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What Shall We Call the New Era?

Whether you're a policymaker, an investor, a small business owner, or simply a student of world history and international affairs, it's useful to have meaningful labels for various epochs. Ideally, such a label is widely accepted and captures some essential aspect of the era you're thinking about, making it easier to talk about that era with others. *The Elizabethan Age, The Progressive Era, World War I, World War II, and The Cold War* are all terms that suit that purpose quite well. Each immediately conveys not only the period you're talking about, but it also conjures up something of the political, economic, and military landscape of the period.

The world has just concluded a great epoch that ran for nearly three decades from the fall of the Berlin Wall and the collapse of Soviet Communism to Donald Trump's term as U.S. president. During that epoch and in the years since it has ended, the labels used to describe it have been unsatisfying, probably because we were still unsure about which of its aspects were defining and which were not. Now that that world has ebbed, there seems to be a growing consensus toward calling it the *post-Cold War* period or the period of *Globalization*. Both terms capture the sense that it was a time of relative peace, which encouraged global trade and investment.

But what about the new era that is now taking hold as China and its evolving geopolitical and economic bloc increasingly

assert themselves against the global hegemony of the United States? In this report, we explore some ways to describe this new world epoch in hopes that it will help sharpen investors' understanding of what really differentiates it from the post-Cold War globalization period that has now come to an end.

How Is the World Changing?

Before eyeing some potential names for the new era, let's sketch its main contours. We have long argued that the world is facing monumental changes as the U.S. electorate increasingly resists the costs of global hegemony. Since the end of World War II, leaders in Washington have maintained various policies to keep the U.S. dominant in geopolitical, military, and economic terms, at least in the "free world" during the Cold War and globally after that period ended. Those policies included being willing to fight long, bloody regional wars in places like Vietnam, Afghanistan, and Iraq. They meant funding huge defense budgets, maintaining military bases all over the world, and getting entangled in foreign alliances. Finally, these policies kept the U.S. open to foreign investment and trade, even if it meant moving factories abroad, seeing imports surge, and losing domestic manufacturing jobs. The purpose was to avoid another global war, and it worked. However, the U.S. working class paid a huge price for those policies.

As U.S. voters began to demand a pullback from places like Afghanistan and Iraq, and as U.S. society began to fracture over the disparate rewards and costs of globalization, revisionist leaders like President Xi Jinping

in China and President Vladimir Putin in Russia sensed new power in their countries' surging economic growth amid new weakness in the U.S. and the rest of the West. These leaders were almost certainly harboring historical grudges against the West long before the 2010s. They were probably already intent on rebuilding their countries' status on the world stage and channeling nationalism toward increased economic, diplomatic, and military power to extricate themselves from Western dominance. Populist isolationism in the U.S. and the rest of the West probably encouraged them to step up their rebellion against Western norms and expectations beyond what they otherwise would have attempted.

The result has been for China, Russia, and their ilk to invest more heavily in their various levers of power and become more assertive in their foreign relations. Beijing has seized control of disputed islands and shoals in the South China Sea to make the area a Chinese lake. It has also taken full control of Hong Kong and has tried to expand Chinese control of the disputed border with India. Moscow has launched covert operations or military attacks in Georgia, Crimea, and now the rest of Ukraine. As long as they perceive the U.S. and the West are weakening, we think Xi, Putin, and other authoritarian leaders will continue trying to assert themselves. Assuming the U.S. doesn't just acquiesce and cede power to the authoritarians in a bout of "America First" isolationism, the resulting conflict between the China-led bloc and the U.S.-led bloc is what we are trying to best capture in our discussion below.

Some Potential Labels

Now that we have a feel for the broad contours of the new era and what's driving

them, we can evaluate several potential labels for the period. Importantly, these are only a few suggestions or speculations. We also expect other analysts to offer up their own ideas, although it will probably be some time until we know which term will stick and becomes the accepted description of today's world.

Cold War II. One obvious label would be to call the new era *Cold War II* or the *Second Cold War*, in much the same way as we refer to the 20th century's global conflicts as the First and Second World Wars. How should we assess this term?

- **Pros.** Because of the similarities to the way we talk about the World Wars, referring to Cold War II or the Second Cold War would likely feel easy and familiar. That's probably why many observers have already begun to talk about today's Great Power competition in these terms. In addition, the term would nicely capture the fact that some aspects of the original Cold War will probably apply to the new conflict, such as a scary arms race, intense espionage, and perhaps regional proxy wars involving countries allied to the U.S. or China.
- **Cons.** Nevertheless, we're not enthusiastic about this label because it perhaps too easily conjures up images of the original Cold War between the U.S. and the Soviet Union. The new conflict will probably be much different in important ways. For example, China is much more firmly integrated into the world economy than the Soviet Union ever was. China is a key participant in hundreds of different product and service markets. That will make it much harder for the West to isolate or "contain" it, and it will give China potential leverage to politically split the

West. In addition, advanced information technology will play a bigger role in today's tensions, and China is probably a closer peer to the U.S. in that regard than the Soviet Union was. To summarize, Cold War II or the Second Cold War, or even the New Cold War, may not sufficiently capture China's greater economic and technological power vis-à-vis the U.S. and its allies, and it may put too much emphasis on ideological disagreements, which certainly were a big part of the original Cold War.

Strategic Competition. [The U.S. began to use this rather cold term to describe the U.S.-China relationship in its 2017 national security strategy.](#) Since then, it has been used widely by foreign policy and national security professionals to describe the class of the relationship between the countries, but it hasn't been as widely used beyond that community.

