

TRV Risk Monitor

ESMA Report on Trends, Risks and Vulnerabilities

No. 2, 2026



Table of Contents

Executive summary	2
Risk monitoring.....	6
<i>Market environment</i>	7
<i>Securities markets and crypto-assets</i>	11
<i>Asset management</i>	18
<i>In depth: Characteristics of RE funds suspending redemption</i>	20
<i>Consumers</i>	22
<i>In depth: Retail transactions in derivatives</i>	24
<i>In depth: UCITS market fragmentation</i>	26
<i>Infrastructures and services</i>	28
<i>In depth: Frontier AI and systemic cyber risks</i>	31
Structural developments.....	34
<i>Market-based finance</i>	35
<i>In depth: Private finance in the EU – evidence on transactions</i>	37
<i>In depth: Large tech IPOs in the US: overview and implications</i>	38
<i>Sustainable finance</i>	40
<i>Financial innovation</i>	44
<i>In depth: Tokenisation of equities: From visibility to viability?</i>	47
<i>In depth: Prediction markets –relevance from a securities market perspective</i> .	49
Annexes	53
<i>List of abbreviations</i>	54
<i>Imprint</i>	56
<i>Disclaimer</i>	56

Executive summary

Risk summary

In the first half of 2026, EU securities markets and their economic environment saw the impact of additional geopolitical tensions from the war in the Middle East, resulting, among others, in increased uncertainty and the risks of stagflation. With energy prices rising, inflation forecasts have been revised upward, pushing bond yields up and weighing on global financial conditions. The energy price shock brought into sharp focus the EU's exposure to fossil fuel price volatility, strengthening the strategic rationale for accelerating the shift to renewable energy. Increasing financing costs re-ignited concerns over credit quality while corporate default rates trended upwards nearing post-pandemic peaks, as well as over the sustainability of public debt in EU member states.

Global equity indices dropped from record highs in March before recovering amid elevated volatility. Despite the initial impact of the war in the Middle East, key indices have rebounded over the reporting period, reconfirming overvaluation concerns especially in technology related stocks. Crypto prices declined further, erasing nearly EUR 2tn in market value since the October peak.

Cyber and hybrid threats remained elevated and recent development in frontier AI may further affect the risk landscape, increasing the risk of severe disruptions to market infrastructure and amplifying systemic vulnerabilities.

We continue to score market, contagion and operational risk categories at the highest level, credit risk at high and environmental risk at medium level. Elevated valuation levels, especially for US stocks, and the risk of a sharp correction in a volatile environment drive the high-risk score for securities markets and crypto assets. Such a correction would also be strongly detrimental to consumers, whose aggregate equity exposure is increasingly focused on the US market.

Risk outlook

Uncertainty has become the norm, with the war in the Middle East adding tail scenarios involving lasting inflation and sluggish growth. With little adjustment so far on bond valuations and stable or increasing equity valuations, the discrepancy between deteriorating macrofinancial conditions and their muted impact on market valuations poses significant risks of abrupt market corrections. Increasing yields across assets may challenge financing costs for corporate and sovereign alike. Operationally, cyber and hybrid threats represent an escalating concern as risk managers throughout the financial system have to meet the additional challenges posed by frontier AI models. Retail and institutional investors should remain vigilant and maintain robust liquidity buffers to withstand sharp market corrections.

Risk indicators

Risk categories

	Previous risk level	Current risk level	Outlook
Liquidity	■	■	→
Market	■	■	→
Credit	■	■	↗
Contagion	■	■	→
Operational	■	■	↗
Environmental	■	■	→

Market segments

	Previous risk level	Current risk level	Outlook
Securities markets and crypto-assets	■	■	→
Infrastructures, services	■	■	↗
Asset management	■	■	→
Retail investors	■	■	→

Note: Assessment of the main risks by drivers and categories for markets within ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Risk dashboard based on the categorisation of the European Supervisory Authorities Joint Committee. Risk drivers are key factors influencing potential risks within ESMA's remit, assessed through a narrative-based approach. Colours indicate current risk intensity. Coding: green = potential risk; yellow = elevated risk; orange = high risk; red = very high risk. Upward-pointing arrows = increase in risk intensity; downward-pointing arrows = decrease in risk intensity; horizontal arrows = no change. Change is measured with respect to the previous period; the outlook refers to the forthcoming period.

Risk drivers

Financial stability and orderly markets

Geopolitical and macroeconomic uncertainties: The war in the Middle East added to ongoing geopolitical uncertainties, including on regional conflicts and in global trade, increased fragmentation risk and could be a trigger for event risk and large, sudden and potentially lasting price movements. The EU's economic performance is uncertain amid energy-driven inflation and highly dependent on the length and intensity of the war. Rising interest rates will weigh on private and public debt and raise concerns on credit risk. In that context, persisting elevated equity market valuations further intensify risks of sharp market corrections in a context of increasing market reactivity and volatility.

Outlook



Operational and technology disruptions: The financial sector is increasingly targeted by cyber and hybrid threats, while critical infrastructures and service providers remain vulnerable to operational dependencies that can propagate shocks across participants and markets. Furthermore, the recent developments in frontier AI may further affect the operational risk landscape. Efforts to strengthen operational-resilience frameworks, enhance third-party oversight and improve incident reporting and testing are central to mitigating the potential financial stability and orderly market impact of future disruptions.



Investor protection

Speculative products: While much retail investing is in traditional asset classes such as equities or fund shares, some investors transact in complex, leverage products such as CFDs or turbos, or gain exposure to crypto-assets. Risks and costs are compounded if investors trade in and out of positions frequently

Outlook



Behavioural biases in investing: New clients are flocking to digital platforms. While greater participation brings significant benefits, inexperienced clients are especially at risk of making poor trading decisions or having unrealistic expectations. Investors face the risk of being exposed to false or misleading information through social media. Some digital platforms embed social media feeds, increasing the potential influence on investment decisions



Portfolio concentration risk: Retail clients, especially younger investors, have accumulated significant exposures to US-based stocks. Investments in AI and technology firms have continued to drive US equity valuations higher, raising concerns over the risk of a disorderly correction that would impact EU retail investors.



Note: Summary of key drivers of risks in financial markets under ESMA's remit. The summary is not a complete list and changes over time. Risk drivers may be interdependent and can affect numerous market segments and market activities. Upward-pointing arrows = increase in risk intensity; downward-pointing arrows = decrease in risk intensity; horizontal arrows = no change. Change is measured with respect to the previous period; the outlook refers to the forthcoming period. .

Market developments

Securities markets and crypto-assets

- Equity: Swift price falls after the start of the ME war (decline milder than in past crises), with rebound to or even above pre-ME war levels. Elevated valuations in context of deteriorated macrofinancial and geopolitical environment have increased the risk of sharp market corrections
- Bonds: Rising concerns over funding markets and bond safe haven status during market stress; sustained increase in bond price volatility, credit quality indicators for EU ratings were largely stable
- Credit: Risks from the private credit market more likely to come from exposures to the US market
- Crypto-assets: Downturn continues as system linkages expand

Asset management

- Fund flows and performance remained positive despite the volatile market environment
- Interest and credit risks are growing concerns, but risk indicators remain stable
- Valuation risk is an ongoing concern for most fund categories
- *In depth: Characteristics of RE funds suspending redemption*

Infrastructure and services

- Cyber risks increasingly structurally relevant, frontier AI developments are shifting risk landscape
- CCPs remain resilient through volatile energy trading
- Spikes in CSD settlement fails across assets in early April
- Numbers of outstanding credit ratings continue to grow for the EEA
- *In depth: Frontier AI and systemic cyber risks*

Consumers

- Retail investors continue to seek passive management.
- Digital platforms facilitate not only long-term investing but also short-term speculative trading
- Retail investors exposed to risks from social media content that may prompt uninformed trading.
- *In depth: Retail transactions in derivatives*
- *In depth: UCITS market fragmentation*

Structural developments

Market-based finance

- IPO activity was limited, while follow-on issuance stood below average
- Corporate bond issuance remained strong, despite moderating short-term debt and rising refinancing risks
- Private equity mixed as EEA fundraising fell and investment to EEA grew
- *In depth: Private finance in the EU – evidence on transactions*
- *In depth: Large tech IPOs in the US: overview and implications*

Sustainable finance

- Global climate policy tensions and energy security concerns weigh on ESG sentiment
- ESG funds saw mixed developments, renewables and transition-focused funds attract inflows
- EU ESG bond market remains resilient, with growing role of renewable-linked proceeds
- *In-depth: EU Emissions Trading System – new targets*

Financial innovation

- Tokenisation applied to equities: nascent but rising adoption momentum
- Decentralised finance: exploits renew concerns over interconnectedness
- AI investment: offer of AI-sector funds keeps expanding through products focused on AI infrastructure
- Quantum computing: global and EU startup funding reached record levels in 2025
- *In depth: Tokenisation of equities: From visibility to viability?*
- *In depth: Prediction markets: relevance from a securities market perspective*

Recent TRV Risk Analysis

ESMA publishes in-depth analyses across a wide range of risk issues. The list below highlights key ESMA Risk Analysis publications since 2024 and their website links, as well as the latest editions of our ESMA Market Report series. For a full list of publications, visit our [ESMA Risk Analysis webpage](#).

Securities markets, infrastructures and services

- Measurement and modelling of cyber risk [Link](#)
- Real estate markets – Risk exposures in EU securities markets and investment funds [Link](#)
- European sovereign bond market sensitivities to surprises [Link](#)

Asset management

- Annual risk assessment of leveraged AIFs in the EU – 2025 [Link](#)
- Risks in UCITS using the absolute Value-at-Risk approach [Link](#)
- LDI funds - recent developments and methods for liquidity stress testing [Link](#)

Consumers

- The scale factor: Impact of size on EU fund cost structures [Link](#)
- Social media sentiment: Influence on EU equity prices [Link](#)

Sustainable finance

- Impact of ESMA Guidelines on use of ESG or sustainability-related terms in fund names [Link](#)
- Emerging trends in transition fund strategies [Link](#)
- Fund names: ESG-related changes and their impact on investment flows [Link](#)
- Assessing portfolio exposures to climate physical risks [Link](#)

Financial innovation

- Quantum computing in financial markets: applications, investments and prospects [Link](#)
- AI adoption and trends in securities markets: EU evidence [Link](#)
- Operational and cyber risks in EU financial markets: measurement and stress simulation [Link](#)
- Maximum Extractable Value - implications for crypto markets [Link](#)
- Artificial intelligence in EU investment funds: adoption, strategies and portfolio exposures [Link](#)
- Neo-brokers in the EU: developments, benefits and risks [Link](#)
- Crypto assets: Market structures and EU relevance [Link](#)

ESMA Market Reports

- EU Crowdfunding 2025 [Link](#)
- Report on total costs of investing in UCITS and AIFs [Link](#)
- Costs and performance of EU retail investment products 2025 [Link](#)
- EU Prospectuses 2025 [Link](#)
- EU Carbon Markets 2026 [Link](#)

Risk monitoring

Market environment

In February 2026, the outbreak of a new war in the Middle East (ME) confirms that **geopolitical uncertainty** has become the norm. This adds to existing trade tensions between the US and the rest of the world around the question of tariffs and to the ongoing war between Russia and Ukraine, now in its fifth year. Iran blocked the Strait of Hormuz in retaliation, severely disrupting the supply of commodities from the ME. As the situation is evolving, there is still a great deal of uncertainty about the duration and resolution of the conflict and the lasting effects on the real economy. This is reflected by the increase of the policy uncertainty index, although it remains below the levels of April 2025 (Chart 6).

The **macroeconomic outlook** for 2026 initially pointed to a gradual improvement. However, the war in the ME has led to a downward revision of the near-term growth outlook, as higher energy prices and elevated uncertainty are expected to weigh on private consumption and investment (Chart 2). In its Spring 2026 forecast¹, the Commission revised its projections for EU GDP growth down to 1.1% in 2026 (-0.3 percentage point lower than in the Autumn forecast) and 1.4% in 2027 (-0.1pp), while growth in the rest of the world is now projected at 3.1% in 2026 (-0.3pp) and 3.5% in 2027. Assuming a relatively swift easing of energy prices, this slowdown should remain temporary. Over the medium term, EU growth is expected to be driven primarily by domestic demand, supported by a resilient labour market and continued public investment in infrastructure and defence, notably in Germany.

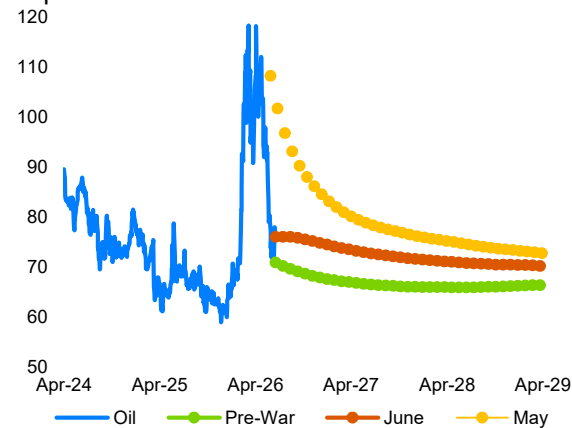
Given the high level of uncertainty, economic forecasts include **scenario analysis**²³, reflecting different assumptions on the length and intensity of the ME conflict. The ECB baseline scenario assumed oil and gas prices averaging USD 81 per barrel and EUR 46 per MW/h in 2026, (respectively +30% and +57% than in December 2025 projections). However, as for oil prices, the scenario that has unfolded in 1H26 was closer to the adverse scenario with oil prices up to USD 126 per barrel. In a more severe scenario of a stronger and lasting supply shock, energy prices would surge up to USD 150 per barrel (USD 180

in the EC downside scenario) and EUR 110 per MW/h and stay higher for longer. Except in the severe scenario, energy prices would fall back in 2027 (Chart 1). The impact on GDP growth is material in all cases. In the ECB adverse (severe) scenario, economic growth would be 0.3 to 0.1pp (0.4 to 0.5pp) lower for both 2026 and 2027 in the EA, before rebounding in 2028. In the EC downside scenario, EU GDP would fall by 0.4pp in 2026 and 0.7pp in 2027.

Chart 1

Oil price futures

Expectations have shifted since onset of ME war



Note: Brent price and Brent futures (pre-war, in May and in June), in USD per barrel.
Sources: RefinitivEIKON, ESMA.

In the context of rising energy prices, **inflation** forecasts have been revised up, from 2.5% in 2025 to 3.1% in 2026, before returning to target in 2027-28. Inflation is projected to increase sharply in 2Q26 and to decline afterwards, in line with mid-March pricing in energy futures markets. However, in the EC downside scenario inflation would continue to increase in 2027, up to 3.5% (1.1pp above the baseline), reflecting an increased severity of the energy supply shock.

After a period of easing from mid-2024 to June 2025, in a context of receding risk of inflation, the ECB decided to raise **interest rates** for the euro area by 25 basis points in June 2026, to between 2.25% and 2.65%. In the US, inflation remains above target with tariffs impacting prices in the goods sector. Further normalisation of the policy stance will depend on the scope and duration of the effects of the war in the ME.

¹ [EC \(2026\), Spring 2026 Economic Forecast: Slowdown in growth as energy shock drives up inflation.](#)

² [EC \(2026\), Spring 2026 Economic Forecast: Scenario Analysis.](#)

³ [ECB \(2026\), ECB staff macroeconomic projections for the euro area.](#)

After easing through the second half of 2025, **global financial conditions** have become less accommodative in 1H26, reflecting heightened geopolitical risks, firmer commodity prices, and a partial reversal in risk appetite, despite earlier gains in asset prices and some dollar depreciation.⁴ In the EA, banks reported a further net tightening of credit standards for loans or credit lines to firms. The tightening was the most pronounced since the third quarter of 2023, extending a cumulative tightening trend that began in mid-2025.⁵

The outbreak of the war in the Middle East triggered heightened financial **market volatility**, although market functioning remained orderly and, despite some lingering effects, impact was short-lived. Moreover, market movements were more limited across markets than during recent crisis episodes: commodities' volatility remained lower than in 2022 following the Russian attack on Ukraine; equity volatility did not increase as much as during the March 2025 market correction linked to the US tariff announcement (Chart 3).

Commodity prices surged in the wake of the attack, with oil prices increasing by more than 70% at their peak and Dutch TTF natural gas contracts initially doubling in price, before partly receding. This compares with the heights of 2022 for oil but remains significantly lower for gas. Margin calls increased as the result of price movements but remained much lower than the level experienced in 2022. Moreover, the volume of CCP clearing was elevated but this did not cause operational issues, and margin calls were paid. In the long run, natural gas prices are expected to be affected more than oil prices due to the technical difficulty of restarting production and the lower level of available reserves: at the end of 1H26 oil prices were close to pre-war level (although still volatile) while natural gas prices stood 35% above their pre-war value. Despite its status of safe assets gold – after reaching an all-time high in January, where it exceeded USD 5400 per ounce, dropped by nearly 18% at the onset of the conflict. Similar drops already happened at the onset of the war in Ukraine although it was short-lived. Expected interest rate hikes may have also contributed to this decline.

Global equity valuations have been resilient, but this also raises overvaluation concerns (Chart 5). Global equity indices dropped from record highs in March before recovering amid elevated

volatility. Asian indices fell the most, but this also reflected profit-taking after the historical strong performance observed in 2025. Despite the initial impact, major indices have grown over the reporting period. This raises concerns regarding a potentially overly optimistic assessment of the medium to long term impact of the war. This also adds to existing concerns about a possible decoupling of valuations from fundamentals and concerns of overvaluation in the technology sector.

Government bonds did not benefit from the usual flight to quality during market stress and yields significantly increased in March in many jurisdictions. Sovereign yields particularly increased on the shorter part of the curve, in response to inflation concerns. In the EU, German two-year bond yields temporarily increased by up to 70bps, compared to 40bps for ten-year bonds. In the US, the MOVE index jumped by more than 50 points. Over the entire reporting period, the increase is much more limited, especially for longer maturities, reflecting positive anticipations from the market.

Sovereign bond **spreads** widened amid increased risk aversion, although the dispersion of yields across euro area countries remained low. Corporate bond spreads also widened in response to war-related uncertainty.

Foreign exchange markets were relatively stable given the market environment, and the euro retained its 2025 appreciation against the dollar (Chart 4).

Real estate prices are progressively recovering in the residential sector and are now 6% above their 2022 level on average in the EA, with cross-country differences. In contrast, commercial property prices remain 12% below 2022 prices. This is rooted in cyclical factors such as the tightening of monetary policy, and structural developments, such as hybrid working. Authorities are monitoring that the recovery is orderly given the market footprint of the commercial real estate on the asset side, and interconnections with banks on the liability side.

Credit quality concerns resurface in a context of inflation and rising bond yields adding pressure to refinancing costs. EEA HY corporate default rates are trending upwards nearing post-pandemic peaks, close to US and UK HY default rates. European ratings drift was negative for non-financial corporates in 1Q26. Risks in the

⁴ IMF (2026), [Global economy in the shadow of war](#).

⁵ ECB (2026), [The euro area bank lending survey - First quarter of 2026](#).

credit market remain a source of concern. In the US where the market is more mature, investors fled from some AI-related private credit funds. The European private credit market is smaller but risks in the US could affect EU investment. Moreover, like the US, the EU market still suffers from a lack of transparency on loan quality, the wide use of private ratings (i.e. non-registered CRAs) and size of exposures in context of high interconnectedness.

Government debt-to-GDP in the EA is expected to rise from 87.5% in 2025 to 89 % in 2027 (88 % to 91 % in the euro area) driven by persistent

deficits and debt servicing costs exceeding nominal GDP growth.

The fiscal outlook is subject to high uncertainty due to the evolution of fiscal policy in member states and uncertainty is exacerbated by the war in the Middle East.

At global level, public debt has risen to 94% of GDP and is set to reach 100% in 2029, one year earlier than projected by the IMF just one year ago, and driven by the major economies. The sustainability of sovereign debt in economies around the world has become a significant concern, and the IMF is calling for urgent fiscal adjustments.⁶

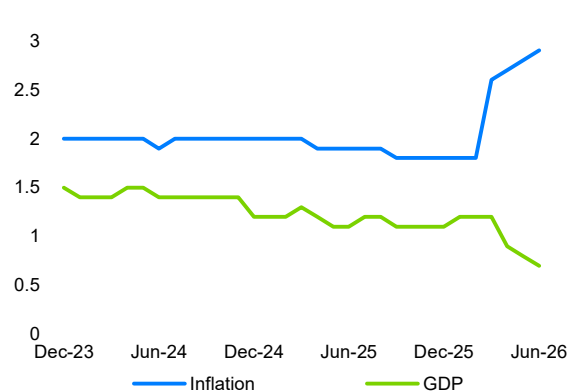
⁶ IMF (2026), "Fiscal Monitor April 2026".

Key indicators

Chart 2

GDP and inflation forecasts for 2026

GDP and inflation forecasts shifted significantly



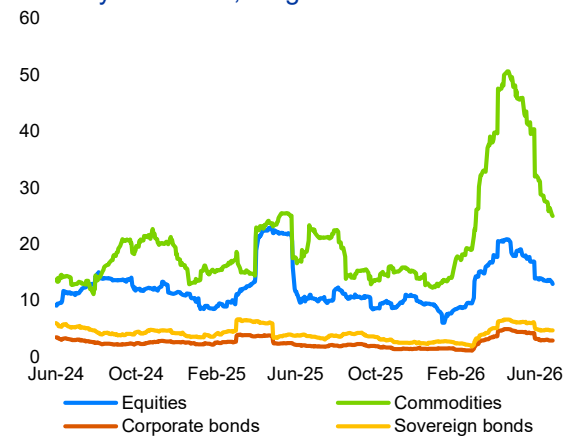
Note: Median GDP growth and inflation forecast for the euro area for 2026, by vintage month, in %.

Sources: Refinitiv Eikon, ESMA.

Chart 3

Market volatilities

Volatility increases, surges in commodities



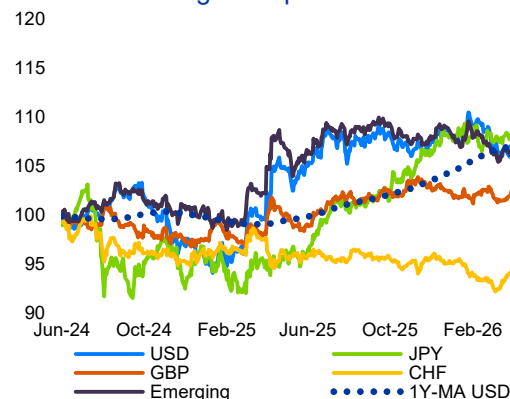
Note: Annualised 40D volatility of return indices on EA equities (Datastream regional index), global commodities (S&P GSCI) converted to EUR, EA corporate and sovereign bonds (iBoxx EUR, all maturities), in %.

Sources: Refinitiv Datastream, ESMA.

