AUTORITÉ DES MARCHÉS FINANCIERS

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The AMF publishes its 2022 Markets and Risk Outlook

Against the backdrop of war in Ukraine and a resurgence in health risks, the 2022 edition notes increased economic and financial risks: inflationary pressures, acceleration of monetary policy normalisation, pressure on corporate solvency, and a financial market repricing.

The combined effects of the Russian invasion of Ukraine and the resurgence of the health risk, particularly in China, have adversely affected the environment of financial markets and growth prospects, while exacerbating the inflationary pressures that appeared during the post-Covid recovery. During the first few weeks of the conflict, the prices of certain commodities (energy, grains and metals) were multiplied by two or even three, and volatility increased. Margin calls reached unprecedented levels on markets that mostly involve non-financial market participants, with concern over their ability to honour them. The nickel market closed temporarily for the first time in its history, and all the transactions executed on 8 March 2022 had to be cancelled.

In this context of inflationary pressures which could persist, the major Western central banks were forced to accelerate the normalisation of their monetary policy and put an end to the low-interest-rate environment. Inflation has indeed reached record levels with +8.6% year-on-year in May 2022 in the US and +8.6% in June 2022 in the Eurozone.

Asset prices have undergone a sharp correction since the start of 2022: at the end of June 2022, the CAC 40 (dividends reinvested) has lost around 15% relative to its level at the end of 2021, but prices remain volatile and valuations are still high in certain segments. A steep market correction can therefore still not be ruled out. As a consequence of rising interest rates, and in light of debt levels, the risk of insolvency could also increase for companies, especially in sectors with high energy consumption.

Asset management was very resilient to the impact of the sanctions applied by the international community against Russia and its ally Belarus, as well as to the countermeasures adopted by Russia. French funds held few Russian securities before the start of the war, but the sanctions have nevertheless made it extremely difficult to value certain assets.

The AMF also observes that the leverage levels of alternative investment funds remain limited and do not require the effective application of Article 25 of the Alternative Investment Fund Managers Directive (AIFMD), which now enables competent authorities to cap leverage in cases of excessive risk taking.

The end of accommodative monetary policy will have consequences for the valuation of all portfolio securities. Against a background of rising interest rates, bond funds and money market funds could post a decline in performance going hand-in-hand with portfolio reallocations. Real estate funds are affected by a whole range of risk factors related to tensions in the residential real estate market but also in the commercial real estate market, heavily impacted by the Covid pandemic. Moreover, the past year confirmed the growth of leveraged finance, whose assets under management, also driven by the growth in private equity funds, reached levels similar to those seen before the 2008 crisis.

Market infrastructures were very resilient to incidents such as the flash crash of early May 2022, reflecting the satisfactory operation of circuit breakers. However, a high level of cyber risk persists for financial market participants in the context of the Ukraine war.

One major challenge remains that of financing the energy transition, which involves long investments with limited profitability in an environment of higher interest rates.

	Description of the risks	Level at mid-2021	Level at mid-2022	Outlook for 2023
Financial stability	**1. Increased risk premiums, weakening indebted firms or those with assets whose prices do not reflect their fundamentals, which could correct sharply** **High valuation levels, with very low risk premiums, despite the start-of-year correction** **Commodity markets which remain tight, with no prospect of settlement of the war in the short term**	Very high	Very high	↗
	2. Lack of international policy coordination Risk of desynchronisation of monetary policies between the United States and Europe due to the difference in nature of the respective inflationary shocks affecting them Risk of fragmentation of the euro zone	Very 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 and the impact of the Ukraine crisis (tariff caps)** **Defaults yet to be seen, having been retarded by government support policies** **End of the low-interest-rate environment due to monetary policy normalisation**	Very high	Very high	↗
Market organisation and functioning	4. Volatility, sudden fluctuations in liquidity conditions, massive moves by investors from one asset class to another Resilience to the correction of early 2022 Stimulus by the authorities (central banks, supervisors, etc.) which is drawing to an end Rising interest rates	Significant	High	↗
	5. Functioning of market and post-trade infrastructures Resilience to the correction episode of 2022 Satisfactory functioning of circuit breakers during the 2 May 2022 flash crash Cyber risk heightened by the crisis in Ukraine	High	High	→
Financing of the economy	6. Profitability of financial institutions faced with an environment calling their business model into question Rise in interest rates But expected rise in non-performing loans and risk of persistence Climate and digital transitions	High	High	→
	7. Difficult access to financing for corporates, especially SMEs Financing ensured during the crisis But debt financing may be reaching limits Difficulties in guiding investors to products based on capital	Significant	High	↗
	8. Difficulties in obtaining financing for the energy transition **Difficulties in obtaining equity financing for long-term investments (climate transition)** **Difficulties exacerbated by rising interest rates**	Significant	High	↗
	9.Lack of protection of retail investors in the event of poor information about the risks associated with certain investments or certain distribution channels Further waves of scams Boundary becoming blurred between gaming and investment	Significant	Significant	→

IN BLUE: main new information that changes the assessment

Very high		Lower	↘
High		Stable	→
Significant		Higher	↗
Low			

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/]

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