CRO Market Risk Report

Portfolio: Global Macro Fund - Q4 2025
Date: 03 December 2025

Global Macro Fund - Q4 2025: Executive Market Risk Report

1. Executive Summary

* The Global Macro Fund faces significant market risks, primarily from equity market exposure, emerging market assets, and leveraged FX positions.
* Recent VaR breaches indicate potential model underestimation of risk or increased market volatility, requiring immediate investigation.
* Stress testing reveals substantial potential losses under adverse scenarios, particularly stagflation and geopolitical crisis, exceeding established risk limits.
* Recommended actions include reducing leverage, diversifying asset allocation, and enhancing risk model accuracy.
* Immediate action is required to mitigate potential losses and ensure compliance with risk mandates.

2. Key Market Risks

* **Equity Risk:** High allocation (45%) to developed market equities with a beta of 1.25 exposes the fund to amplified equity market volatility.
* **Emerging Market Risk:** 25% allocation to EM bonds introduces interest rate and credit risk specific to emerging markets.
* **FX Risk (Leveraged):** 15% allocation to FX with 3x leverage creates significant exposure to exchange rate fluctuations.
* **Commodity Risk:** 10% allocation to commodities exposes the portfolio to price fluctuations in commodity markets.
* **Model Risk:** Recent VaR breaches (3 in the last 30 days) raise concerns about the accuracy and reliability of the current risk model.
* **Concentration Risk:** Significant concentration in Equity and EM Bonds increases the portfolio's sensitivity to adverse events in these asset classes.

3. Stress Scenarios & Expected Impact

The fund was subjected to three stress scenarios to assess potential losses under adverse market conditions.

* **Scenario 1: Base Case - Stagflation Shock (User-Defined):** This scenario simulates a stagflationary environment with equity market correction (-25%), currency depreciation (40%), widening credit spreads (+200 bps), and rising interest rates (+150 bps). The total P&L impact is estimated at **-$43.725M**. This scenario would lead to significant breaches of VaR and ES limits and internal risk limits.
* **Scenario 2: Geopolitical Crisis - EM Contagion:** A severe geopolitical crisis in a major emerging market leads to a broad sell-off in EM assets. The total P&L impact is estimated at **-$56.925M**. This scenario would result in significant breaches of VaR and ES limits, potentially threatening capital adequacy.
* **Scenario 3: Global Recession - Deflationary Spiral:** A severe global recession leads to a deflationary environment. The total P&L impact is estimated at **-$29M**. This scenario would also likely breach VaR and ES limits, requiring portfolio rebalancing.

4. Recommended Risk Mitigation Actions

* **Reduce Leverage:** Immediately reduce the leverage on FX positions to decrease sensitivity to exchange rate fluctuations.
* **Diversify Asset Allocation:** Rebalance the portfolio to reduce concentration in equities and EM bonds. Consider increasing allocations to less correlated asset classes.
* **Enhance Risk Model:** Investigate the recent VaR breaches and improve the accuracy of the risk model. Calibrate the model to reflect current market volatility and correlations. Consider more frequent backtesting.
* **Implement Stop-Loss Orders:** Implement stop-loss orders to limit potential losses in equity and FX positions.
* **Active Monitoring:** Increase active monitoring of market conditions and adjust the portfolio as needed to mitigate risks. Pay close attention to geopolitical developments and macroeconomic indicators.
* **Contingency Planning:** Develop a contingency plan to address potential liquidity constraints in the event of significant losses.

*   **Review Investment Mandate:** Review the investment mandate to ensure it aligns with the fund's risk appetite and current market conditions.