Chart 4

Exchange rates

Euro remains high compared with USD



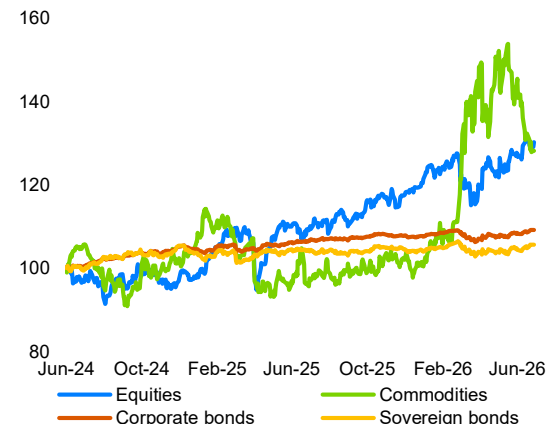
Note: Spot exchange rates to EUR. Emerging is an average of spot exchange rates for CNY, BRL, RUB, INR, MXN, IDR and TRY weighted by GDP as of start date year, 01/04/2023=100. Increases in value represent an appreciation of EUR. 1Y-MA USD=one-year moving average of the USD exchange rate.

Sources: ECB, IMF, ESMA.

Chart 5

Market performance

Resilient markets



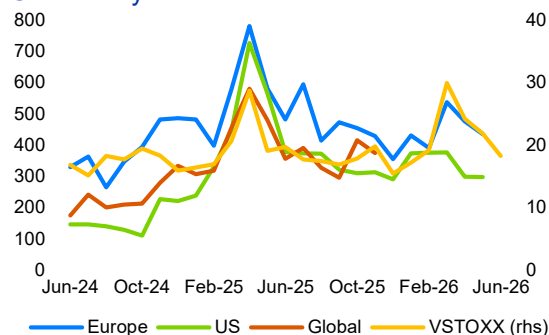
Note: Return indices on EA equities (Datastream regional index), global commodities (S&P GSCI) converted to EUR, EA corporate and sovereign bonds (iBoxx EUR, all maturities), 01/06/2023=100.

Sources: Refinitiv Datastream, ESMA.

Chart 6

Economic policy uncertainty index

Uncertainty has become the norm



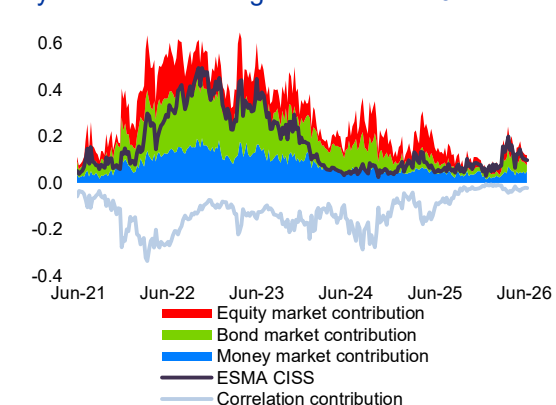
Note: Economic Policy Uncertainty Index (EPU), developed by Baker et al. (www.policyuncertainty.com), based on the frequency of articles in European newspapers that contain the following triple: "economic" or "economy", "uncertain" or "uncertainty" and one or more policy-relevant terms. Global aggregation based on PPP-adjusted GDP weights. Implied volatility of EURO STOXX 50 (VSTOXX), monthly average, on the right-hand side.

Sources: Baker, Bloom, and Davis 2015; Refinitiv Datastream, ESMA.

Chart 7

ESMA systemic stress indicator

Systemic stress surged but below 2022



Note: ESMA version of the ECB CISS indicator measuring systemic stress in securities markets. It focuses on three financial market segments: equity, bond and money markets, aggregated through standard portfolio theory. It is based on securities market indicators such as volatilities and risk spreads.

Sources: ECB, ESMA.

Securities markets and crypto-assets

Equity: Resilient valuations

Despite the war in the ME, **equity market** valuations were resilient in 1H26. Valuations dropped sharply with rising volatility at the onset of the ME war at the end of February. However, markets recovered quickly and **European equity markets** offset the losses observed in March, gaining 12% during the first semester. Renewed heterogeneity across countries is observed, with DE and FR indexes gaining 2% and 6% respectively, while IT and ES indexes increased markedly (+18% and +15%).

The stock repricing after the outbreak of the ME war lasted throughout March and impacted all sectors and regions, with global indices down by -7% in March. Emerging markets and Asian indices observed largest decrease (-14% for the MSCI Emerging Market, -13% for Nikkei, -6% for the CSI 300). Similarly, European equity markets underperformed (-9%) relative to their US counterparts (-5%) reflecting Europe's exposure to energy import costs. However, the scale of the equity price correction and the associated rise in volatility remained more contained than during previous stress events, such as the increase in US tariffs in April 2025 or the war in Ukraine in February 2022.⁷ Following the April elections in Hungary, markets reacted positively to the election outcome, with the BUX index gaining +5% in the following session to reach an all-time high and up 20% year-to-date at the end of April.

Global indices reversed their losses very quickly in the course of April and stood at +10% compared to end-25, +22% year-on-year. This was despite the uncertainties surrounding the breadth and length of the ME conflict, its medium to long-term impact on energy prices, alongside potential inflationary pressures and continued concerns over global trade policies.

US market gains (+10% in 1H26) were fuelled by strong earnings, particularly in the technology sector. Increasing concerns about market concentration, overvaluation, as well as the increasing prevalence of circular financing arrangements within the AI firms⁸, materialised in a short-lived sell-off at the end of June. As broader markets grow progressively more dependent on the continuation of current spending trajectories, the risk of a disorderly correction remains elevated.

In March, the decline in **non-financials** remained more limited (-7%) than the one observed for banks (-10%), but the recovery in the **financial sector** was faster (Chart 16). **Banks** are continuing to report robust capitalisation and high profitability levels,⁹ benefiting from a striking year-on-year increase in share prices (+53%), compared with +19% for non-financials. Valuation increases in other segments of the financial sector were more limited, with year-on-year increases of +5% for financial services and +7% for insurance.

Reflecting market pricing adjustments at the beginning of the ME war, the level of **price-to-earnings (PE) ratios** of European and US stocks declined in March 2026, before rebounding to levels higher than their historical averages (Chart A.12).

Equity market **volatility** went up sharply in March at the onset of the conflict, with both the VIX and VSTOXX indices rising before receding below their long-term average in June (Chart 15). Notably, the March 2026 VSTOXX volatility peak remained 12 index points below the levels recorded at the April 2025 peak (with VIX 21 points below its April 2025 peak).

Net short positions reported under the Short Selling Regulation in the EEA¹⁰ have been showing a gradual but sustained upward trend

⁷ ESMA (2025), [Trends, Risks and Vulnerabilities \(TRV\) Report, No. 1, 2025](#) and [Trends, Risks and Vulnerabilities \(TRV\) Report, No. 1, 2022](#).

⁸ See for instance IMF (2026), [Global Financial Stability Report](#), showing how the average correlation of equity returns of listed AI circle firms, net of effects attributable to broader stock market moves, has increased: out of 12 percentage points in cumulative returns from September

to December 2025, 7 percentage points can be attributed to correlation reinforcement effects.

⁹ See EBA (2026), [Risk dashboard, 1Q26](#), June, and ECB (2025), [Financial Stability Review](#), November.

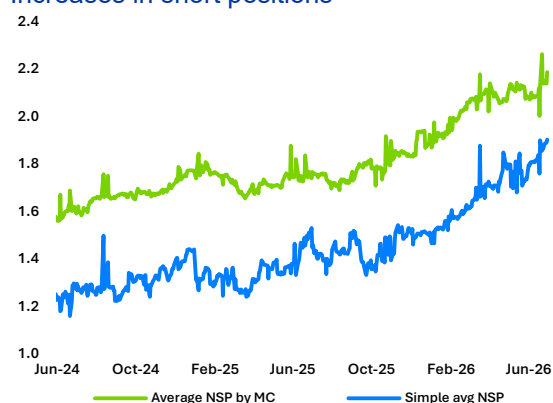
¹⁰ ESMA collects short selling data from daily reports sent by National Competent Authorities. These reports are collected under Article 11 of Regulation (EU) No 236/2012.

since April 2025 (Chart 8). This is reflecting the increasing risk of a possible market correction. Aggregate position sizes remained at elevated levels in June 2026, with hedge funds targeting companies in building construction, as well as the financial sector.¹¹ While the number of shares subject to short selling has remained stable (Chart A.44), the proportion of shares with net short positions exceeding 5% and 10% of issued share capital grew by respectively 39% and 57% year-on-year at the end of June, consistent with a deterioration of risk sentiment.

Chart 8

Net short positions in EU

Increases in short positions



Note: Average net short position (NSP) and average NSP weighted by market capitalisation (MC) for EEA shares. Only ISIN with NSPs above the legal threshold of 0.1% are considered, market capitalisation at the beginning of the year used for computations.

Sources: SSREP, FITRS, NCAs, ESMA

Fixed income: High volatility, no safe haven

Sovereign bond yields increased sharply following the onset of the war in the Middle East before receding in 2Q26, remaining slightly higher than their December levels at the end of June (Chart 17). This is reflecting upward inflationary pressures stemming from the energy price shock. At the end of March, Polish yields had increased the most (+42bps), but EA yields, such as Italian (+29bps), Spanish (+20bps), German (+15bps) and French yields (+9bps) also observed important increases. Dispersion of correlations across EU countries (Chart A.22) has been low. Especially, the increase in spreads remained contained, ranging from 14 bps (IT) to 56 bps (PL) during March, before receding to lower levels.

As for equity markets, bond markets reacted positively to the election outcome in Hungary in April. Reflecting expectations of improved fiscal credibility and a lower political risk premium, sovereign yields went down by 115bps in April, while CDS spreads narrowed by -30%.

In parallel, the US ten-year Treasury yield increased by 29bps to 4.4% at the end of June, similarly affected by inflationary pressures, but also rising government debt, with the US debt-to-GDP ratio reaching 100% in 1Q26. Those swift increases of yields confirm the evidence of increasing bond market sensitivities to inflation surprises.¹²

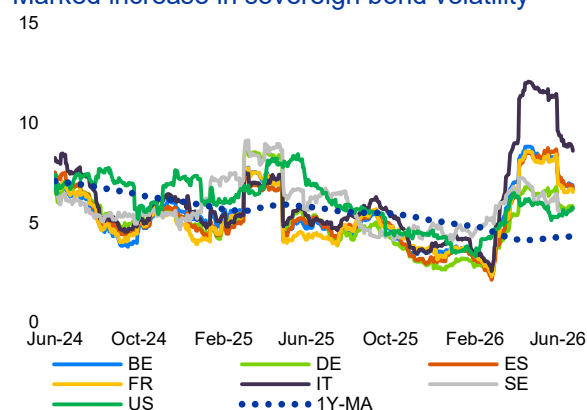
Overall, sovereign bond market volatility increased markedly across the EU and the US, reaching levels not seen since 2022, and **liquidity conditions** deteriorated in 1H26 (Chart A.27). Volatility remained elevated at the end of June, especially for PL (+5pps relative to end-2025), IT and HU (+4pps respectively).

While greater volatility in bond markets could tighten funding markets, it also has an impact on the role of sovereign bonds as safe-haven assets. Notably, the median correlation between equity and bond returns for EU countries reached its highest level recorded (Chart A.23), with a sharp increase across all Member States in March and dispersion remaining low, indicating a systemic shift. This points to a marked departure from the traditional equity-bond safe-haven dynamic.

Chart 9

EA and US 10Y sovereign bond volatility

Marked increase in sovereign bond volatility



Note: Annualised 40-day volatility of 10Y sovereign bonds, selected countries, in %. 1Y-MA=one-year moving average of EA 10Y bond indices computed by Datastream.

Sources: Refinitiv Datastream, ESMA.

With increased defence spending plans and support measures in response to the energy

¹¹ See [Hedge funds bet against builders, financial firms and energy in Europe, says Goldman Sachs](#) (2026), Reuters reporting on Goldman Sachs data, March.

¹² See ESMA TRV Risk Article (2026), [Sensitivity of the EU sovereign bond market to unexpected events](#), July.

shock, European sovereign bond issuance in the typically peak first semester reached levels close to 2025, with EUR 654bn in 1Q26 (-9% compared to 1H25), with a slight decrease in average rating (Chart A.17).

On corporate bond markets, the outbreak of the war pushed spreads to widen, especially in the high-yield segment, but they narrowed in 2Q26 to return to their pre-war levels.¹³

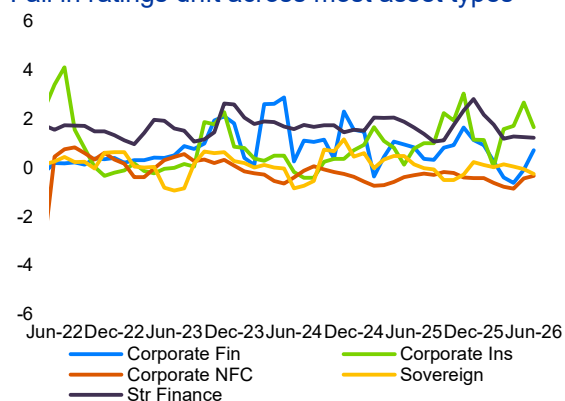
Credit quality: Stable, but outflows from US private credit

EU credit risk indicators based on rating actions reported to ESMA were largely stable over the reporting period. Ratings drift, a measure of the direction and strength of the net change in credit quality, fell gradually in ratings for EEA **corporate** non-financials, with drift becoming slightly negative. Ratings drift for financials fell more sharply and became slightly negative, before returning to positive at the end of the reporting period. In contrast insurer ratings drift grew after falling and remained positive throughout the period.

Chart 10

Ratings drift by debt type

Fall in ratings drift across most asset types



Note: 3-month moving average of net rating changes in EEA outstanding ratings from all credit rating agencies, excluding CERVED and ICAP, by asset class, computed as the percentage of upgrades minus the percentage of downgrades. Fin - Financials, Ins - Insurance, NFC - non-financials. Sources: RADAR, ESMA.

For EU **sovereigns**, ratings drift followed a generally flat trend oscillating around zero. There were upgrades for Croatia (from A- to A by S&P in March), Cyprus (from A- to A by Scope in February), Iceland (from A to A+ by Fitch in February), Ireland (AA+ to AA by S&P in March), Lithuania (A to A+ by Fitch in April) and Slovenia (from A3 to A2 by Moody's in February). While

there were downgrades for Belgium (AA to AA- by S&P in April), Finland (AA+ to AA by Scope in January) and Slovakia (A+ to A by S&P in April and A to A- by Scope in May).

For **structured finance** ratings drift fell but remained positive. The fall in ratings drift was associated with a marked drop in the drift for residential mortgage-backed securities (RMBS) and for asset backed securities (ABS) which both fell early in the reporting period but remained positive. In contrast, ratings drift for CDOs and CMBS was relatively flat. Both had near-zero drift, with CDO drift slightly positive, CMBS drift slightly negative.

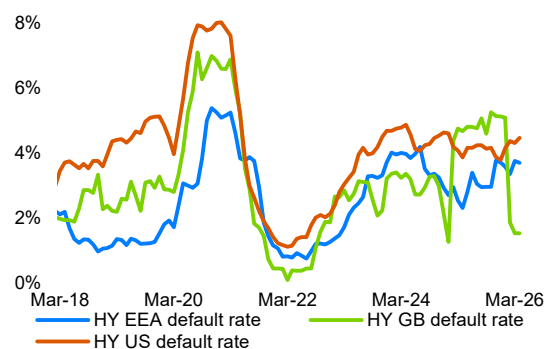
Fallen angels (investment-grade EEA ratings downgraded to high yield) fell in 1H26, to 0.08 % of corporate investment grade ratings (down from 0.13 % in 2H25) and 0.08 % of structured finance investment grade ratings (down from 0.22 % in 2H25). Levels are well below historical averages since 2015 (0.26 % for corporates and 0.22 % for structured finance). While current levels remain below average, if there were substantial market corrections – currently a risk given ongoing valuations – fallen angels could increase and with that, risks of fire-sales by investors.

Looking at **defaults**, high-yield corporates defaults rose to 1.54 % in 1H26 (from 1.0% in 2H25), exceeding historical averages (of 1.0% since 2015). Defaults for high-yield structured finance also increased to 0.28 % in 1H26 (from 0.05% in 2H25) but remained below historical averages (0.59% since 2015). There were again no reported defaults in sovereigns or in investment grade ratings in any debt category.

In line with this, among EEA high-yield non-financial corporates, the **twelve-month default rate** continued its recent upward trend, approaching recent 2024 peak levels. US high-yield non-financials default rates trends continued their largely flat trend since their April 2024 peak, also close to average levels (Chart 11). Overall, the picture reflects persistence in defaults among non-financials over the past 18 months, likely due in part to continued strain from high refinancing needs. It also suggests continuing vulnerabilities to further increases, particularly if the economic outlook were to weaken.

¹³ ECB (2026), [Economic Bulletin Issue 4](#), June.

Chart 11
EEA, US and UK 12-month non-financial default rates
EEA default rate increases toward recent highs
10%



Note: 12-month rolling default rate among non-financial corporates high yield ratings, rated by the Big 5 CRAs by region (defaults in previous 12 months as proportion of outstanding ratings 12 months ago) in percent.
Sources: RADAR, ESMA.

After the September 2025 Tricolor and First Brands bankruptcies, there were further developments in the US **private credit** market, with growing investor redemption requests from semi-liquid private BDC funds.¹⁴ These requests drove funds either to take steps to finance the additional requests or to limit them.

Requests appear to have been driven by a combination of the sudden sharp AI-driven fall in valuations for software as a service in February, to which BDC funds have sizeable exposures, alongside gradually worsening background conditions for private credit providers such as lower US interest rates reducing margins, weak economic performance outside of the technology sector, tighter spreads and signs of worsening credit quality. In addition, **lack of transparency** also appears a central risk driver. The reporting for the affected funds is infrequent, quarterly or annual. The associated infrequency and suddenness of revelations appear to further fuel investor nervousness and redemptions.

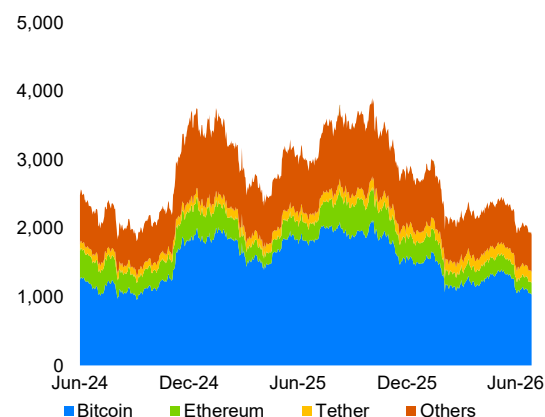
The recent developments appear to be confined to the US, with **no sign of similar issues in Europe**. The affected funds, BDCs, are US vehicles, and while some see ELTIFs as similarly easing retail investor access in the EU, sizes remain much smaller. Overall, risks to Europe from the latest private credit developments appear more likely from exposures to the US

private credit market rather than from similar developments in European private credit funds.

Crypto-assets: Downturn extends into 2026

Crypto-asset markets entered 2026 under **renewed pressure** following the strong expansion of 2024 and 2025 and the subsequent sell-off triggered by the October 2025 flash crash. In 1Q26, total crypto market value declined by around 25 %, falling to approximately EUR 2.2tn by end-March - about 44 % below the October 2025 peak (Chart 12). The drawdown coincided with tighter US monetary policy expectations and heightened geopolitical tensions, reinforcing a broader risk-off environment. Despite being one of the sharpest quarterly declines on record, the correction did not result in major failures, unlike during previous stress episodes. The market subsequently stabilised and rebounded slightly to EUR 2.4tn by mid-May, but fell back to EUR 1.9tn by end-June, marking a 28% decline year-to-date, amid persistent macro and geopolitical uncertainty, and weaker retail investor participation.

Chart 12
Crypto asset market valuation
Down further after 2025



Note: Market valuation of Bitcoin, Ethereum, Tether and other crypto-assets, in EUR bn.
Sources: CoinMarketCap, ESMA.

Price declines were broad-based, although dynamics differed across crypto-assets. Bitcoin lost 35 % in 1H26 but outperformed Ether (- 52 %) and large altcoins such as XRP (- 49 %) and Solana (- 61 %), reflecting investor

¹⁴ Semi liquid BDC funds are a form of US private credit fund that allow very limited redemptions, typically up to 5% of holdings each quarter. Funds experiencing redemption requests over the 5% quarterly limit included flagship funds such as Blue Owl ODBC II, Blackstone BCRED, Blackrock HPS and Cliffwater Corporate lending. The redemption requests were associated with retail

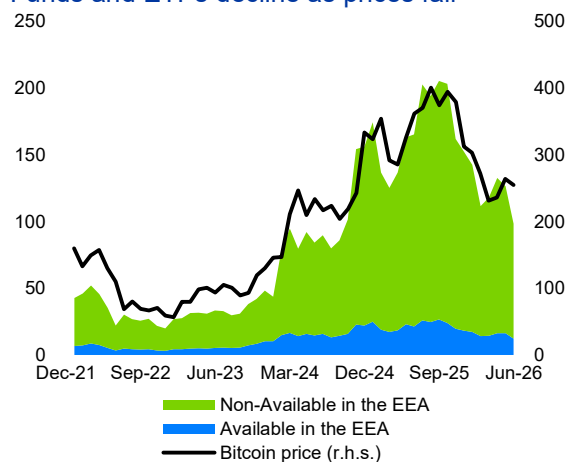
investors, who may not have fully appreciated the illiquidity of these funds. Withdrawal patterns above limits were seen at the ends of both Q1 and Q2 2026, the points when investors are permitted the limited withdrawals.

preference for the most liquid and institutionally accepted crypto-asset. Notable exceptions included Tron (+ 14 %), supported by a business model closely linked to stablecoin demand, and Hyperliquid (+ 164 %), which benefited from strong growth in decentralised perpetual futures trading.

The correction extended to **crypto investment products**, whose net asset value decreased broadly in line with underlying asset prices. As of end-June, the net asset value of US spot Bitcoin ETPs totalled EUR 62bn, representing a 36 % decline from end-2025, while that of US spot Ether ETPs stood at EUR 7bn, down 55 % over the same period. After an extended period of outflows, investors flows into spot US Bitcoin ETPs turned positive from end-February before reverting to net outflows from May, resulting in cumulative net outflows of EUR 5 bn in 1H26. Outflows from US spot Ether ETPs were even more pronounced, reaching almost EUR 2bn. Similarly, crypto investment funds and ETPs available in the EEA saw their market value decline from around EUR 18bn at end-2025 to EUR 12bn in June 2026 – a one-third decrease over the period (Chart 13).¹⁵

Chart 13

Crypto funds and exchange-traded products (ETPs)
Funds and ETPs decline as prices fall



Note: Market value of investment products linked to crypto-assets, in EUR bn.
Bitcoin price (right-hand axis) rebased at 1/1/2021 = 100.
Sources: Morningstar, Kaiko, ESMA.

Trading volumes increased temporarily during stress episodes in January and February 2026 before subsiding. Binance retained its leading

position among crypto trading platforms with a market share of around 34 % for spot trading volumes.

Elevated macro uncertainty, falling crypto prices and a broader risk-off sentiment brought the expansion of **stablecoins** to a halt. Following a year of exceptional growth in 2025, the outstanding supply stabilised in 2026 at around EUR 275bn. The market remains highly concentrated with Tether's USDT and Circle's USDC together accounting for 82% of total stablecoin value. This concentration constitutes a structural vulnerability for the crypto system, given the central role of stablecoins. Euro-denominated stablecoins authorised under MiCA continued to expand, but their market size remains marginal compared with that of global stablecoins.

