CFA Institute
Systemic Risk Council

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Ranking Systemic Risks and Vulnerabilities

The global risk environment is evolving rapidly, with new vulnerabilities emerging alongside longstanding threats to financial and economic stability. The Systemic Risk Council's Ranking Systemic Risks and Vulnerabilities brings these risks together to assess where the potential for significant disruption may be greatest. The rankings are informed by the macroprudential assessments and research from the World Economic Forum, Office of Financial Research, European Systemic Risk Board, Bank for International Settlements (BIS), Financial Stability Board, International Monetary Fund, and Bank of England Financial Stability Report, along with issues discussed at CFA Institute Systemic Risk Council meetings.

The risks are organized into three levels based on factors including immediacy, potential contagion velocity, and irreversibility, and include emerging vulnerabilities associated with advances in artificial intelligence (AI). Assessing and prioritizing these risks is inherently a qualitative assessment, not a precise forecast of probability, timing, or scope. Yet, this assessment does add useful perspective on where vulnerabilities are building, how preparedness could be improved, and which risks warrant greater attention because of their potential systemic consequences. It can also provide a framework for considering how seemingly distinct vulnerabilities may interact and amplify one another.

Code 1 Systemic Risks: Immediate and Potentially Existential, High-Velocity Contagion

These shocks can paralyze global critical infrastructure or freeze international capital markets within a matter of hours.

1. Geopolitical Shocks / Confrontation

Trade restrictions, aggressive tariffs, and regional wars can undermine the international regulatory coordination needed to handle social and financial crises. These actions can serve as particularly severe triggers of systemic disruption, including infrastructure collapse, population dislocation, and financial market panic. To the extent that there is a growing market narrative that these risks will not materialize, the speed and magnitude of the market reaction would likely be extreme if they do materialize or new shocks occur.

2. AI-Induced Cyber or Operational Breach (Critical Infrastructure and AI-Driven Malware)

Cyber or operational breaches pose an immediate risk of operational paralysis. State-sponsored groups use generative and agentic AI to build extraordinarily complex malware capable of instantly freezing cross-border payment networks, central clearinghouses, or energy grids.

Operational complexity of essential financial infrastructure creates systemic vulnerabilities even without a cyberattack. Of particular note, the pace of cyber readiness must match the speed of adaptation and persistence of cyberattacks. Effective detection and response are particularly challenging given the financial system's dependence on cloud computing and the risks associated with technology and algorithmic concentration. Authorities further warn that advances in quantum computing will accelerate these risks.

3. Extreme, Sudden Climatic Occurrence

Many financial and economic frameworks have historically treated climate-related risks primarily as longer-term vulnerabilities rather than as potential sources of acute structural disruption. The odds of a momentous disruption are long, but it would clearly be

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a Code 1 Risk. A sudden and extreme occurrence would be difficult to predict with precision and would likely overwhelm existing preparedness measures. The resulting geographic destruction and degradation, as well as potential mass migration triggered by such an occurrence, would be severe.

4. AI-Induced Investment Concentration and Market Bubbles

This is a rapidly growing financial vulnerability as AI infrastructure firms are deeply intertwined with cloud providers, chipmakers, and utilities. If AI productivity fails to meet massive market expectations, it could trigger a wave of credit and equity defaults much like the serious market disruptions of the dot-com era. Furthermore, the economic vulnerabilities of an AI monoculture, reflecting the concentration of AI capabilities with a few dominant providers, funded by complex circular financing among such firms, related businesses, and regulated banks could easily become systemic. Beyond market concentration, AI is becoming embedded across lending, trading, insurance, fraud detection, regulatory supervision, and risk management, creating interconnectivity and risk management challenges of potentially systemic proportions.

Code 2 Systemic Risks: Medium-Term Economic Distortions and Insolvency

These threats build up over months or years, potentially draining public resources and threatening the basic solvency of corporations and nations.

5. Reduced Financial System Safeguards

Core capital adequacy protections for global systemically important banks (GSIBs) are being weakened, making the system increasingly vulnerable to sudden market shocks. Non-Bank Financial Institution (NBFI) leverage and opacity are a growing blind spot in the financial system that potentially accelerates the decline in bank capital resilience. Trillions of dollars are now managed by private equity, hedge funds, and private credit providers that are significantly leveraged, often multiplied through off-balance sheet exposures and hidden by limited reporting obligations.

Most concerning is the growing interconnectivity and increasing investment by regulated banks within these private market/private credit infrastructures. Gaps in regulatory data, transparency surrounding leverage, interconnectedness, and risk concentrations leave banking and market supervisors at a serious disadvantage in trying to identify emerging systemic threats before they escalate.

