invested in direct real estate in the end of 2025). On top of that, they also on an aggregate invest about €200 billion in real estate funds, mostly own asset (i.e. not unit-linked), which is more than they invest in private equity funds for example.

The growth of asset under management (AUM) in European real estate funds since the Global Financial Crisis is also a sign that end-investors value real estate exposure in their portfolios (see chart 7). These funds subsequently invest most of their assets in commercial real estate (58 percent).

CHART 7. AUM FOR EUROPEAN REAL ESTATE FUNDS, BILLION EUR



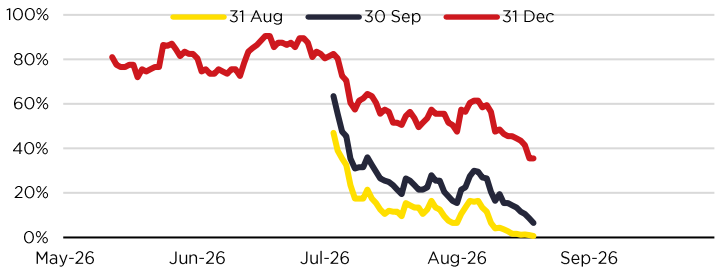
Source: European Central Bank (ECB)

Real estate can be an effective hedge against inflation

It is one thing to use real estate exposure to diversify an investment portfolio and thereby trying to raise the overall risk-adjusted returns, and another thing to use real estate as an inflation hedge. Muckenhaupt, Hoesli & Zhu (2025) shows that real estate provides an effective hedge against inflation in the long run, both in crisis and non-crisis periods. In the short term, direct real estate also shows desirable inflation hedging in crisis periods. Real estate (both direct and securitized) effectively serves as a hedge against inflation shocks, particularly protecting against unexpected inflation and against energy inflation during stable periods. Over a long period, real estate has proved to be better for hedging against inflation than bonds, bills and 60:40 portfolios, but not as good as gold and commodities (UBS 2025).

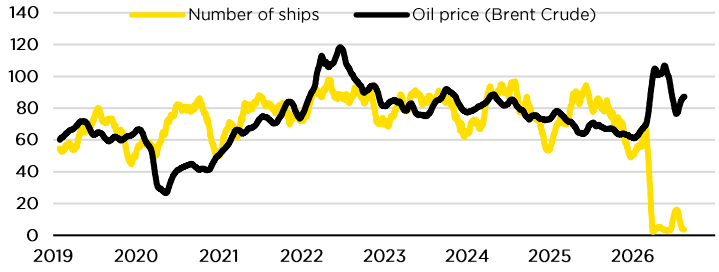
The role for real estate assets as an inflation hedge might be of particular interest in the current state, as inflation is expected to surge worldwide due to the war in the Middle East. The magnitude depends on how long energy supplies are disrupted. Even if a stable ceasefire agreement, and later a permanent peace agreement, would come in place, it might take a while for the traffic through the Strait of Hormuz to reach full capacity again. And, to restore physical oil inventories. So, the disruptions may not vanish immediately even if the war should be over (see for example probabilities derived from betting odds in Chart 8 and historical levels and prices in Chart 9). In its latest World Economic Outlook report, the International Monetary Fund (IMF) produced three scenarios that get progressively worse depending on how long the disruptions might continue. In the first scenario, in which energy supply disruptions related to the closure of the Strait of Hormuz are short-lived and average energy prices this year rise 19 per cent on last year's levels to average $US82 a barrel, the IMF expects a global inflation of 4.4 per cent. In an "adverse scenario", where oil prices average $US100 a barrel in 2026 and $US75 a barrel in 2027, inflation would rise to 5.4 per cent. In the third "severe scenario", in which energy supply disruptions extend into next year and oil prices average $US110 a barrel this year and $US125 next, the IMF warns inflation "would exceed 6 per cent" (IMF 2026).

CHART 8. POLYMARKET PROBABILITIES OF TRAFFIC RETURNING BACK TO NORMAL IN THE STRAIT OF HORMUZ BY END OF



Source: Macrobond

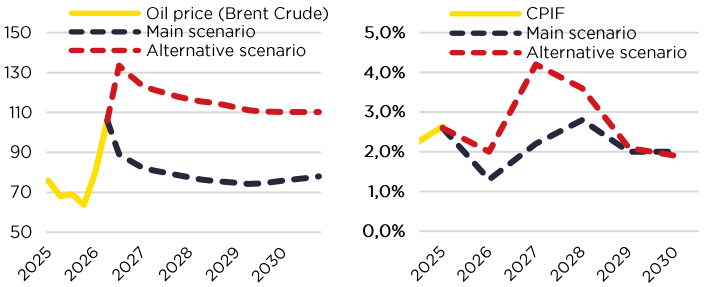
CHART 9. DAILY NUMBER OF SHIPS PASSING THE STRAIT OF HORMUZ AND OIL SPOT PRICE ($US/BARREL)



Note: 30 days moving averages.
Source: Macrobond

When it comes to Sweden, the National Institute of Economic Research (NIER) estimates in its latest Swedish Economy Report that inflation measured as CPIF (Consumer Price Index with fixed interest rate) will reach to 2.2 in 2027 and 2.8 in 2028, which is above the Riksbank's target of 2 percent. If the oil price remains elevated for a longer period, inflation could rise to above 4 per cent in 2027 (see Chart 10).

CHART 10. OIL PRICE AND CPIF FOR SWEDEN



Note: Oil price in quarterly values. In the main scenario it is assumed that the oil price will follow the current pricing curve according to futures contracts.
Source: National Institute of Economic Research (2026)

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