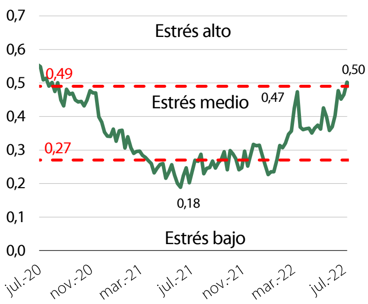
# CNMV'S MARKET STRESS INDICATOR REACHES A HIGH-RISK AREA

29 July 2022

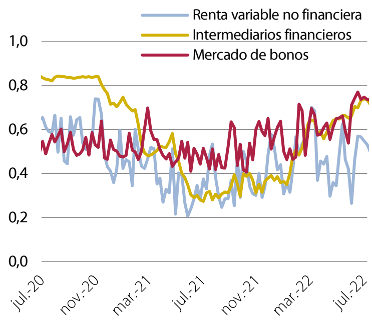
- Since the beginning of the year, the Spanish **financial markets' stress indicator** has shown an upward trend due to factors such as inflation, Russia's invasion of Ukraine, the monetary policy turnaround, and the economic slowdown.

The Spanish National Securities Market Commission (CNMV) has published the January 2022 Financial Stability Note[1], indicating a significant increase of the financial market stress indicator, up to 0.50[2]. Two peaks of 0.47 and 0.50 were reached at specific moments of high uncertainty in the semester: the first at the beginning of the war and the second at mid-year, when an earlier and stricter than anticipated hardening of monetary policy was priced in. Generalised increases in stress can be identified in all segments (notably bonds and financial intermediaries), mainly due to higher volatility indicators.

**Total stress indicator**




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




**Risk and uncertainty have conditioned the development of international and domestic financial markets during the first half of the year.** The financial year began with the extension of rising inflation, which was fostered, once again, by higher prices in commodities and energy linked to the geopolitical situation. This scenario has led to a significant shift in the monetary policy stance of the major central banks, in a context of considerable complexity and in which prospects of a deterioration in economic activity are intensified. In this context,

[1] This year it was established that the Financial Stability Note would go on to be published biannually.
[2] The closing date of this note is 30 June, with the exception of the stress indicator, which covers up to 8 July and certain specific information.

For further information:
CNMV Communications Department
Tel.: 91 5851530 - comunicacion@cnmv.es

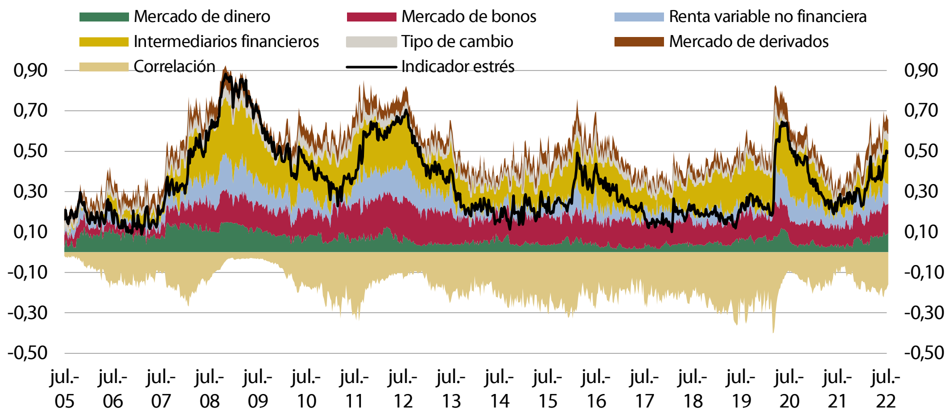
financial markets have seen falls in asset prices and spikes in volatility, which have been most significant in commodity and energy markets.

**In equity markets, declines of share prices in the first semester were largest in the US indices** (between 15.3% for the Dow Jones and 29.5% for Nasdaq). European indices had notable but somewhat smaller declines, ranging from 7.1% for the Ibex 35 to 22.1% for the Mib 30. The Ibex 35 exhibited the smallest decline among its European peers, by benefiting from the good relative performance of energy companies and the banking sector, both sectors holding a high weighting in the index, and from the minor presence of cyclical companies and those linked to the technology sector, which performed unfavourably. **European debt markets exhibited significant increases in asset yields**, ranging from 1.3 p.p. to 2.3 p.p. for long-term sovereign bonds. In Spain the increase was of 1.9 p.p. to a level of 2.5%. Risk premia of different debt assets have been stressed at specific times, but remain at contained levels thanks, in part, to the ECB's announcement and subsequent approval of a tool (TPI) aimed at reducing the fragmentation of European markets and thus avoiding potential difficulties in the monetary policy transmission mechanism.

**The upturn in inflation and interest rates (along with lower growth) creates a complex environment with many sources of uncertainty.** It is important for investors to properly incorporate declining real returns of their assets into their decisions and to consider the sensitivity of their portfolio to increases in interest rates (such as in fixed income investment funds). Portfolio rebuilding by some agents towards more complex and risky assets cannot be ruled out, due to the search for yield that may be triggered by the decline in real returns caused by inflation. The most important financial risks identified are market and liquidity risks. Credit risk may be increasing depending on the degree of deterioration of the economy. Lastly, it is worth highlighting that the most indebted agents (public and private) may show a higher degree of financial vulnerability at times of rising interest rates as financing conditions become more expensive.

***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: equity, fixed* *income, financial intermediaries, currency markets, derivatives, and the foreign exchange market. Heat maps allow us to visualise the changes undergone by the various risk categories.*

**The Spanish financial market stress indicator**




Full document: [Financial Stability Note No. 22 June 2022]


For further information:
CNMV Communications Department
Tel.: 91 5851530 - comunicacion@cnmv.es