- **Pros.** One key advantage of this term is that it is already formally used in official parlance. Besides having strict technical accuracy to describe the relationship, it is also readily understandable by non-practitioners. The term *strategic* is especially important in that it conveys the sense that this rivalry involves major, long-term U.S. interests.
- **Cons.** Still, this term doesn't attempt to identify the main players in the competition. It says nothing about the U.S. or China, which gives the term a certain sterile feel. The term *competition* also may not do justice to the sharpness of the U.S.-China rivalry or how fierce it could become in the future.

The East-West Rivalry. [As our analysis of the world's evolving geopolitical blocs has shown, the U.S.-led camp is basically made](#)

[up of today's rich, highly industrialized, liberal democracies and a few closely related emerging markets.](#) Collectively, they make up most of the geographical, political, and cultural West. In contrast, Beijing's bloc consists mostly of underdeveloped, authoritarian commodity producers, including China, Russia, Iran, Venezuela, and the like. Since Russia plays such a big and important role in this grouping, we often refer to it as the China/Russia bloc. In any case, this bloc is mostly oriented toward Asia and Eurasia. But does it help to talk about an East-West Rivalry?

- **Pros.** By casting today's new geopolitical competition in terms of a simple geographic rivalry, this term offers an easy-to-understand handle for the period.
- **Cons.** However, the term may be too simple, in that the rival camps aren't strictly divided geographically. For example, the U.S.-led bloc includes quintessentially Eastern countries like Japan and South Korea as well as Pacific powers with important trade ties to China, including both Australia and New Zealand. The China/Russia bloc also includes many countries in Africa and in other non-Eastern parts of the "Global South." The term *rivalry* also doesn't really capture how sharp the competition is getting.

The Rise of the Colonized. This term aims to capture some of the historical economic relationships between the U.S. bloc and the China/Russia bloc. For instance, it captures the fact that President Xi's motivation for rebuilding Chinese power and challenging the West is largely to reverse China's *Century of Humiliation*, when it was colonized or dominated by Western countries such as the U.K.

- **Pros.** This term does a good job expressing the anger and frustrations that are driving President Xi and some other leaders in the China/Russia bloc. It also captures the fact that their revisionist challenge to the West stems in large part from the fast economic growth and rising wealth some of them have had over the last couple of decades.
- **Cons.** On the other hand, this term isn't perfectly accurate, since some members of the China/Russia bloc weren't recently colonized. For example, while Russia has certainly suffered losses of some of its western territories in its past, it has often won them back. At no time in the last several centuries was Russia completely colonized in the way many other emerging markets were. President Putin's grievances certainly reflect his feeling that Russian interests have been ignored and violated by the West, but that's not necessarily colonialism. Indeed, Imperial Russia and the Russia-dominated Soviet Union themselves long exercised something like colonial power over much of Central Asia and the southeastern, eastern, and central areas of Europe.
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- **Cons.** Nevertheless, the term runs the risk of overstating China's role in its bloc. For example, it is not entirely clear whether Beijing could have stopped Putin from launching his invasion of Ukraine in February 2022. Alliances can be much more chaotic than they appear as the U.S. has learned over decades with the North Atlantic Treaty Organization. (Even today, the U.S. struggles to convince the other NATO members to meet their commitment to spend at least 2% of gross domestic product on their armed forces.) In sum, China doesn't have perfect control over its evolving bloc. As the U.S. and the West try to peel some countries out of China's orbit or prevent others from entering it, Beijing may face challenges in maintaining control over its camp.

The China Challenge. This term focuses on China as the driving force behind the current East-West frictions.

- **Pros.** This term rightly emphasizes China's key role in challenging U.S. hegemony and Western dominance in world affairs. It is also consistent with the fact that many of the countries in the China/Russia bloc saw their economic growth accelerate in the first decade of the 21st century because of the galloping growth of China at the time. China's voracious demand for energy, minerals, and other commodities sparked output increases and raised the status of many

countries in its own bloc and beyond. The term also captures China's dominance in its own bloc, which has important geopolitical implications. For example, President Xi has a great deal of influence over the behavior of other leaders in the bloc, from Russian President Putin to Saudi Crown Prince Mohammed bin Salman.

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Investment Ramifications

It will probably be some time before there is a consensus on what to call today's evolving epoch and its defining U.S.-China rivalry. The term that eventually becomes accepted probably doesn't matter too much (so long as future generations don't look back on this period as *The Pre-War Years*). However, mulling over what to call the new global era helps us think about its main issues, like what the points of disagreement are between the U.S. and China, how the two sides will approach those points of disagreement, and where their relationship might be headed.

For investors, the key takeaway is that today's U.S.-China rivalry looks set to continue and sharpen in the coming years. On one side, the rivalry will be driven by U.S. and Western leaders seeking to protect their countries' interests in the post-World War II "rules-based order." On the other side, the rivalry will be driven by President Xi and his allies seeking "the great rejuvenation of the Chinese people" and his vague "community of shared future." The key economic implications will include more restrictions on trade, investment, technology transfers, and travel between the U.S. bloc and the China/Russia bloc. That will result in shortened and less efficient global supply chains and re-industrialization in the U.S. and the rest of its bloc (to include rebounding investment in the defense industrial base and military-related technologies). Another result will likely be higher and more volatile price inflation, higher and more volatile interest rates, and squeezed corporate margins.

As we have noted in the past, the key financial market implications of this rivalry

will be many. For **bonds**, higher inflation and interest rates are likely to be a strong headwind, potentially producing a long-lasting bear market for fixed income obligations. In contrast, the global frictions and the risk of supply disruptions will likely be positive for **commodities**. Our analysis suggests that precious metals and other mineral commodities could be especially advantaged. Finally, for **equities**, the result is likely to be lower valuations. However, stocks are still likely to outperform bonds and commodities. We continue to believe the best-performing stock market sectors will include broad industrials, traditional defense industry, cybersecurity and other military-related technologies, energy, and mining.

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