ESMA finds deterioration in liquidity in stressed financial markets for both sovereign and corporate bonds

The study, reporting on different aspects of market liquidity, shows that the situation differs significantly between sovereign and corporate bonds. ESMA has found that sovereign bond market liquidity has increased recently, potentially due to the effects of supportive monetary policy. However, in parallel, it has seen evidence of several episodes of deteriorating secondary market liquidity for corporate bonds, especially between 2014 and 2016.

In terms of drivers, the issuance size plays a crucial role in both categories, with market liquidity more abundant for bonds that have a benchmark status and are issued in larger volumes in the sovereign segment with outstanding amounts being the main bond-level drivers in the corporate segment.

For both sovereign and corporate bonds, ESMA sees a correlation between increased stress in financial markets and a deterioration in market liquidity.