ESMA Risk Dashboard Risk up-date 2 April 2020
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.”

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**ESMA risk assessment**

**Risk summary**

We are up-dating our risk assessment in light of the COVID-19 pandemic.1 The pandemic, in combination with the valuation risks to which we had alerted in ESMA’s previous risk assessments, has led to massive equity market corrections since mid-February, driven by a sharp deterioration in the outlook for consumers, businesses and of the economic environment. Corporate bond, government bond markets and a number of investment funds show signs of stress. Market infrastructures have continued to function orderly despite a massive surge in trading activity, circuit breakers and derivatives margins. Going forward, we see – intermittent market rebounds notwithstanding – a prolonged period of risk to institutional and retail investors of further – possibly significant – market corrections and see very high risks across the whole of the ESMA remit. Our outlook on operational risks is negative given the rising reliance on remote working arrangements, even if Business Continuity Plans are widely reported as forthcoming quarter. Assessment of... (as in the original text)

**Risk level**

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

**Securities markets**

- **Equity**: Since mid-Feb, global equity markets saw major price corrections (R.1) with peak-to-trough falls comparable to the Global Financial Crisis (~38% for EuroStoxx), accompanied by record volatility (R.2).

- **Corporate bonds**: Markets show signs of severe stress. Spreads jumped +81bps for AAA, +170bps for BBB bonds (R.3); liquidity deteriorated far below long-term averages.

- ** Sovereign bonds**: EA markets saw sharp increases in spreads up to 466bps to multi-year highs, before decreasing after ECB interventions mid-March (R.4).

**Infrastructures and services**

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

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

**Asset management**

- **Funds**: Performance decreased across asset classes in line with market valuations. Especially bond UCITS and ETFs had to manage massive outflows (R.6). MMFs also faced significant challenges (EUR 120bn decline in NAV for LVNAVes 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.

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1 This Risk Up-date complements our regular TRV and Risk Dashboard monitoring. The next RD covering the entire 1020 will be published by regularly in May 2020.

**R.1**

**Equities**

Global market sell-off

![Graph showing S&P 500, Eurostoxx 50, Nikkei, and Global market indices from 02-Jan to 26-Mar 2020.](graph1.png)

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

**R.2**

**Equity volatility**

Higher than during financial crisis

![Graph showing VIX (US), VSTOXX, and 5Y-MA VSTOXX indices from 19-Feb to 26-Mar 2020.](graph2.png)

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

**R.3**

Corporate bond spreads [to be updated tonight]

Sharply up

![Graph showing AAA, AA, A, BBB corporate bond option-adjusted spreads by rating from 25/07/19 to 25/03/20.](graph3.png)

_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

![Graph showing 10Y sovereign yields for DE10Y, IT10Y, GB10Y, JP10Y, and US10Y from 19-Feb to 26-Mar 2020.](graph4.png)

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

**R.5**

Circuit breakers

Massive jump

![Graph showing 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 LargeMidSmaller 200 and a large sample of ETFs tracking these indices or some of their subindices. Results displayed as weekly aggregates.](graph5.png)

_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 LargeMidSmaller 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

![Graph showing cumulative flows into US and EU fixed income ETFs, % of NAV.](graph6.png)

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