

Equitorial

What does risk look like today?



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Applying our MultiFRAME model: What does risk look like today?

Introduction

This report builds on our 2022 edition of Equitorial ([‘What price risk?’](#)) and serves as a natural evolution of that paper. At that time, we set out the foundations of MultiFRAME – our Multi-Factor Risk and Attribution Model for Equities – and outlined how it enhances our understanding of portfolio risk.

We argued that traditional risk systems – often static, backward-looking and narrowly focused – were insufficient to navigate an increasingly complex and rapidly evolving market environment. These conclusions have only strengthened over time.

Since 2022, investors have experienced one of the most challenging and dynamic periods in recent financial history. Inflation shocks, aggressive monetary tightening, geopolitical fragmentation and sharp factor rotations have all highlighted the importance of viewing and understanding risk not as a single, stable concept, but as something that evolves across multiple dimensions and time horizons. As we noted previously, relying on a single lens of risk can obscure underlying exposures – particularly during periods of market stress.

Today, risk management is arguably more critical than ever. Markets have been defined not only by material macro shifts, but also by the speed and non-linearity with which risks evolve and interact. Traditional approaches that rely on stable relationships or single-period optimisation have been repeatedly challenged.

In this context, one of the most important developments has been the increasing need to assess risk across multiple timeframes simultaneously. Investors must reconcile short-term volatility, medium-term cyclical dynamics and long-term structural trends – often pulling in different directions. As noted in academic and industry research, even long-term investors must meet near-term expectations, creating tension between horizons and demanding a more integrated approach to risk management.

Since 2022, the MultiFRAME model has evolved meaningfully. While the core philosophy and tool remains intact, enhancements to factor coverage, data processing and integration within the investment process have made it more responsive and more actionable. It now plays a central role not only in monitoring risk, but in shaping portfolio construction decisions.

In the 2026 edition of Equitorial, we will revisit MultiFRAME in the context of today’s market environment, highlighting how risk has changed, the key themes we are monitoring, and how our approach enables us to navigate uncertainty with greater clarity and discipline.

Figure 1: Key risks we are monitoring



Geopolitics
Ukraine, Middle East, Venezuela & Greenland, etc.



Security
Defence, critical minerals supply chains, etc.



Trade tensions
Diminishing risk, but still uncertain



AI
Moving beyond the hype, infrastructure build out



US Policy uncertainty
Initiatives ahead of mid-term elections



Diverging macro trends
Interest rates, currency, economic growth, etc.

Market overview

The global equity market backdrop has undergone a profound transformation since 2022, shaped by a complex combination of macroeconomic and structural forces:

- **Inflation and interest rates:**

After a sharp tightening cycle, inflation has moderated and policy rates are normalising, creating a shifting backdrop for valuation and discount rates.

- **Strong but uneven equity performance:**

Global markets have delivered robust returns, often reaching record levels, supported by earnings resilience and improving financial conditions. But, underlying this global trend, there has been significant regional dispersion.

- **Concentration in leadership:**

Performance has been heavily driven by a narrow set of large-cap growth and technology stocks, with artificial intelligence (AI)-related optimism acting as a key catalyst.

- **Geopolitical volatility:**

Persistent geopolitical tensions, trade frictions and supply-chain disruptions have added layers of uncertainty and episodic volatility.

These forces have created a market environment characterised by high dispersion, significant volatility and shifting leadership. These shifts are often driven by changes in macro expectations, such as the path of interest rates or the resilience of economic growth. Importantly, relationships that once appeared stable (between rates and equities, or growth and value) have become less predictable. The outlook for equity markets has often been rewritten as unexpected events occurred, and the status quo has been challenged.

This has exposed the limitations of traditional risk frameworks. Many remain single horizon in nature, focused either on short-term volatility, like value at risk (VaR), or long-term outcomes, but not the interaction between the two. They often assume stable correlations and linear behaviour, which break down in periods of stress, and struggle to incorporate forward-looking structural changes, such as technological disruption or geopolitical realignment. As we highlighted in the 2022 edition of Equitorial, this can leave portfolios exposed to risks that are not immediately visible.

A multi-timeframe approach is therefore increasingly relevant. By analysing risk across different horizons – from near-term volatility to longer-term thematic exposures – it becomes possible to capture a more complete picture of the forces shaping portfolio outcomes. This is particularly important in an environment where markets are driven by a combination of macro policy, structural change and investor positioning.

