BREAKWATER

July 2026

Catalyst for Impact

The Geopolitical Investor Relations Officer

Quantifying Exposure, Funding Resilience, and Protecting Valuation

About Breakwater Capital Markets

We have a global mandate.

We bring distinctive judgment and deep market insight to the decisions that shape valuation, command investor confidence, and position companies for enduring leadership.

Our proprietary Valuation Operating System (VOS) transforms how companies build, defend, and accelerate value, integrating market intelligence, compelling equity narratives, and precision investor engagement into a single, powerful engine. The result is sharper perception, stronger confidence, and resilient valuation in an increasingly uncertain and complex global environment.

Trusted by boards, management teams, and investors worldwide, we help leaders anticipate shifts, seize opportunity, create advantage, and excel on the most demanding global stage driving sustained value creation.

Enterprise Strategy & Value-Creation || Leadership, Governance, & Board Effectiveness || Perception & Investor Intelligence || Investor Relations, Capital Markets Days, Financial Communications & Transactions || Individual Owners Investor Strategy & Market Engagement || Investor Relations Program Optimization || Geopolitical, Policy, & Stakeholder Risk || Reputation, Communications, & Crisis Management || Bespoke Solutions

From risk disclosure to valuation discipline

The public companies that earn the geopolitical premium will do three things better than peers: quantify exposure, fund control, and prove resilience in the numbers.

Quantify exposure

Show revenue, margin, supplier, route, energy and capital sensitivity by scenario.

Fund control

Treat options, inventory, dual sourcing and regional capacity as capital-allocation choices.

Prove resilience

Report progress through cash-flow, margin, ROIC and reliability metrics.

The Valuation Model for Geopolitics Has Evolved

Investors are not asking “what is the exposure?” They are asking whether the exposure is controllable, priceable and fundable.

1. A cost shock became a strategy test

Tariffs, sanctions, energy security, export controls and military conflict are now recurring input variables, not one-off exceptions.

2. Multiples are sorting on control

The same shock can compress a fragile global model and expand the multiple of a company with pricing power or policy-backed demand.

3. Resilience is capitalized only when measurable

Investors reward companies that turn geopolitics into quantified cash-flow durability, not those that are focused on describing “risk management.”

4. Geopolitical Investments Require a Return

Supply-chain redesign, inventory, dual sourcing and regional capacity must be defended as capital projects with an expected valuation return.

The past period months has created a new pattern for geopolitical valuation

It is a repeated pattern: policy shock → operating shock → guidance shock → capital-market sorting.

Trade shock	Supply shock	Energy security	Investor focus	Strategic sectors	Valuation filter
effective tariff rates reset higher	GSCPI back near late-2022 stress	AI and conflict pull power into strategy	tariffs dominated earnings-call Q&A	defense, grid, chips and materials get policy bid	multiples depend on control, not exposure alone

The valuation question has shifted from “is there geopolitical exposure?” to “does the business model create more options than vulnerabilities under geopolitical stress?”

Public Companies Can Control Valuation Resilience

Inputs
tariffs, energy, freight, materials, labor access

Operations
supplier concentration, facility location, logistics optionality

Commercial
pricing power, contract pass-through, customer criticality

Capital
inventory, capex, working capital, insurance, financing access

Narrative
quality of disclosure, scenario plan, credibility of management

Investor model input

Companies with the same revenue exposure can deserve different cash-flow, durability and discount-rate assumptions if one has control and another has fragility.

Board agenda item

Resilience should be measured as a value driver, not reported as a compliance or enterprise-risk-management topic.

