PRESS RELEASE

ESMA warns consumers of risk of significant market corrections

The European Securities and Markets Authority (ESMA), the EU’s securities markets regulator, today publishes the first Trends, Risks and Vulnerabilities (TRV) Report of 2022 and, in its outlook for 2022, continues to see high risks to institutional and retail investors of further, possibly significant, market corrections.

The pandemic’s resurgence at the end of 2021 and an uncertain economic and monetary policy outlook are leading market participants to revisit their growth and market expectations. Going forward, we continue to see high risks to investors of further – possibly significant – market corrections as markets remain nervous and geopolitical tensions are rising.

Verena Ross, Chair, said:

“All investors should consider that the risk of market corrections remains acute. This was demonstrated last year in two episodes of sell-offs largely driven by news first related to Evergrande and then to the resurgence of Covid-19. The markets remain highly volatile and ESMA sees growing uncertainty for investors going forward.”

“Retail investors are of particular concern to ESMA. Their participation in financial markets has increased substantially in recent years, with new investors taking advantage of the convenience and user-friendly features of mobile trading platforms. This diversification offers opportunities but also comes with risks, and ESMA remains concerned about risks to retail investors who buy assets with expectations of significant price growth, and without realising the high risks involved.

The Report’s main findings are:

Market environment: Macroeconomic conditions continued to improve through the second half of 2021, although the impact of a new wave of the pandemic on the economic outlook is unclear at this stage.
Securities markets: The increase in global equity prices continued, and while volatility remained low, elevated price earnings ratios pointed towards potential overvaluation concerns. Energy commodity prices were particularly volatile, highlighting the potential financial risks associated with the energy transition and Europe’s climate policy objectives.

Asset management: Investment fund markets continued to grow, particularly with inflows into equity funds. Risks remained elevated, both in terms of liquidity risk and credit risk, while higher inflation expectations raise new concerns in relation to duration risk. Funds investing in assets protected against inflation, such as commodity funds, benefitted from increased flows.

Sustainable finance: The growth of ESG markets remained steady as investors continued to increase their investments in sustainable products. ESG fund assets increased by 9% in the second half of 2021, while ESG bond markets grew by 19%. Concerns over possible green asset overvaluation lingered.

Financial innovation: Crypto Asset markets reached new records with a peak at EUR 2.6tn in November, fuelled by investor appetite for riskier assets and growing institutional adoption. Stablecoins and DeFi continued to expand rapidly, and with them concerns over the resilience of business models as well as high product and market risks investors take.

New in this edition

ESMA is for the first time including environmental risk as a category in the risk dashboard. In addition, new risk indicators on climate-related disclosures, firms’ reputational risk and EU carbon markets are covered in the statistical annex.

ESMA is also publishing the TRV Structural Market Indicators (SMIs), a collection of statistics that provide structural indicators on securities, markets, market participants and infrastructures for the EEA and EU, and by Member State. The SMIs provide transparency on the structure of EU securities and markets to supervisors, market participants and investors by using ESMA’s regulatory datasets. ESMA plans to update the published indicators and possibly expand the scope of the SMIs annually.
Notes for editors

1. Trends, Risks and Vulnerabilities report
2. Structural Market Indicators pdf xlsx
3. Statistical Annex
4. TRV risk article on Monitoring environmental risks in EU markets
5. ESMA is the European Union’s securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:
   i. assessing risks to investors, markets and financial stability;
   ii. completing a single rulebook for EU financial markets;
   iii. promoting supervisory convergence; and
   iv. directly supervising specific financial entities.

6. 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, and with national authorities with competencies in securities markets (NCAs).

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