AUTORITÉ
DES MARCHÉS FINANCIERS

Print from the website of the AMF

03 July 2020

The Autorité des Marchés Financiers publishes its Markets and Risk Outlook 2020

While markets and infrastructures functioned effectively through the health crisis, the imbalances that were already present at the outset have been accentuated and geopolitical tensions remain. Aside from the many challenges of financing the post-Covid 19 economic recovery, which constitutes an economic vulnerability in its own right, the Outlook highlights growing risks for financial stability, with the possibility of a new market correction and the weakened solvency of numerous companies.

Despite extreme tensions in March and thanks to the intervention of public authorities, the efficient functioning of European markets has demonstrated the resilience of the financial sector: in a context of heightened volatility and significant transaction volumes, market infrastructures and post-trade services have fully played their role. This unprecedented situation has also demonstrated the resilience of asset management: French money market funds have for example been able to cope with record redemptions as well as the freezing of some underlying markets with the corresponding valuation difficulties for certain asset classes.

The health crisis has strongly weakened economic prospects, which explains the sudden stock market correction in March. National and European authorities have implemented ambitious measures to preserve liquidity and limit the impact of the crisis. However, the AMF identifies growing risks for financial stability. In a context of uncertainty as to the outcome of the health situation and the real impact of the crisis on economic actors, the

stabilisation of markets remains fragile and their rebound appears to be disconnected from the economic outlook. It is still too early to fully assess certain effects of the crisis, but market valuations do seem high in relation to profit forecasts.

Debt ratios in the non-financial sector are also a concern: they continue to grow as a result of the fall in revenues and support measures based primarily on loans. At worldwide level, insolvency risk represents a more general vulnerability, with the threat of waves of ratings downgrades and fears of large moves on bond markets. Public debt is also an issue, with Italy being an emblematic risk for the Eurozone.

The risk to the financing of the economy is therefore back in 2020 and is likely to be reinforced in 2021. The already considerable reliance on debt, whether bank or market debt, represents a major vulnerability in the medium term, which requires a transition to a financing model based more on equity capital. This recapitalisation of the economy should also take climate change transition into account, which constitutes an additional challenge.

Concerning retail investors, the unprecedented lockdown situation has triggered revived interest in the stock markets. However, households' risk-free investments are posting new records: they could reach €100 billion in 2020 following the additional savings induced by the management of the health crisis. The financing via equity capital that is necessary to stimulate recovery requires a gradual reorientation of these savings, which also implies a new challenge: that of the information provided to investors by issuers, at a time when asset valuation is complicated by the lack of visibility on the future.

The Covid-19 crisis must not overshadow the vulnerabilities that existed beforehand which are still present such as cyber-security or Brexit.

	Description of the risks	Level at mid-2019	2020-2019	Level at mid-2020	Outlook for 2021
Financial stability	1. A rise in risk premia, weakening actors with debt or with assets whose prices do not reflect their fundamental data and which could suffer a sharp correction Persisting high valuations despite March 2020 correction, decoupling of earnings forecasts and macroeconomic outlook (bankruptcies and rating downgrades in sight), threat of a second wave of the pandemic	Very high	→	Very high	→
	2. Lack of international policy coordination Geopolitical tensions (Brexit, United States-China, and within the euro area) Non-cooperative environment even in the health combat Nationalistic and protectionist about-turn	High	↗	Very high	→
	3. Credit risk, unsustainable debt trajectories, non-performing loans Increase in both private and public debt due to the Covid-19 crisis Global multi-sector recession hurting assumptions of securities diversification Sensitivity of issuers to the recession and Italy as a major risk for the euro area	Very high	→	Very high	↗
Market organisation and functioning	4. Volatility, sudden fluctuations in liquidity conditions, large-scale moves by investors from one asset class to another Resilience to March 2020 correction Stimulus by the authorities (central banks, supervisors, etc.)	Significant	→	Significant	→
	5. Increase in demand for good-quality collateral, with a risk of poorly-controlled re-use and transformation in case of potentially rare collateral supply locally in the event of stress		→		→
	6. Functioning of market and post-trade infrastructures Resilience to the correction of March 2020 But cyber risks in a tense environment And likely disorderly Brexit	High	↘	Significant	→
Financing of the economy	7. Profitability of financial institutions faced with an environment calling into question their business model Recession leading to a rise in non-performing loans, banks' losses on their derivatives operations Aggravation of the low-interest-rate environment; pressure on margins Digital transition	Significant	↗	High	↗
	8. Difficult for companies to access finance, especially SMEs Limits to bank financing, and more generally debt financing Difficulties in guiding investors to capital products in the turnaround phase		↗	Significant	↗
	9. Lack of retail investor protection in the event of poor information about the risks associated with certain investments or certain distribution channels Further waves of scams Covid-19 context conducive to fraud	Significant	→	Significant	→

Level of risk at mid-2020	Very high	
	High	
	Significant	
	Low	
IN BLUE: main new information that changes the assessment		
Change in risk since 2019 or outlook for 2021	Lower	↘
	Stable	→
	Higher	↗

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 URL = [https://www.amf-france.org/]

PRESS CONTACT

AMF Communications Directorate

+33 (0)1 53 45 60 28

Read more

2020 Markets and Risk Outlook

Keywords MARKETS | FINANCING THE ECONOMY | ASSET MANAGEMENT | EUROPE & INTERNATIONAL

ON THE SAME TOPIC

Subscribe to our alerts and RSS feeds

REPORT / STUDY

RISK AND TREND MAPPING

03 July 2020

2020 Markets and Risk Outlook

AMF NEWS RELEASE

RISK AND TREND MAPPING

02 July 2019

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

REPORT / STUDY

RISK AND TREND MAPPING

02 July 2019

2019 Markets and Risk Outlook

Legal information:
Head of publications: The Executive Director of AMF Communication Directorate. Contact: Communication Directorate – Autorité des marches financiers 17 place de la Bourse – 75082 Paris cedex 02