Trade policy has become a more meaningful P&L variable

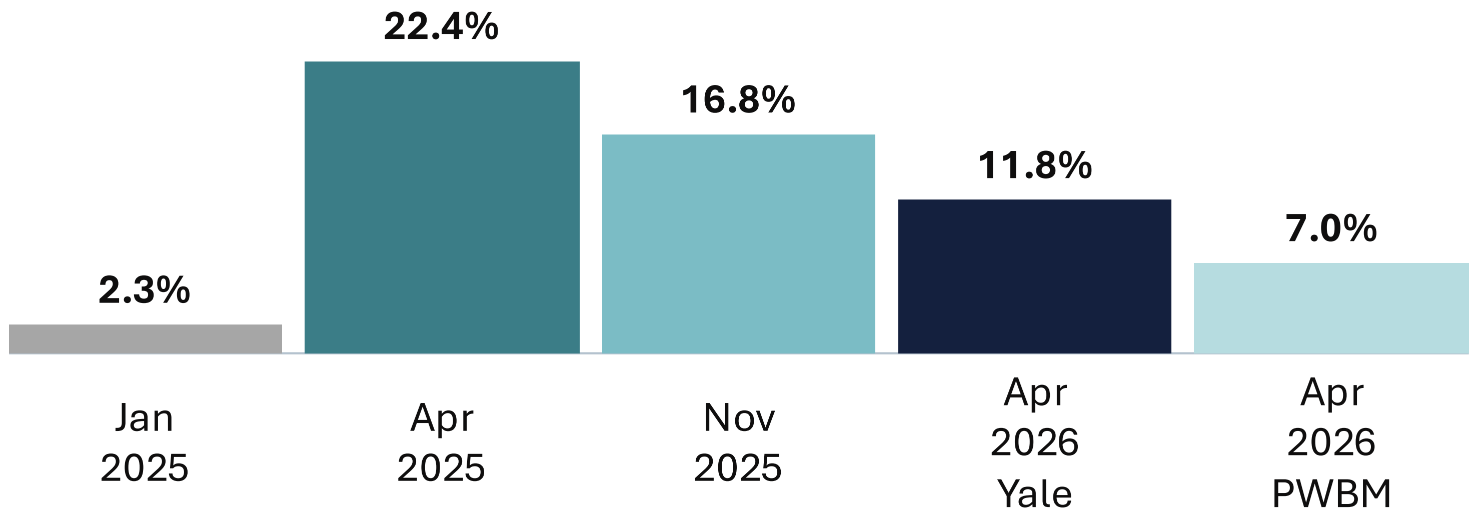
Different methods yield different tariff levels, but every credible estimate shows a structural break versus January 2025.

2.3%
US average effective tariff rate
January 2025 starting point

11.8%
Yale pre-substitution rate
April 2026; welfare/cost measure

7.0%
PWBM estimate
April 2026; realized/post-policy estimate

22.4%
2025 peak estimate
Yale estimate after April 2025 actions



VALUATION IMPLICATION
Investors cannot value tariff exposure as a one-time cost. The premium/discount turns on whether the company can pass through, redesign, substitute, or reallocate capital faster than policy changes.

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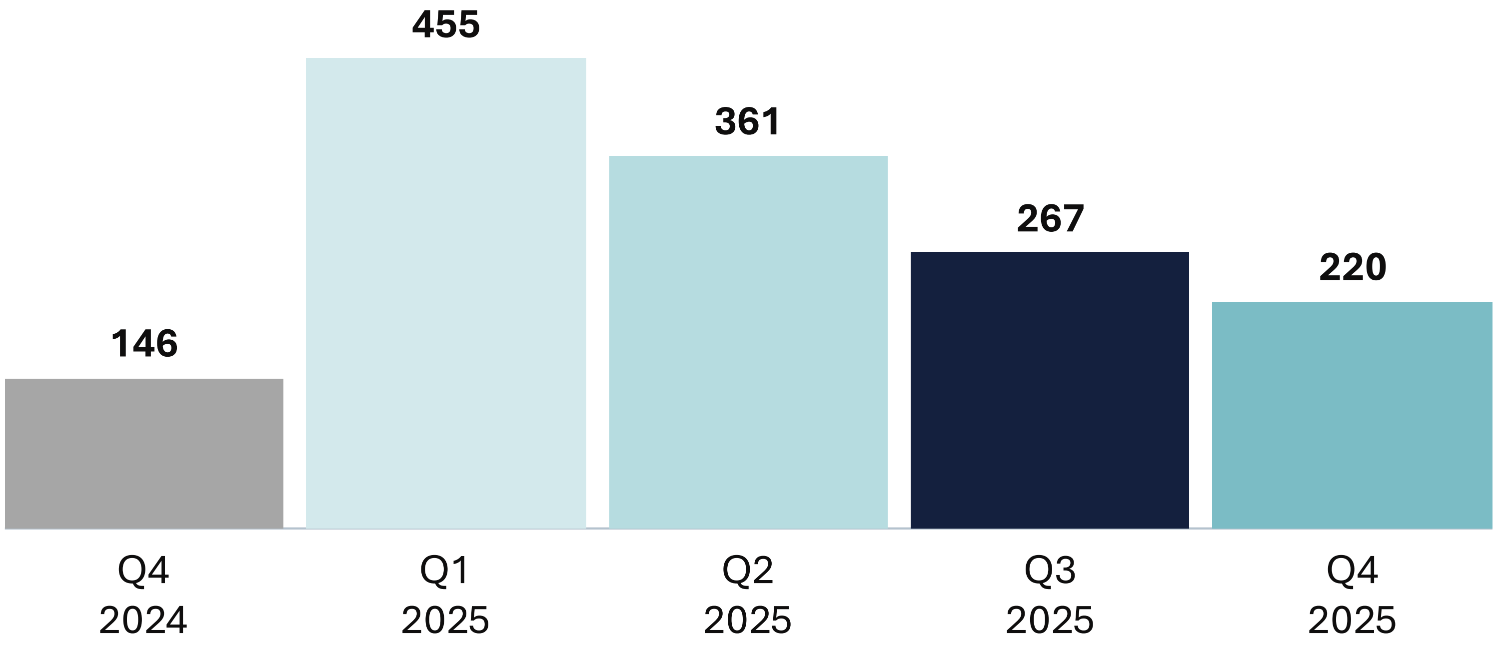
Market questions migrated into guidance and margins