From a financial stability perspective, the sharp price drop since the October 2025 peak has mechanically reduced vulnerabilities by shrinking the overall size of the crypto sector. However, this mitigating effect may prove temporary as **interlinkages** between crypto markets and the traditional financial system continue to expand through rising institutional participation, crypto investment products, stablecoins, and the integration of blockchain-based infrastructure into financial services.¹⁶ In the absence of effective regulatory safeguards, these connections could facilitate the transmission of shocks from crypto markets to the wider financial system, warranting continued monitoring.

Hack-related losses reached around USD 1bn in 1H26, less than half of the USD 2.3bn stolen during the same period in 2025. A small number of large-scale infrastructure compromises – often attributed by security analysts to highly organised, state-linked actors – accounted for the majority of financial losses.¹⁷ These included the compromise of Drift Protocol, a Solana-based decentralised exchange for perpetual futures, which was drained of approximately USD 285mn, after attackers gained administrative control over its governance and risk controls following a months-long social-engineering operation, and the exploit of KelpDAO, an Ethereum-based

¹⁵ Source, ESMA, Morningstar, using key words to screen the database. In addition to funds and ETPs providing direct exposure to crypto-assets, the figures may include funds providing indirect exposure to crypto-assets, including through shares of companies active in the crypto space.

¹⁶ Recent developments include [KBC Bank](#) launching crypto trading services for its clients (February 2026), [Morgan Stanley](#) launching the first bank-issued spot crypto ETF

(April 2026), Qivalis, a consortium of banks planning to launch a regulated euro stablecoin in 2H26, continuing to grow with [BBVA](#) and other [Spanish banks](#) joining the consortium (February and May 2026), [UBS and other Swiss banks](#) launching a sandbox to test a Swiss franc stablecoin (April 2026), [Ripple](#) receiving an Electronic Money license in Luxembourg, (February 2026)

¹⁷ TRM Labs (2026), [H1 2026 Crypto Hacks Reach Record High as Losses Fall Below USD 1 Billion | TRM Labs](#).

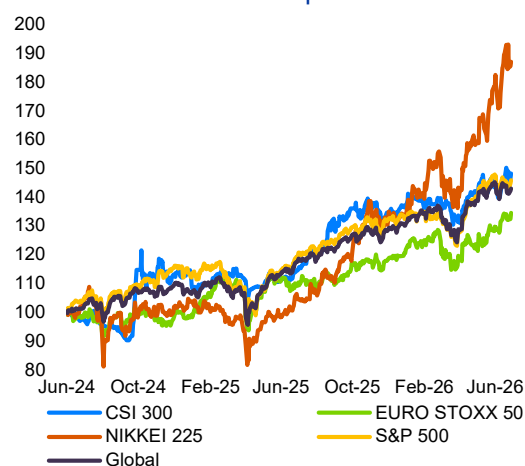
liquid restaking protocol, via manipulation of cross-chain bridge infrastructure, which resulted in around USD 290mn losses in April.¹⁸ At the same time, a rising number of smaller smart contract exploits contributed to a sharp increase in the number of hacks during the period.

¹⁸ For further details on the KelpDAO exploit and its consequences for DeFi markets, see the innovation section of this report.

Key indicators

Chart 14

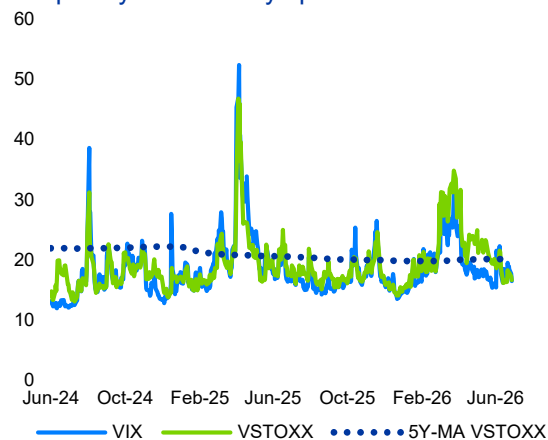
Regional equity market performance
Rebound from March despite the ME war



Note: Regional equity return indices. 01/16/2024=100.
Sources: Refinitiv Datastream, ESMA.

Chart 15

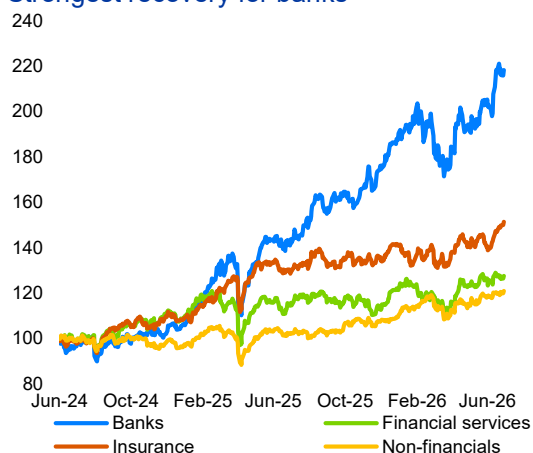
Equity market volatility indices
Temporary EU volatility spike related to ME war



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

Chart 16

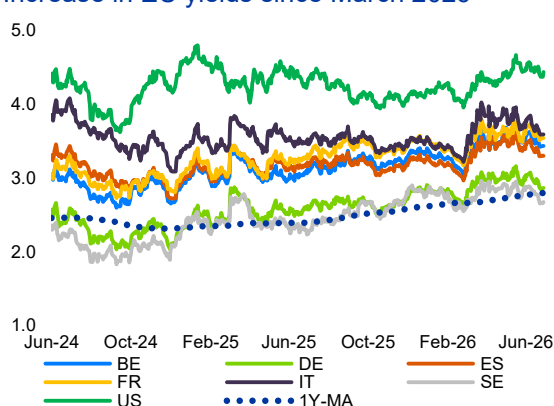
Equity price performance in Europe by sector
Strongest recovery for banks



Note: STOXX Europe 600 sectoral return indices. 01/06/2024=100.
Sources: Refinitiv Datastream, ESMA.

Chart 17

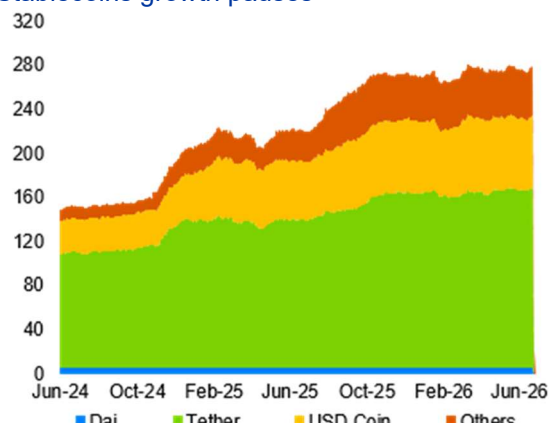
EU and US sovereign bond yields
Increase in EU yields since March 2026



Note: Yields on 10Y sovereign bonds, selected countries, in %. 1Y-MA=one-year moving average of EA 10Y bond indices computed by Datastream.
Sources: Refinitiv Datastream, ESMA.

Chart 18

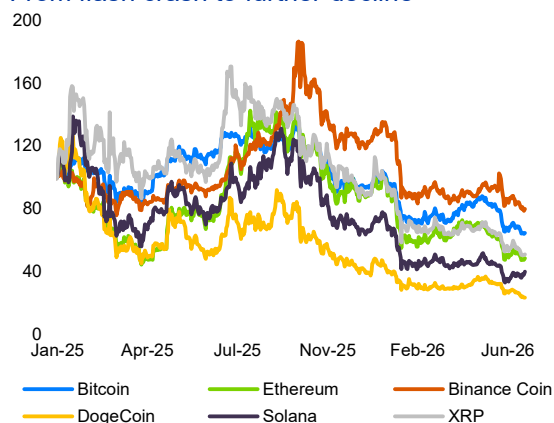
Stablecoin market valuation
Stablecoins growth pauses



Note: Market valuation of Dai, Tether, USD Coin and other stablecoins, in EUR bn.
Sources: CoinMarketCap, ESMA.

Chart 19

Crypto-asset prices
From flash crash to further decline



Note: Prices of selected crypto-assets, rebased at 1/1/25 = 100.
Sources: Kaiko, ESMA

Asset management

Flows and returns positive in a volatile environment

EU funds faced heightened **volatility** in 1H26, especially commodity funds. With the ME war they experienced a peak of volatility close to the heights of 2022 after the start of the war in Ukraine. Most other fund types also experienced a surge in volatility after the start of the ME war, but their volatility remained below the April 2025 stress episode linked to tariff uncertainty, in particular for equity funds (Chart 20).

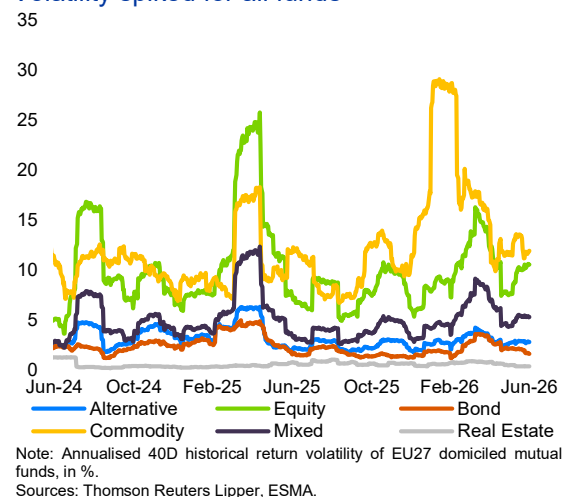
Against this background, the **performance** of investment funds was positive across most fund categories in 1H26. Commodity funds, which were already outperforming other funds in 2H25 amid initial tensions in the ME, increased their return further in 1H26 before partly receding, up to 2.3% on average over the last 12 months (31% annualised). Similarly, the performance of equity and mixed funds increased further in 2026, up to 2.0% (from 0.8%) and 1.1% (from 0.4%) respectively. In comparison, the performance of bond (0.4%) and real estate funds (0.2%) only modestly improved.

Despite the general uncertainty, **flows** were positive across most fund categories. Owing to their good performance, commodity funds received the equivalent of 10% of their NAV in inflows before mixed (3%), bond (3%) and equity funds (around 1%). However, in absolute terms, commodity funds only represent a small portion of the EU fund industry. Uncertainty was still reflected in some flow patterns. While bond fund flows were positive overall, they experienced significant outflows in March across bond types and particularly for HY corporate bonds. In contrast, only government bond funds recorded inflows in March. Similarly, flows into MMFs were significant (4%) as they can play the role of a safe asset during periods of market stress. However, it is not entirely clear whether this is the only reason, as MMFs also serve as cash management vehicles and their flows tend to be cyclical irrespective of the market environment (Chart 25).

The **size** of the EA fund sector rose to EUR 23.1tn in assets under management (+3.7% in 1H26), with around two thirds of the increase driven by valuation effects (Chart 24). While equity (34% AuM), bond (22%) and mixed funds

(18%) represent the majority of the EA fund sector, the size of other funds is also becoming significant (17%). It increased by 34% since 1H25. Other funds are heterogeneous and include about a quarter of private equity funds and a part of funds of funds.

Chart 20
EU fund volatility
Volatility spiked for all funds



IR and credit risks add to pre-existing vulnerabilities

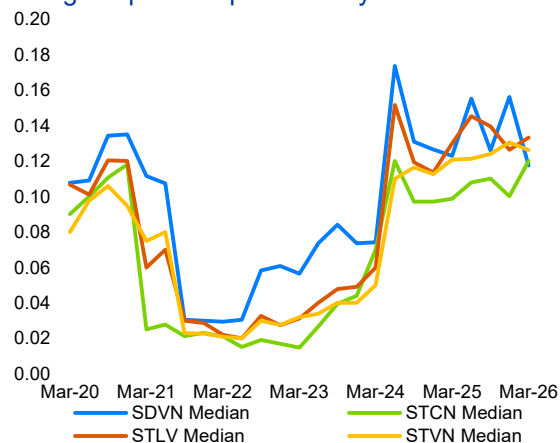
The investment fund sector has been resilient but remains exposed to **repricing risk**. This is especially the case for equity funds which are particularly exposed to the US equity market (45% of their assets). Indeed, US indices are more susceptible to a potential bubble in the technology sector, as this sector represents one third of the S&P 500 market capitalisation against 18 % technology sector exposure in the Eurostoxx 50.

For fixed income funds, the repricing risk is also related to **interest rate risk** in a context of rising inflation expectations. The effective average maturity of bond fund portfolios remained close to 7.7 years (Chart 26). However, it increased up to 5.4 years for HY bond funds, a 10-year high record (up from the 10-year low of 3.5 years in 4Q22).

With regard to MMFs, **stress tests** show a good resilience to interest rate risk. Since interest rate risk increases with duration, MMFs are generally less exposed to interest rate risk than other funds, especially since MMFs reported declining

weighted average maturity (WAM; 35 days) and weighted average liquidity (WAL; 59 days), close to their long-term average. But the current inflation particularly affects the short-term yield curve to which the MMFs are exposed. The MMF stress test scenario actually includes a significant shock to swap curves, even on the shorter maturities (EA swap rate 1Y: +130bps). The median impact is 10bps, which is among the highest reported since 2020 due to the severity of the scenario (Chart 21). However, this remains benign for most funds. Across categories, the large majority of LVNAV funds would not approach the conversion threshold (20bps). At the breach of this threshold, a LVNAV fund would have to convert to a VNAV fund. On the contrary, CNAV are relatively more impacted than in the past compared with other MMFs. This partly relates to their exposure to US assets, for which the stress scenario was slightly stronger (US swap rate 1Y: +140bps).

Chart 21
MMF interest rate stress test
Benign impact despite severity of the scenario



Note: Median impact of interest rate stress test by fund type, in % NAV. ST results are reported on a quarterly basis.

The increase of yields during an economic slowdown raises concerns over the materialisation of **credit risk**. Overall, the credit quality of bond fund portfolios has remained stable over the last twelve months, with bond fund assets rated close to A and HY fund assets rated between BB- and B+ on average (Chart 27). Regarding the direct exposure to ME assets, it is low both for UCITS (EUR 77bn, 0.6% of NAV) and AIFs (EUR 25bn, 0.3% of NAV). Eventually, credit risk is more likely to occur through specific sectors either directly dependant on oil and gas and downstream industries including fertiliser, chemicals and agriculture. EU funds are especially exposed to electric power, energy companies, gas distribution and transportation,

although some of these sectors might actually benefit from the current environment.

Private credit is still a nascent (less than EUR 0.1tn) but growing activity (+14% yearly since 2010). Given the size of the EU market risks remain limited. In the US, investment funds run by big financial firms such as KKR and Blue Owl have seen their stock prices slide in 1Q26 as investors question the quality of the loans the funds have made.

Bond fund holdings of liquid assets slightly decreased in 1H26 to a five-year low, thus reducing their resilience to **liquidity risk** (Chart 26). Overall, in the corporate bond fund category, cash holdings remain very limited (1.39 %).

In the **real estate fund** sector, flows remained slightly negative in 1H26. While prices have recovered in the residential sector, commercial property prices remain 12% below 2022 prices in the EA, which weigh on the performance of real estate funds. In that context, redemption pressure may challenge fund manager capacity to meet outflows without selling assets at distressed prices, thus prompting the recourse to liquidity management tools such as the suspension of redemption. On 25 March, UBS suspended redemptions for a maximum of three years for its German RE AIF Euroinvest Immobilien with a NAV of EUR 400Mn (See: in-depth).

Leverage of alternative funds decreased to 154% from 161% in June 2025, although it remains high in historical terms (122 % at the end of 2022) (Chart 28). In a context of heightened volatility hedge funds may benefit from trading opportunities but also be penalised by higher financing costs.

In depth: Characteristics of RE funds suspending redemption

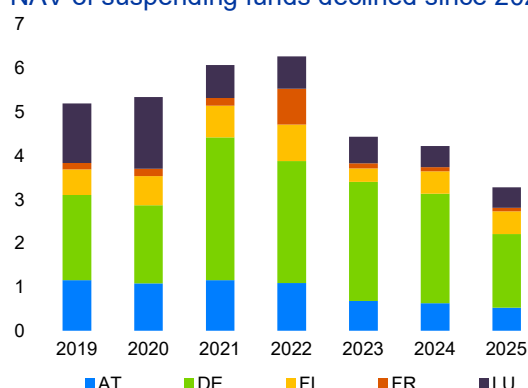
The suspension of six German RE funds in 2026 highlights the current pressure on RE funds in some jurisdictions. When managers cannot meet redemption requests, they can use liquidity management tools such as the **suspension of redemption**.

Overall, such suspension events remain isolated. At the end of 2025, the outstanding amount of suspended funds in the EU was EUR 5bn, which only represents 0.5% of the sector (Chart 22). Nor is it significant at jurisdiction level.

Chart 22

Real estate funds suspending End-2025

NAV of suspending funds declined since 2022



Note: Aggregated NAV of real estate AIFs suspending redemption at End-2025, in EUR bn, by country of domicile. Funds are included from 2019 to 2025, before and after their suspension of redemption.
Sources: AIFMD database, ESMA.

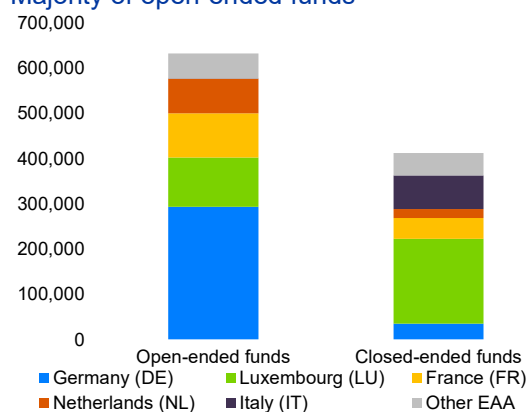
In the EU, 60% of RE funds are **open-ended**, with more than half of the closed-ended funds domiciled in IT and LU (Chart 23). In addition, some open-ended funds are closed-ended in practice due to national rules. This is, for example, the case for most of the market in France and the Netherlands where additional requirements apply, depending on the type of investor (retail or professional).

For funds offering frequent redemptions, the use of **notice periods** is an efficient way to anticipate redemption requests and proceed with asset sales, if needed. Overall, 61% in terms of the NAV of the RE funds offering daily or weekly redemptions have long notice periods (more than 6 months).¹⁹ This can be associated, for example in Germany, with a minimum holding period.

Chart 23

Open-ended and closed-ended RE

Majority of open-ended funds



Note: NAV of closed-ended and open-ended RE AIFs, by country, in EUR mn.
Sources: AIFMD Database, ESMA.

The primary reason for suspending a fund relates to the level of **redemptions**. At individual level, the suspensions coincide with a decline in NAV since 2022, and at EU level 80% of the funds which have applied redemption suspensions are domiciled in jurisdictions that have experienced net outflows since 2022 (AT, DE, FIN).

In terms of **leverage**, RE funds do not particularly stand out compared to peers. The median leverage²⁰ was not significant in 2022 and increased afterwards to 141% in 2025. This is consistent with manager borrowing to meet redemption requests.

Regarding **exposures**, two third of the suspended funds are exposed to commercial real estate, which is above the average of the sector. However, this may reflect the evolution of prices in the CRE sector, which are still 12% below 2022 prices.

The **liquidity profile** of suspended funds shows that apart from a few individual funds, liquidity mismatches do not stand out compared to peers in the same jurisdiction. Still, a majority of suspended funds had a mismatch between 3 months and 1 year, i.e. the redemption terms for investors were more frequent than the liquidity profile of their underlying assets.

Overall, few funds have suspended so far against the background of declining real estate prices and heightened outflows in some jurisdictions. But individually, they generally do not have particular characteristics that make them stand out from their peers.

¹⁹ ESMA (2026), [Annual risk assessment of leveraged AIFs in the EU](#)

²⁰ As measured under the commitment method.

Key indicators

Chart 24

EA fund assets

Valuation increases drive EA fund sector growth

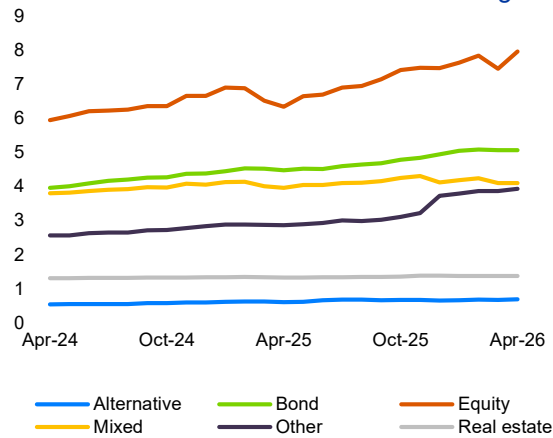


Chart 25

EU fund flows by fund type

Positive flows across categories

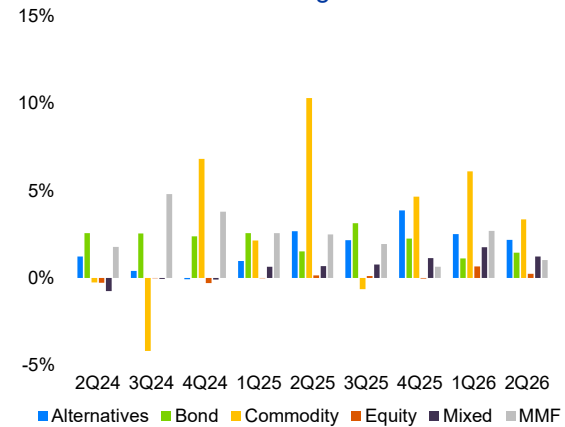


Chart 26

Liquidity and maturity risk profile of EU bond funds

HY funds increased their maturity further

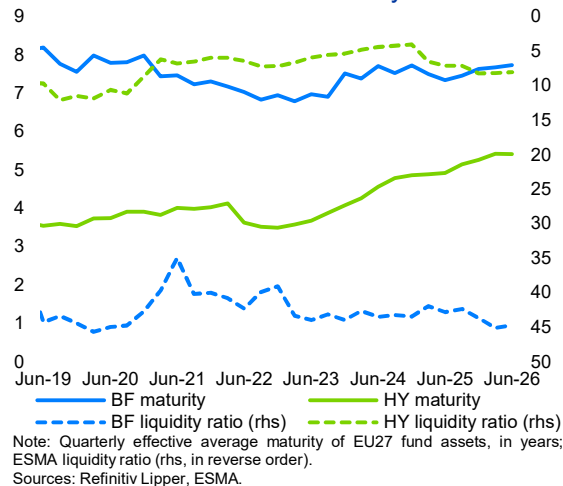


Chart 27

Credit risk

Bond fund portfolios well rated on average

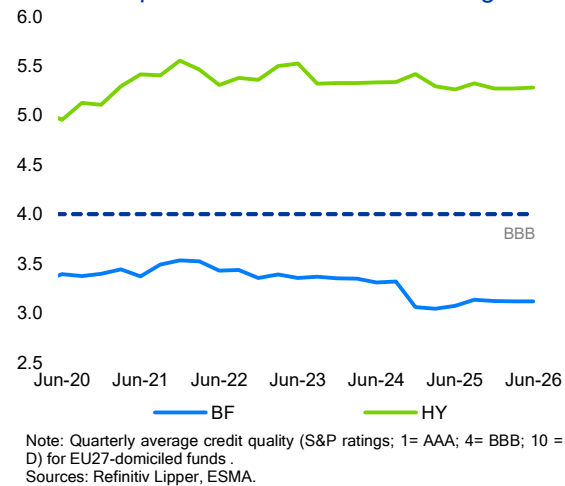


Chart 28

Financial leverage

Alternative funds leverage drops in 1Q26

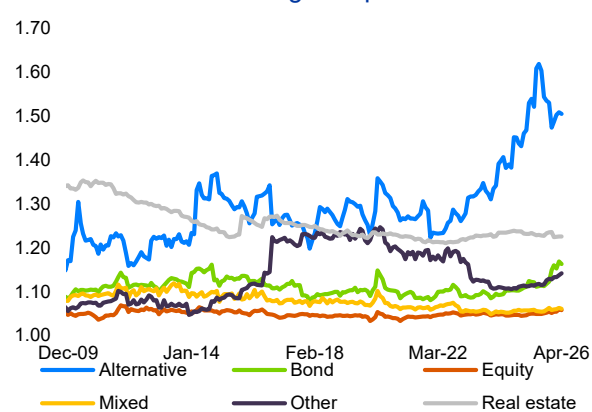
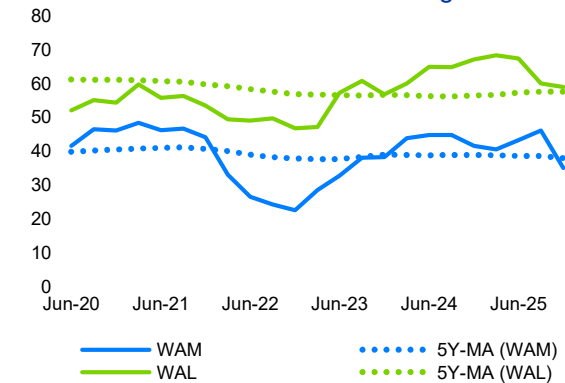


Chart 29

MMF weighted average maturity and life

WAM and WAL return to their average



Consumers

Retail investor confidence volatile

Investor confidence fell strongly in 1H26, with current market sentiment among retail investors nearing a 2Y low in April 2026 and remaining very weak by June (Chart 36). A persistently uncertain economic outlook, associated with continuing geopolitical tensions including the Iran war, and ongoing valuation risks, have resulted in highly volatile investor confidence over the last 2Y. In contrast, social media coverage of stocks has remained positive (Chart 41), suggesting a disconnect between social media activity and economic fundamentals.

