

# Allview: Market Risk Monitor



Allspring's Investment Analytics team fulfills a crucial role in managing risk across our investment platform, providing oversight on each investment team's process as well as analytics to help teams understand investment risks.

Markets can be affected by many types of risks, and each risk's impact generally varies over time. The Investment Analytics team is responsible for continuously monitoring known risks, anticipating and identifying new risks, and regularly communicating the results of their analyses to all of Allspring's investment teams.

This publication—"Allview: Market Risk Monitor"—is a publicly shared report the Investment Analytics team compiles each month. It names and explains the top 10 current global market risks the team has identified, ranked by each risk's likelihood and potential impact on markets. As events worldwide occur and evolve every month, those changes are considered as the team constructs its next top 10 list. So, risk rankings often shift from one month to the next, and a risk could be removed from the list when a more impactful and/or more likely risk is identified.

In their November update, the Investment Analytics team discusses risk changes made this month and the rationale behind each of them.

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## November updates

In late October, the U.S. House of Representatives finally elected a new speaker of the House: a relatively unknown congressman from Louisiana named Mike Johnson. Before Speaker Johnson's election, the U.S. government was effectively in a state of paralysis, unable to pass any legislation whatsoever. The risk of a U.S. government shutdown is still quite real this fall, but at least Congress can now work toward passing some type of government funding extension. As such, we've lowered our risk regarding U.S. government funding from #4 to #9.

Moving up from #9 to #3 is a modified version of our Iranian concern. With the rising tensions in the Middle East, we're focused on the potential for a direct conflict between either the U.S. and Iran or Israel and Iran. Any expansion of conflict in the region has tended to result in a move higher in energy prices, but a direct military confrontation involving Iran could lead to significant disruptions in the oil and natural gas supplies coming out of the Persian Gulf—which would send energy prices dramatically higher.

ALLSPRING INVESTMENT  
ANALYTICS TEAM

# Allview: Market Risk Monitor

## OVERVIEW

The Allspring Investment Analytics team assembles a top 10 list of market risks that it believes have the potential to influence investment portfolios. The list is not intended to be comprehensive, but rather a short collection of items that answer the question: “As a risk manager, what keeps you up at night?”

## ALLVIEW APPROACH

The Allview Market Risk Monitor provides a financial ecosystem that leads to how we invest. Our co-chief investment officers consistently challenge portfolio managers to respond to these views based on their diverse perspectives.

### 01 RUSSIAN MILITARY CONFLICT WITH NATO

Russia’s invasion of Ukraine has the potential to spill over into other Eastern European countries, especially if Russia resorts to the use of nuclear weapons. Military action between Russia and NATO would result in extremely negative price movements for equity securities in all markets.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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### 02 GLOBAL RECESSION

China; Europe; and, in some cases, the U.S. have begun exhibiting signs of economic contraction. China has already experienced dozens of major defaults within a real estate sector that comprises nearly 25% of China’s economy. Disruptions in European energy markets and subsequent inflation and central bank rate increases have led to economic weakness in the eurozone. Equity and fixed income portfolios overweight the consumer cyclical, industrials, financials, and information technology (IT) sectors could underperform if the world enters a recession.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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### 03 DIRECT CONFLICT WITH IRAN

Iran has engaged in a series of brutal proxy wars with other countries, backing Iraqi and Syrian militant groups against the U.S.; rebels in Yemen against Saudi Arabia; and most recently, Hamas against Israel. In addition, Iranian naval vessels have seized multiple oil tankers this year in the Persian Gulf. These collective actions are increasing the probability of a direct conflict between Iran and another nation. Military actions in the Middle East tend to drive energy prices higher, negatively affecting portfolios overweight the sector—especially if energy infrastructure becomes a target.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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### 04 WAVES OF DEFAULTS IN COMMERCIAL REAL ESTATE

Businesses around the world have adopted a “new normal” as it relates to work. Many industries have instituted flexible schedules that allow workers to work from home a portion of the week. Companies have begun to reduce office space footprints to match this new normal. Portfolios exposed to commercial real estate (CRE) or commercial mortgage-backed securities could underperform if a wave of defaults occurs in the space. Regional banks that are heavily exposed to CRE could also underperform or face insolvency.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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### 05 CHINESE MILITARY ACTION

China’s desire to expand its influence in the South and East China Seas, especially as it relates to the island of Taiwan, is elevating the probability of a military conflict or a military-led embargo in the region. Portfolios that are overweight Asian equities could experience extreme levels of volatility if a conflict ensues. Portfolios overweight the hardware segment of the IT sector could also experience challenges given Taiwan’s status as a major hub for semiconductor manufacturing.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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### 06 DECOUPLING OF CHINA FROM THE WEST