Tariffs became a central topic in S&P 500 earnings calls in 2025, then remained elevated as companies moved from awareness to mitigation.



91% of reporting companies

FactSet found “tariff” or “tariffs” cited on 91% of 451 S&P 500 earnings calls conducted from Mar. 15 to May 16, 2025.

Not a one-quarter issue

Mentions declined after the Q1 peak but remained historically high, showing that the market moved from shock absorption to mitigation assessment.

Investor translation

Mentions matter only when they map to EPS, margins, inventory, capex, pricing and guidance confidence.

Physical disruption has re-entered inflation and margin models

Global supply-chain pressure has stayed elevated enough to matter for freight, inventories, and input-cost volatility.

1.77

NY Fed GSCPI

May 2026 reading

late 2022

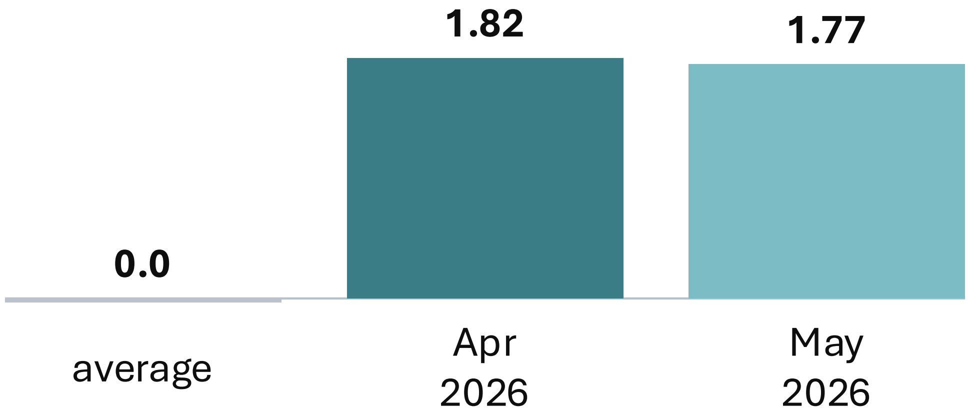
Comparable zone

near previous high-stress period

working capital

Model input

inventory and logistics become valuation variables

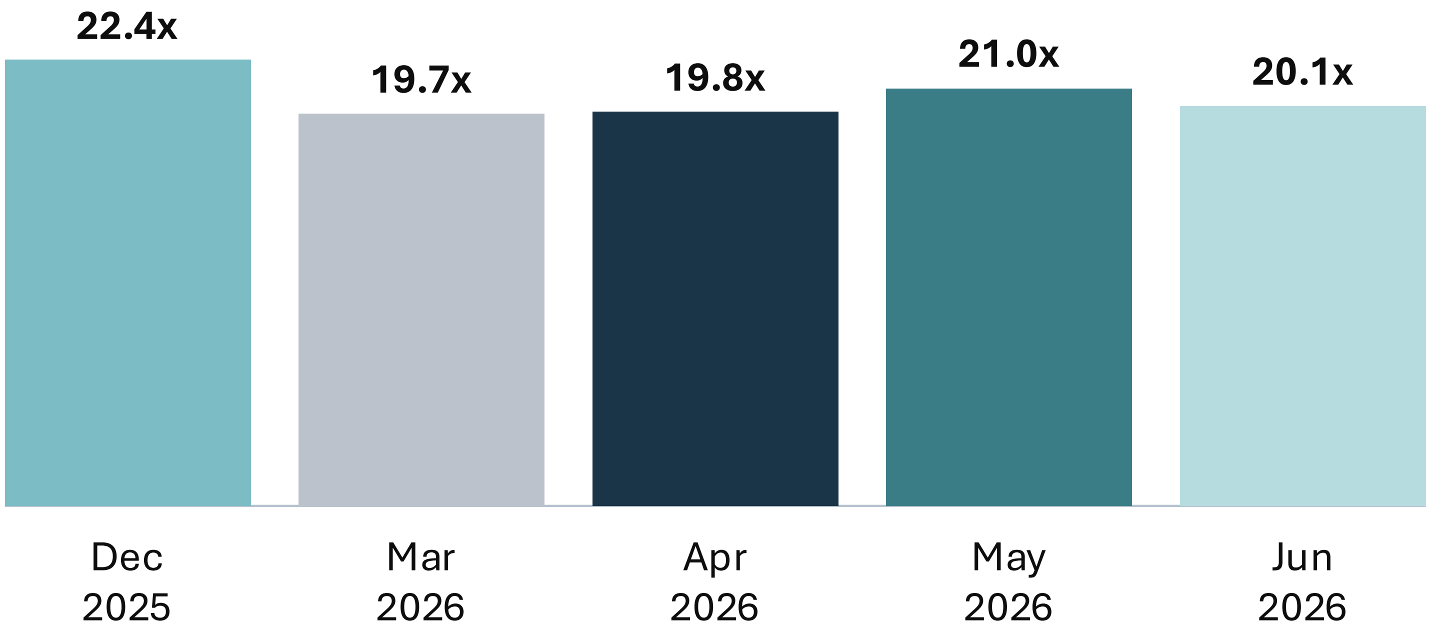


VALUATION IMPLICATION

Even when demand is healthy, supply constraints can lower value by forcing a higher cash conversion cycle, higher inventory buffers and lower reliability of revenue conversion.

Headline multiples compressed while earnings expectations rose

The broad market stayed resilient, but the valuation question became more selective: which earnings are durable enough to deserve the multiple?



From 22.4x to 20.1x

