

ESMA sees potential decoupling of financial market performance and underlying economic activity

The European Securities and Markets Authority (ESMA), the EU securities markets regulator, today publishes the first complete [risk dashboard](#) for 2020, and highlights the very high risks in all areas of ESMA's remit. The assessment remains at the same level as the separate risk update published on 2 April.

ESMA remit	Level Outlook	Risk categories	Level Outlook	Risk drivers	Outlook
Overall ESMA remit	 →	Liquidity	 →	Macroeconomic environment	 ↑
Securities markets	 →	Market	 →	Interest-rate environment	 →
Infrastructures and services	 →	Contagion	 ↗	Sovereign and private debt markets	 ↗
Asset management	 →	Credit	 ↗	Infrastructure disruptions	 ↗
Consumers	 ↗	Operational	 ↗	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.

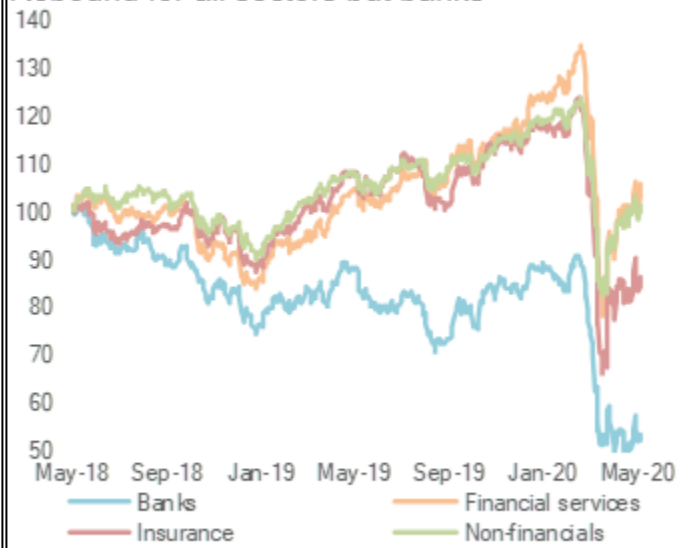
During the first quarter of 2020, the equity markets saw very large corrections due to a combination of the Covid-19 pandemic and existing valuation risks. Since then, and despite the high uncertainty and worsening economic outlook, markets have seen a remarkable rebound. This should also be viewed in light of massive public policy interventions in the EU and elsewhere.

This potential decoupling of financial market performance and underlying economic activity leads ESMA to see a prolonged period of risk to institutional and retail investors of further – possibly significant – market corrections and very high risks across the whole of the ESMA remit. The extent to which these risks may materialise will critically depend on two drivers: the economic impact of the pandemic, and any occurrence of additional external events in an already fragile global economic environment.

R.4

Equity prices

Rebound for all sectors but banks



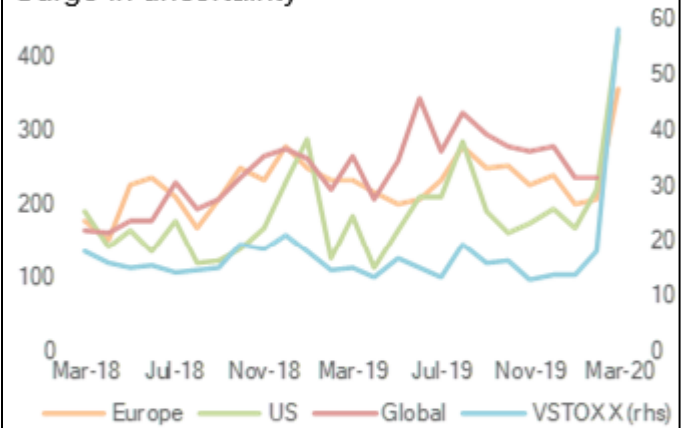
Note: STOXX Europe 600 sectoral return indices. 01/04/2018=100.

Sources: Refinitiv Datastream, ESMA.

R.34

Economic policy uncertainty

Surge in uncertainty



Note: Economic Policy Uncertainty Index (EPU), developed by Baker et al. (www.policyuncertainty.com), based on the frequency of articles in European newspapers that contain the following triple: "economic" or "economy", "uncertain" or "uncertainty" and one or more policy-relevant terms. Global aggregation based on PPP-adjusted GDP weights. Implied volatility of EURO STOXX 50 (VSTOXX), monthly average, on the right-hand side.

Sources: Baker, Bloom, and Davis 2015; Refinitiv Datastream, ESMA.