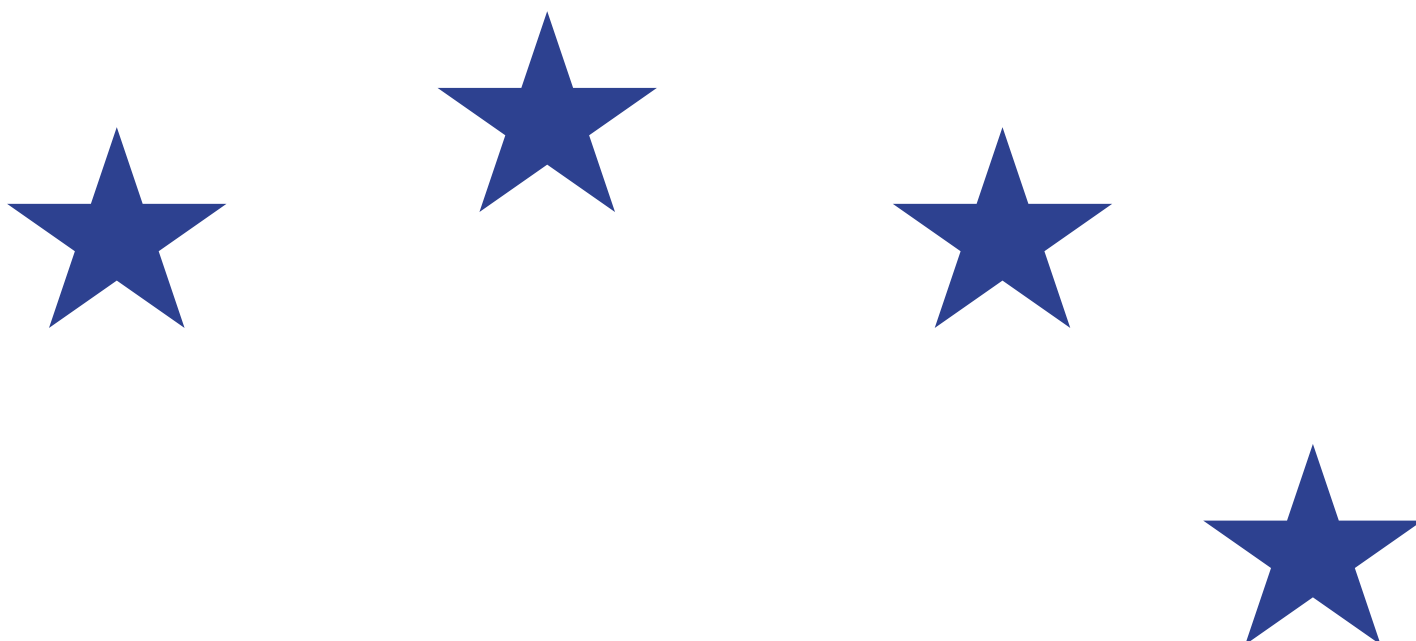


RD

ESMA Risk Dashboard Risk up-date

2 April 2020



ESMA Risk Dashboard
Risk up-date of 2 April 2020

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ESMA risk assessment

Risk summary

We are up-dating our risk assessment in light of the COVID-19 pandemic.¹ The pandemic, in combination with the valuation risks to which we had alerted in ESMA's previous risk assessments, has led to massive equity market corrections since mid-February, driven by a sharp deterioration in the outlook for consumers, businesses and of the economic environment. Corporate bond, government bond markets and a number of investment funds show signs of stress. Market infrastructures have continued to function orderly despite a massive surge in trading activity, circuit breakers and derivatives margins. Going forward, we see – intermittent market rebounds notwithstanding – a prolonged period of risk to institutional and retail investors of further – possibly significant – market corrections and see very high risks across the whole of the ESMA remit. Our outlook on operational risks is negative given the rising reliance on remote working arrangements, even if Business Continuity Plans are widely reported as working. To what extent these risks will further materialise will critically depend on two drivers: The economic impact of the pandemic, and any occurrence of additional external events in an already fragile global environment.

