India-Pakistan conflict stirs geopolitical risk concerns

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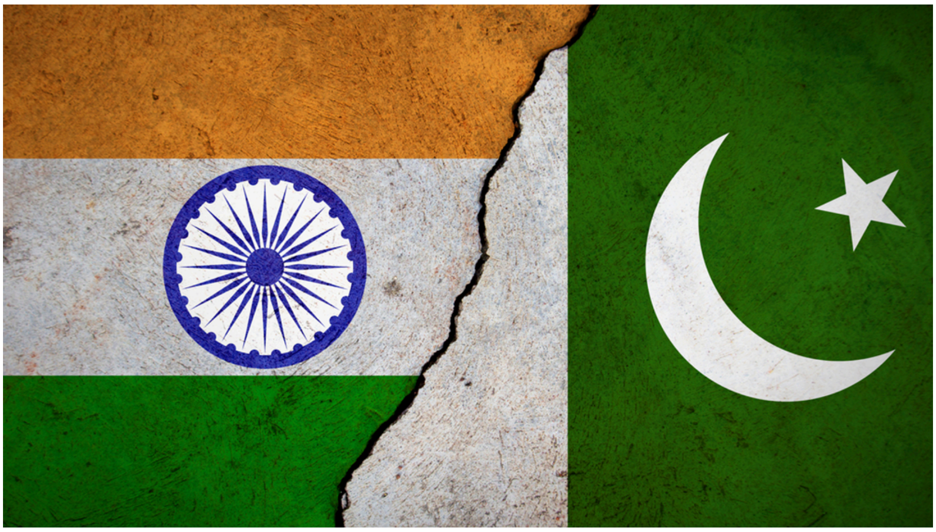
A flare-up in violence between the South Asian neighbours is prompting some global fund managers to eye a shift toward Southeast Asian and Gulf nations.



Surging tensions between nuclear-armed archrivals India and Pakistan have some global fund managers now flagging South Asia as a geopolitical risk and reassessing their exposure, signaling a possible shift toward Southeast Asian and Gulf nations.

New Delhi and Islamabad's long-rocky relations nosedived last month after more than two dozen tourists were killed during a militant attack in Indian-controlled Kashmir, sparking tit-for-tat military strikes and border clashes.

A ceasefire was declared this past weekend, but diplomatic relations remain fragile, with ongoing security concerns in a region claimed by both India and Pakistan.

Despite some managers' concerns, others say the market has moved past the India-Pakistan conflict. Instead, US-China trade tensions are in focus as they threaten to drive investor interest away from China toward India in a potential reshaping of regional capital flows.

Steve Alain Lawrence
Balfour Capital Group

Steve Alain Lawrence, CIO of Balfour Capital Group said that investor sentiment across South Asia has turned markedly cautious.

“Global EM fund managers—particularly those at BlackRock, Fidelity, and Amundi—are flagging South Asia as a geopolitical risk zone, especially in their outlooks on Pakistan’s sovereign stability and India’s northern border investments,” Lawrence told *AsianInvestor.*

“If instability escalates, we could see a permanent reweighting in favour of ASEAN and the Gulf, regions that offer both growth and diplomatic stability,” Lawrence said.

This caution has prompted shifts in fund allocations.

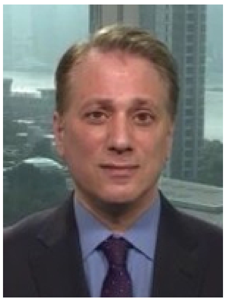
Hedge funds such as Renaissance Technologies and BlueBay have trimmed their short-duration bond exposure in Pakistan, while sovereign wealth funds like ADIA and GIC Singapore have paused soft commitments tied to regional infrastructure investment.

“Indian capital markets remain robust, but geopolitical risks are now material inputs in portfolio construction,” Lawrence said.

Major global investors, including JP Morgan Asset Management and UBS Global Wealth, are reducing their portfolio weightings in Asian frontier markets.

At the same time, sovereign wealth funds like Temasek and Qatar Investment Authority (QIA) are shifting away from hard assets like ports and rail, favouring digital infrastructure and fintech in safer jurisdictions.

Meanwhile, Brock Silvers, CIO at Kaiyuan Capital, said investors have largely moved past the India-Pakistan conflict, with US trade agreements becoming a bigger focal point.



Brock Silvers
Kaiyuan Capital

“India is reportedly close to a new US agreement, which could help to further drive investor interest toward India from China, where serious risks look more intractable despite the new 90-day tariff ceasefire,” Silvers told *AsianInvestor.*

While capital flows into India remain net positive, there is a defensive bias favoring tech, pharmaceuticals and urban REITs over large infrastructure or energy deployments in border-sensitive regions like Punjab and Jammu & Kashmir, Lawrence said.

RISK STRATEGIES

Institutional investors are actively rotating out of high-volatility frontier markets and reassessing their geopolitical hedging strategies.

Norges Bank Investment Management and the Canada Pension Plan Investment Board (CPPIB)—both with significant exposure to Indian infrastructure and fintech—

are increasing their reliance on geopolitical analytics tools and sovereign risk assessments.

“Banks like HSBC, Citi and DBS have updated their South Asia stress test models to reflect potential sanctions, capital flight scenarios and FX shocks while multi-asset funds have increased allocations to ASEAN (notably Indonesia and Vietnam) as a regional hedge,” Balfour Capital's Lawrence said.

Portfolio insurers are also placing greater emphasis on CDS spreads for Pakistan sovereigns, monitoring spillover risks into frontier markets such as Sri Lanka and Bangladesh.

SECTOR GROWTH & VOLATILITY

Despite geopolitical concerns, sectors such as defense and cybersecurity, energy projects, infrastructure ETFs and cross-border logistics and telecom are benefiting from increased institutional inflows.

India’s defense contractors— including Bharat Electronics Ltd. and Hindustan Aeronautics—have seen institutional inflows, with Axis Mutual Fund and SBI Mutual Fund increasing holdings, according to Lawrence.

However, energy projects along contested borders, including those funded under the China-Pakistan Economic Corridor (CPEC), are facing funding re-evaluations, especially from Chinese lenders and Middle Eastern co-investors.

“Infrastructure ETFs and funds with exposure to [Indian conglomerate] Adani Group or state-led REITs have experienced minor outflows due to perceived geopolitical project risk,” Lawrence said.

He added that cross-border logistics and telecom infrastructure are also under pressure, as volatility pricing gets embedded in long-term project finance models.

Meanwhile, long-term foreign direct investment (FDI) into Pakistan is already deteriorating, with firms including Nestlé and Unilever scaling back capital expenditure plans.

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