FactSet reported S&P 500 forward P/E of 22.4 in Dec. 2025 and 20.1 in late Jun. 2026.

Earnings not the whole answer

The multiple fell even as forward earnings estimates improved, implying higher selectivity around durability and risk.

Investors have a practical EPS translation rule for tariff shocks

If earnings sensitivity is plausible, the valuation reaction is immediate, even before the full cost appears in reported margins.

+5pp

Tariff-rate shock
Goldman Sachs sensitivity

−1% to −2%

Estimated EPS drag
S&P 500 EPS impact

~70%

Cost pass-through
Goldman assumption, mid-2025

policy rate shock ❯ **price / cost pass-through** ❯ **margin + EPS revision** ❯ **multiple reset**

Investors are now paying for four different kinds of geo-political control

The same exposure can be negative, neutral or positive depending on where the company sits in the control map.

Fragile transmitter

Global cost taker with limited pass-through and concentrated suppliers.

Multiple effect: discount.

Cyclical beneficiary

Benefits from scarcity or price spikes but lacks durable control.

Multiple effect: mixed.

Resilience compounder

Pass-through, inventory and sourcing optionality reduce cash-flow volatility.

Multiple effect: premium / neutral.

Strategic bottleneck

Policy-backed demand and scarce capacity make exposure an asset.

Multiple effect: premium.

The multiple now prices confidence in five transmission channels

A premium appears when management reduces uncertainty around the cash-flow, durability and discount-rate path.