MultiFRAME: framework recap & updates

MultiFRAME was developed in response to the shortcomings of traditional risk models exposed during periods such as the 2008 global financial crisis. Its core objective is to provide a more flexible, comprehensive and forward-looking view of portfolio risk.

At its foundation are two core principles:

- **Multi-factor** analysis:

MultiFRAME allows us to assess exposure to a broad and evolving set of risk factors, spanning style (e.g. Growth, Value, Quality), macroeconomic variables (e.g. interest rates, inflation, credit spreads), and sector or thematic drivers. Unlike many commercial tools, which are constrained to predefined factor sets, MultiFRAME can incorporate new factors as they become relevant.

- **Multi-timeframe** analysis:

Risk does not manifest uniformly over time. Some exposures may be highly sensitive to short-term market movements, while others reflect longer-term structural trends. MultiFRAME explicitly recognises this by analysing how risks evolve across different horizons, enabling a more nuanced understanding of potential outcomes.

What's changed?

Since 2022, the framework has been significantly enhanced, developing in three key ways:

- 1 **Expansion of risk factors:** The universe of risk factors has been expanded and refined to over 600, reflecting new areas of market focus such as AI-driven concentration, supply chain dynamics and geopolitical developments.
- 2 **Greater flexibility:** The model's architecture has also been improved to allow faster processing and more flexible scenario analysis, enabling us to test a wider range of hypotheses in a timely manner.
- 3 **Deeper integration into decision making:** MultiFRAME no longer primarily serves as a diagnostic tool and instead provides insights into risk exposures, helping to inform discussion. Today, it plays a much more active role in portfolio optimisation and decision-making.

This integration allows us to:

- Identify and manage unintended risk concentrations
- Evaluate trade-offs between return opportunities and risk exposures
- Adjust portfolios more dynamically in response to changing conditions

As a result, MultiFRAME is now central to our ability to navigate complex markets, bridging the gap between risk analysis and portfolio construction.

Key risk themes we are monitoring today

Below, we highlight three illustrative areas where our MultiFRAME analysis has been (and continues to be) particularly valuable:

1. Market concentration, AI and growth leadership

One of the most striking features of the current market environment is the concentration of returns among a small number of companies, many of which are linked to AI and digital infrastructure. While these companies have delivered strong earnings growth and possess significant competitive advantages, their dominance introduces several layers of risk across various time horizons.

- Short term: Strong earnings momentum and investor enthusiasm support continued leadership.
- Medium term: Valuation risk and crowding increase fragility.
- Long term: The sustainability of returns depends on whether productivity gains from AI are fully realised. Pricing models are being revised based on the usage dynamics.

