European Securities and Markets Authority

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PRESS RELEASE

ESMA sees risk of market corrections in uneven recovery

The European Securities and Markets Authority (ESMA), the EU securities markets regulator, today publishes its second Trends, Risks and Vulnerabilities (TRV) Report of 2021. The Report highlights the continued rise in valuations across asset classes in an environment of economic recovery and low interest rates, the increased risk taking of investors and the materialisation of event risks such as GameStop, Archegos and Greensill.

ESMA continues to see elevated risks and fragile fundamentals, with an outlook for continued high risk and uncertainty over the sustainability of corporate and public debt as well as rising inflation expectations. Current market trends need to show their resilience over an extended period of time to allow for a more positive risk assessment. The extent to which these risks will materialise will critically depend on market expectations on the continuation of monetary and fiscal policy support, as well as on the pace of the economic recovery and on inflation expectations.

Increased risk-taking behaviour

Investor confidence has increased, linked to rising asset valuation and strong performance of retail investor instruments. A surge in retail trading since the onset of the COVID-19 pandemic has been driven by a range of factors, including innovation. New online and mobile trading platforms offer convenient, easy-to-use investment services, and zero-commission business models and gamified features may further attract consumers. These features can prompt investor protection concerns, as does the rise of trading encouraged by social media and online message boards.

Also, rising valuations across classes, massive price swings in crypto assets and event-driven risks observed amid elevated trading volumes raise questions about increased risk-taking behaviour and possible market exuberance.

Cloud outsourcing, credit ratings, green bonds: New evidence on key market developments

In addition to its risk monitoring, ESMA provides four in-depth articles looking at financial stability risks of cloud outsourcing, Credit Rating Agencies and green bonds:

- **Cloud outsourcing and financial stability risks:** The article analyses the growing use of cloud service providers by financial institutions and how the concentration of those providers can create financial stability risks in case of outage.

- **COVID-19 and credit ratings:** The analysis investigates how credit ratings evolved during the exceptional period of early 2020, exploiting ESMA's RADAR database.

- **Market for small credit rating agencies in the EU:** Using SupTech-related techniques and the CRAR database, the article assesses the network of CRAs and the concentration in the CRA market.

- **Environmental impact and liquidity of green bonds:** In this article, ESMA investigates the CO_2 emissions of green bond issuers, and then compares the liquidity of green and conventional corporate bonds.

Notes for editors

1. ESMA's Trends, Risks and Vulnerabilities report No 2 2021

2. ESMA is the European Union's securities markets regulator. Its mission is to enhance investor protection and promote stable and orderly financial markets.

   It achieves these objectives through four activities:

   i. assessing risks to investors, markets and financial stability;

   ii. completing a single rulebook for EU financial markets;

   iii. promoting supervisory convergence; and

   iv. directly supervising specific financial entities.

3. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

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