

ESMA sees a prolonged period of risk from market corrections

The European Securities and Markets Authority (ESMA), the EU's securities markets regulator, has today published its first [Risk Dashboard \(RD\)](#) for 2021 covering the first quarter of the year. The RD highlights that the main risk for EU financial markets remains that posed by a sudden risk reassessment, amid the general decoupling of securities prices from economic fundamentals, and is maintains its risk assessment at a very high level.

Valuations in EU financial markets for most market segments are now at or above pre-COVID-19 levels. They remain highly sensitive to events and volatility, as shown by the market movements related to Gamestop and the impact that a potentially slow roll-out of vaccines had on equity prices.

Fixed income valuations are now far above their pre-COVID-19 levels, in part due to continued monetary policy support. A sudden risk reassessment, amid the general decoupling of securities prices from economic fundamentals, remains the main risk for EU financial markets and ESMA therefore maintains its risk assessment. Credit risk is likely to increase further due to increasing corporate and public debt levels.

Looking ahead, ESMA anticipates a prolonged period of risk to institutional and retail investors of further – possibly significant – market corrections and sees very high risks across its whole remit. The extent to which these risks will further materialise will critically depend on market expectations on monetary and fiscal policy support as well as on the pace of the economic recovery.

| ESMA remit | Level Outlook | Risk categories | Level Outlook | Risk drivers | Outlook |
|------------------------------|-----------------|-----------------|-----------------|------------------------------------|---------|
| Overall ESMA remit | Red square → | Liquidity | Red square → | Macroeconomic environment | → |
| Securities markets | Red square → | Market | Red square → | Interest-rate environment | → |
| Infrastructures and services | Orange square → | Contagion | Yellow square ↗ | Sovereign and private debt markets | ↗ |
| Asset management | Red square → | Credit | Yellow square ↗ | Infrastructure disruptions | → |
| Consumers | Orange square ↗ | Operational | Yellow square → | Political and event risks | → |

Note: Assessment of the main risks by risk segments for markets under ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Assessment of the main risks by risk categories and sources for markets under ESMA's remit since the last assessment, and outlook for the forthcoming quarter. Risk assessment based on categorisation of the European Supervisory Authorities (ESA) Joint Committee. Colours indicate current risk intensity. Coding: green=potential risk, yellow=elevated risk, orange=high risk, red=very high risk. Upward arrows indicate an increase in risk intensities, downward arrows a decrease and horizontal arrows no change. Change is measured with respect to the previous quarter; the outlook refers to the forthcoming quarter. ESMA risk assessment based on quantitative indicators and analyst judgement.