Handelsbanken
Wealth & Asset Management

Mid-Year Investment Outlook 2023

Contents

Welcome to our Mid-Year Investment Outlook

As we began 2023, we bid a hearty farewell to its extremely challenging predecessor. Indeed, financial markets started the new year in a positive frame of mind, but 2023 has already delivered its own quirks and challenges, including even higher inflation, still-rising interest rates, and a series of well-publicised banking sector failures. What should investors expect next, and how are we responding to this ever-changing landscape within our investment strategies?

In our first article, *Traditional economic slowdowns are back on the menu*, we discuss the impact of higher interest rates and inflation on the global economy, and outline why we think slower economic growth is inevitable in the near future. Perhaps most importantly, we remind ourselves that not all slowdowns are catastrophic.

Our investment strategies reflect these forward-looking views. In our second article – *How are we invested, and should nervous investors take the plunge?* – we delve deeper into the thinking behind our investment decisions, from our caution on share prices to the rejuvenated attractiveness of bond markets. It's been a strange year so far for investors, but we think long-term investing looks appealing.

Aside from events in financial markets and the global economy, 2023 has also played host to an historic event for the UK in particular: the coronation of King Charles III. It's been a long time coming – a whole seven decades after Queen Elizabeth II was crowned. In *A tale of two coronations*, we set these two eras side by side, and consider how the aftermath of the 2023 coronation could pan out versus its 1953 counterpart.

Last but certainly not least, our final article – *Recharging the energy sector* – takes a closer look at the energy transition which is already underway, as the world continues to shift towards more sustainable sources of fuel. From the main players leading the charge, to the work still to be done, we outline the opportunities available to sustainable investors amid this fascinating – and rapid – drive for change.

As ever, we look forward to your feedback, and send you our best wishes for the period ahead.

Graham Bishop Chief Investment Officer

Traditional economic slowdowns are back on the menu

In our *Investment Outlook 2023*, published at the beginning of the year, we said that interest rates and inflation had hogged the limelight in 2022, and our expectation was that this would continue into the early part of 2023. Safe to say, this has happened: central banks have continued to increase interest rates (albeit at a slower pace than last year), and while inflation looks like it has peaked, its descent has not been as rapid as some would have hoped.

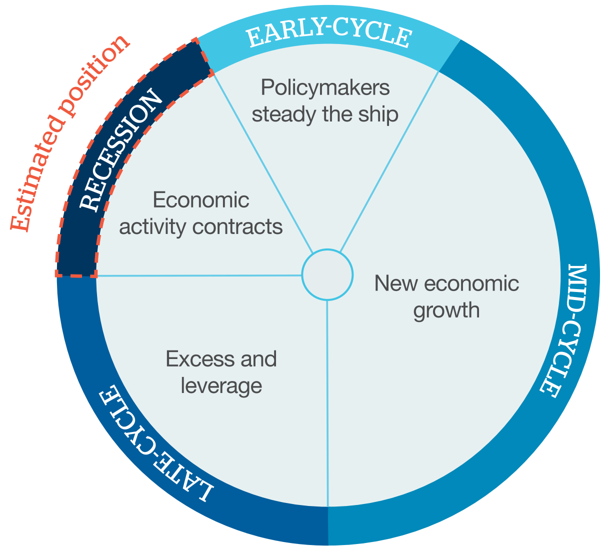
In the background, a familiar foe has reappeared: banking sector issues, largely focused in the US, but also claiming a large Swiss institution (Credit Suisse) in Europe. It's understandable that, for many people, this brings back memories of the 2008 financial crisis. However, it remains our view that this is not another 2008. Today, banks and their balance sheets are very different, with much lower ratios of loans to deposits, and much better quality assets.

For some troubled banks, the recent issues have been down to bad management of the liquidity of their assets (the ease/speed with which these can be bought or sold), or the result of restructuring efforts. Others have been a casualty of the 'ripple effects' of a regime change from ultra-low (and even negative) central bank interest rates, towards a more positive and 'normal' interest rate environment.

What does this all mean for the global economy?

