*PRESS RELEASE*

# THE MARKET STRESS INDICATOR OF THE CNMV IS NOW IN THE MEDIUM STRESS ZONE AFTER BEING IN THE HIGH STRESS ZONE FOR SEVERAL WEEKS

02 February 2023

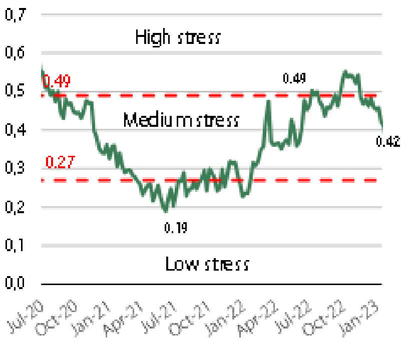
- The index fell to 0.42, in line with a greater stability observed in the financial markets.

- The CNMV's Financial Stability Note analyses the risks that affect Spanish market.

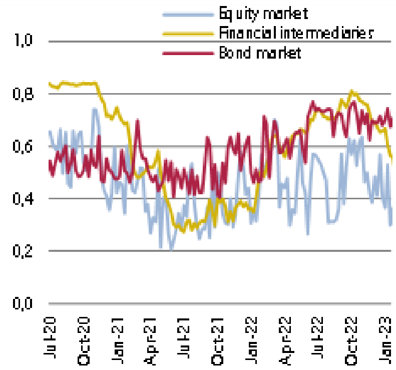
The Spanish National Securities Market Commission (CNMV) has published the [Financial Stability Note corresponding to December 2022,] which describes the fall in the stress indicator down to 0.42 (medium risk) after having been in the high stress zone for several weeks. This fall is in line with the greater stability recorded in the financial markets and with a drop in the risks perceived after summer. The highest level was reached in October (0.55) at a time when uncertainty led to drops in the prices of most assets, unlike at other times of crisis.

The latest data show that the highest stress levels are found in the two fixed income segments (bonds and money market) The correlation has increased progressively.

**Total stress index**




**Index of stress in the financial Intermediaries, bonds and equity segment**





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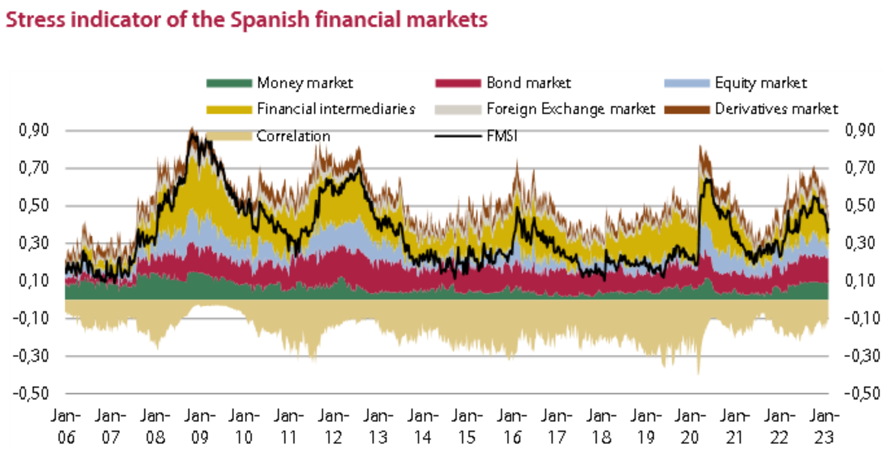
**The macroeconomic scenario of the past few months is characterised by greater resilience of the economic activity, even though the forecasts continue pointing towards a slowdown in growth which could exceptionally lead to a transitory recession in certain European economies, and by the rise in inflation.** Monetary policy continued being tightened, only less abruptly, in the second half of 2022. In 2023, the scale of the rise in the interest rate and of other decisions will depend on the degree by which inflation slows down, activity erosion and, most of all, price expectations anchoring.

The slowdown in activity is being less intense in Spain than in the rest of Europe, due to it being relatively less affected by the Russia war on Ukraine and to the recovery of the dynamism in sectors that were hugely affected by the pandemic. An average growth of 1.2-1.3% is expected for 2023, in contrast to 0.5% in the Eurozone. Similarly, lower inflation is expected in 2023.

**Equity markets showed price drops in last year's third quarter, due to a new increase in the risks perceived, although rises in listed prices were observed towards the end of 2022 and early 2023.** The annual assessment for 2022 showed significant price drops in the main stock exchanges, with the Ibex 35 behaving relatively better with a 5.6% drop. **In debt markets, the sharp turn in monetary policy marked the end of period of low interest rates**. The yields of 10-year sovereign bonds increased between 2.3 and 3.5 percentage points (p.p.) during the year, while risk premia showed rises that were hardly significant. Primary markets, mostly shares, reduced their activity conditioned by uncertainty, volatility and price drops.

**The financial scenario continues to be surrounded by multiple sources of uncertainty that vary in nature. Those most relevant continue to be associated with the strong rise in interest rates and, simultaneously, the financing costs of stakeholders in a high inflation environment**. The rise in interest rates bring about losses due to fixed income portfolio revaluation that may continue in 2023. Meanwhile, the increase in inflation reduces real returns on assets, apart from lowering the disposable income of families, which may boost the incentives to investors regarding the acquisition of shares with higher expected returns, this generally involving higher risks. It should also be highlighted that greater financing costs particularly affect the most indebted stakeholders, thus pointing to the possibility of medium-term credit risk. Finally, it is important to keep monitoring and assessing the importance of cyber-risks and those related to cryptoassets.

*__The Financial Stability Note__ presents a broad set of indicators, most notably including 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.*




Full document: [Financial Stability Note No. 23 December 2022]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