ESMA remit	Level Outlook	Risk categories	Level Outlook	Risk drivers	Outlook
Overall ESMA remit		Liquidity		Macroeconomic environment	
Securities markets		Market		Interest-rate environment	
Infrastructures and services		Contagion		Sovereign and private debt markets	
Asset management		Credit		Infrastructure disruptions	
Consumers		Operational		Political and event risks	

Note: Assessment of the main risks by risk segments for markets under ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Assessment of the main risks by risk categories and sources for markets under ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Risk assessment based on categorisation of the European Supervisory Authorities (ESA) Joint Committee. Colours indicate current risk intensity. Coding: green=potential risk, yellow=elevated risk, orange=high risk, red=very high risk. Upward arrows indicate an increase in risk intensities, downward arrows a decrease and horizontal arrows no change. Change is measured with respect to the previous quarter; the outlook refers to the forthcoming quarter. ESMA risk assessment based on quantitative indicators and analyst judgement.

Risk level

In light of the COVID-19 pandemic and its impact on the EU economy and financial markets, ESMA assesses the risks in its overall remit, the securities markets, infrastructures and in asset management as very high for the time being. The same applies to liquidity and market risks, and we expect a rise in operational, credit, contagion and consumer risks.

Securities markets

- **Equity:** Since mid-Feb, global equity markets saw major price corrections (R.1) with peak-to-trough falls comparable to the Global Financial Crisis (-38% for EuroStoxx), accompanied by record volatility (R.2).
- **Corporate bonds:** Markets show signs of severe stress. Spreads jumped +81bps for AAA, +170bps for BBB bonds (R.3); liquidity deteriorated far below long-term averages.
- **Sovereign bonds:** EA markets saw sharp increases in spreads up to 466bps to multi-year highs, before decreasing after ECB interventions mid-March (R.4).

Infrastructures and services

- **Trading venues:** Trading volumes surged to 3x average value. Circuit breakers (CBs) were triggered extensively (>4,000 CBs on 16-21 Mar, vs. 100 CBs long-term weekly average, R.5). To support transparency, ESMA² on 16 Mar lowered the reporting threshold of net short positions on shares to 0.1%. Several

Member States have imposed short or long-term short-selling bans (AT, BE, FR, GR, IT, ES).

- **Central clearing:** Market movements exhibited extreme levels of volatility. Some initial margin model parameters were updated to respond to the higher volatility. In application of the CCP risk management frameworks, initial and variation margins increased significantly, including intra-day margins calls.

Asset management

- **Funds:** Performance decreased across asset classes in line with market valuations. Especially bond UCITS and ETFs had to manage massive outflows (R.6). MMFs also faced significant challenges (EUR 120bn decline in NAV for LVNAVs between 9-23 March). A number of fund managers started to use liquidity management tools and some ETFs showed signs of price dislocation.

Risk Outlook

Key risk drivers will be the final economic impact of the pandemic as well as the occurrence of additional external events in an already fragile global environment. Macroeconomic forecasts predict a global recession for 2020, with Europe particularly affected. While monetary and fiscal policy actions taken or underway, uncertainty over the economic impact of COVID-19 is expected to translate into further volatile financial market conditions.

¹ This Risk Up-date complements our regular TRV and Risk Dashboard monitoring. The next RD covering the entire 1Q20 will be published by regularly in May 2020.

² <https://www.esma.europa.eu/press-news/esma-news/esma-requires-net-short-position-holders-report-positions-01-and-above>; <https://www.esma.europa.eu/press-news/esma-news/esma-recommends-action-financial-market-participants-covid-19-impact>.

R.1

Equities

Global market sell-off

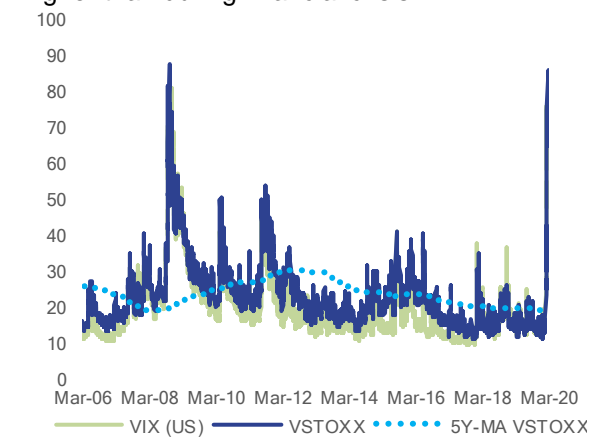


Note: Equity prices, 20/02/2020=100.
Sources: Refinitiv Eikon, ESMA.