We continue to believe that global growth will slow down before it gets better. As a result, we have moved our global economic cycle position marker from 'late cycle' (shown when we included this diagram in our *Investment Outlook 2023* at the start of this year) to 'recession'. As a reminder, the segments of this diagram mark the perpetual fluctuations in the global economy, between periods of relative growth and downturn.

Economic cycle



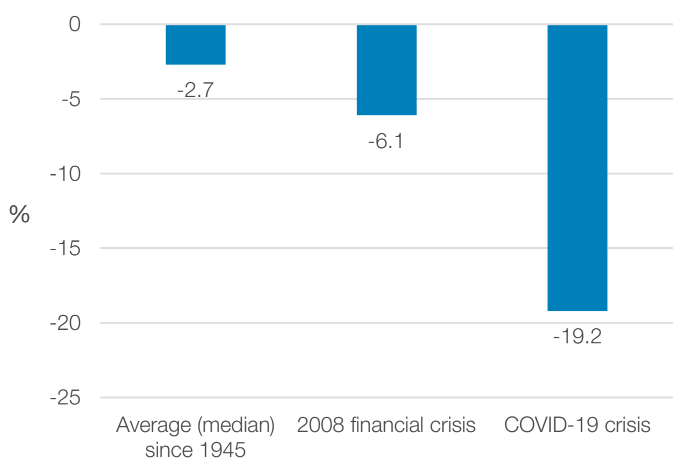
Source: Handelsbanken Wealth & Asset Management

'Recession' is a word that is used too frequently, and often with the wrong connotations. In literal terms, in the UK at least, a recession is merely two consecutive quarters (equating to half a year) of negative economic growth. When we talk about the recession stage of our economic cycle diagram, we are talking about a slowdown in growth over a period of 12 months or more. We do envisage this occurring, but we are talking about a classically-induced period of slower growth, triggered deliberately by policies from the world's leading central banks, rather than a sudden, deep contraction like those seen in 2008 or 2020.

'Recency bias' – a tendency to overemphasise the importance of more recent events – can make investors be extremely fearful when economic activity contracts, as it reminds us of the painful recessions of the recent past. However, as the chart below shows, 2008 and 2020's economic contractions were very outsized, and statistically unusual compared to more traditional downturns.

Recent recessions have been statistical anomalies

Peak to trough falls (%) in US economic growth during recorded recessions



Source: Bloomberg, Handelsbanken Wealth & Asset Management

> "It remains our view that this is not another 2008. Today, banks and their balance sheets are very different, with much lower ratios of loans to deposits, and much better quality assets."
>
> **David Absolon,** Investment Director

Five reasons we think slower growth is inevitable

1. Stubbornly higher inflation

Inflation may have reached its peak, but it will likely stay elevated relative to central bank targets (2%) for the foreseeable future. And with inflation proving more stubborn than previously envisaged, central banks have been forced to keep their feet firmly pressed on the interest rate pedal this year.

2. Central banks' history of breaking things

When central banks, particularly the US Federal Reserve Bank (Fed), raise interest rates, history has shown that something usually breaks, culminating in economic slowdown.

3. A global economy sensitive to aggressive rate rises

Since 1955, the average (or median) rise in interest rates during a period of Fed interest rate rises has been around 3% from start to finish. Notwithstanding the ultra-low starting point this time around (0.25%), the Fed has raised interest rates by 5% – significantly more than the historical average. We think it's very unlikely that the global economy can merely shrug off such an aggressive set of interest rate rises, and is somehow much more immune to rate increases than the past. This suggestion is at odds with history, and not an assumption we are willing to make given the debt levels in today's global economy (debt is harder to service when interest rates rise).

4. A delayed response in the real economy

It's probably true that central banks are closer to the end than the beginning of the current set of interest rate hikes, and financial markets do expect developed market rates to be lower 12 months from now. However, the interest rate hikes already in play have not yet fully shown up in the real economy, as central bank policies typically work with a lag. The Fed estimates that it takes 5-6 quarters for a 1% rise in US rates to fully show up in the real economy. If so, then even when the Fed stops raising rates (likely in the coming months) much of 2022's interest rate rises will not yet be fully reflected in the US economy. This argument can also be applied to other regions, particularly in the developed world, and adds to the risks to growth from here.