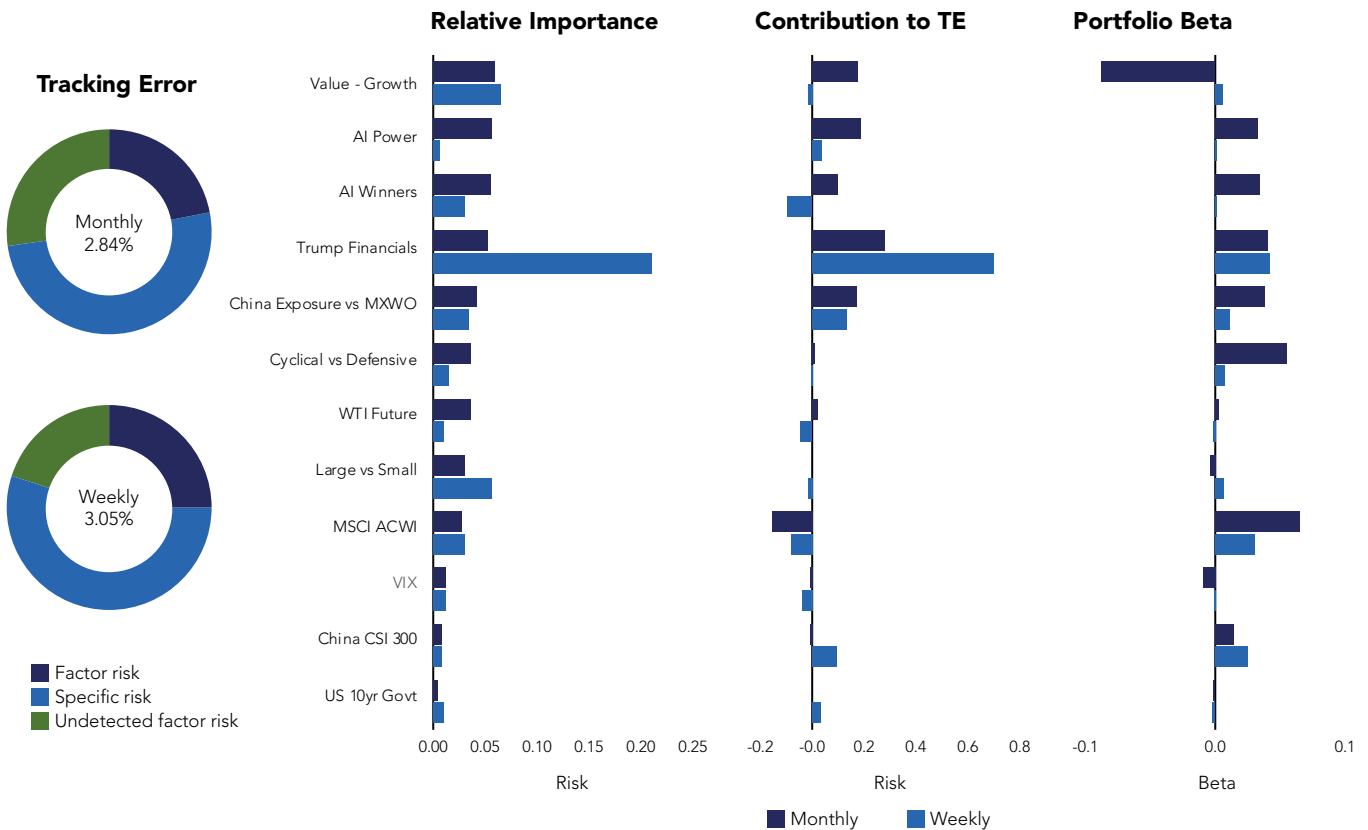
From a MultiFRAME perspective, we monitor concentration risk not only at the index level, but within portfolios and across factor exposures. High levels of concentration can lead to hidden correlations, reducing diversification benefits and increasing sensitivity to company-specific or thematic shocks.

AI-related leadership also raises questions about valuation and sustainability. Expectations for future growth are often embedded in elevated multiples, making these stocks sensitive to changes in interest rates and sentiment. MultiFRAME enables us to assess these risks through the lens of both macroeconomic factors (such as interest rates or the China CSI 300 index) and style exposures (such as Growth versus Value).

The interaction between Growth and Value remains particularly important. As seen in 2022, shifts in the interest rate environment can drive rapid and significant style rotations. By analysing these exposures across multiple timeframes, we can better understand how portfolios may respond under different scenarios.

Figure 2 highlights a marked difference between the short- and long-term models. For instance, the portfolio’s exposure to ‘AI Power’ is significantly greater in the long-term model than in the short-term model. In contrast, ‘Trump Financials’ – a basket of financial companies expected to benefit from a Trump presidency, for example those offering crypto – appears as a relatively prominent source of risk in both models but is considerably more important in the short-term model.

Figure 2: Comparison of portfolio risk according to two alternative risk models



Source: Federated Hermes, as at April 2026. For illustrative purposes only.

2. Geopolitics, defence and energy

Geopolitical developments have become a persistent source of market risk, influencing everything from fiscal policy to energy security.

One key area is defence spending. Increased geopolitical tensions have led to a sustained rise in defence budgets across many regions, creating both opportunities and risks for investors. MultiFRAME allows us to assess exposure to this theme, including its sensitivity to political developments and fiscal policy.

Energy security is another critical dimension. The disruption caused by the Russia–Ukraine conflict in 2022 highlighted the vulnerability of global energy systems and accelerated efforts to diversify supply. More recently, tensions in the Middle East have reinforced the potential for energy prices to act as a transmission channel for geopolitical risk.

These dynamics have implications not only for energy companies, but for the broader economy. Higher or more volatile energy prices can influence inflation, consumer behaviour and industrial activity. By incorporating these linkages into our factor analysis, MultiFRAME helps us capture the indirect effects of geopolitical risk.