Households nonetheless enjoyed a resilient **financial position**, with disposable income growth of 4 % over 2025, outstripping inflation (Chart A. 97). Annualised returns on financial assets (4.6 %) and real assets (4.7 %) were near their 5Y averages (Chart A. 100).

Retail investors continue to seek passive management

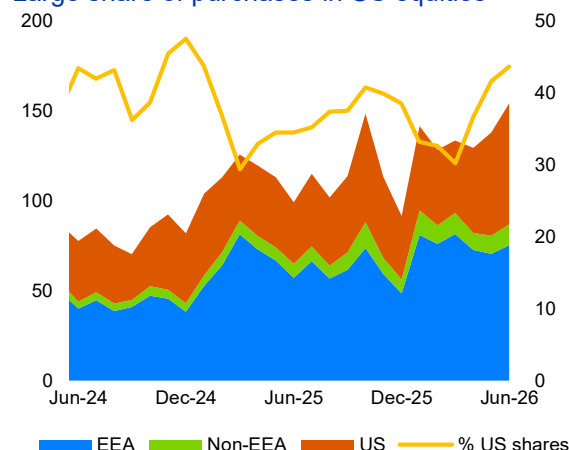
Retail inflows to ETFs, the vast majority of which are passively managed, continued to surge in 1H26, especially in the equity segment (annual inflows of EUR 298bn).²¹ In contrast, retail investors held steady in their allocation to active equity funds (inflows of EUR 0.2bn, Chart A.107). This overall **reallocation** from active to passive management has persisted since early 2022, when actively managed retail UCITS had seen a brief resurgence in demand amid high market volatility. Lower management **fees** among passively managed funds compared to their active counterparts are a structural demand driver and help account for the stronger relative performance of passive UCITS over the last 2Y (Chart A.116).

Retail investor demand for bond UCITS decreased further in 2Q26, though it remained higher than that for other asset classes. Annual inflows were EUR 31bn in 2Q26, compared with EUR 4,234bn and EUR 83 bn for equity UCITS

and mixed UCITS respectively. However, demand for direct exposure to bonds fell as of 4Q25, with near-zero inflows. Instead, households put money into bank deposits (3.3 % of disposable income), potentially reflecting precautionary saving during a time of uncertainty, and to a lesser extent bought equities or investment fund shares (2.4 %).

As examined further below in the *in-depth* section on market fragmentation, a large share of EU household wealth is in low-yielding assets, impacting the efficient long-term allocation of capital and, in turn, the effective financing of the EU's real economy.

Chart 30
EU retail investors buy-volumes in shares
Large share of purchases in US equities



Note: Monthly retail trading volumes in shares by issuer domicile, in EUR bn. Share of transactions in US shares over the total, rhs, in %.
Sources: MiFIR, ESMA.

Furthermore, direct investment in shares has been increasingly focused on US assets. Out of EUR 154 bn of monthly gross share purchases in June 2026, 44% was in US-domiciled shares (Chart 30), similar to EEA shares (49%). EU retail investors have increasingly tilted their direct exposures towards the US market in recent years (Chart 40)²².

Positive returns

The **performance of retail investments** was positive and above the 5Y average, both in nominal and real terms (Chart A.111). The 1Y-

²¹ In June 2025, 97% of UCITS ETF assets were passively managed. Source: Morningstar, Refinitiv, ESMA.

²² Net purchases of shares are calculated for investors that have open lifetime positions between 2022 and 2025

(period of data availability to ESMA). This results in a potential underestimation of net cumulative purchases.

MA of monthly gross returns stood at 0.4 % (0.2 %) in nominal (real) terms at the end of 2025. In 2Q26, **retail fund annual returns** net of costs were positive across all asset classes, though stronger for equity funds (22.2 %) than mixed (12.3 %) or bond funds (3.8 %), despite the continuing strong demand for the latter.

Levels of **complaints** rose to around 4,600 in 4Q25, following a dip the previous quarter and in line with the 2Y average (Chart A.125). In terms of MiFID services involved, most related to the execution of orders. Credit institutions were the type of firm most subject to complaints, while the most commonly cited asset class was equities (Chart A.128).

Across several major social media platforms, **numbers of messages** referring to constituent stocks in the Stoxx 600 index increased in 4Q25 before dropping back in 1H26. Despite this variation in volumes, overall social media sentiment consistently strengthened over the period, remaining near its 2Y average by June 2026 (Chart 41). This was in marked contrast to the deterioration in overall investor sentiment, which indicates that social media coverage may not be reflecting market fundamentals, thereby posing risks to investors.

Digital platforms attract new clients

Innovative, **digital-only platforms** attracted increasingly new clients over the 2Y to June 2026, averaging nearly 400,000 a month during 1H26 (Chart 38). Such platforms are convenient and accessible to many consumers. Many offer services cross-border, facilitated by the platforms' digital-only presence and the increasing automation of back-office functions. Attracted by user-friendly features and buoyed by positive market performance, increasing numbers of individuals – including those of younger age – have started using digital platforms in recent years.²³

While digital platforms bring many benefits to consumers, there are also risks, especially if investors seek concentrated exposure or engage in short-term speculation. Significant numbers of transactions are in derivatives, including complex or leverage products, as examined in depth later in this section.

Positive social media coverage of EU stocks

Retail investors are increasingly exposed to risks stemming from **social media**, where content can prompt trading activity without adequate awareness of the associated downsides. The integration of social media features directly into retail trading platforms further amplifies this influence on investment behaviour.

²³ See [TRV No. 1, 2026, Consumers section](#).

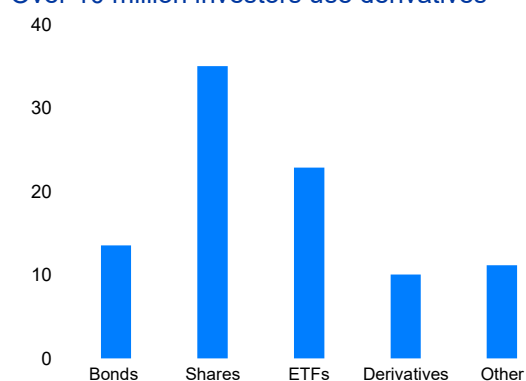
In depth: Retail transactions in derivatives

A wide range of financial products is on offer to retail investors. Almost one in ten EU adults (35 mn out of 383 mn people, or 9.1 %) bought or sold at least one share in the period 2022-25 (Chart 31). This was the highest rate of active participation among asset classes, followed by ETFs (6.0 %) and bonds (3.5%).

Investors holding a well-diversified portfolio of shares and bonds, or a broad-based ETF, for example, can generally expect a favourable risk-return profile over the longer term. Boosting participation in investments of this kind is a key objective of the Savings and Investment Union, to enable more households to benefit over the long term from activity and growth across the EU economy.

Just over 10 million retail investors (2.6% of the adult population, or 18% of all active retail investors) bought or sold derivatives or structured products during the same period. Almost all derivatives and structured products are classified as complex under MiFIR, in contrast to shares, bonds or UCITS (including almost all ETFs offered to retail).²⁴

Chart 31
Participation rate by asset class, 2022-2025
Over 10 million investors use derivatives



Note: Number of investors by asset class, mn. An investor is included if they transacted at least once in a given asset class during 2022-25. Individuals transacting in more than one asset class are counted in each relevant total. 'Derivatives' includes structured products and derivative contracts. 'Other' includes depositary receipts on shares.
Sources: MiFIR, ESMA

Beyond comparing investor numbers, transaction numbers within an asset class give some measure of the intensity of investor activity (Chart 32). A small share of complex product transactions (8%) is in structured products. Many structured products are designed to provide some degree of participation in an underlying market over several months or years, often with partial or full capital protection.²⁵

A majority of complex product transactions, however, are in leveraged derivatives, associated with shorter holding periods and speculative activity. These include Contracts for Difference (CFDs) (35%) and turbo certificates (18%), two types of leverage products with highly similar pricing and risk-return profiles, though which differ in other respects such as their legal structure.²⁶ Recent years have seen an increasing trend in numbers of turbo transactions, but not in CFD transactions. There is a possibility that some investors may be transacting in the latter as a substitute for the former.

Such products may in principle be used for hedging within an overall portfolio strategy. However, in practice they are often used for short-term speculation, exposing investors to significant risks. In such cases, high leverage leads to poor investor outcomes by magnifying the costs of investments – such as spreads or financing charges, amplifies market risk. It also increases the risk that an investor will be 'knocked out' of a position, which can in turn increase costs via repeated entering and exiting of positions.²⁷

Finally, another significant class of leverage products traded by retail investors is options (13% of complex product transactions). Options trading has been growing in popularity in recent years among retail investors. As with CFDs, options may be used either for hedging or for speculative purposes.

²⁴ The analysis of complex product transactions in this section omits AIF ETFs for simplicity, as very few are offered to retail. In most cases, depositary receipts, which are included in the "other" category in Chart 36, are non-complex.

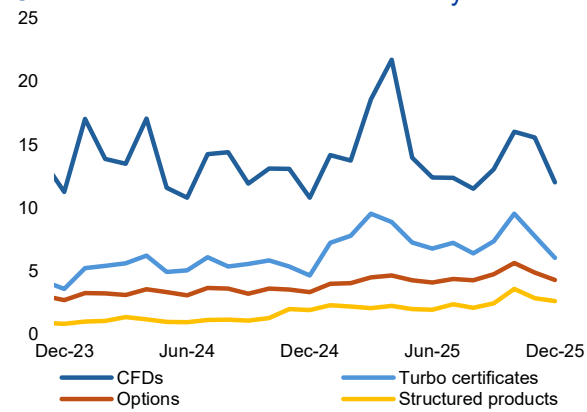
²⁵ Products held for longer periods will tend to have lower transaction numbers than those bought and sold frequently, other things equal. This partly explains why structured product transactions have a low share of the total than most other derivative types in Chart 37.

²⁶ Another key difference is that CFDs are typically OTC instruments, whereas turbos and perpetual futures are exchange traded.

²⁷ To protect investors, leverage restrictions (and other measures, such as obligatory risk warnings) were introduced by ESMA in 2018 on CFDs offered to retail clients and have since been implemented on a permanent basis at national level across the EU. In Chart 34, the downward trend in CFD transactions has been

Chart 32

Transaction numbers for selected types of complex products CFDs and turbo certificates commonly traded



Note: Monthly transactions for EU retail investors by selected types of product, millions.
Sources: MiFIR, ESMA

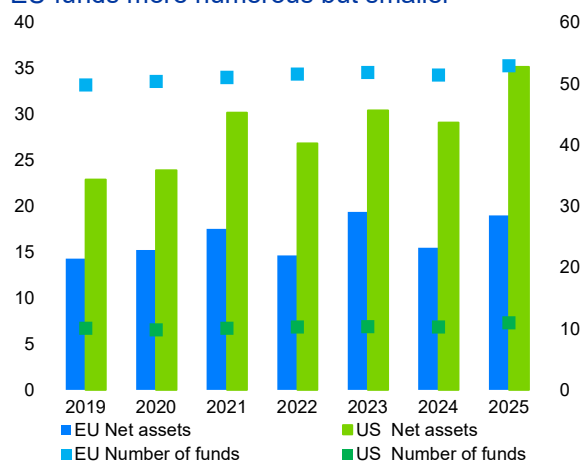
accompanied by an upward trend in turbo certificate transactions. The latter are a close substitute for CFDs, but leverage limits for turbos offered to retail are only in place in one Member State (NL). In February 2026, ESMA published a [Statement](#) reminding firms to assess whether the national product intervention measures apply to the

derivative products they offer, based on the specific product characteristics. Certain other derivatives often marketed as perpetual futures or perpetual contracts are likely to fall within the scope of the product intervention measures on CFDs.

In depth: UCITS market fragmentation

The EU is home to substantial household wealth. At end-2024 EU households held EUR 39tn in financial assets — over 200% of GDP — and less than EUR 10tn financial liabilities (55% of GDP) yet carrying a disproportionately large share in low-yielding deposits compared to their US counterparts.²⁸ This constrains both household wealth growth and the financing of the EU's productive economy.²⁹

Chart 33
EU UCITS and US mutual funds: size and number
EU funds more numerous but smaller



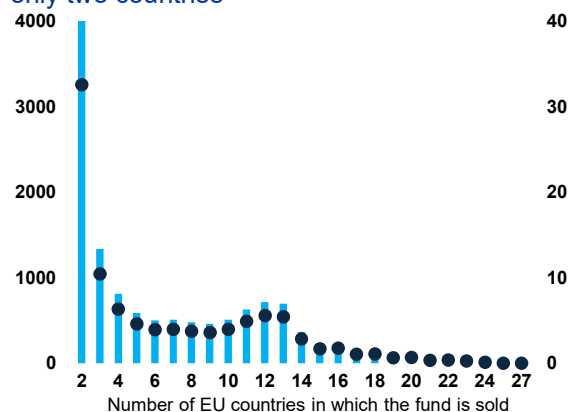
Note: US mutual funds and EU UCITS net assets, EUR million left-hand side axis, US mutual funds and EU UCITS number of funds, thousands, right-hand side axis.
Sources: Eurostat, ESMA.

Moreover, financial markets in the EU remain heavily fragmented, foregoing economies of scale and efficiency gains. There are roughly five times as many mutual funds (i.e., UCITS) as in the US, which manage a considerably larger pool of assets than EU counterparts (Chart 33). This disparity drives up costs in the EU and undermines the economies of scale that larger funds enjoy.³⁰

The cross-border marketing of UCITS in the EU is limited. More than 30% of cross-border UCITS (~4,000) are available for sale in maximum two countries (Chart 34). This may signify tension between the UCITS label intended as a single EU-wide instrument and the reality of highly localised distribution patterns (e.g., reflecting differences in regulation, distribution costs, language, etc.).

Chart 34
EU cross-border funds

Most cross-border funds available for sale in only two countries

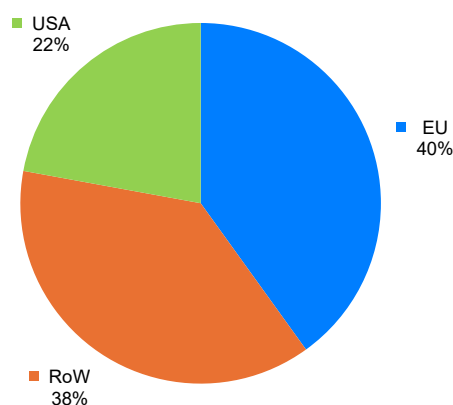


Note: Number of cross border UCITS funds by number of EU countries in which the fund is sold (left-hand side), thousands. Share of total number of cross border UCITS funds per number of countries in which a fund is sold (right-hand side), %.

Sources: Morningstar Direct, ESMA

Of the cross-border UCITS available for sale in ten or more EU countries, 60% are ultimately owned by non-EU parent companies (Chart 35). US-domiciled parents account for 22% of the total. The remainder is split between Switzerland (12%) and the United Kingdom (15%).

Chart 35
Cross-border UCITS: ultimate parent company
60% domiciled outside the EU



Note: Domicile of parent companies of cross border UCITS available for sale in more than 10 EU countries. If the managing company is part of a group, the domicile is that of the ultimate parent. RoW = Rest of the World
Sources: Morningstar Direct, ESMA

The Market Integration and Supervisory Package (MISP)³¹ shows Europe's willingness to create a single capital market and propose measures aimed to eliminate such fragmentation

²⁸ Eurostat figures.

²⁹ For further details, please see [The Draghi report on EU competitiveness](#), page 281.

³⁰ ESMA (December 2025): [The scale factor: Impact of size on EU fund cost structures](#).

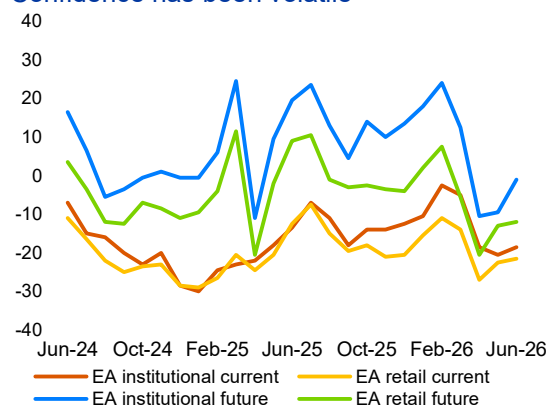
³¹ European Commission (December 2025): [Market Integration and Supervision Package](#).

Key indicators

Chart 36

Investor sentiment

Confidence has been volatile

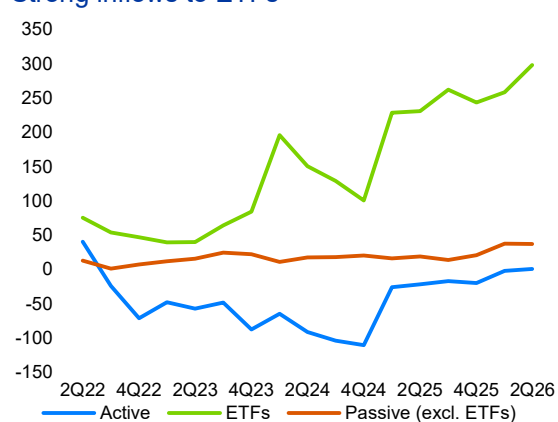


Note: Sentix Sentiment Indicators for EA retail and institutional investors; 'future' = six-month horizon). The zero benchmark is a risk-neutral position. Sources: Refinitiv Datastream, ESMA.

Chart 37

Equity UCITS net flows by type

Strong inflows to ETFs

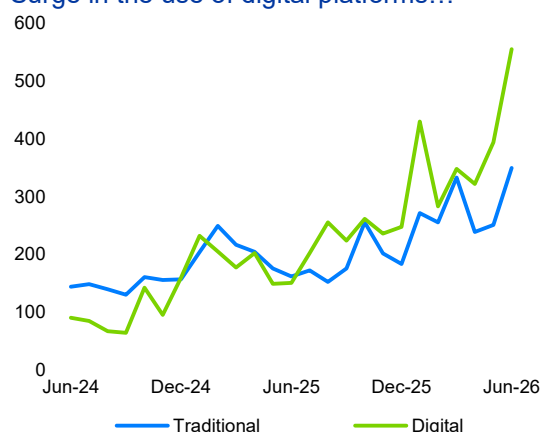


Note: EU27 equity UCITS annual net flows from retail and institutional investors at quarterly frequency by management type, EUR bn. Sources: Refinitiv Lipper, ESMA.

Chart 38

Number of new securities investors by entity type

Surge in the use of digital platforms...

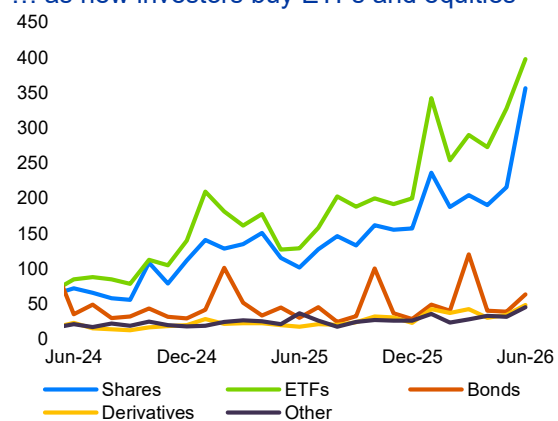


Note: Number of new investors by type of executing entity, in thousands. Digital includes a sample of 235 neo-brokers, neo-banks and other digital only investment platforms. Sources: MiFIR, ESMA.

Chart 39

Number of new securities investors by asset class

... as new investors buy ETFs and equities

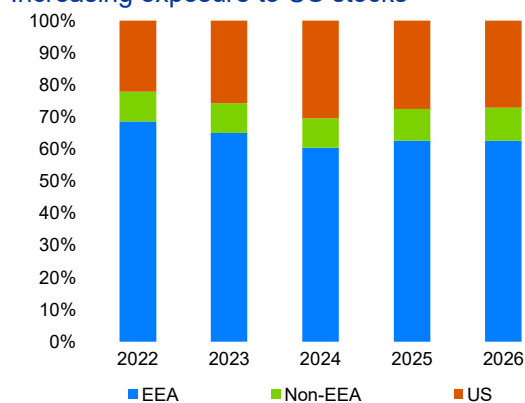


Note: Number of new investors by instrument type, in thousands. Baseline year = 2022. Sources: MiFIR, ESMA.