5. Fewer loans to companies and consumers

When central banks tighten, the availability of credit to businesses and consumers generally falls. Banks become more discerning regarding who they lend to, as the rising cost of credit becomes punitive to some. As a result we also see the demand for loans fall. Taken together, these factors historically dampen growth in both the domestic and global economy. We are seeing this phenomenon again today. This situation is likely to be exacerbated by some of the issues currently at work in the banking system.

How are we invested, and should nervous investors take the plunge?

Our investment strategies reflect our views that global growth will slow from here before improving, inflation will remain elevated, and interest rates are close to their peaks.

Seeing value in bonds, and remaining cautious on share prices

Bond prices have undergone huge price falls, having been at the centre of 2022's market storms. We believe these price falls have created an attractive investment opportunity in UK and US government bonds in particular. With this in mind, we have gradually moved from a smaller position in bonds versus our long-term average and a preference for bonds with more limited sensitivity to interest rate changes, to the opposite stance on both fronts. If we're right about the economic environment ahead, this should help our strategies' future performance.

Our position in shares, on the other hand, is currently slightly below our long-term average. At the time of writing, we have not been rewarded for this caution in 2023, but we continue to believe that share prices are not adequately reflecting the impact that an economic slowdown is likely to have on corporate earnings. Share prices are better value than they were a year ago, but we're still not convinced that they represent good enough value to move to a larger position. We have also upped the 'quality' of our stock market positions – favouring shares in businesses which should prove more resilient in a slowing growth environment.

Among our 'alternative' assets (i.e. beyond traditional bond and stock markets), our gold positions have benefited this year, amid concerns around stubborn inflation and unrest in the banking sector. We continue to dial down (or exit) alternatives positions where the investment rationale was strong in a low interest rate world, but has since waned (our holding in music royalties is a prime example).

Politics and interest rate expectations have distorted stock markets

This has been an unusual year for stock markets, particularly in the US. Expectations for US interest rate cuts in the second half of 2023 have buoyed the market mood. A further boost has come from the ample liquidity at work in the financial system, as the US Treasury runs down its 'Treasury General Account' to counter political fights over government spending limits (the 'debt ceiling').

However, we believe these market friends will become foes later in the year for three reasons. First, inflation is likely to remain sufficiently above the central bank's target, so we do not believe US interest rate cuts are imminent. Second, the Treasury General Account will need to be rebuilt once an agreement is reached on the debt ceiling, reducing liquidity in the financial system. And third, any debt ceiling agreement will involve austerity measures, further risking future economic growth.

Strong market performance by tech giants has muddied the waters

Adding to the distortion, leadership in the US stock market – as measured by the S&P 500 Index – has been very narrow. The S&P 500 is a representative index, made up of shares from the 500 largest US-listed companies. It takes a 'market capitalisation' approach, meaning that it assigns more importance (or 'weight') to the shares of large, expensive companies. Big movements in the share prices of these companies can therefore significantly impact the S&P 500's overall value.

So while the S&P 500 Index has risen by nearly 8% so far in 2023 (in US dollar terms), this is almost entirely down to the strong performance of just a handful of very large tech companies. If we look at companies in the S&P 500 on an 'equal-weighted' basis (i.e. each company is afforded the same importance, regardless of its size on the market), the S&P 500 would have fallen by almost 1% over the same time period.

The very largest companies have distorted US stock market returns

Two versions of the US S&P 500 Index – one weighted towards the market's largest companies, the other balancing all companies equally

Source: Bloomberg

> “As a general rule of thumb, we tend to advise that it’s better to invest when you are able to do so for a period of at least five years, and to look beyond the everyday ups and downs of the market during this time.”
>
> **Graham Bishop,** Chief Investment Officer

This very narrow stock market leadership has been challenging for our investment strategies. Technology is one of our favoured market themes, but building global and well-diversified strategies is one of our core aims: we would never make our strategies too reliant on a single, concentrated area of the market (where outperformance will not last forever). If anything, despite the short-term pain to our investment strategies, the current narrow focus of stock market returns gives us even higher conviction that our cautious stance remains appropriate.

