ESMA Risk Dashboard Risk up-date
This report provides an interim risk-update, complementing the risk assessment in the Trends, Risks and Vulnerabilities Report No. 1, 2020. 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”, 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 ESRB 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 economic 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.

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ESMA risk assessment

Risk summary
We are up-dating our risk assessment in light of the COVID-19 pandemic. The pandemic, in combination with the valuation risks to which we had alerted in ESMA’s previous risk assessments, has led to massive equity market corrections since mid-February, driven by a sharp deterioration in the outlook for consumers, businesses and of the economic environment. Corporate bond, government bond markets and a number of investment funds show signs of stress. Market infrastructures have continued to function orderly despite a massive surge in trading activity, circuit breakers and derivatives margins. Going forward, we see – intermittent market rebounds notwithstanding – a prolonged period of risk to institutional and retail investors of further – possibly significant – market corrections and see very high risks across the whole of the ESMA remit. Our outlook on operational risks is negative given the rising reliance on remote working arrangements, even if Business Continuity Plans are widely reported as having no change. Change is before decreasing after ECB action. ESMA recommends diligent operational risk management.

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

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

Infrastructures and services
- **Trading venues:** Trading volumes surged to 3x average value. Circuit breakers (CBs) were triggered extensively (>4,000 CBs on 16-21 Mar, vs. 100 CBs long-term weekly average, R.5). To support transparency, ESMA2 on 16 Mar lowered the reporting threshold of net short positions on shares to 0.1%. Several Member States have imposed short or long-term short-selling bans (AT, BE, FR, GR, IT, ES).
- **Central clearing:** Market movements exhibited extreme levels of volatility. Some initial margin model parameters were updated to respond to the higher volatility. In application of the CCP risk management frameworks, initial and variation margins increased significantly, including intra-day margins calls.

Asset management
- **Funds:** Performance decreased across asset classes (R.6). MMFs also faced significant challenges (EUR 120bn decline in NAV for LVNAVIs between 9-23 March). A number of fund managers started to use liquidity management tools and some ETFs showed signs of price dislocation.

Risk Outlook
Key risk drivers will be the final economic impact of the pandemic as well as the occurrence of additional external events in an already fragile global environment. Macroeconomic forecasts predict a global recession for 2020, with Europe particularly affected. While monetary and fiscal policy actions taken or underway, uncertainty over the economic impact of COVID-19 is expected to translate into further volatile financial market conditions.
R.1
Equities
Global market sell-off

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

R.2
Equity volatility
Higher than during financial crisis

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

R.3
Corporate bond spreads
Sharply up

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

R.4
10Y sovereign yields
Increasing in EU with large variations

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

R.5
Circuit breakers
Massive jump

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

R.6
Fixed income ETF flows
Large outflows

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