Chart 40

Cumulative net exposure of retail investors

Increasing exposure to US stocks

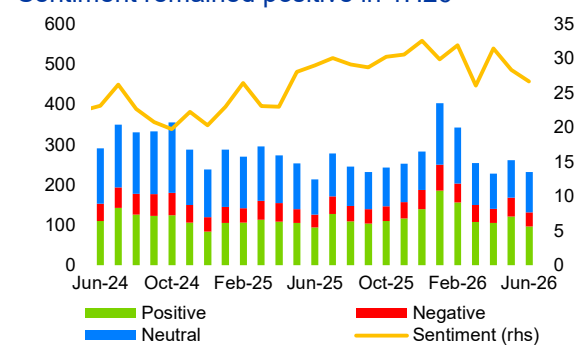


Note: Share of outstanding shares retained by retail investors by issuer domicile, in %. Sources: MiFIR, ESMA.

Chart 41

Social media messages

Sentiment remained positive in 1H26



Note: Social media messages mentioning constituents of the Stoxx 600 Index, classified by sentiment type. 'Neutral' messages are defined as the number of 'Total' messages minus 'Positive' and 'Negative', thousands. Sentiment is defined as the prevalence of positive versus negative messages as a ratio of total daily messages on the constituents of STOXX 600, %, right hand side axis (rhs). Sources: Stockpulse, ESMA.

Infrastructures and services

Cyber risks: Increasing in structural relevance

Cyber and operational risks remain **a key vulnerability** for financial markets and their infrastructures. Incident data on cyberattacks across sectors show a marked increase in activity over the last five years, with a particularly strong rise in the early 2020s and only a partial moderation more recently. At the same time, the proportion of reported incidents attributed to the financial sector has risen from low single digits to low double digits, indicating that financial institutions and market infrastructures are increasingly prominent targets. This suggests that, even as overall activity fluctuates, cyber risk for the financial sector remains structurally elevated (Chart 42).

Recent threat-landscape assessments confirm that the **finance sector remains among the most targeted** in the EU, with attacks frequently exploiting phishing, unpatched vulnerabilities and ransomware, as highlighted in the latest ENISA analysis.³² These patterns underline that financial institutions and market infrastructures face persistent exposure both to direct attacks and to disruptions transmitted through outsourced IT and other third-party service arrangements. Recent developments in **frontier AI may further affect this risk landscape**, with the emergence of advanced, cyber-capable AI models which may accelerate the exploitation of known or newly discovered vulnerabilities (see *In depth: Frontier AI and systemic cyber risks*).

For financial market **infrastructures**, cyber and operational disruptions can propagate quickly through payment, clearing and settlement chains due to the sector's high degree of interconnectedness and reliance on shared technical services. Recent evidence from other essential-service sectors with similar digital architectures – such as public administration – shows that high volumes of denial-of-service and data-related incidents frequently affect entities dependent on centralised and outsourced ICT

services.³³ These observations reinforce the relevance of upstream vulnerabilities for financial markets, particularly in environments where third-party service providers support multiple institutions or infrastructures simultaneously.

DORA has strengthened EU ICT-risk management and introduced a specific oversight framework for critical ICT third-party providers (CTPPs). In 2025, the European Supervisory Authorities published a guide on oversight activities under this regime and initiated the designation of CTPPs, with the explicit objective of addressing potential concentration and systemic risks stemming from the financial sector's reliance on a limited set of technology providers.³⁴

Taken together, available incident data and recent policy developments point to a persistent and, in structural terms, **increasing importance of cyber and operational risks** for financial markets. The financial sector has a more visible share of global cyber incidents, while infrastructures and critical service providers remain exposed to operational dependencies that can propagate shocks across participants and markets. Frontier AI-enabled cybersecurity systems add a dual-use dimension: they may strengthen defensive vulnerability discovery and remediation, while also increasing the speed and scalability of offensive activity if safeguards fail or capabilities diffuse to malicious actors. Against this backdrop, efforts to strengthen operational-resilience frameworks, enhance third-party oversight and improve incident reporting and testing are central to mitigating the potential financial-stability impact of future disruptions. Scenario-based cyber resilience exercises, threat-led penetration testing, cyber stress simulations and coordinated exercises across financial entities, FMIs and key ICT providers will be increasingly important to assess preparedness for disruptions involving shared technology providers, compressed remediation windows and AI-assisted cyber operations.

³² ENISA (2025), [Threat Landscape 2025](#), October: finance among most targeted sectors; dominant vectors include phishing (~60% of initial access), vulnerability exploitation (~21%) and ransomware as a high-impact threat.

³³ ENISA (2025), [Public Administration Threat Landscape](#), November: high incidence of DDoS (~60–64%), data-

related incidents (~17–18%), ransomware (~10%); strong dependence on centralised and outsourced ICT services.

³⁴ EBA, EIOPA, ESMA (2025), [Digital Operational Resilience Act \(DORA\): Oversight of critical third-party providers](#), 15 July 2025; and ESAs, [Designation of Critical ICT Third-Party Providers under DORA](#), 18 November.

Trading venues: Increase in equity trading volumes

EEA share trading volumes increased in 1Q26 by 34% compared to 4Q25 (+18% yoy). The larger trading volumes can be driven by the heightened volatility environment observed following the ME war, with trading volumes in March reaching EUR 1.5tn (Chart 43).

In terms of composition, the share of EEA shares trading on EEA lit markets remained stable in 1Q26 (+1pp compared to 2H25, -3pps yoy), while no significant changes were observed in the relative share of trading types in the EEA.³⁵

CCPs: Resilient through volatile energy trading

The Middle East conflict brought rapid increases and swings in energy prices from March. This in turn resulted in **large intraday margin calls** for energy-related contracts at Tier 2 CCPs. These were linked to the stress movements in energy prices, such as the peaks recorded on 9 March and 8 April. On these dates intraday margin calls respectively reached USD 13.3bn and USD 12.9bn, about a third of peak levels in 2022, when gas prices reached historic highs following the Russian invasion of Ukraine and the associated restrictions on European gas supply.

Going in more detail, there was a sharp increase in **energy-related initial margins** at the start of March (of approximately 50%). Margin levels then stabilized and slightly decreased. Recorded levels remained below 2022 energy crisis levels. 'Cover 2' stress testing loss breaches (those in excess of default fund) were recorded in March and were covered by additional margin calls. In response, the size of the affected default fund was increased by USD 1.3bn in mid-April.

Overall, the clearing ecosystem worked **in an orderly fashion** through the surge in volatility in energy markets. There were high margin calls for EU clearing members and their clients, but all margin calls were met at the relevant CCPs. And while the higher collateral requirements could have resulted in a move of trading to the OTC

space, there is no evidence that this has happened. ESMA continues to evaluate the performance of relevant margin models and continuing to monitor the impact on overall EU clearing eco-system.

Settlement: Spikes in CSD fails in early April

CSDs settled on average EUR 821tn in 283mn instructions in 4Q25 and 1Q26, according to data reported to NCAs under CSDR. In terms of settlement failures, EU CSDs experienced a spike in failure rates in both value and number terms in early April 2026 across asset classes but especially for equities, ETFs, MMIs in value terms and for UCITS in number terms. The sharp increase in settlement failure rates coincided with the announcement of a two-week ceasefire in the Iran war, an associated shift to risk-on sentiment and associated rapid market adjustments, and all of this over the Easter period.

For **Settlement Internalisers** (SetIns) average quarterly settled values in 4Q25 and 1Q26 were about EUR 264tn in 305mn instructions. Compared to the previous four quarters (4Q24 to 3Q25), SetIns covered an increased value of instructions (+17pp) on average in 4Q25 and 1Q26. This growth continues a pattern that was seen earlier in 2025. Proportions across asset classes remained similar to previous periods in terms of both number and value of instructions, with SetIns settlement mostly in equities and sovereign bonds (Charts A.148, A.150). In terms of the volumes of instructions, SetIns also covered more on average per quarter in 4Q25 and 1Q26 (+15pp) compared to the previous four quarters. Internalised settlement fail rates (average quarterly rates) in 4Q25 and 1Q26 were slightly higher than the previous four quarters in terms of the volume of instructions (4.4%, -1pp) but markedly lower in terms of value (2.8 %, - 5.7pp).

³⁵ For technical reasons, the data cutoff for trading volumes is set at end-March. The figures presented in this sub-section may differ from that in earlier TRV editions as it now relies on MiFIR transaction data for EEA shares only, enabling more precise categorization. For methodologies and categorization, see ESMA (2026), [Call for Evidence on the market structure of European equity markets](#), April. Dark trading refers here to all volumes executed under

waivers, namely the reference price and the large-in-scale waivers, as well as off-book on-exchange trades under the Negotiated Transactions waivers. In previous editions, dark trading turnover was calculated based on volumes executed on dark pools; therefore, figures are not directly comparable. Periodic auctions comprise closing and frequent batch auctions.

CRAs: Increase in number of ratings

The total **number of outstanding ratings** reported to ESMA increased by 3.2 % in 1H26, to 598,361 ratings. Relative shares were largely unchanged from 1H25 at 26 % for ratings of EEA issuers or instruments, 4 % for the UK and 53 % for the US. As in 2H25, the number of outstanding EEA ratings rose in 1H26, by 1.8 % to 155,243. As in the previous semester, the increase was seen across debt classes. Corporate ratings outstanding grew to 117,080 (+ 1632) due to an increase in the number of financial and insurance ratings. Sovereigns grew to 22,104 (+ 613), while structured finance ratings numbers continued upwards to reach 15,806 (+ 470) (Chart 47).

As in previous periods, about half of new ratings for EEA debt were issued and withdrawn by **smaller CRAs**, with 46% issued by CRAs not among the 'big three' (Fitch, Moody's, and Standard and Poor's), lower than 2H25 (- 3pp). In this reporting period, smaller CRAs' share of withdrawals of ratings, 48 % (+ 1pp) was slightly higher than in 2H25. Overall, we saw no change in the share of the smaller CRAs in outstanding long-term ratings, which remained at 36 % (Chart A.157).

The share of outstanding **ratings solicited by issuers** was unchanged remaining highly dominated by the big three CRAs (88 %, unchanged). While the Big three shares of solicited ratings in corporates and structured finance remained essentially unchanged (90% and 89% respectively) there was a fall in the Big three share for sovereigns (74 %; - 2pp). Overall, rating activity by smaller CRAs continues to be largely focused on the issuance of ratings not solicited by the debt issuer.

In depth: Frontier AI and systemic cyber risks

Since April 2026, Anthropic and OpenAI have announced several new large language models – starting with Claude Mythos Preview (Mythos) and GPT 5.5 – with an advanced capability to identify, exploit and operationalise software vulnerabilities. Models such as Mythos and GPT 5.5 can identify long-standing vulnerabilities that have escaped human and automated detection for decades, demonstrate their exploitability, and perform complex cyber tasks when embedded in appropriate workflows.³⁶ Mythos reportedly found thousands of high-severity vulnerabilities, including in major operating systems and web browsers. While these models were optimised for defensive cybersecurity tasks, they have raised concerns due to their potential malicious use for cyberattacks.

In light of these powerful capabilities, their developers have sought to restrict the access to these models to selected users or limit their usability for unintended purposes, for instance, by releasing versions with built-in safeguards that prevent misuse. Anthropic granted access to Mythos to a dozen US companies – including one banking group – which are members of so-called *Project Glasswing*, for them to test the tool and identify cyber vulnerabilities before the model is released more widely and similar AI capabilities proliferate. It subsequently granted access to over 40 additional organizations that build or maintain critical software infrastructure. OpenAI initially made available some of its most powerful models, such as GPT 5.5 Cyber, to “thousands of verified individual defenders and hundreds of teams responsible for defending critical software” through an existing cyber defence program, *Trusted Access for Cyber*.

The gradual expansion of these tools, including with the emergence of similarly capable models from different providers, may further exacerbate cyber risks in the financial system – potentially, with asymmetric impacts between organisations which had earlier access to the technology and other entities. These heightened threats have structural implications on financial entities’ defensive systems, with the need to significantly accelerate cybersecurity response capabilities due to shorter vulnerability discovery and exploitation cycles.

The high degree of interconnectedness of the financial sector means that disruptions caused by cyber-attacks facilitated by these models on systemic financial entities or their IT providers may adversely affect financial stability. If such disruptions persist for several days or affect multiple financial institutions or market infrastructures simultaneously, the consequences could extend beyond individual entities to the broader financial system and the real economy. This would elevate an operational failure into a macro-financial shock.

While the restricted access model allows some critical service providers to identify and remediate vulnerabilities early, this approach could create an important “defensive access gap” for other authorities and financial entities, which may be expected to prepare for the same threat environment without having the same ability to test, assess or use the model’s capabilities defensively. Competitive advantages for providers that obtained advance access might also lead to greater concentration of critical ICT service providers, as well as of AI providers for core finance, compliance and operational workflows.

Against a backdrop of rapidly evolving model capabilities, access arrangements and public-sector responses, existing EU regulation provides for safeguards against the risks posed by novel AI models. The Digital Operational Resilience Act (DORA) mandates financial entities to minimise ICT risks through appropriate strategies, policies, procedures, protocols and tools. Under the NIS Directive, essential and important entities shall take cybersecurity risk-management measures considering the state-of-the-art technologies. In addition, the EU AI Act introduces requirements for providers of general-purpose AI models, such as the provision of relevant technical documentation (including on state-of-the-art model evaluations, risk assessment and mitigation, incident reporting, and other cybersecurity aspects) to regulators.

Authorities call on market participants to act decisively to minimise their operational vulnerabilities and ensure their systems are

³⁶ Anthropic is simultaneously positioning its Claude models as a financial-sector operating layer, covering tasks such as know-your-customer screening and financial

statement review, thereby increasing the sector’s direct exposure to frontier AI capabilities beyond cybersecurity.

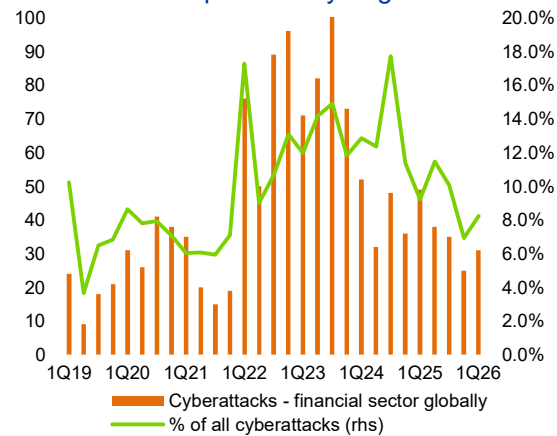
adequately prepared for the rising pace in IT risks.³⁷

³⁷ See ESA [Statement](#) and ESRB [Warning](#) on risks stemming from AI models (2026).

Key indicators

Chart 42

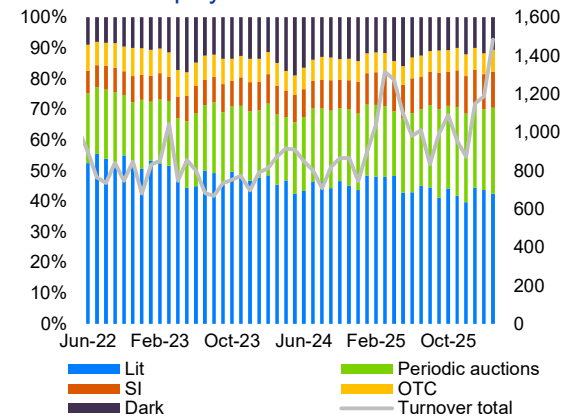
Cyberattacks on financial sector entities Financial sector persistently targeted



Note: Cyberattacks on financial sector entities globally by quarter, publicly acknowledged incidents. For details, see *Harry, C., & Gallagher, N. (2018). Classifying cyber events. Journal of Information Warfare, 17(3), 17-31.*
Sources: University of Maryland CISSM Cyber Attacks Database, ESMA.

Chart 43

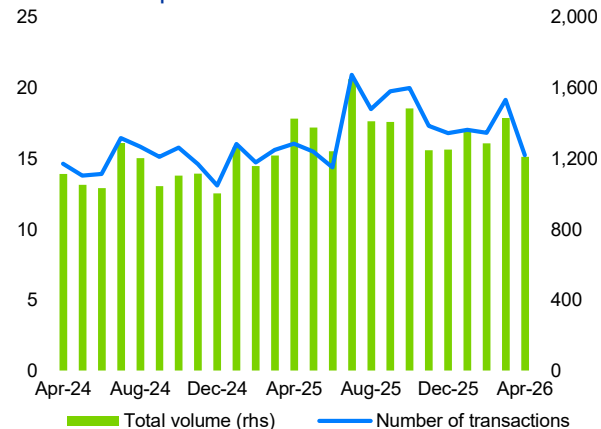
Equity trading volumes Increase in equity volumes in 1Q26



Note: Type of trading in the EEA, as a percentage of total turnover of EEA shares (lhs). Total EEA shares trading turnover in EUR bn (rhs). Last data point end-March 2026.
Sources: MiFIR transaction data, ESMA.

Chart 44

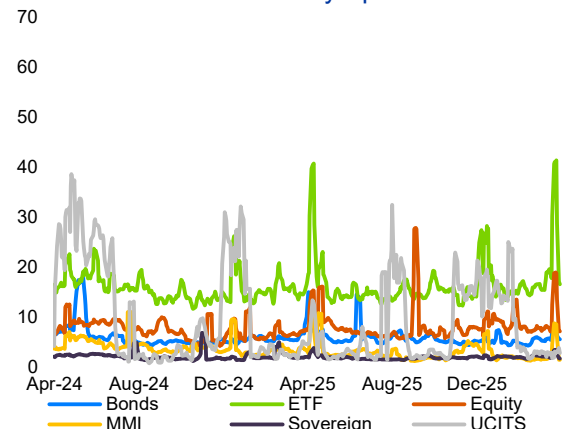
€STR rate volumes Volumes drop in 1Q26



Note: €STR monthly number of transactions, in thousands, and monthly volumes EUR tn, before trimming.
Sources: ECB, ESMA.

Chart 45

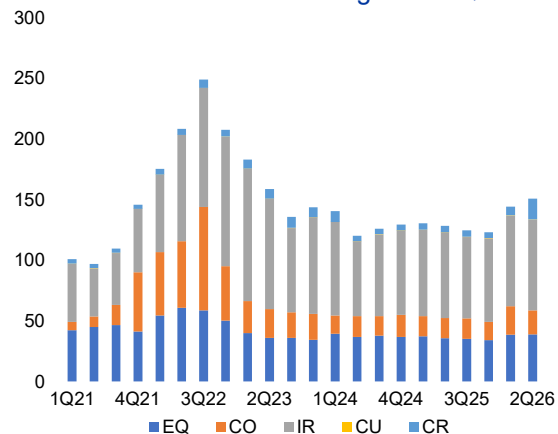
CSD settlement fail rates Peak across assets in early April



Note: Settlement fails as a % of total value of settlement instructions at EEA level. One-week moving averages. Extreme values removed.
Sources: CSDR7, ESMA.

Chart 46

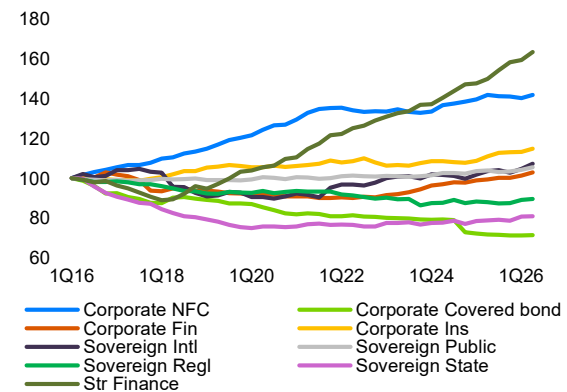
Initial margins collected by EU CCPs by asset class Marked increase in initial margins in 1Q26



Note: Outstanding amounts of initial margin required and excess collateral received by EU27 CCPs for derivatives in EUR bn.
Sources: TRs, ESMA.

Chart 47

Outstanding ratings Growth in structured finance continues



Note: Evolution of the number of outstanding EEA issuer and instrument ratings by debt category on last day of quarter, indexed at 31 March 2016=100. S&P, Moody's and Fitch. NFC - non financial, Fin - financial, Ins - insurance, Intl - international, Reg - regional. Supranational sovereigns omitted due to very small population.
Sources: RADAR, ESMA.

Structural developments

Market-based finance

Equity issuance remained subdued, with values continuing their falling trend and no clear signs of recovery in 2026. Issuance dynamics shifted across sectors and countries, with increased concentration in financials and a few jurisdictions. In contrast, **private equity activity** continued to expand (in 2025), supported by rising assets under management despite broadly stable fundraising. **Corporate bond issuance** remained strong, growing to new record levels, with gradual shifts in rating composition, sector concentration and a slight move towards shorter maturities. At the same time, refinancing pressures are also increasingly shifting to 2027-2028, creating potential risks amid uncertain interest rate and geopolitical conditions, while covered bond markets have remained broadly stable.

Equity issuance subdued as private equity activity up

Equity issuance remained subdued overall. IPO activity grew noticeably in 1Q26, reaching EUR 5.4bn, up sharply from the average EUR 1.6bn of the previous four quarters. However, follow-on issuance was only EUR 16bn in 1Q26, down from an average EUR 20bn in the preceding four quarters. Also, despite the stronger contraction in follow-on activity compared to IPOs in 1Q26, the share of IPOs in total equity issuance, calculated on a yearly-moving average basis, continued to fall, reaching 11% in 1Q26 (Chart 54).

Equity offering activity also remained weak. The number of transactions fell to 219 in 1Q26, down from the 240 average of the previous four quarters. The five-year moving average of values of IPOs and follow-on offerings also continued its decline, reaching its lowest level since 2012. In short, the data for 1Q26 do not provide evidence of a rebound.

Sectoral composition shifted in 1Q26, with a marked increase in financial issuance, to EUR 2.8bn, alongside a fall in utilities issuance to EUR 7.3bn, while industrials issuance remained similar to the previous quarter, at EUR 10.8bn. This drove a marked shift in relative shares in

equity issuance in 1Q26 as compared to 4Q25: financials (13%, + 5pps), industries and services (52%, + 3pp) and utilities, mining and energy (35%, -9pps).

From a **country perspective**, developments were mixed. 12 countries recorded an increase in equity issuance in 1Q26 compared to the 2025 quarterly average, most notably the Czech Republic, France and Spain, while 8 countries experienced a decline. As in previous periods, issuance was concentrated in a few countries: in 1Q26, for example, companies from Spain, France and Czech Republic together accounted for over half of total volumes, raising EUR 3.6bn, EUR 4.3bn, and EUR 3.8bn respectively.

In **private equity** markets EUR 75.3bn were raised in 2025 by funds located in EEA countries, a little lower than the EUR 77.7bn raised in 2024.³⁸ Investment in companies located in EEA member states was EUR 95.9bn in 2025, up from EUR 91.3bn in 2024. Of the investment in 2025, over two thirds was still in buyouts (EUR 67.7bn, up by EUR 2.5bn from 2024). This was followed by growth capital (EUR 15.8bn, up by EUR 1.2bn) and venture capital (EUR 12.3bn, up by EUR 0.8bn).