In light of recent developments pointing to greater stability in the Middle East, one might have expected risk exposures in these areas to moderate. However, defense and oil continue to feature as prominent sources of risk, albeit to a lesser extent than AI and cyclical factors.

3. Trade, tariffs and commodities

Trade policy has re-emerged over the past year as a key driver of market dynamics. The shift towards greater economic nationalism and the reconfiguration of global supply chains have introduced new uncertainties for companies and investors alike.

Recent developments – including renewed focus on tariffs and industrial policy – highlight the importance of understanding how trade dynamics affect different sectors

and regions. MultiFRAME enables us to model these risks and view the portfolio positions most exposed, as well as the sensitivity of the risks.

Episodes of tariff escalation can trigger short-term volatility, but the long-term impact lies in the reconfiguration of global production and pricing power. Security and global competitiveness are also influencing policy decisions, and in particular the global policy landscape has become very fragmented and unpredictable. The impacts have often been widespread but short term as policy decisions are challenged or have been susceptible to reversals. We have been measuring the portfolio exposures using various factors and ETFs including Trump Tariff winners and losers, emerging market equity performance, global economic trade uncertainty and various currencies.

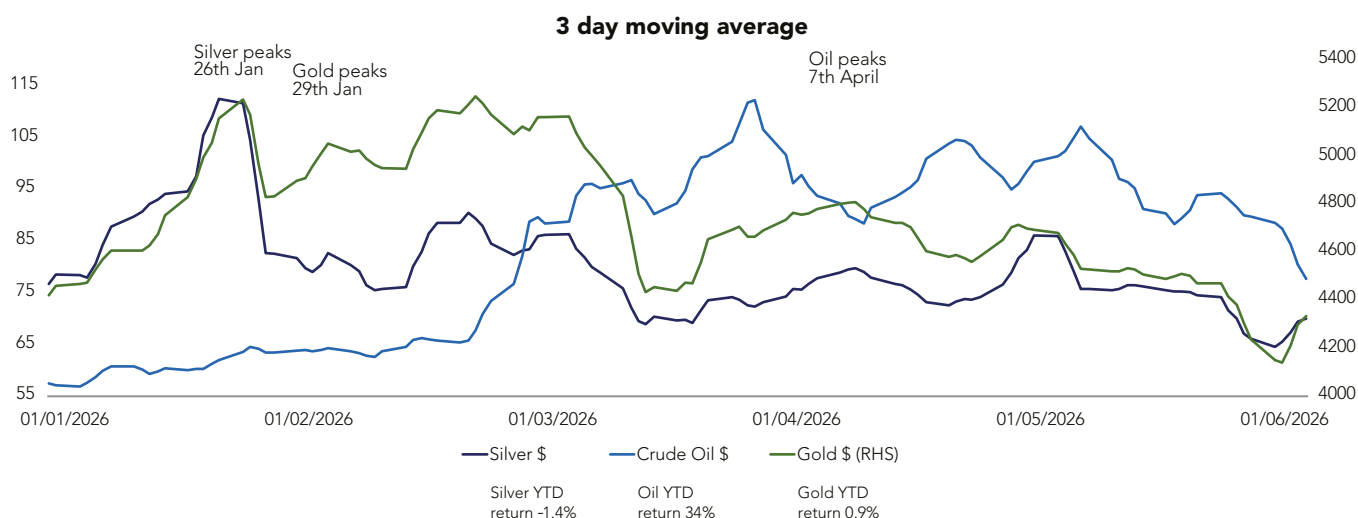
Commodities play a central role in this context. While oil remains an important factor, there is additional attention on industrial metals such as copper and aluminium, as well as precious metals like gold. These commodities are influenced by a combination of factors, including economic activity, supply constraints and geopolitical developments.

At the start of the year gold and silver prices increased to all-time highs and required monitoring (Figure 3). Additionally, as concerns grew surrounding private credit, we used the credit spreads of various institutions, to analyse portfolio exposures as well as private credit proxies.

By analysing commodity-linked risks across multiple factors and timeframes, we can better understand their implications for portfolios. For example, rising copper prices may signal stronger industrial demand, while also affecting input costs for certain sectors.

Overall, these themes illustrate the complexity of the current risk environment. They are interconnected, dynamic and often non-linear – reinforcing the need for a flexible and comprehensive framework such as MultiFRAME.

