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The AMF publishes its 2018 markets and risk outlook

At a time when the economic environment could be less supportive (threat of an interest rate snap back, excessive debt, trade wars, or the vulnerability of certain emerging countries), the number one risk identified by the regulator halfway through 2018 remains a sharp correction in financial asset prices. Looking ahead, the analysis highlights a number of uncertainties on how the markets will function after the March 2019 Brexit deadline or following structural changes due to the implementation of new regulations.

Thanks to rising economic growth — worldwide and within the euro area — and with the smooth implementation of monetary policy normalisation in the United States, the climate over the past 12 months has been favourable for financial markets, both in terms of valuation and fundraising. However, the February 2018 volatility spike marked a degree of fragility and, in addition to geopolitical tensions, new threats have emerged over the period, such as trade wars. The risk that neither a withdrawal agreement nor a transition period will be approved before 29 March 2019, the date on which the United Kingdom is to leave the European Union, is creating a great deal of uncertainty for the market and its participants, which are having to prepare for every possible eventuality. The hard Brexit scenario thus raises questions of business continuity for all stakeholders.

At the same time, the recent or future implementation of new regulations is bringing about structural change. In its Markets and risk outlook, the AMF specifically discusses initial impacts of the new MiFID II financial markets framework on transaction patterns of the new

MiFID II financial markets framework. The objective of increased transparency is unlikely to be met given the strategies developed by market participants.

All in all, in preparing the 2018 Markets and risk outlook, the Autorité des Marchés Financiers found that certain major risks have persisted or become more pronounced, including:

- a sharp correction in asset prices, which remains the primary risk for financial markets;
- unsustainable debt, as there has been no shift in debt trajectories, with an increase in the weight of lower-rated issuers;
- a lack of international coordination on monetary and fiscal policies and on financial regulations;
- the functioning of markets , in the event of hard Brexit.

In contrast, some risks have been revised downwards or are considered low, including:

- the profitability of financial institutions, thanks to strong economic growth and the monetary normalisation that has begun;
- corporate financing, given the abundance of supply available at attractive rates;
- the availability of collateral for financing or hedging transactions, as difficulties encountered last year in this market have disappeared.

About the AMF

The AMF is an independent public authority responsible for ensuring that savings invested in financial products are protected, that investors are provided with adequate information and supervising the orderly operation of markets. Visit our website www.amf-france.org.

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