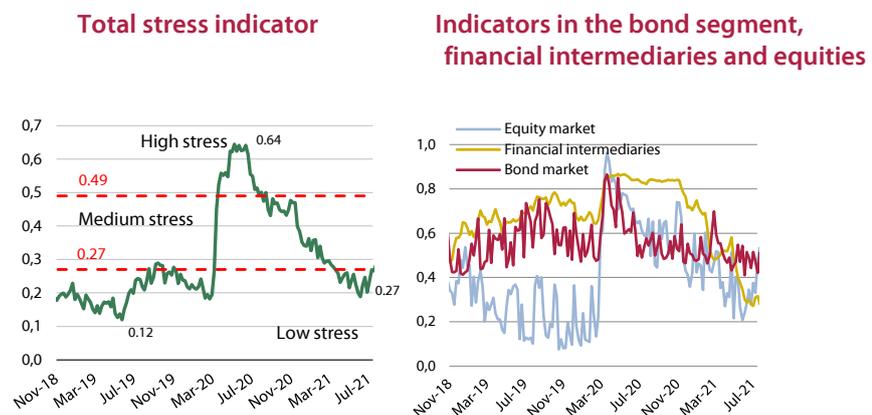


THE CNMV'S MARKET STRESS INDICATOR REMAINED AT LOW LEVELS FOR MOST OF THE QUARTER

5 August 2021

- Since the end of April, the indicator has fluctuated between 0.19 and 0.29 points. The degree of correlation of the system remains at very high levels, similar to those of July 2020.

The Spanish National Securities Market Commission (CNMV) has today published the [Financial Stability Note for July 2021](#), in which it highlights that the level of stress in the financial system has been low for most of the last quarter. However, outbreaks of volatility in some segments, which brought the indicator close to the threshold separating low and medium risk (0.27), eventually pushed it over that limit at the end of July (0.29). Most notable is the decrease in the stress level of the financial intermediaries segment and the maintenance of a high level of correlation in the system.



Domestic financial equity markets continued their upward trend in equity prices for much of the second quarter of the year until mid-June, when fears about the spread of new coronavirus variants and the possibility of further mobility restrictions in some European regions led to declines in equity prices.

Market liquidity conditions remain favourable despite the continued decline in trading volumes, a trend that also seems to be observed elsewhere. Fixed-income markets, where rising inflation and inflation

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expectations led to increases in long-term yields in the first months of the year, changed course when the change in the ECB's monetary policy strategy became known. This change, which introduced greater flexibility by targeting 2% inflation (modifying the criterion of inflation below but close to 2%), shifted expectations of a tightening of the monetary policy stance further away.

The most relevant financial risks identified in this note continue to be market and liquidity risks, especially in certain fixed income assets. The partial credit risk indicators do not reveal, for the moment, a significant deterioration in credit risk, although the erosion of many companies' business over the last few months and the gradual phasing out of the support measures adopted by the government (guarantees, moratoriums and direct aid) make it necessary to continue to assess this risk. In the short term, the most important triggers of these risks would be related to information that has a negative impact on economic growth, while in the medium and long term they would be associated with other types of vulnerabilities, including most notably debt sustainability.

Among the most relevant sources of risk in terms of financial stability, those related to the evolution of the pandemic continue to stand out, which is favoured by the progress of the vaccination process and hindered by the emergence of new strains, events that have a direct impact on expectations for economic activity. International political uncertainties continue to gradually diminish, while domestic uncertainties remain. Cybersecurity risks also continue, and their significance has increased even more because of the intensification of non-face-to-face activities in the wake of the pandemic. Financial risks in the area of climate change should also be mentioned.

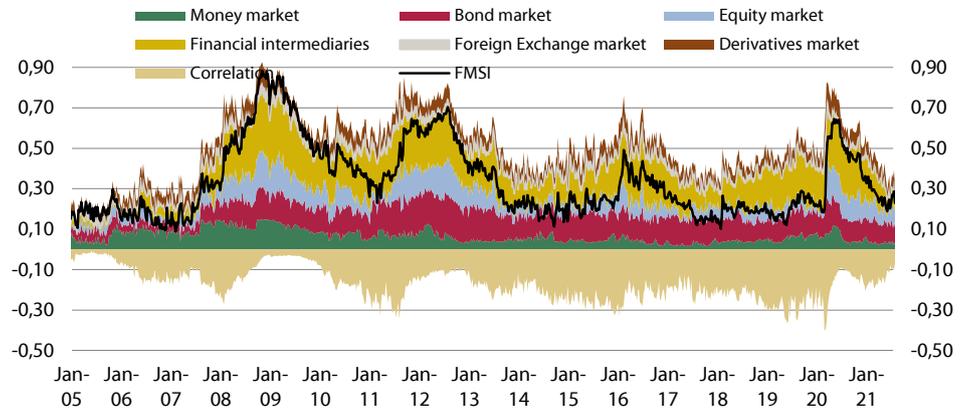
The Financial Stability Note presents a broad set of indicators, including most notably the Spanish financial market stress indicator and what are known as colour maps (also known as heat maps). The first one provides a real-time measurement of systemic risk in the Spanish financial system, ranging from 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. The colour maps allow the evolution of the risk categories to be visualised.

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The Spanish financial market stress indicator



Complete document: [Financial Stability No. 19 July 2021](#)