# THE CNMV'S MARKET STRESS INDICATOR REMAINS BETWEEN LOW AND MEDIUM RISK LEVELS

29 November 2021

- The indicator remains at 0.27 points, the threshold between low and medium risk, after reaching a maximum of 0.30 points at the beginning of October.

- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis.

The Spanish National Securities Market Commission (CNMV) has published the Financial Stability Note for October 2021, in which it highlights that the level of stress in the financial system has fluctuated around the threshold between low and medium risk (0.27 points). Transitory upturns were observed in most of the segments due to the performance of volatility indicators, which have affected assets of a different nature. At the end of October, the highest level of stress was observed in the fixed income segment.

**Total stress indicator**



**Indicators in the bond segment, financial intermediaries and equities**
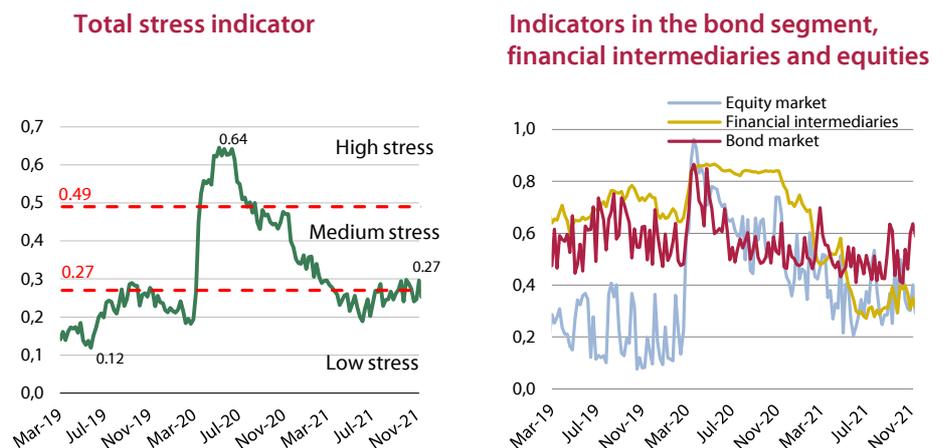


National financial securities markets showed a slight irregular trend in the third quarter of the year, affected by various uncertainties. However, in October they experienced an upturn, as was the case with other markets, as some of these uncertainties eased. These were

related to the financial problems of the Chinese real estate developer Evergrande, lower growth forecasts, a pick-up in inflation in general, and, finally, the various regulatory decisions that affected electricity companies. In this context, the Ibex 35 rose 12.2% in the year to October, which together with the UK stock exchange, were the markets that registered the lowest rise.

For its part, the development of the debt market was conditioned by the rise in inflation and its expectations, which was reflected in the yields of long-term debt securities of most advanced economies, the German Bund being the only 10-year sovereign debt that was in negative territory. At the end of October, the yield of the Spanish 10-year bond stood at 0.62% (0.06% at the end of 2020) and the risk premium increased slightly to 77 b.p. (63 b.p. at the end of 2020).

The most relevant financial risks identified continue to be market risk and liquidity risk, especially in certain fixed income assets. The main factors that triggered these risks were a possible economic downturn, as mentioned in the last note, together with the risk of inflation, which may have a negative impact on activity but could also be immediately reflected in the yields of debt securities, and accordingly, on their prices (by falling). For now, the European monetary authority considers that the upturn in inflation is temporary, and no substantial changes will be made to its monetary policy in the short term. However, there is no market consensus on the reasons for this increase in prices, and therefore, their ongoing monitoring is necessary.

Among the most relevant sources of risks, this note again insists on those related to climate change. In addition to describing the direct risks stemming from the physical impact of adverse events and transition risks, the significant increase in the volume of financial assets that incorporate ESG criteria is also highlighted, including the first issuance of this type by the Kingdom of Spain.

*The Financial Stability Note presents a broad set of indicators, including most notably the Spanish financial market stress indicator and what are known as colour maps (also known as heat maps). The first one provides a real-time measurement of systemic risk in the Spanish financial system, ranging from 0 to 1, which is obtained by weighted aggregation of the stress levels estimated in the following six segments: securities, fixed income, financial intermediaries, currency markets, derivatives and the foreign exchange market. Heat maps*
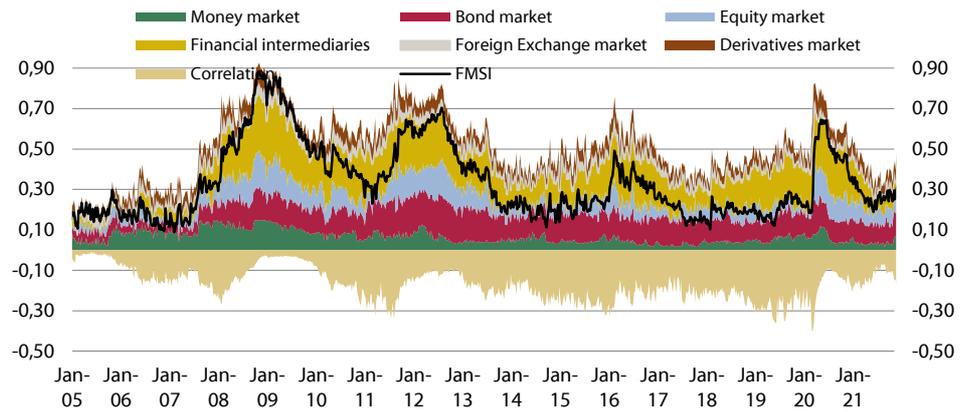
*allow us to visualise the changes witnessed in the various risk categories.*

**The Spanish financial market stress indicator**



Full document: Financial Stability Note no. 20, October 2021

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