THE CNMV'S NEW BULLETIN ANALYSES THE MARKET SITUATION OVER THE LAST SIX MONTHS

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- It includes an article that takes a deep dive into the Draghi report on European competitiveness and another that presents a set of risk indicators for trading of derivative products in Spain.

The Spanish National Securities Market Commission (CNMV) has published its biannual bulletin for the period between April and September 2024. It includes the market situation report, indicating the most relevant financial market figures at the end of September, and presents two articles and three boxes on topics of interest.

Regarding the articles:

- The first one, by Víctor Rodríguez Quejido, General Director, and Helena Huerta de Fernando, from the CNMV's Directorate General of Strategic Policy and International Affairs, analyses the Draghi Report on European competitiveness and highlights the main role played by capital markets;
- The second, by Ramiro Losada López and Guillermo Cambronero Pérez, of the Department of Research and Statistics of the CNMV's Policy and International Affairs Directorate-General, presents a set of risk indicators for the trading of derivatives products in Spain, using the data reported under the European EMIR Regulation.

The boxes correspond to:

- The episodes of volatility in the financial markets in August of this year;
- The publication of reports on Corporate Governance and Remunerations of board members of listed companies for the 2023 fiscal year; and
- The implementation of the MiCA Regulation in the field of crypto-assets and the publication by the CNMV of the manuals for authorisation and notification.

The market situation report, drafter prior to the U.S. elections, indicates a change in the monetary policy stance, in a scenario of decreasing inflation, for the 2024 fiscal year, with the ECB leading the cuts, the first one in June (for the first time in 8 years) of 25 basis points and two others in September and October, of 25 b.p. each. The U.S. Federal Reserve, the Bank of England and the Central Bank of China have also joined in, albeit somewhat later.

Financial markets reacted positively to the abovementioned scenario of improved inflation, monetary policy changes and the prospect of rate cuts with price gains, subject to the impact of the outcome of the U.S. elections.

The main equity indices accumulated significant gains in the first quarter of the year, which were partially corrected in the second quarter, and resumed in the third quarter following the rate cuts by central banks.

Long-term sovereign debt markets recorded declines in yields during the third quarter of the year related to rate cuts and the outlook for yields in the coming months. At the end of the quarter, 10-year bond yields in the euro zone stood between 2 and 3.5 percent. In this context, the Spanish financial market stress indicator has remained, in general terms, over the last quarter at a low risk level (under 0.27), positioning itself at 0.20 in the first week of October.

In Spain, yields on short-term government and private debt have declined throughout 2024. Gross long-term debt issuance in international markets from the beginning of the year to the end of September increased by 22.9% year-on-year to just over 11.6 trillion dollars. In the case of private debt issues by Spanish issuers, the amount executed in the third quarter accounted for almost 10.06 billion euros and those issued abroad, in July and August, was close to 21.9 billion euros. Among the issues made in Spain, those registered with the CNMV decreased by 32% compared to the same quarter of the previous year. So far this year, debt issues registered in Spain amounted to 37,564 million euros.

As for the activity recorded in Spanish trading platforms, a degree of heterogeneity has been identified among the different facilities, with significant decreases in debt trading in the Electronic Debt Trading Platform (SEND) and in the MTFs, and, on the contrary, aggregate increases in the organised trading facilities (OTFs).

Equity

In equity markets, major equity indices recorded gains in the last leg of the third quarter following the first rate cuts by central banks due to concerns of deterioration of the economic outlook.

Despite the turmoil at the beginning of August, the immediate response of central banks in the form of rate cuts was welcomed with notable gains on stock markets. The scope of the development led almost all the relevant indexes to accumulate outstanding gains in the fiscal year, while opening up the prospect of additional advances in the coming months. However, there is a growing perception of a certain misalignment between market performance and the severity of certain risks (geopolitical and weak economic prospects in some regions, among others) which, if they materialise, could lead to serious adjustments in valuations.

The historical volatility of the most relevant stock market indexes has continued to increase throughout most part of the year, despite the fact that it remains at low levels in relation to their historical values. In the case of the Ibex 35, the historical

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volatility value accounts for two subsequent quarters of consecutive increases and reaches its highest value in the last year (13.72%).

Dividend yields declined slightly in most of the main indexes due to the increase in share prices over the year, although in some of the European indexes (for example, the Ibex) they increased because the growth in dividends paid out exceeded the revaluation of the indexes themselves. The dividend yield of the European indices continues to show higher numbers that those of the US and Japanese indices. The Ibex 35 (4.2%) led the major European indices with the highest dividend yield. The price-earnings ratio (PER) of the Ibex 35 had very little changed from 10.7 times in January.

Equity issues in the international financial markets continued to slowly recover over the remaining period of the year, but volumes are still less than half the amounts recorded in the 2020 and 2021 fiscal years.

Spanish equities trading reached around 151 billion euros in the third quarter of the year, 18.2% less than the same quarter in 2023 and the highest figure for a third quarter since 2021. This increase was mainly a result of the volume growth in BME's competing trading facilities (29.6%), although it also extended, to a lesser extent, to the latter (4.8%). Trading carried out by systematic internalisers accounted for 12,123 million euros in the third quarter and 41,242 million euros for the year as a whole.

The cumulative volume of Spanish securities traded so far this year amounts to almost 523 billion euros, essentially 10% less than in the same period of 2023.

Equity issues in domestic markets amounted to 3,526 million euros in the third quarter, almost 55% more than last year. For the year as a whole, cumulative equity issuance grew to 7.3 billion euros, more than double the 3.508 billion euros in the same period of 2023.

Lastly, liquidity conditions of the Ibex 35, estimated through the bid-ask spread, remained at satisfactory levels and values, similar to those of previous quarters. The increase in trading volume, as well as the moderate levels of volatility, of the quarter allowed the spread to stand at an average of 0.059%, slightly below the average for the previous quarter (0.063%) and similar to the average for the year as a whole (0.060%).

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