Input cost	Revenue access	Continuity	Capital intensity	Policy durability
tariffs, freight, energy, materials	market access, sanctions, customer exposure	supply chain, logistics, cyber, inventory	capex, working capital, inventory buffer	regulation, procurement, national priority

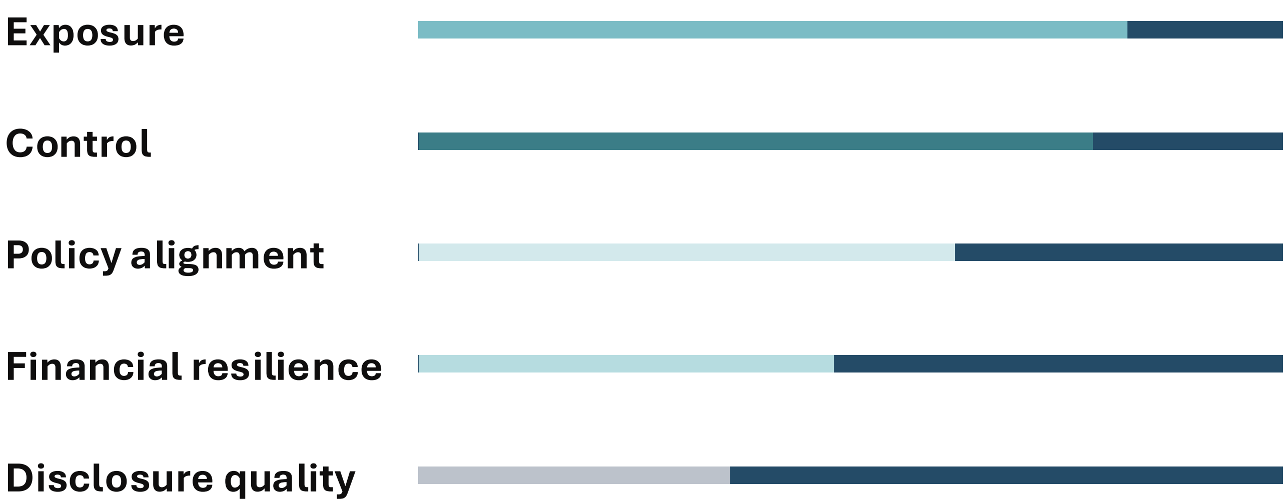
Enterprise value impact = Δ cash-flow level × Δ cash-flow durability × Δ discount rate × Δ terminal optionality

VALUATION ARCHITECTURE

The deck's core valuation innovation is to stop treating geopolitical risk as a binary discount. The value impact depends on which channel is hit, how fast the company responds and how clearly investors can underwrite the response.

Our Geopolitical Exposure Quotient converts geopolitical exposure into a repeatable investor metric

The metric separates exposure from control, policy alignment and evidence quality the five things that investors underwrite.



Exposure
Where the company is vulnerable: revenue, suppliers, facilities, logistics and strategic materials.

Control
What management can actually change: sourcing, contracts, inventory, location and pricing.

Policy alignment
Whether the company is helped or hurt by national priorities, procurement and subsidies.

Evidence quality
Whether investors can see the math in margins, capex, working capital and disclosure.

The public company proof engine: four datasets, one valuation question

1
Exposure layer
Geographic revenue, import intensity, supplier concentration, shipping lanes, energy intensity, critical materials

2
Control layer
Pricing power, pass-through clauses, inventory buffers, dual-source capacity, domestic capacity, policy support

3
Market layer
Forward P/E, EV/EBITDA, estimate revisions, option-implied volatility, credit spreads

4
Market layer
Tariff announcements, sanctions, export controls, energy shocks, conflict escalation, policy commitments

Does resilience explain valuation after fundamentals?

A credible equity narrative must separate geopolitical resilience from growth, profitability, leverage, sector and interest-rate effects.

$$\text{Forward multiple}_{i,t} = \beta_0 + \beta_1\,\text{GeoVaR}_{i,t} + \beta_2\,\text{growth}_{i,t} + \beta_3\,\text{margin}_{i,t} + \beta_4\,\text{leverage}_{i,t} + \text{sector FE} + \text{time FE} + \varepsilon_{i,t}$$

Coefficient

β_1 tests whether resilience adds explanatory power after fundamentals.

Event study

Estimate CAR around tariff, sanctions, export-control and conflict shocks.

Peer split

Compare high/low GeoVaR companies within sector and size buckets.

Disclosure test

Test whether quantified mitigation language reduces dispersion and drawdown.