The long-term growth trend in private equity continued in 2025. According to AIFMD data, the NAV for **private equity funds** managed or marketed in the EU increased to EUR 1.1tn at the end of 2025, from EUR 930bn at the end of 2024. Of this NAV, 62 % was invested in the EEA as of the end of 2025 (+ 1pp from 2024). In terms of strategy, 29 % were focused on growth capital (- 2pps from 2024), 11 % venture capital (unchanged), 4 % mezzanine capital (- 1 pp), 3 % (unchanged) multi-strategy, with other strategies accounting for 53 % (+ 3pps).

Strong corporate bond issuance

Corporate bond issuance strengthened, reaching almost EUR 1.6tn in 1H26, increasing substantively from 2H25, up by about 55%. As a result, the five-year moving average rose to a record EUR 474bn (Chart 53). The **rating composition** also changed from 2H25. There

³⁸ Invest Europe [Activity Dashboard](#) (2026) and ESMA calculations, 7 May.

was a sizeable shift in the share of issuance rated investment grade in 1H26 (32%, +10pps from 2H25), while non-rated issuance fell (65%, - 11pps). High-yield issuance also grew to 3% in 1H26 (+1pps). Overall, the developments contributed to minimal changes in the average credit quality of rated issuances, which remained at around the midpoint between BBB and A- (Chart 57).

As for the stock of outstanding bonds, the share of investment-grade bonds continued a gradual decline from a 2017 peak (62%) to 48% at the end of 1H26, while non-rated bonds rose to approximately 48%. High-yield bonds represent a relatively small share of around 4%.

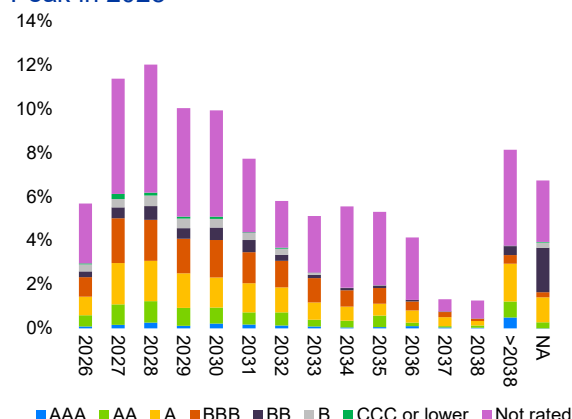
Unlike equity issuance, corporate bond issuance remained highly concentrated in the financial sector, accounting for more than 82% (+7pps, to EUR 1.3tn in 1H26) of total volumes and showing a gradual increase over the past five years. In comparison, the share of industry and services firms declined moderately to around 13% (-6pps), while utilities, mining and energy sectors continued to play only a limited role, with a stable share of around 4% (-1pps).

Short-term bond issuance showed a slight decline in the most recent quarter, reaching EUR 319bn in Q2 2026, the lowest value since 2021 (Chart 56). As a result, the share of short-term instruments in total issuance decreased to below 30%, compared with an average of around 49% over the past five years. At the same time, the average maturity of bonds with durations above 12 months stood at 8.3 years at the end of 2Q26, down from 9.6 at the end of 2025, pointing to a gradual trend towards shorter maturities (Chart 55).

Refinancing risks shift beyond 2026

Refinancing pressures are increasingly shifting into the medium term, with the peak in maturities moving from 2026 to 2027–2028. Over this period, more than EUR 3.6tn of bonds, which represent about 28% of total outstanding, will need to be refinanced. In the context of an uncertain interest rate outlook and persistent geopolitical tensions, this raises potential risks for corporates' refinancing conditions (Chart 48).

Chart 48
Outstanding debt by rating and maturity year
Peak in 2028



Note: The distribution of the total outstanding corporate bond debt by rating and year of maturity in percent. NA includes issuance amounts for corporate bonds whose maturity date is not available.
Sources: Refinitiv Eikon, ESMA.

Looking further ahead, around 54% of outstanding bonds (over EUR 7tn) are due to mature between 2029 and 2038, while only about 10% extend beyond 2038. Bonds without available maturity information account for approximately 7% of the total.

Covered bond issuance falls

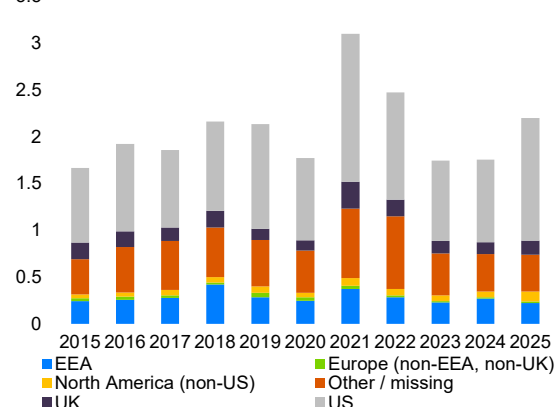
Covered bond issuance declined in 2H25, amounting to EUR 238bn, while the five-year moving average remained broadly stable at around EUR 160bn per semester for more than six years (EUR 169bn as of end 2H26). This stability is also reflected in the stock of outstanding covered bonds (with maturities above 12 months), which has remained at around EUR 2.8tn while following a very gradually increasing trend in recent years (reaching EUR 2.94tn at the end of 2H26).

In depth: Private finance in the EU – evidence on transactions

Private finance is an important source of capital financing, helping businesses to innovate and grow, and ultimately fuelling economic growth. EU markets have grown to considerable size in this segment in past years but have clearly remained far behind their potential. Their limited dynamics are confirmed by recent market data.³⁹

First, the EU (and the EEA more broadly) have only attracted a relatively small global share of private finance capital in the last 10 years (Chart 49). Moreover, the relative size of the EEA in the chart is very likely overreported given our limited commercial data access, where we lack access to some non-European private finance data. The EEA share is only about twice that of the United Kingdom despite the EEA economy being several times larger; the share is also much smaller than the US share. In short, this shows significant scope for further expansion of private capital financing in the EEA.

Chart 49
Private finance deal value split by region invested to
EU relatively small target of investment globally

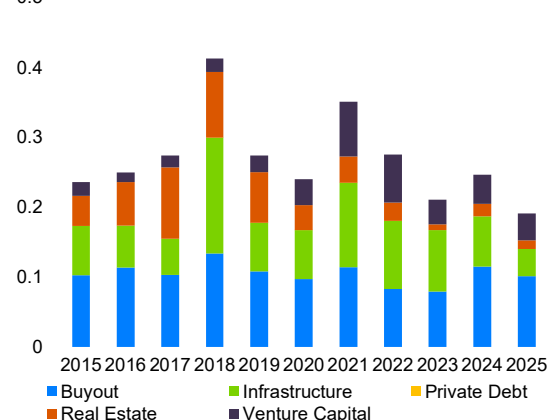


Note: Deal value by destination of investment in USD mn.
Sources: Preqin, ESMA.

Splitting the private capital invested into the EU by asset class (Chart 50), the largest share was in buyouts in most years, followed by infrastructure and then real estate. Venture capital, particularly important to fuel innovation, has the second smallest share over the whole period generally, though it surpasses real estate in the last four years, coinciding with the downturn in real estate markets. Private debt, also known as private credit, has a very small share, highlighting that while private credit has grown

over recent years, it remains relatively small in the EU and much smaller than in the US.

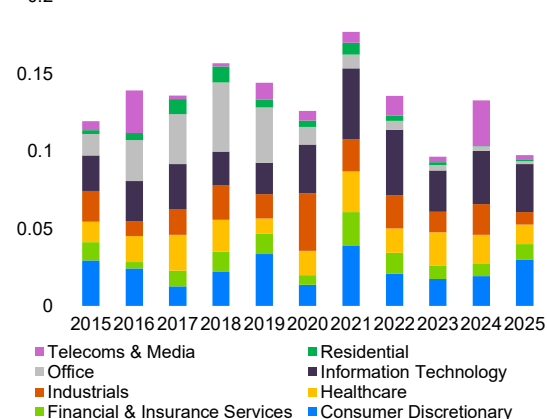
Chart 50
EU private finance deal value by asset class
Buyout deals largest, venture capital smaller



Note: EU27 destined deal by asset class in USD mn.
Sources: Preqin, ESMA.

Looking at the sectoral split of private finance investment directed to the EU, information technology is one of the largest sectors in the EU. Healthcare also shows a significant increase from 2019 to 2020 and 2021, likely linked to the surge in healthcare provision during the pandemic.

Chart 51
EU private finance deal value by sector
Information technology one of the largest in EU



Note: EU27 destined deal value by sector, for largest 8 sectors, in USD mn.
Sources: Preqin, ESMA.

These structural indicators point to the persistently low dynamism in the market segment, and further analysis is warranted to trace drivers of future growth potential.

³⁹ We use commercial data on private finance to highlight some features of private capital deals invested into the EU.

In depth: Large tech IPOs in the US: overview and implications

On June 12, **SpaceX's IPO became the largest in history**, raising USD 75bn at an implied valuation of around USD 1.8tn. Secondary-market trading pushed this implied valuation to around USD 2.1tn-2.5tn before receding below the issuing price. This issuance is part of a broader cluster of upcoming technology company issuances, including from Anthropic and OpenAI (each USD 1tn valuation, USD 60bn potential proceeds) and Databricks (USD 165bn private funding).

SpaceX valuations appear elevated when measured against current earnings metrics. Based on 2025 revenue of USD 18.7bn and a net loss of USD 4.9bn, SpaceX listed at around 95 times sales, rising above 110 to 130 times in early trading. Market pricing thus relies mainly on expectations of sizeable future revenues rather than current cash-flow generation.

SpaceX's IPO adds to a backdrop of **elevated valuations for technology stocks**, with the global IT sector trading at around 40 times earnings and 11 times book value, well above long-run global equity averages. While these premia may partly reflect expectations of structurally higher productivity, they also raise the **risk of abrupt repricing** if revenue generation proves slower or more uncertain than expected.

Leverage in the sector remains moderate, with reported debt-to-equity ratios of about 0.3–0.4 across technology segments. However, debt-financed expansion of AI-related expenditure is accelerating, with issuance projected to more than double in 2026 to USD 570bn, and large hyperscaler capital expenditure plans approaching USD 700bn annually. This trend implies increasing sensitivity to interest rates, credit spreads and project execution risks.

In publicly-traded companies where control remains concentrated and strategic plans rely on ambitious technological roadmaps, governance

and key-person risks may also be material. SpaceX's governance model appears unusually founder-centric, combining dual-class shares, concentrated executive and board roles, controlled-company status, reduced minority-shareholder recourse and anti-takeover features. These elements may weaken the usual accountability channels available to public shareholders.⁴⁰

Further factors of a **political and regulatory nature** may materially affect the valuations of large tech companies. The US administration's actions against Anthropic (linked to military AI positioning and to cybersecurity-capable AI models) illustrate that policy alignment is becoming a valuation driver for frontier AI firms.

As regards the impact of the tech IPOs on market indices, index providers differ in their eligibility rules, seasoning periods and float-adjusted weighting methodologies. For SpaceX, the immediate index impact may be limited by the low free float, estimated at around 5%, implying a relatively small float-adjusted weight in major indices.

More broadly, while market performance has gradually broadened in 2026 and several mega-cap tech stocks lagged the overall market, **US stock market concentration remains close to historical records**. As a result, broad equity indices remain sensitive to common risk factors affecting AI-related firms.

Overall, elevated valuations among large tech stocks, together with governance and political risks, increase the likelihood that adverse news or events could prompt significant revisions in expectations, while the segment's substantial weight in market indices means that any repricing could result in broader equity market corrections.

For **EU investors**, the main transmission channel is portfolio exposure. With US equities accounting for about half of EU equity UCITS' assets under management, a sharp correction in these stocks could be transmitted rapidly to EU retail and institutional portfolios.

⁴⁰ A similar structure could be used in the EU only in a moderated form. Multiple-vote shares are compatible with the EU framework, including under Directive (EU) 2024/2810 for first-time admission to trading on MTFs, but EU and national rules provide counterweights through shareholder rights, disclosure, related-party transaction

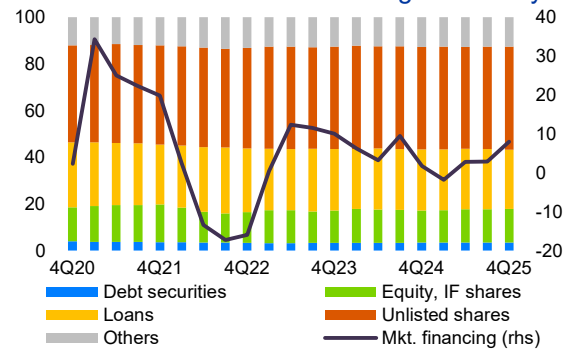
rules, investor-protection constraints and takeover principles.

Key indicators

Chart 52

Market financing

Continued rise in market financing availability



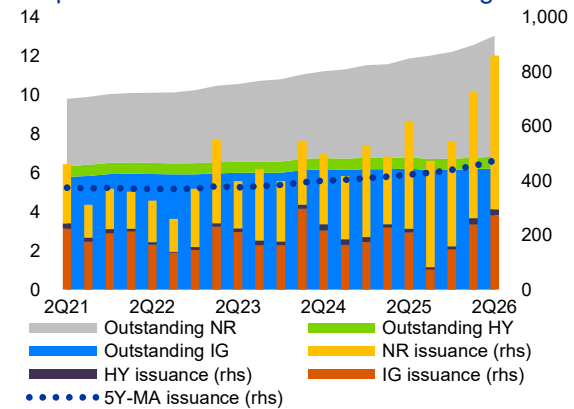
Note: Liabilities of EA non-financial corporations (NFC), by debt type as a share of total liabilities. Others include: financial derivatives and employee stock options; insurance, pensions and standardised guarantee schemes; trade credits and advances of NFC; other accounts receivable/payable. Mkt. financing (rhs)= annual growth rate in debt securities, equity and investment fund (IF) shares, in %.

Sources: ECB, ESMA.

Chart 53

Corporate bond issuance and outstanding

Corporate bond issuance remains strong



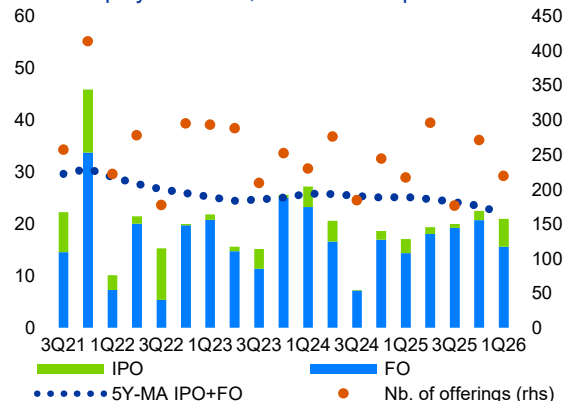
Note: Quarterly investment-grade (rating >= BBB-), high-yield (rating < BBB-) and non-rated corporate bond gross issuance in the EEA30 (rhs), EUR bn, and outstanding amounts, EUR tn. Maturities < 12 months are excluded.

Sources: Refinitiv EIKON, ESMA.

Chart 54

Equity issuance

Muted equity issuance, IPO share improves



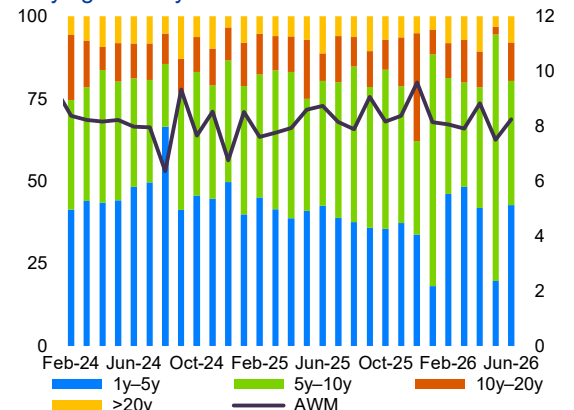
Note: Equity gross issuance in the EEA30 by type, EUR bn, and number of equity offerings. 5Y-MA=five-year moving average of the total value of equity offerings.

Sources: Refinitiv EIKON, ESMA.

Chart 55

Corporate bond issuance by maturity bucket

Varying maturity distribution in issuance



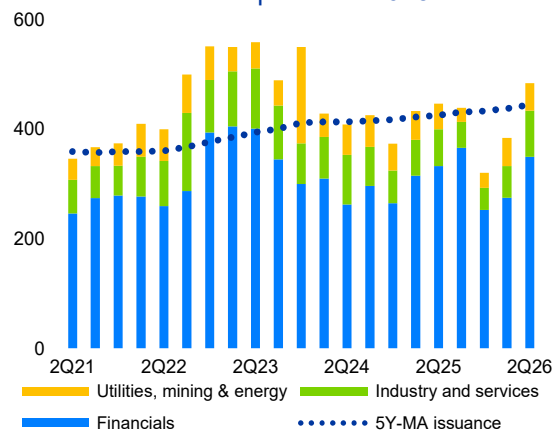
Note: Monthly share of corporate bond issuance by maturity bucket, in % (lhs) and average weighted maturity at issuance (AWM), in years (rhs).

Sources: Refinitiv Eikon, ESMA.

Chart 56

Short-term bond issuance by sector

Financial issuance dips late in 2025



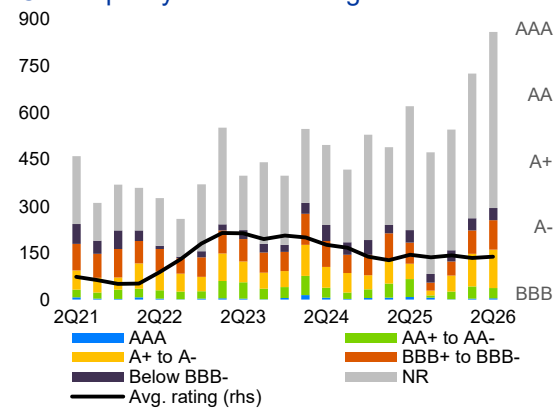
Note: Short-term corporate debt gross issuance in the EEA30 by sector, EUR bn. Short-term=Maturities < 12 months.

Sources: Refinitiv EIKON, ESMA.

Chart 57

Corporate bond issuance by rating class

Credit quality stable amid high issuance



Note: Corporate bond gross issuance in the EEA30 by rating bucket, EUR bn. Avg. rating=weighted average rating computed as a one-year moving average of ratings converted to a numerical scale (AAA=1, AA+=2, etc.) excluding non-rated bonds. Maturities < 12 months are excluded.

Sources: Refinitiv EIKON, ESMA.

Sustainable finance

Rising tensions weigh on climate policy outlook

Geopolitical fragmentation and shifting political priorities across major jurisdictions have continued to test the international consensus on climate action. Yet the escalation of the Middle East conflict in early 2026, while sending energy prices sharply higher, has brought renewed focus to the EU's need for energy independence.

Within the EU, the interaction between energy market stress and climate policy has placed the EU Emissions Trading System (ETS) at the centre of a renewed political debate. Having contributed to cutting covered-sector greenhouse gas (GHG) emissions by half since 2005 (including a two-third decrease in emissions from fuel combustion), the ETS is now entering a defining reform cycle.⁴¹ The *in-depth* analysis below examines ETS market dynamics and the implications of the upcoming reform for ETS market participants.

Moreover, EU investment in clean energy has progressively increased in the last years, with renewables now generating 50% of EU electricity and the investment ratio of renewable to unabated fossil fuel power having risen from 6:1 to 35:1 over the past decade.⁴² Yet, reaching the EU's 2030 climate targets would require EUR 842 bn per year on average between 2025 and 2030, against EUR 498 bn invested in 2023, leaving an annual gap equivalent to 2% of EU GDP.⁴³ Closing this gap requires the mobilisation of private capital at scale through EU capital markets.

Developments in primary and secondary markets, together with ESG bond issuance,

suggest early signs of improving capital mobilisation.

ESG fund flows mixed amid investors shifting allocation

Net flows in EU ESG funds remained under pressure in the first half of 2026. Funds disclosing under Article 9 of the SFDR recorded modest net outflows of EUR 0.3bn (0.3% of AuM), extending a now protracted number of quarters with outflows, while Article 8 disclosing funds attracted EUR 145bn in net inflows (2.3% of AuM). Fixed income strategies continued to be the main engine of ESG fund inflows, consistent with the broader investor rotation towards bond products and reflecting sustained demand for use-of-proceeds instruments with clearly defined sustainability benefits.

At the same time, two types of thematic equity funds recorded a meaningful recovery in flows: Transition and renewables. As shown in Chart 58, both types recorded positive average flows, especially for Article 9 funds.

Dedicated renewable energy funds, a focused universe of 49 UCITS managing EUR 17 bn, attracted EUR 2.8bnmn in net inflows (16% of AuM), with the 26 Article 9 funds in this segment managing EUR 9.1 bn recording EUR 1.3bn in inflows (14% of AuM) despite the overall outflows from SFDR Article 9 funds.

Transition funds, a related but distinct category of strategies explicitly oriented towards the low-carbon transition without exclusively targeting renewables, tell a similar story: 363 UCITS funds managing nearly EUR 207bn attracted EUR 20bn in net inflows (1% of AuM), including EUR 660mn into the 101 SFDR Article 9 transition funds managing EUR 22.5bn (2.9% of AuM).

Taken together, these flow patterns are consistent with the broader repricing of EU renewable energy equities, where the EU renewable energy index gained around 50% between January 2025 and end-June 2026, outperforming the STOXX 600, and shows early

⁴¹ See European Parliament Think Tank (2026), [Revision of the EU Emissions Trading System](#); European Commission (2025), [Five things you should know about carbon pricing](#).

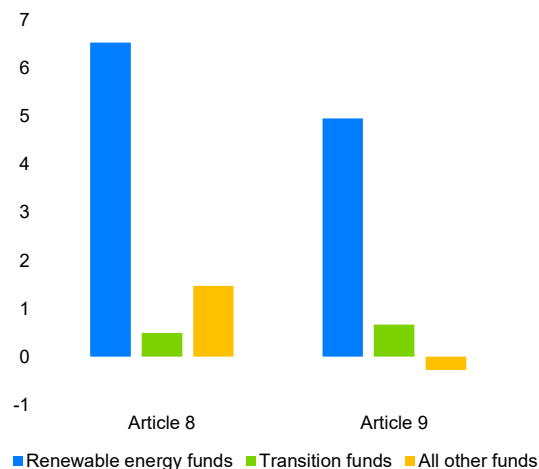
⁴² See IEA (2025), [World Energy Investment 2025 — European Union](#).

⁴³ See I4CE (2025), [The State of Europe's Climate Investment, 2025 edition](#).

signs of a more sustained shift in investor allocation towards transition-oriented strategies.

Chart 58

SFDR Article 8 and 9 average funds flows in 1H26 Transition and renewables funds attract inflows



Note: Average flows in 1H2026 (in EUR mn) into transition-named funds, renewable energy-named funds and other SFDR Article 8 and 9 funds
Sources: Morningstar, ESMA

The picture from UCITS funds is complemented by private funds data, which points to a structural build-up of capital into renewable projects over the past decade. EU alternative investment funds referencing renewable energy or transition-related words in their name have raised cumulatively over EUR 95bn and EUR 62bn respectively since 2015, with annual fundraising for renewable energy funds peaking at nearly EUR 18bn in both 2023 and 2024, while transition funds reached EUR 12bn in 2024, their highest level on record.