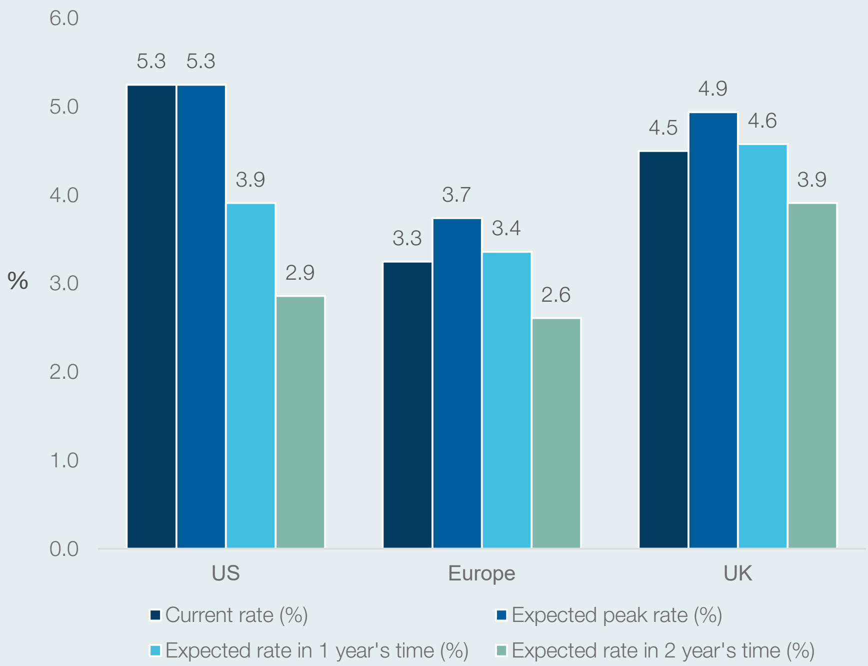
As the attractiveness of cash fades, long-term investing could provide a better option

Since 2008, interest rates have been very low, making cash an unattractive investment. More recent interest rate rises have improved the financial returns available on cash, although savers will be well aware that wide divergence remains between central bank rates and savings rates.

What’s more, we believe we are now at (or close to) the peak for interest rates. If market expectations for interest rates over the next 12-24 months are correct, returns on cash are also close to their peak and will deplete from here. As a result, while it still makes sense to hold some capital in cash for long-term investors, we continue to believe that a truly global investment proposition, diversified across a range of asset types, offers better potential for meeting our customers’ aspirations in a world of lower economic growth and structurally higher inflation.

Returns on cash are likely to become less attractive from here

Current and expected (market predicted) interest rates at major central banks



Source: Factset

It’s impossible to know the ideal time to invest, and we always caution against trying to ‘time the market’ to perfection. As a general rule of thumb, we tend to advise that it’s better to invest when you are able to do so for a period of at least five years, and to look beyond the everyday ups and downs of the market during this time – however hard this may feel in practice.

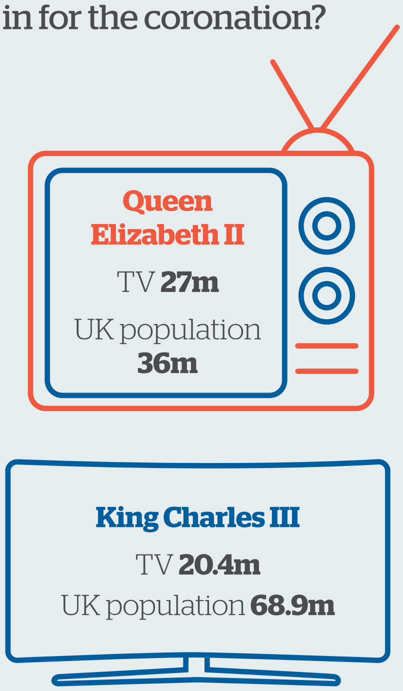
A buy-and-hold strategy like this is certainly not easy: it requires patience and discipline. There may be prolonged periods when an investment strategy does not appear to be working, but it should ultimately emerge stronger as investments capture positive returns across long-term market fluctuations. We believe that taking a long-term approach and spending time in the market – not timing the market – is what’s important.