Data dictionary for a company-level GeoVaR model

A credible empirical model requires variables that are observable, auditable and updateable each quarter.

Exposure variables

% revenue by region; % COGS imported; country concentration; supplier count; route/chokepoint exposure; energy intensity; critical material dependency

Control variables

pass-through clauses; historical gross-margin stability; inventory days; dual-source share; domestic capacity; alternative logistics; procurement eligibility

Market variables

forward P/E; EV/EBITDA; FCF yield; estimate revisions; equity beta; implied vol; credit spread; drawdown around events

Disclosure variables

tariff/sanctions mentions; quantified mitigation; scenario disclosure; capex detail; supplier transparency; guidance withdrawal or reaffirmation

DECISION STANDARD

Board test: would this resilience dollar still be rational if the adverse scenario never occurs?

Scoring rubric: exposure is not the same as valuation risk

The highest-risk companies are those with high exposure and low control, not necessarily those with the most geopolitical touchpoints.

Exposure	1 = immaterial; 5 = direct revenue / supply / route concentration
Control	1 = no alternatives; 5 = pricing, supply, routes and inventory are flexible
Policy alignment	1 = likely policy loser; 5 = procurement / national priority beneficiary
Financial resilience	1 = low margin and leverage; 5 = high FCF, balance-sheet flexibility
Evidence quality	1 = narrative only; 5 = quantified bridge and recurring KPI disclosure

SCORING PRINCIPLE

GeoVaR should be reported as a range, not a false-precision number. The point is to identify the valuation assumption that should change.

Event studies reveal whether the market sees control or fragility

The same shock can increase or decrease value depending on whether the company is a price maker, scarce bottleneck, or cost taker.

Fragile transmitter

Cost taker; limited pass-through; high supplier concentration

Expected market reaction: Discount

Resilience compounder

Visible mitigation; flexible sourcing; strong pricing

Expected market reaction: Premium / neutral

Strategic bottleneck

Scarce capacity; policy-backed demand; sovereignty asset

Expected market reaction: Premium

Cyclical beneficiary

Near-term scarcity benefit but weaker long-term control

Expected market reaction: Mixed

The thesis is already visible without proprietary data

Available evidence supports the direction of travel; proprietary security-level data would quantify the premium precisely.

Observed signal	Public-source evidence	Valuation read-through
Tariff intensity	US effective tariff estimates remain far above Jan. 2025 levels	Margin and EPS sensitivity persist
Management attention	FactSet shows historically elevated tariff mentions in S&P 500 calls	Guidance confidence becomes a valuation variable
Supply pressure	GSCPI around 1.77 in May 2026	Cash conversion and reliability matter
Market selectivity	S&P forward P/E lower than Dec. 2025 despite strong earnings estimates	Durability is priced more selectively
Strategic capital	SWFs, AI power deals and grid capex favor infrastructure and control	Bottleneck assets receive a scarcity bid

Sector implications: dispersion rises where policy, power and supply collide

Investors are not applying a blanket discount. They are separating strategic scarcity from unpriced cost transmission.

Strategic bottlenecks

Defense, grid, power, chips, critical materials

Valuation implication: Policy demand + scarcity can expand terminal value

Resilience compounders

Industrial automation, diversified manufacturing, logistics tech

Valuation implication: Multiple supported by control and proof of mitigation

Fragile transmitters

Import-heavy consumer goods, low-margin hardware, tariff-exposed retail

Valuation implication: EPS and margin revisions can overwhelm top-line resilience

Ambiguous cyclicals

Energy, metals, transportation

Valuation implication: Short-term price benefit may be offset by demand, politics and volatility

The proof engine: four datasets, one valuation question

A publication-grade result requires company-level evidence—not sector intuition. This is the research spine required to make the claim investable.

1

Control

Which shock can management actually control?

2

Pass-through

Where can costs be recovered—and how fast?

3

Optionality

What options can the company exercise before a shock hits earnings?

4

Proof

What numbers show the plan is working?

Investors need a geopolitical value package that translates resilience investments for them

1

Cash-flow map

Quantify revenue, margin, cash conversion and capex exposure by scenario.

2

Critical-node map

Identify suppliers, facilities, routes and markets that drive enterprise value.

3

Mitigation economics

Show the cost, timing and value impact of inventory, dual sourcing and regional capacity.

