DECEMBER 2024

Allview: Market Risk Monitor

ALLSPRING INVESTMENT ANALYTICS TEAM

Allspring's Investment Analytics team fulfills a crucial role in managing investment risk across our investment platform. The team continuously monitors known risks, anticipates and identifies new risks, and regularly communicates the results of their analyses to all of Allspring's investment teams. This publication—"Allview: Market Risk Monitor"—is a publicly shared report that names and explains the top 10 current global market risks the Investment Analytics team has identified, ranked by each risk's likelihood and potential impact on markets.

December updates

There are no changes from November in our top 10 list for December, but as we close out 2024 and welcome 2025, we want to offer insights into some of our watchlist items that we're monitoring for the new year.

By definition, our watchlist includes a number of very low probability events that haven't made the cut for our top 10 because our analyses indicate there's less than a 5% chance of any of them occurring within the next 12 months. So, if any of these events were to occur, it would certainly surprise markets. With that, here are five potential surprise events for 2025.

1. A collapse in crude oil prices to below $40 per barrel. With a new administration in Washington, many people are expecting sustained high prices and a return to the "drill, baby, drill" mantra in the U.S. But Saudia Arabia might have something to say about that. As the lowest-cost producer in the world, the country might seek to maintain market share by dumping oil into the market and driving prices below the cost of production for most U.S. shale oil drillers.

2. A change in the tax-exempt status of U.S. municipal bonds. With Republican lawmakers in the U.S. pledging to both cut the budget deficit and extend the tax cuts they passed in 2017, spending cuts and new sources of revenue are being heavily discussed. One source of additional revenue could involve the reduction or elimination of municipal bonds' tax-exempt status.

3. Russian annexation of land. The stagnation of Russia's war against Ukraine could lead to an unexpected annexation of one of Russia's non-NATO neighbors, such as Belarus or Georgia. Such action would reignite fears of a Russian invasion of the Baltic states.

4. War on the Korean Peninsula. A more aggressive stance by North Korea toward South Korea, including frequent missile launches and statements that the two are "belligerent states," has the potential to turn into full-scale war if an errant missile were to hit critical infrastructure.

5. Irish reunification. While the recent Irish elections did not result in large gains for the parties focused on Irish reunification efforts, there is still a small chance that events over the next year could lead to a referendum to decide if the U.K.'s Northern Ireland should be reunited with the European Union's "southern" Ireland.

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OVERVIEW

The Allspring Investment Analytics team assembles a top 10 list of current global 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 SUSTAINED 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 Red Sea shipping traffic, and Hamas against Israel. Those proxy wars have now escalated into two rounds of direct conflict between Israel and Iran with no obvious de-escalation pathway. Military actions in the Middle East tend to drive energy prices higher, negatively affecting portfolios underweight the sector—especially if energy infrastructure becomes a target.

PROBABILITY:

Consensus	High	Medium	Low

GLOBAL IMPACT:

Extreme	**High**	Medium	Low

02 NEW TARIFFS ON ALL U.S. IMPORTS

President-elect Trump has vowed to introduce tariffs of at least 10% on all goods imported into the U.S. if he is elected to a new term as president. In addition, he has pledged to revoke China's "Most Favored Nation" trade status, which would trigger even higher tariffs on Chinese imports. Such actions could have profound effects on global trade and economic growth, potentially pushing inflation higher and global growth lower.

PROBABILITY:

Consensus	High	Medium	Low

GLOBAL IMPACT:

Extreme	High	**Medium**	Low

03 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 information technology (IT) sector could also experience supply chain challenges given Taiwan's status as a major hub for semiconductor manufacturing.

PROBABILITY:

Consensus	High	**Medium**	Low

GLOBAL IMPACT:

Extreme	High	Medium	Low

04 HUMAN BIRD FLU PANDEMIC

The World Health Organization has called the H5N1 "bird flu" strain of the influenza virus an "enormous concern" as the virus has effectively caused a global zoonotic (animal) pandemic with its recent spread to numerous mammalian species. While only a small number of humans have contracted the virus, the possibility exists for it 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

GLOBAL IMPACT:

Extreme	**High**	Medium	Low

05 RETURN OF THE U.S. BOND VIGILANTES

U.S. government debt levels exceeding $36 trillion, coupled with potential tax cuts and targeted spending increases under a second Trump administration, 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

GLOBAL IMPACT:

Extreme	**High**	Medium	Low

06 RUSSIAN MILITARY CONFLICT WITH NATO

Russia's protracted war with Ukraine has the potential to spill over into other Eastern European countries, especially if Russia resorts to the use of tactical 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**

GLOBAL IMPACT:

Extreme	High	Medium	Low

07 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

GLOBAL IMPACT:			
Extreme	High	Medium	**Low**

08 SPIKE IN DEFAULTS IN POSTSECONDARY EDUCATION

U.S. colleges and universities are under increasing financial pressure as long-term demographic trends will meaningfully reduce enrollment. Making matters worse, the federal government's recent botched rollout of the new Free Application for Federal Student Aid (FAFSA) application has pressured near-term enrollment even further, potentially forcing financially distressed institutions into default.

PROBABILITY:			
Consensus	High	Medium	Low

GLOBAL IMPACT:			
Extreme	High	Medium	**Low**

09 DECOUPLING OF CHINA FROM THE WEST

China's turn toward autocracy and 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 information technology sector as well as renewed weakness in Chinese equities.

PROBABILITY:			
Consensus	High	**Medium**	Low

GLOBAL IMPACT:			
Extreme	High	**Medium**	Low

10 U.S. STOCK MARKET ROTATION

Valuations of U.S. mega-cap stocks have become expensive relative to the broader U.S. market, driven by excitement around artificial intelligence (AI) efforts. If the high expectations for AI are not realized or if an exogenous event disrupts semi-conductor production, a rotation out of these names could ensue. Portfolios overweight mega-cap growth equities would likely underperform broad-based equity indexes, whereas portfolios overweight mid- and small-cap equities could outperform.

PROBABILITY:			
Consensus	**High**	Medium	Low

GLOBAL IMPACT:			
Extreme	High	Medium	**Low**

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

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

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

For further information

We're committed to thoughtful investing, purposeful planning, and the desire to deliver outcomes that expand above and beyond financial gains. Visit our website at www.allspringglobal.com.

Contact details

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