A tale of two coronations

Two monarchs crowned, 70 years apart. In 1953, Queen Elizabeth II's coronation came in the wake of a global conflict, as the UK turned to face an uncertain post-war future. This year, King Charles III has been crowned following a global pandemic, as a cost of living crisis engulfs the UK population.

But how does King Charles' coronation landscape shape up next to Queen Elizabeth's? And what should we expect for the UK in the aftermath of the coronation?

How many people tuned in for the coronation?



Sources: Official viewing figures, The Royal Household

The state of the nation: struggling in a brave new world

1953

Britain began the 1950s in a threadbare state. The cost of fighting World War II had taken its toll on the nation's coffers, with gold and currency reserves run down, and many overseas assets sold to fund the conflict. The war had also done six years' worth of damage to UK exports, and redirecting a large proportion of the British workforce to the war effort had left economic growth on the back foot. Rationing was still in place, and there was an acute quality housing shortage.

Against this backdrop, an exhausted nation prepared to celebrate Queen Elizabeth's coronation. Fortunately, not all was doom and gloom. Higher taxes may have been painful amid post-war poverty, but they had led to the birth of the National Health Service (NHS) in 1948, as well as an expansion in state pensions and social security. Turning an eye to the global stage, on the eve of the coronation, news arrived that Edmund Hillary and Tenzing Norgay (members of a British expedition, of which Prince Philip was patron) had become the first confirmed people to reach the summit of Mount Everest.

2023

The queen's coronation came in the wake of a world war, but the king's followed on the heels of a world-changing event of its own. The COVID-19 pandemic claimed the lives of millions, and forced huge evolutions in the way we live, travel and work.

Conflict is still close at hand too: Russia's ongoing invasion of Ukraine has played out vividly in the backdrop of the post-pandemic world. Besides the terrible human cost of this conflict, it has also contributed (via energy and food markets) to the emergence of a well-publicised 'cost of living' crisis. Meanwhile, successive political disasters have engulfed the UK government, and the UK is still struggling to adapt to the post-Brexit era.

Inflation and interest rates: post-war versus post-pandemic

1953

In the years following World War II, a shortage of goods and the gradual end to price controls pushed consumer costs higher. At the time of the queen's coronation, inflation (measured by RPI, the Retail Price Index) was running at 2.6%. While this might seem relatively low, this figure came on the heels of double digit inflation just one year earlier, meaning that prices were already elevated, but were now rising less slowly. Against this backdrop, interest rates were set at 3.5%.

2023

At the time of King Charles III's coronation, inflation was 13.5% (again, measured by RPI). A number of factors played into this, including the wave of pent-up demand for goods and services released following the lockdown era, as well as extremely high energy costs. Most recently, high food costs have been blamed for stubbornly high inflation. Against this backdrop, the Bank of England set interest rates at 4.25% at the time of the coronation (now raised further to 4.5%).

Financial markets: a rapid evolution

1953

When Queen Elizabeth II was crowned, the stock market was incredibly cheap by today's standards. The most reliable historic data in this regard is probably the S&P 500 Index, which charts the value of the largest US-listed stocks over time. The index doesn't use currency units like dollars, but instead charts price changes over time through an index value. In June 1953, the index value given to the S&P 500 was 24.

2023

In May 2023, the S&P 500's index value was 4,071 – dwarfing its 1953 value. During the intervening 70 years, the depth and range of financial markets has also evolved dramatically. Beyond traditional bond and stock markets, an enormous range of new asset types have emerged, from complex hedge funds to niche areas of debt. Thanks to globalisation, technological advances and social change, financial markets have also become much more accessible, and many more people and businesses participate in markets than in 1953.

The aftermath of a coronation: what comes next?

1953

Despite its meagre beginnings, the 1950s played host to some of the UK's most rapid ever economic growth. A year after the queen's coronation, inflation had fallen to very low levels, and interest rates had been lowered slightly (from 3.5% to 3%), encouraging economic growth.

