

# Allview: Market Risk Monitor

ALLSPRING INVESTMENT ANALYTICS TEAM

## APRIL UPDATE

This is the second month with the Iran war concern at #1. We've started to adjust additional market risks in response to higher energy prices and continued supply disruptions. Even if a peace deal is agreed upon immediately, it could take weeks or months for Middle Eastern oil and natural gas production to return to prewar levels.

	POTENTIAL IMPACTS (- OR +)	PROBABILITY	GLOBAL IMPACT
<b>1 SUSTAINED CONFLICT WITH IRAN</b> War has broken out in the Middle East. A prolonged conflict between the U.S. and Iran could drive global energy prices higher, especially with energy infrastructure and transportation continue to be targeted.	+ Energy companies + Defense companies - Companies that consume large amounts of energy	Very high	High
<b>2 RETURN OF THE BOND VIGILANTES</b> U.S. government debt levels exceeding \$39 trillion coupled with higher energy prices caused by the Iran war could rattle bond markets. Foreign and domestic bond vigilantes could respond by refusing to buy additional Treasury securities, resulting in a dramatic spike higher in yields.	- U.S. fixed income portfolios overweight duration	High	High
<b>3 EXPANSION OF CHINESE CONTROL</b> China's desire to expand its influence in the South and East China Seas, especially regarding Taiwan, is elevating the probability of a military conflict or a military-led embargo.	- Asian equities - IT hardware companies	Medium	Very high
<b>4 RUSSIAN MILITARY CONFLICT WITH NATO</b> Russia's lengthy war with Ukraine may spill over into other Eastern European countries, especially if Russia resorts to using tactical nuclear weapons.	- High-beta companies + Defense companies	Medium	Very high
<b>5 DEFAULTS OF NON-DEPOSITORY FINANCIAL INSTITUTIONS</b> The rapid growth of private credit providers and other nontraditional lenders is increasing the probability of defaults in the sector. Many are relatively new institutions that are loosely regulated, with limited experience navigating economic downturns.	- Fixed income portfolios overweight to speculative lenders or private credit	High	Medium

POTENTIAL IMPACTS  
(- OR +)

PROBABILITY  
GLOBAL IMPACT

↑ **6 GLOBAL RECESSION**

A prolonged rise in energy prices could push the global economy into contraction.

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



↑ **7 DIGITAL CURRENCY SHAKEOUT**

History shows that new, rapidly growing industries often experience a painful shakeout period, during which only a few winners emerge.

- Equity portfolios heavily leveraged to digital currency companies or the IT hardware industry



↑ **8 "BLUE WAVE" IN U.S. MID-TERMS**

Mid-term elections in the U.S. typically result in a shift in power away from the party holding the White House, especially in times of turmoil.

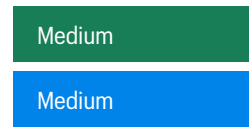
- + Health care companies
- Defense companies
- Oil-related energy companies



↑ **9 CIVIL UNREST IN DEVELOPING NATIONS**

The war with Iran is moving energy and fertilizer prices materially higher. Food price inflation and famine could lead to unrest in the Middle East, Africa, developing Asia, Central America, and South America.

- Portfolios overweight any countries affected by significant civil unrest



↑ **10 EROSION OF FED INDEPENDENCE**

If new appointments to the Federal Reserve (Fed) are viewed as prematurely lowering rates, investors could respond by buying shorter-maturity bonds and selling longer-maturity bonds.

- U.S. fixed income portfolios overweight duration
- + U.S. fixed income portfolios underweight duration



PROBABILITY LEGEND:

**Very high:** 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:

**Very high:** 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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