

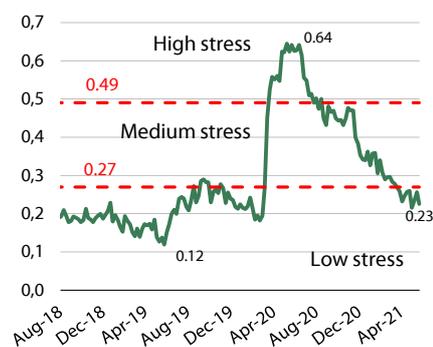
THE CNMV MARKET STRESS INDICATOR CONTINUES TO DECLINE AND RETURNS TO PRE-PANDEMIC LEVELS

31 May 2021

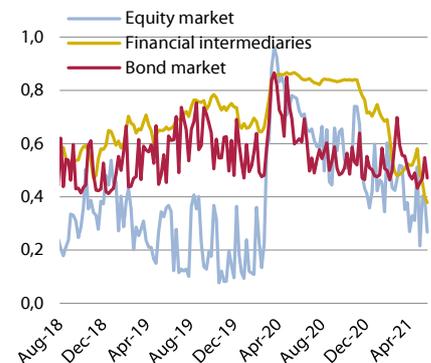
- At the end of May, it stood at 0.23 points, a low stress level, which has continued since mid-March. The decline has been due to the positive evolution of the six financial system segments considered
- The CNMV's Financial Stability Note analyses the risks that affect Spanish markets on a quarterly basis

The Spanish National Securities Market Commission (CNMV) has published the [April 2021 Financial Stability Note](#), which highlights that the stress level in the financial system continues its downward trend, to 0.23 points. This is a low stress level which is in line with the values observed before the pandemic. All the segments and types of indicators have shown declines in their stress levels. The system correlation remains high.

Financial market stress indicator



Stress indicators in bond, financial intermediaries and equity segments



The evolution of national financial markets in the past few months has been marked by an increase in both share prices and the yields of public debt securities. In the stock markets, the Ibex 35 index rose by 14% up to 21 May, which is similar to the gains registered by other main European indices, underpinned by the recovery of the banking and service sector share prices. Market volatility and liquidity conditions remain satisfactory but trading volumes are low. In fixed-income markets, increased yields, which break the downward trend of 2020, are mainly due to fears related to a potential increase in inflation in the euro area as well as the spill over effects of the surge of US debt securities yields, where the risk is higher. In this context, the yield of the Spanish 10Y sovereign bond increased by 51 b.p. in the year (to 0.56%) and the sovereign risk premium stands at 69 b.p. (63 b.p. at the end of 2020).

The most relevant financial risks identified in this note are market risk and liquidity risk, especially in some fixed-income assets. New episodes of volatility or an abrupt change in growth expectations could lead to a general increase in risk premiums (and, therefore, decreases in prices), which would be negative for both issuers of assets and their holders. In addition, it is important to highlight the medium-term financial vulnerabilities deriving from increased borrowing by agents during the crisis, including that by Public Administrations.

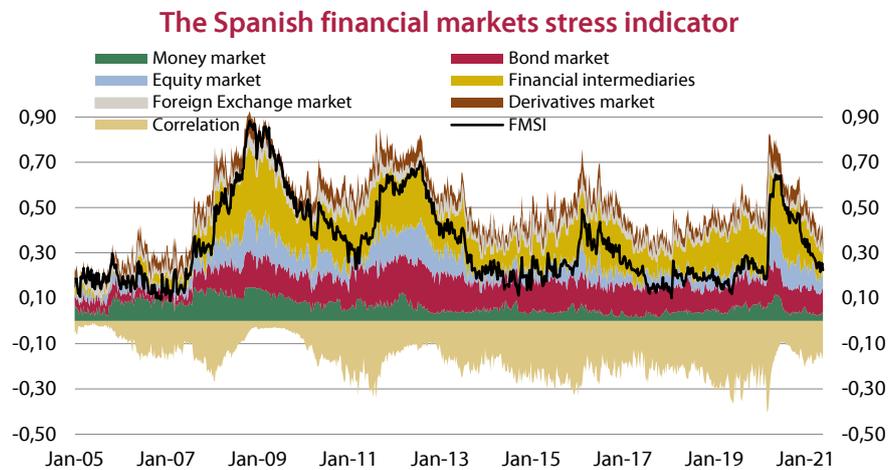
The most relevant sources of risks in terms of financial stability continue to change: those of political origin at international level are decreasing, those deriving from the increase in off-site activities and from the context of low interest rates (including those originated by search for yield strategies, with investments in highly volatile and at times unregulated assets) are maintained. Finally, others are becoming increasingly important. The latter include macroeconomic risk deriving from uncertainty concerning the strength of the recovery, cybersecurity risks in the new digital environment, as well as those related to the promotion of sustainability, which are different in nature. Some of the latter are related to asset pricing issues, in a framework of heterogeneous information, and also to the strong demand for these assets, due to both the possibility of prices deviating from the fundamentals and the risk of promoting green washing.

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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 undergone by the various risk categories.



Complete document: [Financial Stability Note No.18, April 2021](#)