Fundraising moderated in 2025, partly reflecting the longer cycles typical of private markets and the broader slowdown in private fund raising. Early 2026 data, while still partial, points to a solid start to the year, with renewable energy and transition funds having already raised EUR 9.6bn and EUR 4.3bn respectively in the first months of the year. The bulk of this capital flows through infrastructure strategies, whose long-dated capital structure is well-suited to the financing of large-scale renewable energy assets and aligns naturally with the characteristics of the investment needs identified above.

ESG bond market stable as renewables UoP increase

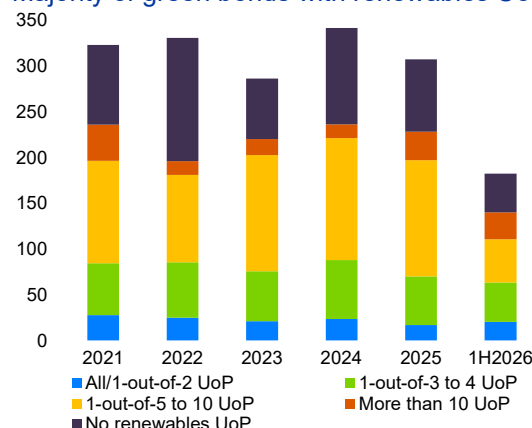
In line with the investor rotation to fixed income, the EU ESG bond market continues to expand, albeit at a slower pace as its total volume

outstanding exceeds EUR 2.8tn. Green bonds still constitute by far the largest group in terms of volume outstanding, with issuance slightly increasing during the first half of 2026 to EUR 181bn (+7% outstanding YoY). In the meantime, sustainability bonds have continued to grow rapidly, with issuance reaching EUR 24bn (+20% YoY) over the same period, highlighting rising interest in projects combining environmental and social impacts.

European-labelled Green Bonds (EuGBs) are steadily building market share and accounted for about 10% of overall EU ESG bond issuance, with the total volume outstanding reaching EUR 43bn. Especially the utilities sector continues to be a main driver of issuances for EuGBs, largely reflecting the favourable positioning of certain economic sectors towards EU Taxonomy alignment but also hint at the relevance of energy-related projects in the green bond market. Since 2021 more than 70% of EU green bond issuances had at least one of their Use of Proceeds (UoP) linked to renewable energy projects. As on average a green bond issuance defines about five UoP (Chart 59), the volume issued does not correspond directly to total financing of renewable energy projects but highlights the role of the green bond market in the energy transition.

Chart 59

EU green bond issuance by renewables UoP Majority of green bonds with renewables UoP



Note: Issued volumes of EU ESG bonds in bn EUR by share of renewable energy project-related Use of Proceeds.
Sources: LSEG, ESMA

In depth: EU Emissions Trading System – new targets

Notwithstanding recent geopolitical news, the EU adopted earlier this year a set of new targets charting out its course towards a carbon neutral economy. The revised EU climate law foresees that the EU will reduce net GHG emissions by 90% by 2040 compared with 1990 levels.

The EU is currently on track to meet its 2030 objective of reducing emissions by 55% compared with 1990 levels⁴⁴. This is mainly thanks to decarbonisation policy tools such as the EU ETS and other policy initiatives regrouped under the so-called ‘Fit-for-55’ package. However, given the international context, some have blamed the EU’s compliance carbon market for pushing up electricity bills and damaging the EU’s business competitiveness.

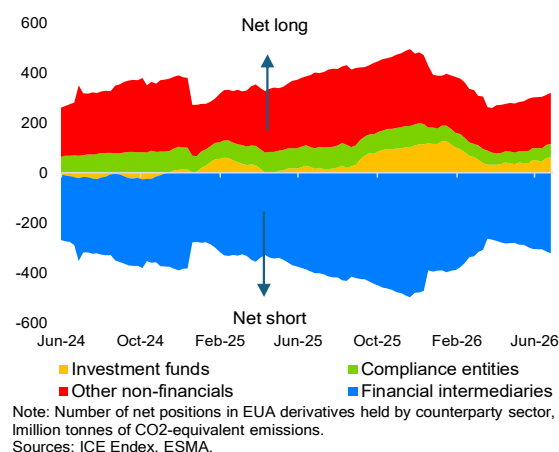
Criticisms of the EU ETS usually focus on the high carbon price and on the alleged detrimental effects of financial speculation for businesses. In June 2026 EU emission allowance (EUA) prices stood at EUR 78 per tonne of CO₂-equivalent emission, slightly above their 2025 average and 20% below their peak in 2023 (Chart 66). This was the highest of any emissions trading system in the world.⁴⁵ While the energy supply glut and higher energy prices may lead to higher EUA demand in the near term from switching to coal in power generation, efforts to accelerate the transition to renewables and reduce dependencies to fossil energy imports from non-EU countries may lead to lower demand in the long term. One reason for the current pushback is that companies in the industrial sector will stop receiving free allocations in 2026. Until last year, allowances were given out for free to sectors at risk of ‘carbon leakage’ (i.e. moving carbon-intensive activities outside the EU). The recent start of the EU’s Carbon Border Adjustment Mechanism, a carbon-price based tax on EU imports, means that these free allocations can be phased out.

While the EU ETS does impose an additional cost on specific sectors, its impact on electricity prices is less significant in countries where electricity generation is less carbon intensive⁴⁶. Moreover, ETS-driven energy sector decarbonisation

helped to some extent reduce EU vulnerability to fossil fuel price movements. The relative impact of the current energy crisis thus mainly seems to reflect different national strategies with respect to energy sources, and uneven business response to carbon price signals.

The other main criticism centres on the role of financial sector participants in this market. The EU ETS is organised in a way that facilitates the flow of EUAs from financial intermediaries to companies within the ETS scope. Once a year, businesses with compliance obligations must surrender allowances corresponding to their GHG emissions from the previous year. To do so, they often rely on financial institutions which acquire EUAs on their behalf through auctions, spot and derivative transactions⁴⁷. Derivative markets in particular play a key role by allowing compliance entities to lock in prices in advance using futures contracts (Chart 60).

Chart 60
EUA derivative positions
EU businesses buy allowances from financials



This arrangement reduces carbon price uncertainty for EU businesses, helping to free up cash and supporting corporate investments.

However, ETS market access by financial sector participants is occasionally perceived negatively as those may pursue speculative strategies, such as building long positions to bet on carbon price increases. This has led to calls for curtailing financial sector participants’ access to the market, despite the broader benefits they can provide in terms of liquidity, price discovery and hedging opportunities for compliance entities.

⁴⁴ European Commission, [EU Climate Action Progress Report 2025](#), November.

⁴⁵ World Bank, [State and Trends of Global Carbon Pricing 2025](#).

⁴⁶ ECB, [Drivers of electricity prices across households and energy-intensive industries and their importance for the](#)

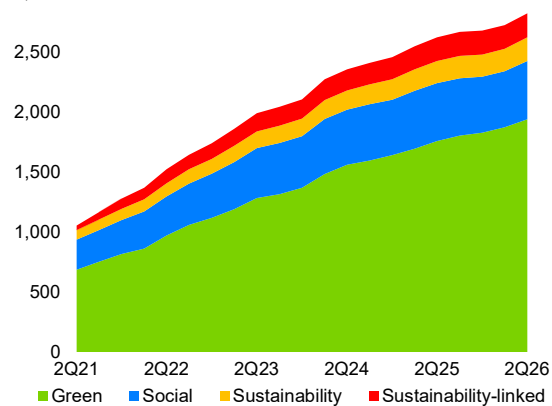
[EU’s decarbonisation objectives](#), Economic Bulletin issue 1/2026.

⁴⁷ For further explanations on the EU ETS market organisation, see ESMA [EU carbon markets report 2025](#).

Key indicators

Chart 61

EU ESG bonds outstanding
Market grows at slightly slower pace

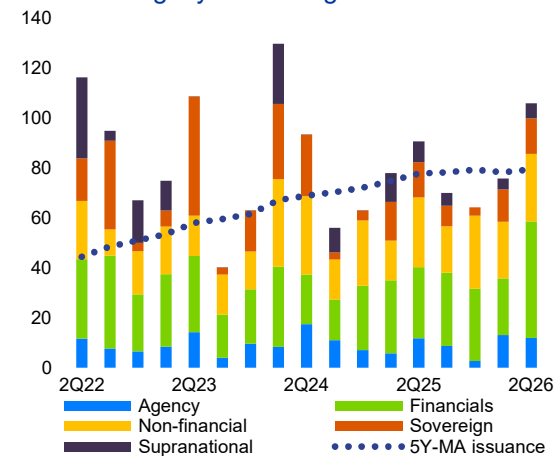


Note: Total amount of ESG bonds outstanding issued by EEA30-domiciled issuers, EUR bn.

Sources: Refinitiv EIKON, ESMA.

Chart 62

Green bond quarterly issuance
Issuance slightly increasing

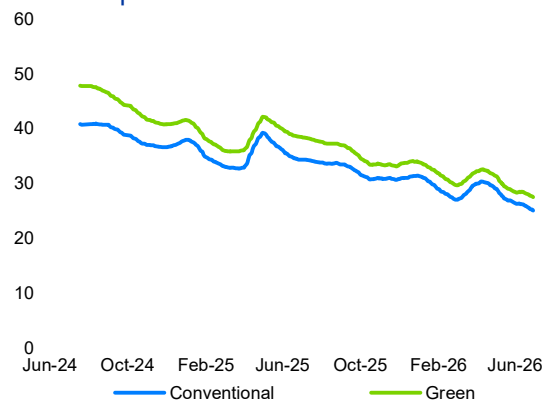


Note: Green bond gross issuance in the EEA30 by sector, EUR bn.

Sources: Refinitiv EIKON, ESMA.

Chart 63

Corporate green bond and conventional bond liquidity
Bid-ask spreads continue to narrow

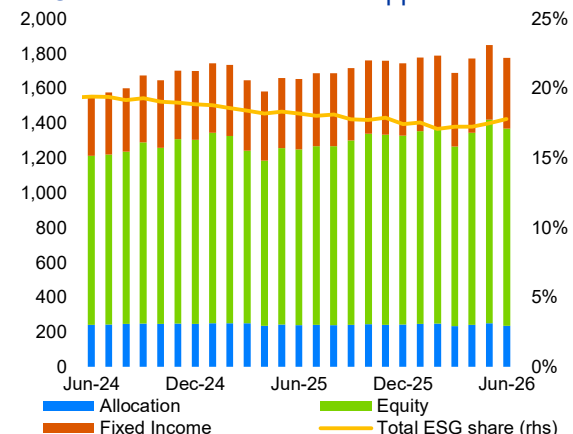


Note: One-month moving average of the bid-ask spread of green and conventional bonds from green bond issuers included in the Markit iBoxx EUR Corporate bond index, in bps.

Sources: IHS Markit, ESMA.

Chart 64

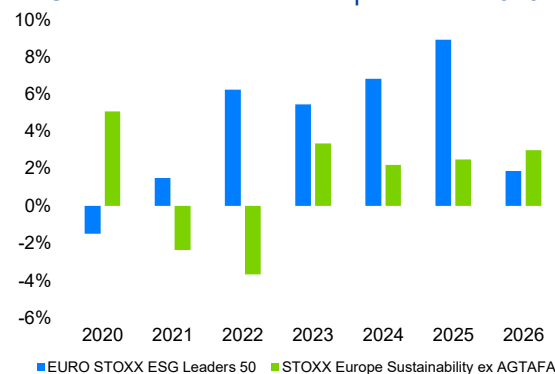
ESG fund assets
ESG fund market share down 1pp in 12 months



Note: AUM of EU-domiciled ESG funds by fund type, EUR billion, and share of ESG funds in total EU fund assets (right axis), in %.

Chart 65

ESG vs. broad market index performance
ESG indices continued to outperform in 2026



Note: Annual returns of the STOXX ESG Leaders 50 index (best-in-class strategy) and STOXX Europe Sustainability excl. Alcohol, Gambling, Tobacco, Armaments & Firearms, and Adult Entertainment (AGTAF, positive screening and exclusion-based strategy) measured as relative difference to the STOXX Europe 600, in percentage points. 2025 data as of end-November.

Sources: Refinitiv Datastream, ESMA.

Chart 66

Emission allowance prices
Carbon prices increasing but far from Jan peak



Note: Daily settlement price of European Emission Allowances (EUA) on European Energy Exchange spot market, in EUR/tCO₂.

Sources: Refinitiv Datastream, ESMA.

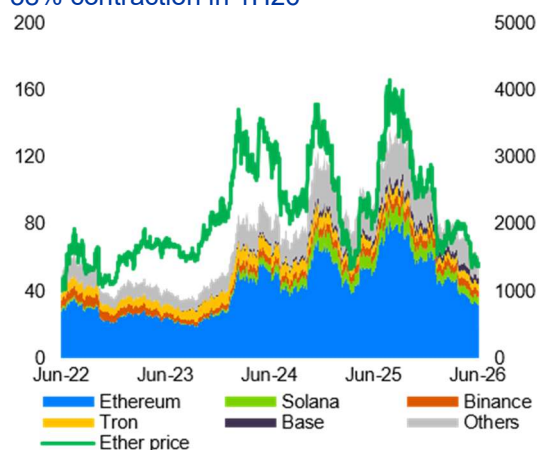
Financial innovation

DeFi: Exploits raise new concerns

Chart 67

DeFi Total Value Locked (TVL) by chain

38% contraction in 1H26



Note: Daily TVL by blockchain (EUR bn) and Ether price (EUR, right axis).
Sources: DefiLlama, Kaiko, ESMA.

Total Value Locked (TVL) in decentralised finance (DeFi) protocols fell by 38 % in 1H26 to EUR 70bn, reflecting both the depreciation of major crypto-assets and the large outflows following the KelpDAO exploit (Chart 67). On 18 April 2026, attackers exploited a vulnerability in KelpDAO's LayerZero cross-chain bridge to mint around USD 290mn of unbacked rsETH and use it as collateral to borrow assets on lending protocols. Once detected, the collateral proved worthless, leaving protocols with significant bad debt and triggering severe liquidity stress, market freezes and emergency interventions. The shock spread across interconnected protocols, prompting a system-wide loss of confidence and an estimated USD 10-15bn in withdrawals, thereby reinforcing concerns around operational resilience and interconnectedness in DeFi markets – issues already highlighted by the Drift Protocol exploit earlier in the month, albeit with more contained consequences.

This contraction coincided with a continued decline in active users, returning to early-2024 levels and well below the mid-2025 peak.⁴⁸ Following a surge in mid-2025, the relative share of decentralised exchanges (DEXs) relative to centralised exchanges in total spot crypto trading volumes plateaued at around 14% in January 2026.⁴⁹ Perpetual futures activity remained elevated but below late-2025 highs.⁵⁰ Ethereum retained its dominance, accounting for 53 % of total TVL in June 2026, compared with 58 % at end-2025.

AI-sector funds keep growing

The rapid scaling of **AI-related infrastructure investment** has been a defining feature of the current valuation cycle, amid a sustained drive to expand the compute capacity and data storage underpinning AI development. Some asset managers appear to have aligned product design with this key driver of market interest, launching new **AI-themed investment funds** that target firms positioned to benefit from the expansion of AI-related infrastructure, such as data centre operators and semiconductor manufacturers.⁵¹

This thematic shift, together with sustained market confidence in AI-driven growth, has contributed to the continued expansion of UCITS products mentioning AI or related terms in their name, even as overall launch activity has moderated since 2025 (Chart 68). Overall, the number of AI-branded funds in the EU rose from 79 in June 2025 to 97 in June 2026, continuing a trend observed in recent years.⁵² This growth has been driven by funds that select the AI industry sector as their core investment focus, either through active investment strategies (40 open-end funds and 5 ETFs) or by tracking AI-related sectoral indices (16 ETFs). By contrast, the number of funds promoting the use of AI in their

⁴⁸ According to the data provider Statista, the number of unique addresses that bought or sold assets on DeFi decreased from a peak of 27.7mn in May 2025 to 2.6mn in May 2026, representing a 90% drop in a year.

⁴⁹ CoinGecko (2026), [CEX & DEX Trading Activity Report 2026 | CoinGecko](#).

⁵⁰ Source: DefiLlama: [Perp Volume by Protocol - DefiLlama](#)

⁵¹ Underscoring how the AI boom is fuelling massive demand for computing power, US derivatives exchange CME Group recently announced plans for a futures

market for AI computing power. Financial Times (2026), [CME plans to launch futures market for AI computing power](#), 12 May.

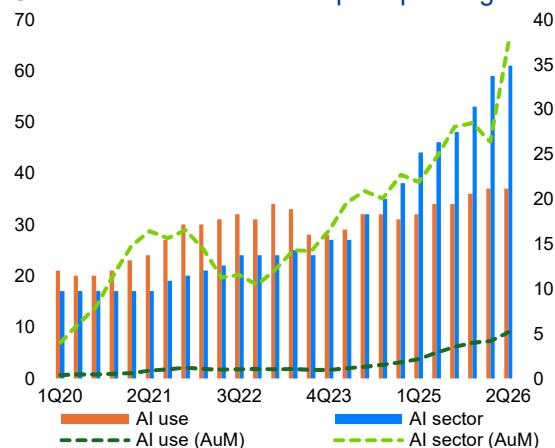
⁵² These figures are based on an ESMA analysis of over 80,000 open-end and exchange-traded funds over time. The terms considered were "artificial intelligence", "machine learning", their abbreviations and their translations.

investment process (e.g. as part of quantitative investment models) has increased only slightly over the past year to 37 products, representing a smaller market segment.⁵³

Chart 68

Investment funds with AI-related names

Offer of AI-sector funds keeps expanding



Note: Number (left axis) and AuM (right axis, EUR bn) of EU funds that have the terms "artificial intelligence" or "machine learning" in their name and that either use AI in their investment strategy or invest in the AI sector.
Sources: Morningstar, ESMA

AI infrastructure investments have been supported by substantial capital expenditure from so-called tech hyperscalers, with some corporations shifting from cash to debt financing, a significant share of which has been provided by private credit.⁵⁴ Against a backdrop of elevated valuations supported by expectations of sustained AI-driven growth, the increasing reliance on debt financing may introduce additional fragilities in the event of a downturn in the AI investment cycle (see "Securities markets and crypto-assets" section).

Recent developments in frontier AI may further affect the risk landscape. Advanced large language models, such as Anthropic's Mythos and GPT-5.5-Cyber, can help identify and remediate **cybersecurity weaknesses** in financial institutions' ICT systems. However, if used by threat actors, they may facilitate the discovery and exploitation of vulnerabilities (see *In depth: Frontier AI and systemic cyber risks*).

Quantum computing: Startup funding accelerates

Although quantum computing remains at an early stage of maturity, the associated ecosystem is expanding rapidly, marked by strong growth in firm creation and investment. Some financial institutions are engaging in early-stage quantum computing experimentation, often through proofs of concept developed with technology firms, reflecting the potential for quantum algorithms to significantly enhance certain finance-related tasks. Potential use cases span optimisation problems (e.g. for portfolio management or trade settlement), stochastic modelling (e.g. for asset pricing or risk management), machine learning applications (e.g. for credit rating or fraud detection), and quantum-enabled blockchain technologies.⁵⁵

In 2025, global **investment in quantum computing firms** reached record levels, reflecting elevated market expectations regarding their longer-term commercial prospects. Venture capital accounted for a significant share of funding. US-based quantum startups led fundraising activity, exceeding EUR 2bn, driven by a few large deals (Chart 69).⁵⁶ Venture capital raised by EU-based quantum computing startups also increased significantly, reaching approximately EUR 950mn across 25 deals and accounting for around 2% of total venture funding to EU companies in 2025. Underscoring supportive investor sentiment, three US-based quantum computing startups went public between February and March 2026, with five more (three of which are European) expected to follow by the end of the year. While the EU benefits from strong research capabilities and has a solid base of startups, the US remains the leading recipient and provider of funding within the quantum ecosystem.⁵⁷

⁵³ The trend detected in fund names appears consistent with a more detailed ESMA analysis of funds' documents, which found that 106 EU funds advertised their use of AI in regulatory and marketing documents as of 1Q24 – fewer than a 2023 peak of 115. See ESMA TRV Risk Analysis (2025), [Artificial intelligence in EU investment funds: adoption, strategies and portfolio exposures](#), February.

⁵⁴ Bloomberg (2026), [The \\$3 Trillion AI Data Center Build-Out Becomes All-Consuming For Debt Markets](#), February.

⁵⁵ For more information, see ESMA (2026), [Quantum computing in financial markets: applications, investments and prospects](#), May.

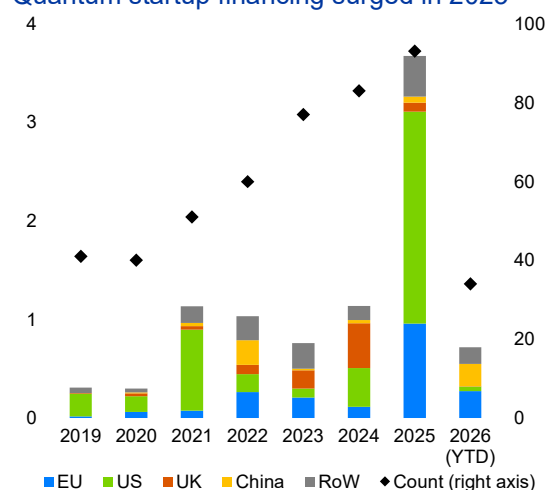
⁵⁶ In particular, US-based companies PsiQuantum and Quantinuum raised respectively EUR 910mn and EUR 762mn.

⁵⁷ EPO/OECD (2025), [Mapping the global quantum ecosystem: A comprehensive analysis based on innovation, firm, investment, skills, trade and policy data](#), December.

Chart 69

Venture funding to quantum computing startups

Quantum startup financing surged in 2025



Note: Volume of venture capital deals (EUR bn) involving quantum computing companies (excluding exits) by company domicile and total number of deals (right axis). Data as of 7 April 2026. RoW = rest of the world.

Sources: Preqin, ESMA

Alongside these opportunities, sufficiently powerful quantum computers could pose a **significant threat to cybersecurity**, as they could undermine some widely used cryptographic protocols. Against this background, initiatives are underway to support the transition to quantum-resistant encryption methods in the financial sector and across the broader economy.⁵⁸

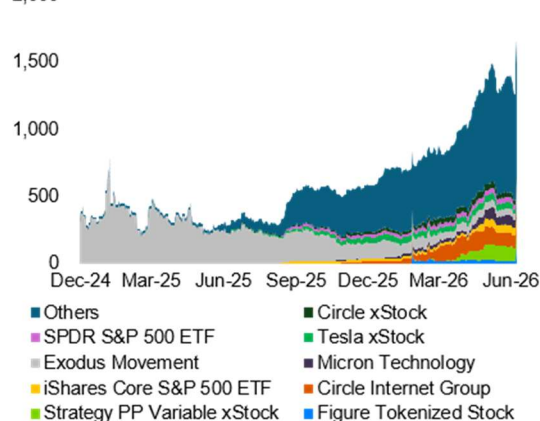
⁵⁸ European Commission (2025), [A Coordinated Implementation Roadmap for the Transition to Post-Quantum Cryptography](#), 23 June.