R.2

Equity volatility

Higher than during financial crisis

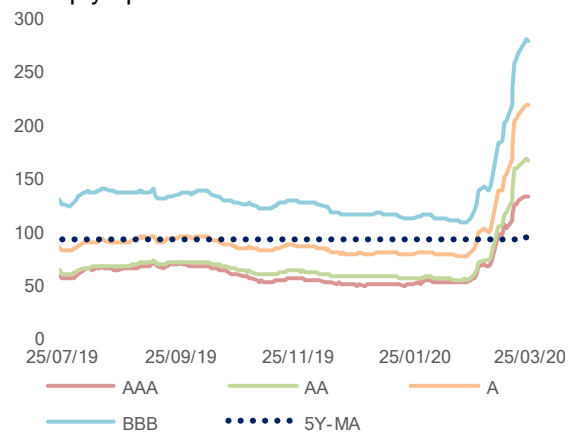


Note: Implied volatility of EURO STOXX 50 (VSTOXX) and S&P 500 (VIX), in %.
Sources: Refinitiv Datastream, ESMA.

R.3

Corporate bond spreads [to be updated tonight]

Sharply up

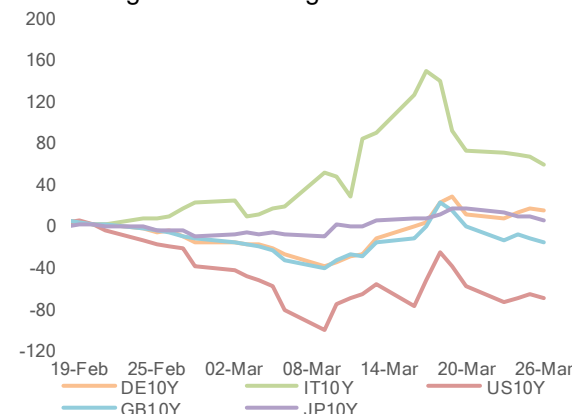


Note: ICE BofAML EA corporate bond option-adjusted spreads by rating, in bps. 5Y-MA=five-year moving average of all indices.
Sources: Refinitiv Datastream, ESMA.

R.4

10Y sovereign yields

Increasing in EU with large variations

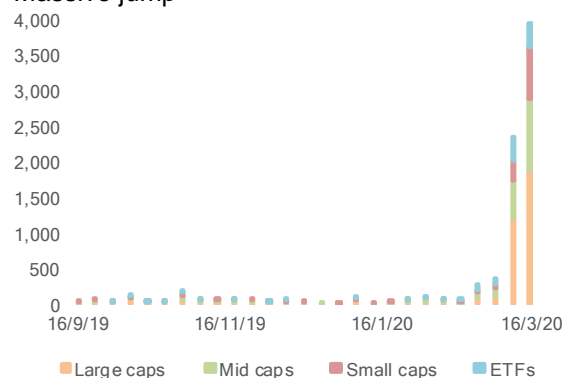


Note: Change in 10Y sovereign yields since 20/02/2020, in basis points
Sources: Refinitiv Eikon, ESMA.

R.5

Circuit breakers

Massive jump

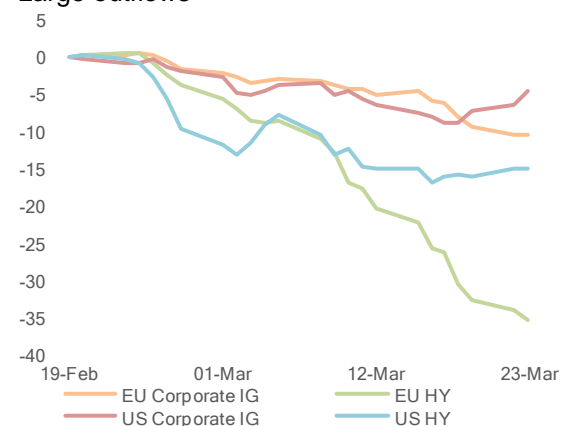


Note: Number of daily circuit-breaker trigger events by type of financial instrument and by market cap registered on 34 EEA trading venues for all constituents of the STOXX Europe Large/Mid/Small 200 and a large sample of ETFs tracking these indices or some of their subindices. Results displayed as weekly aggregates.
Sources: Morningstar Real-Time Data, ESMA.

R.6

Fixed income ETF flows

Large outflows



Note: Cumulative flows into US and EU fixed income ETFs, % of NAV.
Sources: Morningstar, ESMA.

