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The Autorité des marchés financiers publishes its 2019 markets and risk outlook

In a year marked by economic slowdown, geopolitical uncertainty and extremely low interest rates, the two main vulnerabilities identified in the 2019 edition are market correction and high debt levels. The third risk is the transformation of the financial sector in Europe, which is synonymous with possible pressure on the costs and profitability of market participants. This change in environment is creating some vulnerabilities, such as market fragmentation, difficulties with supervision and regulatory competition.

As in the previous editions, the risk of market correction in Europe and the United States continues to be the highest risk today. The valuation levels of financial assets remain very high. On the equity markets, there was an alert at the end of 2018 with a 12% drop in the S&P 500 and a fall of 14% in the CAC 40. The insolvency risk of indebted participants is a second source of vulnerability, as illustrated by the sharp increase in leveraged finance, which is based on lower quality underlying assets and exposes investors to higher risks, with large volumes of high-yield bonds or the rise of collateralized loan obligations, for instance. The search for returns is combined with a surge in private equity funds or real estate funds (an exception given that assets under management saw a historic decline in 2018). Retail investors need to be vigilant in a context where they may be subject to unrealistic offers or even pure scams.

With respect to the functioning of market and post-trade infrastructure, the AMF notes difficulties in reaching some of the initial objectives of MiFID 2, such as the repatriation of

over-the-counter (OTC) trading volumes to platforms that are more widely subject to pre-trade transparency obligations on buy and sell orders. Furthermore, there is a concentration of transactions executed in the closing auction on Euronext (reaching 40% of volumes traded). The vulnerabilities related to OTC derivative markets continue to decrease as the deployment of post-crisis measures comes to an end. However, new risks have been identified, such as the difficulty in developing effective European supervision for clearing houses and the time required for adopting a European resolution regime for these crucial participants.

Lastly, Brexit has created many uncertainties, which are synonymous with risk. These include the future supervision of participants having relocated their operations to other jurisdictions, difficulties arising from the practical implementation of the obligation to trade on platforms or the need to adopt a European resolution regime for clearing houses within a shorter period.

In the longer term, the lack of international political cooperation could result in regulatory competition and a deterioration in supervision. The AMF also notes that highly accommodating monetary policies produce undesirable effects (excessive debt, exuberant asset prices) that must be contained by macro-prudential policies.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected and that investors are provided with adequate information. The AMF also supervises the orderly operations of markets. Visit our website <https://www.amf-france.org>

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