In depth: Tokenisation of equities: From visibility to viability?

Alongside the expansion of tokenisation, the issuance or representation of equities on DLT (commonly referred to as ‘tokenised’ equities) has recently gained greater visibility, covering a range of designs and business models.⁵⁹ Available public data point to rapid growth in outstanding asset value, from approximately EUR 0.3bn at end-2024 to around EUR 1.9bn by end-June 2026 (Chart 70), representing a 6.5-fold increase over eighteen months. Activity is concentrated in a limited number of large US-listed technology firms, reflecting their market capitalisation, high liquidity, and broad investor familiarity, which make them natural candidates for tokenisation.⁶⁰ Although tokenised equities remain negligible relative to global equity markets, the observed growth dynamics and recent announcements by major market participants indicate the potential for further expansion as adoption continues to scale.⁶¹

At its core, equity tokenisation seeks to redefine how equity ownership is issued, transferred, and recorded by leveraging distributed ledger technology (DLT) instead of traditional market infrastructure. This transformation is expected to **enhance operational efficiency, broaden investor access, and enable new functionalities through programmability**. While these benefits are increasingly recognised and beginning to emerge in practice, they have not yet been fully realised. Current applications remain at an early stage and still fall short of the end-state vision in which tokenisation would apply seamlessly across the entire lifecycle of securities. The transition is also subject to inherent risks and challenges.

Chart 70
Tokenised equities
Expanding fast from low base
2,000



Note: Total value of tokenised stocks, in EUR mn.
Sources: RWA.xyz, ESMA.

To date, tokenised equities have predominantly developed through **‘wrapped’ structures** (whereby tokens represent a claim on, or economic exposure to, underlying shares held by a trusted party) offered by specialised platforms, while native issuance (where issuers tokenize their own shares directly on DLT) remains rare. Wrapped structures are easier to implement, as they do not require fundamental changes to issuance practices, shareholder registries or company law. However, because legal ownership remains off-chain, token transfers do not convey legal title, meaning that key benefits of DLT, such as a DLT-based single source of truth or direct investor ownership through self-custodial wallets, are only partially realised. These arrangements may also introduce additional layers of intermediation, complexity for investors, and new counterparty dependencies, including tokenisation platforms and underlying asset custodians.

Another core technological promise of tokenisation is **atomic settlement**, whereby delivery of securities and payment of cash occur simultaneously in a single transaction. This could eliminate settlement risk and shorten settlement cycles, with positive implications for collateral management⁶² and systemic risk. In practice,

⁵⁹ For additional background on tokenisation, see ESMA (2026), [ESMA50-1949966494-4041 Report on Trends, Risks and Vulnerabilities \(TRV\) No. 1, 2026](#).

⁶⁰ For example, [Robinhood](#) and [Kraken](#) offer tokenised equities that provide easier access to predominantly US-based tech stocks for EU investors, by repackaging US economic exposure into an EU-accessible instrument.

⁶¹ Recent announcements include: [DTCC](#) receiving SEC’s approval to tokenise custodied assets (December 2025), [New York Stock Exchange](#) announcing a platform for trading and on-chain settlement of tokenized securities (January 2026), Ondo Finance partnering with

[Blockchain.com](#) and [Binance](#) to expand the distribution of tokenised US equities to non-US investors (February 2026), [Nasdaq](#) receiving SEC’s approval to trade tokenised securities (March 2026) and announcing an [equity token design](#) plan to support issuer-led tokenisation, [Coinbase and Bybit](#) confirming a partnership to enable tokenisation, custody and global distribution of U.S. equities (April 2026)..

⁶² Atomic settlement can reduce collateral needs by eliminating settlement risk but it may increase liquidity requirements as transactions are settled individually on a

however, many tokenised equities – both wrapped and otherwise – currently operate within hybrid settlement models. While the token transfer may happen on chain, **cash settlement often remains off-chain** via conventional payment systems, requiring reconciliation between infrastructures and limiting the extent to which settlement risk is reduced.

Tokenisation is often associated with **enhanced accessibility and flexibility** for investors, including extended trading hours and cross-border participation. While these benefits are tangible, they also reflect broader digitalisation trends, such as widely available on-line trading platforms. Similarly, fractional ownership, which is often highlighted as a key advantage, can also be achieved through existing financial innovations. At the same time, the introduction of tokenised instruments can affect **market structure**. Tokenisation may lead to the coexistence of multiple representations of the same underlying equity across different platforms. Where these are not fully fungible, liquidity may become fragmented across venues and legal frameworks. This could affect price discovery, market depth and execution quality, particularly in periods of stress, while thinner liquidity may increase susceptibility to market manipulation. Ensuring interoperability and liquidity concentration will therefore be key to supporting efficient markets as tokenisation develops.

A key strength of tokenisation lies in its **programmability**. Smart contracts can support the automation of corporate actions (e.g. dividend payments or stock splits), embed regulatory rules directly into transactions, and enhance transparency, consistency and auditability. These features can reduce operational complexity and costs while enabling innovation, including potential links between traditional capital markets and decentralised finance, for example by enabling the use of tokenised equities in DeFi protocols.

At the same time, technology driven benefits are inherently accompanied by **technology driven risks**. Errors in smart contract code can result in erroneous transfers or misallocation of rights. Because smart contracts execute automatically and many blockchains are designed to be immutable, such deficiencies can have lasting and difficult to reverse consequences. These

risks highlight the importance to have appropriate risk management, governance and oversight frameworks in place.

In summary, many of the expected benefits of tokenisation are tightly linked to **design choices, interoperability and scale**. Against this background, the EU has taken a proactive approach to addressing barriers to wider adoption, while at the same time ensuring that the risks are addressed in a relevant and proportionate manner. This includes providing greater legal and regulatory clarity including through the DLT pilot regime regulation, supporting the development of regulated on-cash solutions, such as projects Pontes and Appia from the ECB, and contributing to the development of common standards.

gross basis rather than netted. Several approaches aim to combine atomic settlement with netting or net-like efficiencies but remain at an early stage of development...

In depth: Prediction markets – relevance from a securities market perspective

Prediction markets are platforms where participants trade contracts linked to the outcome of future events. These contracts, often referred to as “event contracts,” typically pay out depending on whether a specified event occurs.

Although prediction markets are not a new phenomenon, their growing popularity, increasing retail participation, rapid expansion across a broad range of topics, and growing links with new technologies and digital ecosystems, including crypto-assets, DeFi, AI and social media, have attracted regulatory attention globally.

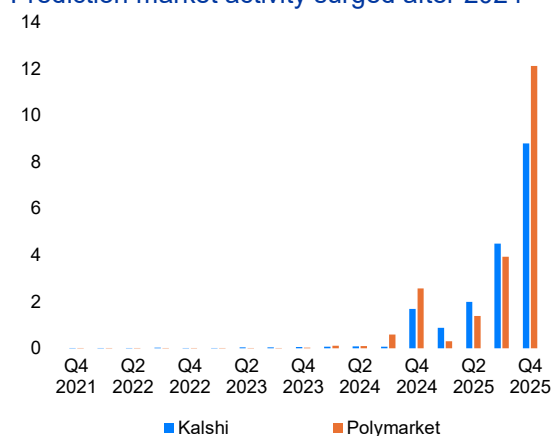
Major prediction market platforms include Polymarket and Kalshi, alongside other prominent operators active in the market such as PredictIt, Robinhood, Pariflow, DraftKings and FanDuel, all of which are based outside the EU. Polymarket and Kalshi differ in their operating models. Polymarket is a partially decentralised platform, with on-chain trading and settlement but centralised market governance and administration. In contrast, Kalshi is a fully centralised platform regulated by the US CFTC as a Designated Contract Market.

At the same time, traditional exchanges and market infrastructure providers, including Eurex, Euronext, CME Group, CBOE, ICE, and Nasdaq, are showing increasing interest in the sector through investments, data partnerships, and plans to launch prediction-style contracts linked to financial and macroeconomic indicators. Notably, ICE committed to invest up to USD 2bn in Polymarket and became the exclusive global distributor of its event-driven data. In June 2026, CBOE launched prediction-style products linked to the closing level of the S&P 500 Index, while Nasdaq has received SEC approval for prediction market options on the Nasdaq-100 index and its micro counterpart. CME Group offers event contracts tied to asset prices and macroeconomic indicators and has continued to expand its prediction market offering. In June 2026, Galaxy launched institutional OTC prediction markets trading in instruments referencing non-sports event contracts traded on Kalshi and Polymarket.⁶³ In parallel, the US SEC is reviewing proposals from Roundhill,

GraniteShares and Bitwise to launch prediction market ETFs. These developments suggest growing integration between prediction markets and traditional finance.

Data collected from Polymarket and Kalshi⁶⁴ indicate a rapid expansion of prediction market activity from late 2024 onwards. The 2024 US presidential election acted as a major catalyst, triggering a sharp rise in trading volumes and accelerating the mainstream adoption of event contracts.⁶⁵ By Q4 2025, quarterly trading volumes had reached approximately USD 8.8bn on Kalshi and USD 12bn on Polymarket, with strong growth continuing into 2026 (Chart 71).

Chart 71
Kalshi and Polymarket quarterly trading volumes
Prediction market activity surged after 2024



Note: Kalshi quarterly trading volumes (in USD bn). Kalshi data as of 25/11/2025. Polymarket data as of 31/01/2026.
Sources: Kalshi API, Polymarket API, JBecker, ESMA.

Trading activity differs significantly by market category across the two platforms. On Kalshi, volumes are heavily concentrated in sports-related markets, which account for 73% of identified trading activity. By contrast, Polymarket shows a more diversified profile, with politics representing the largest segment (29%), followed by sports (19%) and crypto-related markets (15%) (Chart 72).

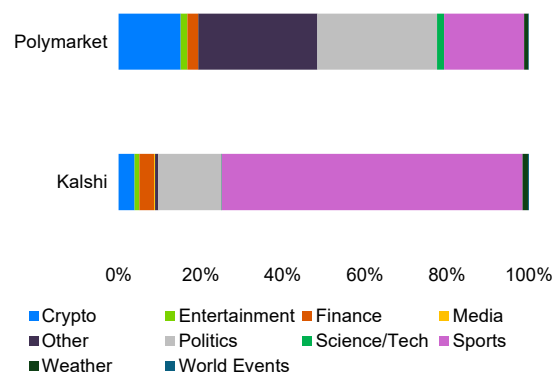
⁶³ Galaxy.com (2026, June 2) [Galaxy Launches Institutional OTC Prediction Markets Trading](#).

⁶⁴ The data are publicly available through the Kalshi and Polymarket APIs.

⁶⁵ Lockhart, K. (2025), [Betting on Everything](#) (February 01, 2025). 66 Boston College Law Review 2175

Chart 72

Kalshi and Polymarket trading volumes by category Sports drive Kalshi, Polymarket is more diversified



Note: Trading volumes on Kalshi and Polymarket, breakdown by category, percentage out of total trading volumes. Kalshi data as of 25/11/2025. Polymarket data as of 31/01/2026. Sources: Kalshi API, Polymarket API, JBecker, ESMA.

Although available data mainly reflect global market activity and do not permit an assessment of EU retail participation, **prediction markets do not appear to have gained significant traction in the EU** compared with the US. This may be explained by the EU regulatory approach, which significantly restricts the marketing and sale of event contracts. Depending on their characteristics, event contracts may qualify as financial instruments under MiFID II⁶⁶, fall within the scope of MiCA where they are based on DLT and do not qualify as financial instruments, or be treated as gambling products under national law. As a result, the marketing and sale of event contracts in the EU generally requires an EU authorisation, which the largest prediction market platforms currently do not hold. Moreover, where event contracts qualify as financial instruments, they would generally be classified as derivatives and fall within the scope of national product intervention measures relating to binary options⁶⁷, under which their marketing, distribution and sale to retail investors are prohibited.⁶⁸

Both Polymarket and Kalshi state on their websites that users located in some, but not all, EU countries are prohibited from placing orders.⁶⁹ It is unclear why all EU Member States are not included in the list of restricted jurisdictions, given the risk of unauthorised service provision under MiFID II, MiCA, national gambling legislation, and of breaching national product intervention measures on binary options. Most importantly, such geographic restrictions do not prevent users located in the EU from accessing prediction market services through the use of VPNs. Although the platforms state that the use of VPNs is prohibited and that users may be blocked if detected, the practical effectiveness of these restrictions remains uncertain.

Malta is the first EU Member State to publicly explore a dedicated regulatory framework for prediction markets. In March 2026, the Maltese government described the sector as an area of rapid global momentum offering significant opportunities for innovation, subject to an appropriate legislative framework.⁷⁰

Prediction markets may offer **informational and analytical benefits** by generating real-time, continuously updated signals regarding market expectations of future events and developments. Prediction market prices can provide economically interpretable signals on political, economic or social outcomes, potentially supporting forecasting, sentiment analysis and the assessment of macroeconomic uncertainty.⁷¹ The growing commercialisation of prediction market data further highlights their perceived informational value. For example, prediction market data are increasingly disseminated through platforms such as Bloomberg and LSEG Workspace (formerly Refinitiv), while Kalshi is reportedly developing a Bloomberg Terminal-style interface for active traders.⁷²

Prediction markets may also provide insights into public expectations and market sentiment in a format that is relatively accessible and easy to

⁶⁶ Not all event contracts are financial instruments falling under MiFID II. Only event contracts with an event question related to an underlying mentioned in Section C(4) to (10) of Annex I of MiFID II classify as financial instruments.

⁶⁷ The temporary product intervention measures on binary option which were initially adopted by ESMA Decision (EU) 2018/795 and which were subsequently replaced by permanent national product intervention measures mirroring the ESMA temporary measures.

⁶⁸ See [ESMA Public Statement on the application of the national product intervention measures on binary options to event contracts](#).

⁶⁹ See Polymarket geographic restrictions <https://help.polymarket.com/en/articles/13364163->

[geographic-restrictions](#) and Kalshi restricted jurisdictions <https://kalshi.com/docs/kalshi-member-agreement.pdf>

⁷⁰ Trubuna.com (2026, March 26). [Malta explores prediction markets regulation](#).

⁷¹ Diercks, Anthony M., Jared Dean Katz, and Jonathan H. Wright (2026). "Kalshi and the Rise of Macro Markets," Finance and Economics Discussion Series 2026-010. Washington: Board of Governors of the Federal Reserve System.

⁷² CNBC.com (2026, June 4). [Kalshi is building a prediction markets 'Bloomberg Terminal' for high-end traders, source says](#).

interpret for both professional and non-professional users. As market participation and liquidity increase, their analytical relevance for research, policy analysis and monitoring emerging trends may continue to grow.

Prediction markets raise a range of **investor protection and market integrity concerns**. To retail investors, prediction platforms offer speculative gambling environments without the investment protection measures typically associated with regulated financial products when accessed through platforms that are not authorised in the EU. Their gamified structure, emotional dynamics and social media-driven promotion expose inexperienced retail investors to significant risks of financial loss, addictive behaviour and exploitation by more sophisticated traders, including professional firms and algorithmic actors with informational or technological advantages.

Market manipulation and insider trading risks reach new levels in the context of prediction markets, particularly on DLT-based platforms such as Polymarket, which operate with limited identity verification and where the platform itself may not know who is behind a given wager. The pseudonymous nature of DLT-based participation, where participants may hold multiple accounts, hinders the detection and prevention of insider trading, wash trading and coordinated market manipulation.

A growing number of incidents illustrates that prediction markets are rife with inside trading.⁷³ In the context of the February 2026 US/Israel strike on Iran, several newly created wallets reportedly generated USD 1.2mn profits shortly before the military operation became public.⁷⁴ Similar concerns arose in relation to the capture of Nicolás Maduro, where a US soldier was criminally charged for allegedly using classified information to place profitable bets on Polymarket ahead of the operation.⁷⁵ Concerns have also arisen regarding the manipulation of underlying reference data: in April 2026, suspected tampering with weather sensors used to settle Polymarket weather contracts prompted Météo-France to file a police complaint.⁷⁶ While platforms claim to monitor suspicious trading

activity and freeze accounts deemed dubious, such measures are largely reactive, as investigations are often initiated only after the event has occurred and the profits have already been realised. In Europe the Market Abuse Regulation may help addressing such risks but only where prediction market contracts fall within the financial regulatory perimeter.

A risk related to **contract resolution** arises from the fact that prediction markets rely heavily on clearly defined event outcomes and high-quality data sources. Ambiguities in event definitions and event determination processes, manipulation or failure of the data sources used to determine contract outcomes, discretionary or opaque resolution mechanisms applied by platforms, and delays or failures in payout and settlement, particularly in decentralised settings, may adversely affect investors.

The growing **integration of prediction markets with crypto-assets, DeFi infrastructure, AI tools and social media** ecosystems introduces additional investor protection, market integrity and operational risks. Decentralised prediction markets operate without identifiable intermediaries or central governance structures, limiting accountability and supervisory oversight. Transactions executed through smart contracts are irreversible, including in cases of dispute, coding error or operational failure, while reliance on external data feeds and oracles may create vulnerabilities where such mechanisms are manipulated, compromised or unreliable.

At the same time, AI-generated trading signals, algorithmic trading strategies and automated bots may exacerbate information asymmetries, amplify volatility and facilitate coordinated trading behaviour. Available evidence suggests that profits are highly concentrated among sophisticated traders relying on data-driven, algorithmic and increasingly AI-assisted trading strategies. A Wall Street Journal analysis found that 67% of profits on Polymarket accrued to just 0.1% of accounts⁷⁷, while a Bloomberg analysis reported that most Polymarket users lose money.⁷⁸ The close interaction between prediction markets and social media platforms may further intensify speculative dynamics, herd

⁷³ The Economist. (2026, February 19). [Prediction markets are rife with insider betting](#).

⁷⁴ Sobrado, B. (2026, March 2), [Fresh Wallets Made \\$1.2 Million On Polymarket Hours Before Iran Airstrikes](#), Forbes.

⁷⁵ U.S. Department of Justice (2026), [U.S. soldier charged with using classified information to profit from prediction market bets](#), 23 April 2026

⁷⁶ FT (2026), 'French weather service alerts police to tampering after suspicious Polymarket bets', 23 April 2026.

⁷⁷ WSJ.com (2026, May 3) [Why Almost Everyone Loses Except a Few Sharks—on Prediction Markets](#).

⁷⁸ Bloomberg (2026), ['Polymarket's Losers are Discovering an Age-old Truth'](#), 28 May 2026.

behaviour and market manipulation risks. AI-generated misinformation, misleading viral content or coordinated online campaigns may influence market sentiment, distort pricing dynamics and affect the perceived probability of underlying events.

Prediction markets remain relatively limited in scale within the EU. Nevertheless, recent developments suggest increasing institutional interest, growing integration with crypto-asset ecosystems, and expanding retail participation globally. **Continued monitoring is warranted** given the rapid pace of market developments, the emergence of new risks, and evolving regulatory approaches outside Europe.

Annexes

List of abbreviations

1H(Q)26	first half (quarter) of 2026
1Y-MA	1-year moving average
2H(Q)26	second half (quarter) of 2026
ABS	asset-backed securities
AI	artificial intelligence
AIF	alternative Investment Fund
AuM	assets under management
BTC	bitcoin
BF	Bond fund
bp	basis point
CASP	Crypto-asset service provider
CCP	central counterparty
CDO	collateralised debt obligation
CDS	credit default swap
CFD	contract for differences
CISS	composite indicator of systemic stress
CLO	collateralised loan obligation
CLS	Continuous Linked Settlement
CNAV	constant net asset value
CMBS	commercial mortgage-backed security
CRA	credit rating agency
CRE	commercial real estate
CSD	central securities depository
DeFi	decentralised finance
DLT	distributed ledger technology
EA	Euro Area
ECB	European Central Bank
ECONS II	Enhanced Contingency Solution II
EEA	European Economic Area
ESG	environmental, social and governance
ESMA	European Securities and Markets Authority
ESRB	European Systemic Risk Board
ETD	exchange-traded derivative
ETF	exchange-traded fund
ETH	Ether
ETP	exchange-traded product
EU	European Union
EuGB	EU-labelled Green Bond
GDP	gross domestic product
GFC	Global Financial Crisis
HY	high yield
IG	investment grade
ILS	Insurance-linked security
IMF	International Monetary Fund
IPO	initial public offering
LDI	liability-driven investment
LVNAV	Low volatility net asset value
MCM	market correction mechanism
ML	machine learning
MMF	money market fund
NAV	net asset value
NCA	national competent authority
NFC	non-financial corporation

OTC	over the counter
PAB	Paris-Aligned Benchmark
PE	price-to-earnings
pp	percentage point
RE	real estate
rhs	right hand side axis
RMBS	Residential mortgage-backed securities
RRE	residential real estate
SEC	Securities and Exchange Commission
SFDR	sustainable finance disclosure regulation
SMEs	small and medium-sized enterprises
T2S	TARGET2-Securities
T2	TARGET2
TIPS	TARGET Instant Payment Settlement
UCITS	undertakings for collective investment in transferable securities
VNAV	variable net asset value
WAL	weighted average life
WAM	weighted average maturity
YTD	year to date

Currencies and countries abbreviated in accordance with ISO standards.

Imprint

ESMA Report on Trends, Risks and Vulnerabilities Risk Monitor

European Securities and Markets Authority (ESMA)
Economics, Financial Stability and Risk Department
201- 203 Rue de Bercy
FR- 75012 Paris
risk.analysis@esma.europa.eu

Disclaimer

© European Securities and Markets Authority, Paris. All rights reserved. Brief excerpts may be reproduced or translated provided the source is cited adequately. The reporting period for this report is the year cited in the title, unless otherwise indicated. Legal reference for this Report: Regulation (EU) No. 1095/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Securities and Markets Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/77/EC, Article 32 'Assessment of market developments, including stress tests', '1. The Authority shall monitor and assess market developments in the area of its competence and, where necessary, inform the European Supervisory Authority (European Banking Authority), and the European Supervisory Authority (European Insurance and Occupational Pensions Authority), the European Systemic Risk Board, and the European Parliament, the Council and the Commission about the relevant micro-prudential trends, potential risks and vulnerabilities. The Authority shall include in its assessments an analysis of the markets in which financial market participants operate and an assessment of the impact of potential market developments on such financial market participants.' The information contained in this publication, including text, charts and data, exclusively serves analytical purposes. It does not provide forecasts or investment advice, nor does it prejudice, preclude or influence in any way past, existing or future regulatory or supervisory obligations by market participants.

The charts and analyses in this report are, fully or in part, based on data not proprietary to ESMA, including from commercial data providers and public authorities. ESMA uses these data in good faith and does not take responsibility for their accuracy or completeness. ESMA is committed to constantly improving its data sources and reserves the right to alter data sources at any time. The third-party data used in this publication may be subject to provider-specific disclaimers, especially regarding their ownership, their reuse by non-customers and, in particular, their accuracy, completeness or timeliness, and the provider's liability related thereto. Please consult the websites of the individual data providers, whose names are given throughout this report, for more details on these disclaimers. Where third-party data are used to create a Chart or table or to undertake an analysis, the third party is identified and credited as the source. In each case, ESMA is cited by default as a source, reflecting any data management or cleaning, processing, matching, analytical, editorial or other adjustments to raw data undertaken.

