

ESMA sees valuation risk at highest levels due to financial weakness and geopolitical uncertainty

The main risk drivers are uncertainties around geo-political developments, the resilience of economic growth as well as debt sustainability. Market and credit risks, as a result of geopolitical, growth and debt concerns, continued to be *very high*, while liquidity and contagion risks remained stable but *high*. The outlook on operational risk remains elevated but the outlook is now *negative* due to heightened concerns around cyber security. Overall, ESMA's risk assessment for the second half of 2017 remains unchanged from 1H17.

Market performance reflected increasing market confidence and improved expectations on the future economic outlook in EU and globally. This is echoed in increased capital flows into strategies yielding higher returns. Substantive risk sources include: economic growth in the EU and elsewhere that needs to prove resilient; structural problems in many EU member states continuing to be addressed; internationally, rising public and private debt levels of increasing concern; persistence of high asset price valuations; and prevailing geo-political and political uncertainties. Brexit-related uncertainties remain among the most important political sources of risk.

ESMA's TRV covers market developments from January to June 2017 and provides an outlook for the next reporting period, which it updates twice annually, and is complemented by its quarterly [Risk Dashboard](#). The results of the report are shared with the European Commission, Parliament and Council.