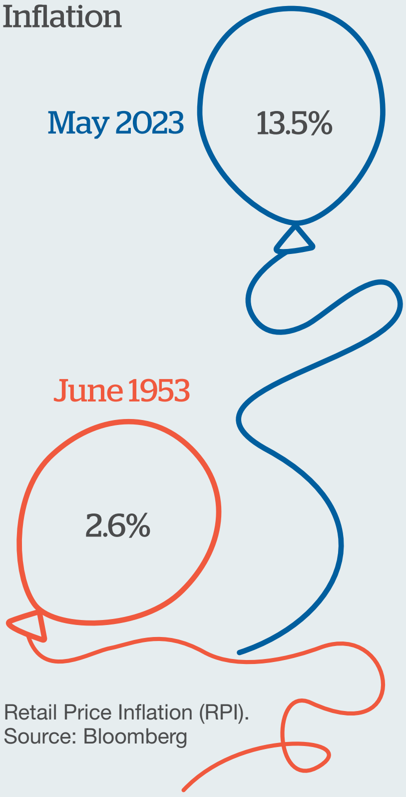
By the end of the decade, the economy was booming. Wages and standards of living had risen, urban landscapes were reinvented and rebuilt, and the decade began a sea change in levels of home ownership.

2023

In sharp contrast to the boom years following the queen's coronation, we think that global growth will slow from here: the inevitable consequence of global central bank policies to rein in inflation. And while we think inflation may have reached its peak, we also think that (contrary to the 1950s) consumers will be obliged to adapt to higher inflation than the ultra-low levels to which we've become accustomed in recent years. Similarly, interest rates may be approaching their peak this time around, but the Bank of England is likely to hold them steady for the time being.

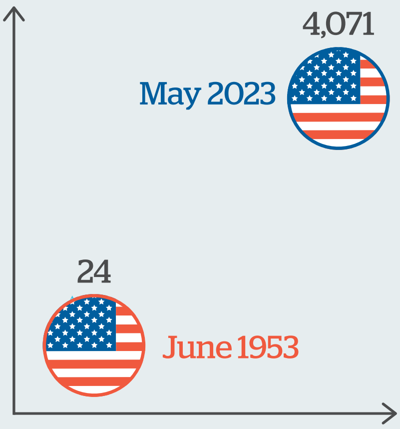
Nevertheless, while we anticipate a period of slower growth in the opening chapter of King Charles III's reign, we would remind readers that the global economy moves in cycles, through periods of expansion and contraction. No outcomes can ever be guaranteed, but if the period of slower economic growth ahead is well managed by global policymakers, and absent another shock, it could create the foundations for a robust recovery to come.

Inflation



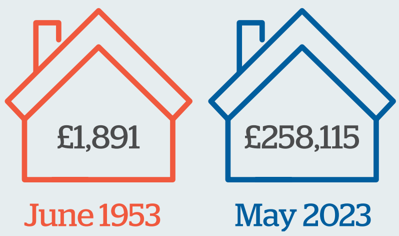
Retail Price Inflation (RPI).
Source: Bloomberg

Value of the US stock market



S&P 500 Index values. Source: Bloomberg

Average house price



Source: Nationwide House Price Index (Q2 1953 and Q1 2023)

Recharging the energy sector

Change has been building in the energy sector, as public pressure and environmental necessity are driving forward a shift to more sustainable forms of fuel.

The transition to renewable energy has begun, but to build momentum and achieve a cleaner world for the long term, this change needs government support, regulatory backup, and – of course – investment. Handled well, the energy transition has the potential to pay off for society, the planet, and its investors.

What is the 'energy transition'?

The 'energy transition' is a dramatic shift in the way we produce and consume energy. It refers to a move away from traditional, fossil-fuel-based energy (like oil, coal and gas), towards renewable energy supplies (like solar, wind and biomass). The energy transition requires a change in the infrastructure surrounding our energy sources, as well as the sources themselves.

Who is leading the charge?

At a regulatory level, Europe and the US have led the charge so far. The scale of their recent energy transition packages – which provide critical support to the energy transition – cannot be overstated.

