

## Press Release

### **ESMA sees high market and valuation risk amid substantial political and policy uncertainty**

The European Securities and Markets Authority (ESMA)'s latest [report on Trends, Risks and Vulnerabilities No. 1, 2017 \(TRV\)](#) identifies political and policy uncertainty – such as potential repercussions from the upcoming elections in some EU Member States – as the main risk drivers for 2017. Risks in the markets under ESMA remit remained at high levels, reflecting very high risk in securities markets, and elevated risk for investors, infrastructures and services. Therefore, ESMA's overall risk assessment remains unchanged: market and credit risks remain *very high* – the highest level – while liquidity and contagion risk remain *high*. ESMA's TRV covers market developments from July to December 2016 and provides an outlook for the next reporting period.

Despite prevailing market and valuation risks, financial markets remained relatively calm in the reporting period. However, strong political and policy uncertainty (such as following the UK referendum and the US elections) existed. In the second half of 2016, equity market volatility decreased and banking shares recovered, over existing concerns about the health of EU banks, towards the end of the year. Investment fund returns rebounded across fund categories, while investment fund liquidity remained a concern, with bond funds facing outflows after the US elections. Securities market infrastructures operated smoothly in an environment of high variability of transaction flows.

Additional market uncertainties may result from potential repercussions resulting from the upcoming electoral events in some EU Member States and from broader geopolitical risks. Uncertainty about political developments in Europe could trigger abrupt swings in financial asset prices in the coming months.

#### **Next steps**

ESMA, as part of its ongoing market surveillance, will update its report semi-annually, complemented by its quarterly Risk Dashboard. The results of the report were shared with the European Commission, Parliament and Council.



## Notes for editors

### 1. [TRV No. 1, 2017](#)

2. ESMA's mission is to enhance investor protection and promote stable and orderly financial markets.

It achieves these objectives through four activities:

1. assessing risks to investors, markets and financial stability;
  2. completing a single rulebook for EU financial markets;
  3. promoting supervisory convergence; and
  4. directly supervising specific financial entities.
3. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board (ESRB), and with national authorities with competencies in securities markets (NCAs).

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