6. Sovereign Deficit Levels

Record-high structural deficits in advanced economies (like the US and Europe) leave governments with minimal financial cushion. When governments spend far more than they take in, it tends to fuel persistent inflation and push borrowing costs higher, while increasing the potential for disorderly movements in government bond markets. A deterioration in investor confidence could quickly spill over into funding markets, financial institutions, and the broader economy. Liquidity strains experienced in US Treasury markets signal that even top markets with reserve currency status must have resilient market infrastructure and adequate line-of-sight on leveraged participants.

7. Crypto-Assets

The growing interconnectedness between crypto-assets, stablecoins, and traditional financial institutions warrants continued monitoring. Although direct exposures remain relatively limited, increasing integration with payment systems, investment funds, and banking activities could amplify future market disruptions if regulatory oversight fails to keep pace with market development.

The cross-border nature and cyber vulnerability of these technology-dependent assets raise structural, algorithmic, and macroprudential challenges to our systemic readiness. Regulatory frameworks and supervisory experience remain uneven across jurisdictions and continue to evolve as these markets become more interconnected with traditional finance.

8. Fiscal Mistakes

Political pressure on central banks to cut interest rates too early, despite high deficits, could result in a major fiscal-policy mistake and risk further inflation, forcing emergency rate hikes, and disrupting asset markets. As an example, the September 2022 "mini-budget crisis" in the UK occurred when billions in unfunded tax cuts were proposed to spur UK economic growth. Due to several factors, including inaccurate fiscal and economic forecasting, the plan shocked both UK and global fixed income markets. It took weeks of hectic and muddled policy detours to finally soothe market distress.

9. Sovereign Default

If fiscal pressures continue to build or are compounded by policy mistakes, they can ultimately result in an

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actual sovereign default, creating an even more severe threat to financial stability. While certain economies have greater monetary and financing flexibility, most face more immediate constraints and higher risk of default. This can trigger localized banking crises and sudden capital flight. The potential for financial contagion to similarly situated sovereign issuers could quickly mount into broader regional or potentially global instability. In particular, emerging and frontier markets face elevated exposures from refinancing availability, sovereign currency volatility, and capital flight.

An underlying demographic challenge is the emergence of an "inverted population pyramid," a demographic stage characterized by natural population contraction, with fewer earners and taxpayers supporting benefits for an aging population. Government solvency is stressed as governments face the dual challenges of a declining tax base combined with excessive, even unsustainable, sovereign debt loads. Such inversion adds another structural challenge with systemic consequences.

10. AI-Induced Misinformation and Malicious Propaganda Swarms

Another facet of potential AI-related risk is the widespread use of AI personification and imaging networks that target disorderly societal norms, democratic elections, and market valuations, creating sudden and unpredictable disruptions in societal and market trust. Many studies describe a propaganda swarm as automated networks of AI agents that coordinate online to spread misinformation, manufacture fake public consensus, and manipulate public opinion at a scale and speed that human cybersecurity teams cannot match.

Code 3 Systemic Risks: Gradual Structural, Generational, and Potentially Existential Threats

These are slower-moving threats that develop over time. However, they can be irreversible and can completely alter the long-term foundation of society.

11. AI-Induced Labor and Societal Instability Impacts

It remains to be seen how AI, agentic AI, and other advanced applications already in progress may trigger a structural disruption to the workforce, with serious negative implications for labor markets and societal stability. Estimates vary widely, but if there were to be a 30% – 40% replacement and substitution of jobs by AI in advanced economies, the negative implications for economic stability would be considerable. These include a displaced human workforce, monumental shifts in the wage and tax structures, and a severely diminished entry-level job market, all of which could have serious consequences. The magnitude will depend on a range of factors including the speed of technological advances, the pace of adoption, the ability of businesses to finance and achieve productivity gains, and a generational redesign of employment opportunities.

12. Gradual Climate Change and Elevated Famine Risk

Global water scarcity and crop stress are expanding. While it ranks lower in terms of immediate, day-to-day market panic, it could fundamentally challenge the viability of existing insurance models and threaten basic resource stability. Whether these changes can be mitigated through a combination of policy changes, agricultural science, and behavioral shifts in consumption — or whether such changes will become cumulative, pernicious, and irreversible — remains to be seen.

13. Pandemics

Pandemics represent a low-probability, high-impact risk with potentially significant systemic consequences. If global public health surveillance systems continue to improve along with global cooperation, health experts rank pandemics lower than active geopolitical conflicts and real-time financial instability. As recently experienced, systemic implications depend on the virulence of the pathogen and/or failures in global coordination and government response.

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CFA Institute Systemic Risk Council (SRC or the Council) is a private sector, nonpartisan body of former government officials and financial and legal experts committed to addressing regulatory and structural issues related to global systemic risk, with a particular focus on the United States and Europe. It was formed to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability. The goal is to help ensure a financial system in which we can all have confidence.

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