REPower EU

In response to the disruptive effects of Russia's invasion of Ukraine, the REPower EU plan aims to end the EU's energy dependence on Russian fossil fuels, as well as advancing the fight against climate change. The plan includes €300bn of investment by 2030.

Inflation Reduction Act

Something of a trick shot by President Biden's administration (because which US politician could vote against legislation named the 'Inflation Reduction Act'?), this legislation provides long-term subsidies for sustainable energy generation and 'clean' manufacturing in the US. The legislation includes $369bn in funding and significant tax credits.

EU Industrial Strategy

Born out of the European Green Deal, the EU Industrial Strategy aims to drastically increase Europe's renewable energy capability (involving €1trn of investment), fast-track project permits, and prioritise 'home-grown' sources of renewable energy.

But while Western economies have led the way with greener legislation, the energy transition is a global theme. Media coverage often frames developing economies as rogue perpetual polluters, but the truth is not so black and white. Recently industrialised nations have had a tendency to lean on fossil fuels to turbocharge their economies, but there are also signs that these nations have ambitions to pivot to cleaner energy too. For example, China has accounted for over half of the world's wind power installations since 2020, and India has been steadily increasing its solar power installations over the past decade.

There's still much more to do...

New regulatory announcements have added significant momentum to the goal of decarbonisation. At this point, it's important to note that the energy transition isn't just a pipe dream that the world is optimistically planning for: it's already happening.

However, there is still a long way to go. For example, creating a globally coherent approach to achieving the energy transition remains problematic. At a recent meeting of the G7 (UK, US, Germany, France, Japan, Italy and Canada), leaders were criticised by climate change experts for failing to set a deadline to phase out coal power. It's worth nothing, though, that the group did reiterate their commitment to accomplishing predominantly or fully decarbonised power by 2035.

There is also, of course, the not-insignificant matter of adequately funding the energy transition. Despite the financial commitments already in place through new regulation, the sheer level of investment required from this point is staggering. To get on course for 'net zero', i.e. achieving a balance between carbon emitted into and removed from the atmosphere, investment in clean energy may need to rise from its current levels of a little above $1trn per year, to $4.5trn.[1]

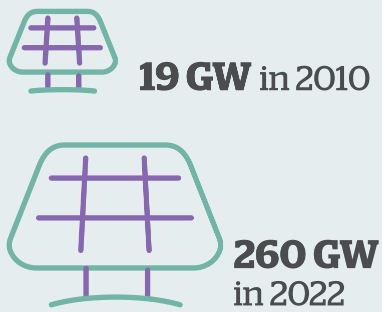
[1]IRENA, Guinness Global Investors estimates; April 2023

China accounted for **55%** of global wind power installations in 2021

Source: Guinness Global Investors

Annual solar installations have skyrocketed

Solar power installations, total gigawatts (GW)



Source: Guinness Global Investors. 2022 data is estimated

Drivers across the globe are making the switch to electric vehicles

Worldwide electric vehicle sales

6.5m in 2021

10m in 2022

12.1m in 2023

Source: EV-Sales. 2023 data is estimated

> "Traditional fossil fuel storage methods have no use in the renewable energy sector. Instead, investment in battery technology and battery storage facilities is essential, and investment opportunities are already opening up in this fast-paced and innovative area."

Ben Matthews Investment Director

To find out more about the investments in our sustainable funds, take a look at our **Sustainable Impact Report** or get in touch with us to learn more **communications.hwam@handelsbanken.co.uk**

... which presents long-term opportunities for investors

We know that there is public, political and – of course – environmental pressure to transition the world to renewable, sustainable energy. Huge investment is already taking place, but much more is still to come. We strongly believe that this presents an attractive, long-term opportunity for investors.

The transition to renewable energy will encompass a huge range of investable areas. Naturally, more renewable energy needs to be generated, and this means investing across the spectrum of renewable energy sources, from wind and solar to hydro (water), geothermal and biomass sources. The International Energy Agency estimates that by 2025, renewable sources will generate a larger supply of electricity than coal, gas or nuclear sources.

As well as the possibility of investing directly in this renewable energy production, investors also have the ability to invest in government bonds issued to support clean energy projects. The 'green gilts' recently issued by the UK government to fund renewable energy initiatives and generate UK jobs in the renewable energy sector are just one example.

