

ESMA monitors volatility in financial markets

The potential of market volatility to undermine financial stability as well as to impose unexpected losses on investors, is a subject of concern for securities market regulators, and is a key element of ESMA's market monitoring.

Relatively low or high levels of volatility increase the likelihood of stressed financial markets. The two years between February 2016 and January 2018 were characterised by low yields and low volatility, a trend that came to an abrupt end in February 2018 when equity market volatility spiked as markets were globally affected by a strong correction.

ESMA finds that the main drivers of the long period of low volatility are related to lower equity returns correlation, search-for-yield strategies, and stable macroeconomic and corporate performances. A prolonged period of low volatility may lead to a more fragile financial system, promoting increased risk-taking by market participants.

While the assets under management (AuM) may still be considered rather small, the number of products following volatility targeting strategies is sufficiently broad to become a key factor driving volatility spikes like those that occurred in the first week of February 2018.

ESMA will continue to monitor the development of market volatility and include regular updates in the TRV and Risk Dashboards, on a quarterly basis.