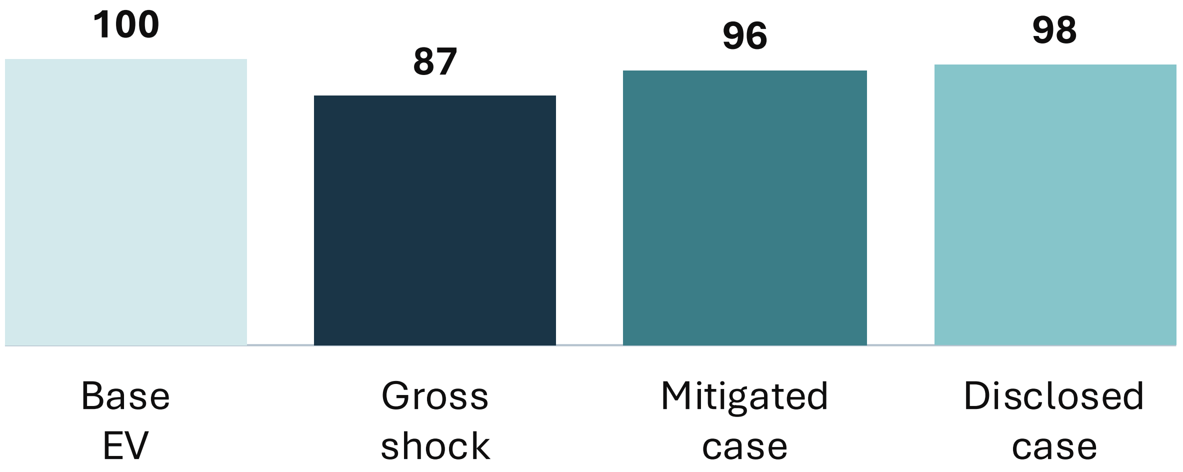
4

Governance cadence

Move geopolitical resilience into quarterly board and capital-allocation reviews.

A quantified valuation bridge makes resilience capital investable

Investors will pay for resilience when management can show the marginal cash-flow protection exceeds the capital cost.



Step 1: quantify the shock

Translate tariff, freight, energy and route assumptions into EBITDA, FCF and covenant impact.

Step 2: quantify mitigation

Add only actions that are funded, timed and operationally feasible.

Step 3: quantify confidence

Show disclosure cadence, leading KPIs and range of remaining exposure.

Resilience spending must compete for capital like any growth project

The board should approve resilience investment only when it protects expected value, not when it simply “feels safer.”

Avoided loss

Downside cash-flow protection under tariff, energy or access shocks.

Option value

Ability to re-route, substitute, price, allocate supply or pause capex.

Strategic control

Scarce capacity, customer lock-in, procurement relevance, policy positioning.

ROIC discipline

Capital, inventory and operating-cost drag relative to expected value protected.

DECISION STANDARD

Would this resilience dollar still be rational if the adverse scenario never occurs?

The investor narrative should turn uncertainty into underwritable ranges

Great IR teams do not claim certainty; they show which scenarios matter, what they will do, and where the economics land.

1
Define the exposure

What share of revenue, inputs, suppliers and routes are exposed?

2
Quantify the bridge

What happens to revenue, margin, working capital and capex?

3
Prove mitigation

What actions are funded, timed and already visible?

4
Update cadence

How will management report progress each quarter?

What management teams should do in the next 90 days

The winning move is not to predict geopolitics; it is to make exposure measurable, response fundable and progress reportable.

Build the map

Revenue, supplier, facility, route and capital exposure by scenario.

Run the valuation bridge

Quantify EBITDA, EPS, FCF, ROIC, covenant and multiple impact.

Fund the options

Pre-approve inventory, dual-source, contract and capex actions.

Rehearse disclosure

Prepare the investor narrative before the next shock occurs.

OPERATING MODEL

This is not a risk-workstream. It is a valuation-workstream owned jointly by CFO, strategy, supply chain, legal and investor relations.

The companies that win will not be those with no geopolitical exposure.

They will be those that can prove exposure is controllable, capitalized and value-accretive.

Geopolitics is now in the multiple. The only question is whether management or the market writes the adjustment first.

Appendix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CAPITAL MARKETS

For additional information, please contact mark@breakwaterstrategy.com

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