But generating more renewable energy is just part of the story. Energy generated from renewable sources needs to be stored, particularly as these sources can be uneven (e.g. in simple terms, when the wind drops, so does the power generated by wind farms). Modern populations rely on (and expect) consistency from their energy supply, so a means of storing renewable energy is essential in order to even out its distribution. Traditional fossil fuel storage methods (like tanks and silos) have no use in the renewable energy sector. Instead, investment in battery technology and battery storage facilities is essential, and investment opportunities are already opening up in this fast-paced and innovative area.

Renewable energy also needs different methods of distribution and consumption. Electric vehicles and their required charging stations are an obvious example of this. Despite some well-documented teething troubles, the infrastructure is being built all around us to accommodate a greener fleet of vehicles. As both regulation and infrastructure increasingly support the switch to electric vehicles, this is another key trend for investors to access.

How are we invested in the energy transition?

Our sustainable investment strategies are already taking part in the energy transition, with investments across both stock and bond markets, as well as in 'alternative' asset types (which lie beyond traditional financial markets). From generation to storage, from 'green gilts' to electric vehicles, these investments are backing long-term growth in the renewable energy sector, and supporting the transition to a more sustainable future.

- Renewable energy generation
- Renewable energy infrastructure
- Battery storage
- Green government bonds
- Electric vehicles

Investment team

Graham Bishop
Chief Investment Officer

David Absolon
Investment Director

Scott Ingham
Investment Director

Charu Lahiri
Investment Director

Ben Matthews
Investment Director

Jaisal Pastakia
Investment Director

Nikki Howes
Investment Manager

Robert White
Investment Manager

Nathan Henry
Investment Associate

Caroline Von Celsing
Investment Associate

Awards

2023 MoneyAge Awards
Winner: Wealth Management Firm of the Year

2023 WealthBriefing European Awards
Winner: Marketing & PR Campaign

The Asset Management Awards 2022
Winner: Multi Asset Manager of the Year award

2022 WealthBriefing European Awards
Winner: Specialist Wealth Manager with assets under management between £2-5 Billion

2022 PAM 50 Most Influential
Tracey Davidson, Chair of Handelsbanken Wealth & Asset Management

2022 PAM Top 40 Under 40
Jaisal Pastakia, Investment Director

2022 Citywire Thirty Under Thirty
Nikki Howes, Investment Manager

2021 WealthBriefing European Awards
Winner: High Net Worth Team

Commended: Tax Team

Commended: Marketing or PR campaign

To find out more please get in touch:

communications.hwam@handelsbanken.co.uk

Assessing the performance of our investment strategies

Our 'target return' performance benchmarks

Most of our investment strategies aim to deliver financial returns at levels linked to the rate of UK inflation (measured by the Consumer Price Index, or CPI). Over any given five-year period, these strategies target returns which are a pre-defined level above the rate of inflation. Our CPI-linked goals are known as the strategies' target return benchmarks, and are designed to help customers evaluate the strategies' performance in a real-world context. These targeted returns range from CPI+1% for our lowest risk (Defensive) strategies up to CPI+4% for our higher risk (Growth) strategies. Our highest risk (Adventurous) strategy is the exception, as it does not use a CPI-linked goal. Instead, this strategy aims to beat the returns offered by the global stock market (represented by the MSCI All Country World Index).

If the strategies deliver total financial returns to investors (after all costs and charges have been taken) equivalent to the total return of their target return benchmarks, we consider the strategies to have achieved their targets.

Our financial market performance benchmarks

The performance of our investment strategies can also be compared to representative indices for two of the main asset types in which most of the strategies invest. These indices are 'MSCI United Kingdom (£) – net total return' (representing the performance of UK shares) and 'BoA Merrill Lynch UK Gilts' (representing the performance of conventional UK government bonds). These indices are known as the strategies' comparator benchmarks, and are designed to help clients evaluate the strategies' performance in a financial market context.

It is important to note that financial returns are not assured: there is no guarantee that the strategies' performance objectives will be met, or that a positive return will be delivered over any time period. When you invest, your capital is at risk.