

Allview: Market Risk Monitor

ALLSPRING INVESTMENT ANALYTICS TEAM

MAY UPDATE

Our #1 risk remains the threat of higher U.S. inflation caused by the new U.S. tariffs on imported goods. Moving up to our #2 spot—with both a “High” probability and impact—is the risk of a global recession triggered by the current trade war. We’ve intentionally kept these as two separate risks, but if both occur later this year, the U.S. could find itself in a difficult period of stagflation.

1 U.S. TARIFF-INDUCED INFLATION SPIKE

U.S. inflation expectations could rise sharply over the next year with a 10% base tariff on all imports and additional sectoral and reciprocal tariffs on targeted goods. Higher import costs may reduce profits for U.S. companies.

POTENTIAL IMPACTS
(– OR +)

- Companies leveraged to imported goods
- Fixed income portfolios overweight duration

PROBABILITY
GLOBAL IMPACT

High

High

2 GLOBAL RECESSION

The threat of a global trade war coupled with the U.S. government’s substantial spending cuts may push the global economy into contraction.

- Companies in consumer cyclical, industrials, financials, & IT sectors

High

High

3 EXPANSION OF CHINESE INFLUENCE

China’s desire to expand its influence in the South and East China Seas, especially regarding Taiwan, elevates the probability of a regional embargo or military conflict.

- Asian equities
- IT hardware companies

Medium

Very high

4 CHINA DECOUPLING FROM THE U.S.

Tariff rates above 100%, U.S.-mandated divestitures from Chinese military-linked securities, and U.S. restrictions on semiconductor-chip sales to China raise the probability of a broad decoupling of the Chinese and U.S. economies.

- U.S. IT hardware companies
- Chinese equities

High

Medium

5 RETURN OF U.S. BOND VIGILANTES

High U.S. government debt coupled with potential tax cuts could hurt U.S. credibility. In response, foreign and domestic bond vigilantes could stop buying U.S. government debt, driving a dramatic climb in yields.

- U.S. fixed income portfolios overweight duration

Medium

High

6 RUSSIAN MILITARY CONFLICT WITH NATO

Russia’s lengthy war with Ukraine may spill over into other Eastern European countries, especially if Russia resorts to using nuclear weapons.

POTENTIAL IMPACTS
(– OR +)

- High-beta companies
- + Defense companies

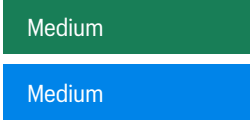
PROBABILITY
GLOBAL IMPACT



7 SUSTAINED CONFLICT WITH IRAN

Iran has engaged in proxy wars—backing, for example, Hamas against Israel, among others. These actions have escalated to direct conflicts between Israel and Iran.

- + Energy companies



8 SPIKE IN SECONDARY EDUCATION DEFAULTS

U.S. colleges and universities are being increasingly pressured financially as enrollment trends continue to decline. Some financially distressed institutions may be forced into default.

- Education sector bonds



9 HUMAN BIRD FLU PANDEMIC

The H5N1 “bird flu” strain of the influenza virus has spread to mammals. If the virus mutates to spread easily among humans, we may see another worldwide pandemic.

- Travel and leisure companies



10 U.S. STOCK MARKET ROTATION

U.S. mega-cap stocks’ valuations are quite expensive relative to the broad U.S. market due to excitement around artificial intelligence. Rotation out of these stocks could occur if investors’ high expectations aren’t realized.

- U.S. mega-cap stocks
- + U.S. mid- and small-cap stocks



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