The recent COVID-19 pandemic, China’s turn toward autocracy, and China’s tacit support for Russia’s aggression against Ukraine are increasing the probability of a wholesale decoupling of China’s economy from Western democracies. Early-warning examples along this path include: the U.S.-mandated divestitures from Chinese military-linked securities; bans on the use of iPhones by Chinese government entities; and U.S. government restrictions on the sale of certain semiconductor chips to China. A more aggressive China decoupling could result in significant price declines in U.S. equities within the IT sector as well as continued weakness in Chinese equities.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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## 07 RETURN OF U.S. BOND VIGILANTES

U.S. government debt levels exceeding \$33 trillion, coupled with fears over the U.S. Treasury's ability to roll trillions of dollars of Treasury securities each year, could result in a decline in U.S. credibility that would undermine the reserve currency status of the U.S. dollar. Bond vigilantes could respond to these events by refusing to buy U.S. government debt at current interest rate levels, resulting in a dramatic spike higher in yields. Portfolios overweight U.S. duration could experience significant underperformance relative to their benchmarks.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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## 08 HUMAN BIRD FLU PANDEMIC

The Centers for Disease Control and Prevention, the national public health agency of the U.S., is currently classifying the prevalence of the H5N1 strain of the influenza virus as "widespread" in wild birds. While only a small number of humans have contracted the virus (from direct contact with poultry), the possibility exists for the virus to mutate into a form that's transferable from human to human. Such a mutation could lead to an exponential increase in the transmission rate with the potential to cause another worldwide pandemic. Equity markets around the world could experience sharp corrections, with leisure and travel names encountering the most significant declines.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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## 09 PROLONGED U.S. GOVERNMENT SHUTDOWN



The U.S. government's funding expires on November 17. Without a continuing resolution or passage of a budget, the government will run out of money and will be required to suspend or shut down all nonessential services. A prolonged closure of numerous public services in the U.S. could help push the U.S. economy into a recession.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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## 10 TIGHTENING BY THE BANK OF JAPAN

New leadership at the Bank of Japan (BoJ) has the potential to end the era of ultra-low interest rates for the country. In late 2022, and again in 2023, the BoJ widened the yield-curve control band that had anchored 10-year Japanese government bonds (JGBs) at 0.25%. Market participants are now expecting additional tightening that could put further upward pressure on global interest rates and result in a steep decline in the price of JGBs. In addition, Japanese companies could reverse years of capital flows to the U.S. as JGB yields back home become more competitive.

PROBABILITY:

Consensus	High	Medium	Low
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GLOBAL IMPACT:

Extreme	High	Medium	Low
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### ARROW LEGEND



**RED UP ARROW:** an event that has moved up the list from the prior month because of an increase in probability or an increase in global impact



**GREEN DOWN ARROW:** an event that has moved down the list from the prior month because of a decrease in probability or a decrease in global impact

### PROBABILITY LEGEND:

Consensus	High	Medium	Low
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**CONSENSUS:** an event that we believe has a 50% to 100% probability of occurring; an event that is widely accepted as the most likely outcome by market participants

**HIGH:** an event with a 25% to 50% probability of occurring; an event that is not fully priced into markets

**MEDIUM:** an event with a 10% to 25% probability of occurring; an event that is not priced into markets and that is viewed by most market participants as an unlikely outcome

**LOW:** an event with a less than 10% probability of occurring; an event that is not priced into markets and in some cases is not on the radar of most analysts

### GLOBAL IMPACT LEGEND:

Extreme	High	Medium	Low
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**EXTREME:** an event for the history books that drives most correlations toward one; global equity markets down more than 20% with some regions down as much as 50%; severe dislocations in fixed-income and currency markets

**HIGH:** an event that could push global equity markets into a 10% correction, with some regions down 20% or more; fixed-income and currency markets moving similar amounts

**MEDIUM:** an event that could cause a modest sell-off in global equity markets, with some regions correcting 10% or more; fixed-income and currency markets moving less

**LOW:** an event that might create acute problems in one sector, region, country, or currency; limited impacts on global equity and fixed-income markets

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## To learn more

We want to help clients build for successful outcomes, defend portfolios against uncertainty, and create long-term financial well-being. To learn more, investment professionals can contact us.

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## Contact details

### FOR U.S. INVESTORS ONLY

- For retail clients, contact your financial advisor.
- To reach our intermediary sales professionals, contact your dedicated regional director, or call us at **1-888-701-2575**.
- To reach our institutional investment professionals, contact your existing client relations director, or contact us at **AllspringInstitutional@allspringglobal.com**.
- To reach our retirement professionals, contact your dedicated defined contribution investment only specialist, or call us at **1-800-368-1370**.

### FOR INTERNATIONAL (EX U.S.) INVESTORS ONLY

- To reach our Allspring International team, contact us at **AllspringInternational@allspringglobal.com**.

### FOR SUSTAINABLE INVESTING

- To discuss sustainable investing solutions, contact **Henrietta Pacquement**, head of Sustainability, and **Jamie Newton**, deputy head of Sustainability, at **henrietta.pacquement@allspring.com** and **jamie.newton@allspringglobal.com**.

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