Figure 3: Gold, silver & oil prices (YTD 2026)



Source: Bloomberg, as at June 2026. Past performance is not a reliable indicator of future performance.



What does MultiFRAME add compared to standard risk systems?

While commercial risk models remain valuable tools, they have inherent limitations. Many rely on static factor definitions and historical relationships, which may not fully capture the evolving nature of market risks.

MultiFRAME offers several practical advantages:

- First, it incorporates **time-horizon awareness**. By analysing risk across multiple timeframes, it captures both short-term market dynamics and longer-term structural trends. This is particularly important in today's environment, where risks can emerge and dissipate rapidly.
- Second, it enables **faster adaptation**. New risk factors – such as those related to AI, geopolitics or supply chains – can be incorporated quickly, ensuring that the framework remains relevant as markets evolve.
- Third, MultiFRAME is **integrated into investment decision-making**. Rather than serving as a purely diagnostic tool, it informs portfolio construction and optimisation, enabling more proactive management of risk exposures.

Importantly, we do not view this as a replacement for commercial models. Instead, we believe that using multiple frameworks provides multiple perspectives, enhancing overall robustness. During periods of market stress, this diversity of insights can be particularly valuable, helping to identify risks that might otherwise be overlooked.

In recent years, this distinction has become increasingly important. The complexity and speed of market developments have challenged traditional approaches, reinforcing the value of a more flexible and forward-looking framework.

Outlook

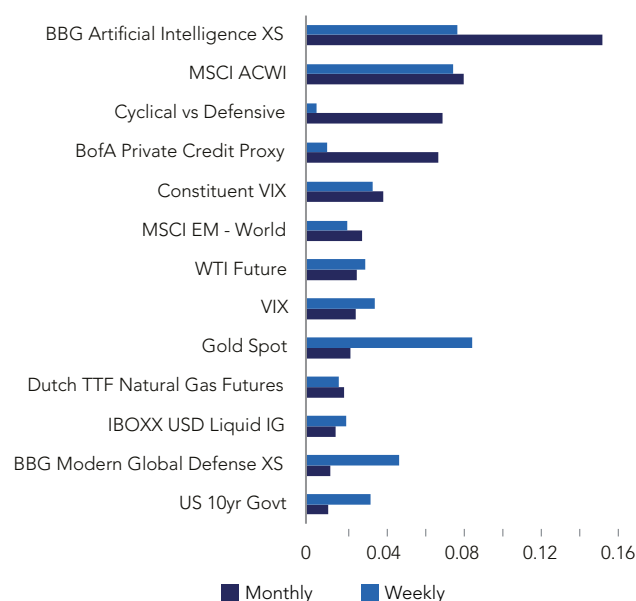
The investment landscape has become more complex, more interconnected and more dynamic. In this environment, understanding risk requires more than a single model or a single perspective, and MultiFRAME was developed to reflect this reality.

By combining multi-factor analysis with a multi-timeframe approach, and by integrating risk insights directly into portfolio decision-making, we believe it enables a more comprehensive and resilient approach to equity investing. Figure 4 shows MultiFRAME's assessment of the areas attracting the greatest attention, with AI continuing to dominate over the long term, but to a lesser extent in the short term.

As the market continues to evolve, the ability to identify, interpret and manage risk will remain a key driver of long-term performance. MultiFRAME is central to our efforts in this regard, helping us to adapt to changing conditions while maintaining a disciplined focus on fundamentals.

Looking forward, one of the next key potential turning points for the market will be the US midterm elections in November 2026. This is something we can start to model, making use of *Polymarket* data – a decentralised prediction market platform. Currently, these odds are moving in line with the equity market as influenced by developments in the Middle East, however, we expect this to be more useful as the election approaches. Similarly, US Federal Reserve rate cut expectations for 2026, alongside US 10-year government bond yields, will be two areas we will monitor closely going forward. Figure 4 shows MultiFRAME's assessment of the areas attracting the greatest attention, with AI continuing to dominate over the long term, but to a lesser extent in the short term.

Figure 4: Relative importance



Source: Federated Hermes, as at June 2026. For illustrative purposes only.

As markets continue to evolve, we expect the importance of this approach to increase further. MultiFRAME will remain a central component of our investment process, helping us navigate uncertainty while identifying opportunities across cycles.

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