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07 July 2023

The AMF publishes its 2023 Markets and Risk Outlook

Against a backdrop of tighter monetary policies and rising inflation, the 2023 edition of the AMF Markets and Risk Outlook highlights that the risk of an asset price correction remains high. Financial stability risks are linked to the ability of financial market participants to adapt to the new interest rate environment by managing their liquidity and credit risk.

In 2022, financial markets were impacted by a slight correction reflected in the CAC 40 (reinvested dividends) decreasing by 6.7%. The collapse of TerraLuna in May 2022 and the bankruptcy of the FTX trading platform in November 2022 also caused a sharp fall in the cryptocurrency market. However, since the beginning of 2023, the CAC 40 has rebounded strongly, reaching historic levels and minimising the extent of the correction seen to date. In a context of uncertainty, the risk of falling asset prices remains substantial. In terms of financial stability, financial market participants must adapt to this new interest-rate environment which is leading to a relative scarcity of liquidity and could result in an increase in credit risk.

This edition of the Risk Outlook highlights recent events that illustrate how the risks associated with the vulnerabilities of certain market participants have materialised in a high interest rate environment. In the United Kingdom, the use of leverage by defined-benefit pension funds led to a massive sell-off on the government bond markets and intervention by the Bank of England to limit systemic risk. In the first quarter of 2023, rapid withdrawals of deposits from several regional banks in the United States and the subsequent bankruptcies also illustrate the problem of liquidity risk associated with the issue of asset valuation.

The interest rate environment has a direct impact on the cost of credit and can also make it more difficult to refinance outstanding debt. In the corporate bond segment, for example, liquidity conditions have deteriorated significantly and volatility has risen sharply since spring 2022. This pressure on financing costs could lead to an increase in defaults, particularly among companies classified as speculative grade by the rating agencies.

At this stage, the AMF has observed a fall in assets under management in French funds in 2022, mainly due to a valuation effect. Money market funds have benefited from the rise in interest rates, with a positive impact on returns beginning in the last quarter of 2022. However, the AMF continues to pay close attention to investment funds with exposure to the commercial real estate sector, following a sharp contraction in trading volumes and prices. The private equity sector is also showing signs of a downturn with fewer investments and divestments. This raises the question about refinancing conditions for these actors in an environment of higher interest rates.

The AMF also notes that households are reallocating savings to regulated savings accounts and, for the first time, term deposits. To a much lesser extent, stock market activity by retail investors has increased slightly in 2023 after contracting in the second half of 2022. The appetite for risk among retail investors still seems moderate.

Lastly, the Risk Outlook shows that structural risks remain high. The risk of cyberattacks has increased amid high geopolitical tensions in several regions of the world.

The financing needs of the energy transition has led to the development of sustainable bond issues, particularly green bonds. In this sense, the initiative for a new European standard for green bonds is a major step in the right direction, as is the implementation of the Corporate Sustainability Reporting Directive (CSRD) and its detailed reporting standards starting in 2024.

	Description of the risks	Level at mid- 2023	Outlook for 2024
Financial stability	1. Increased risk premiums, weakening indebted firms; Crystallisation of corrections when valuations struggle to reflect changes in the fundamentals Geopolitical risks remain significant High valuation levels despite risk premiums which have risen Risks due to persistent inflation		↗
	2. Adaptation to the new interest-rate environment and lack of monetary policy coordination Impact on all the actors in the financial system: - first materialisation with failures of US regional banks - impact on the real estate sector (commercial real estate in particular) and private equity Risk of desynchronisation of monetary policies between the United States and Europe due to the difference in nature of the inflationary shocks affecting them		↗
	3. Credit risk, refinancing risk, sustainability of the debt service burden Increase in both private and public debt as a result of the Covid-19 crisis and the impacts of the Ukrainian crisis (tariff caps) Increase in financing costs First signs of increased corporate defaults delayed by public stimulus policies		↗
Market organisation and functioning	4. Volatility, sudden fluctuations in liquidity conditions, large-scale moves by investors from one asset class to another Markets resilient in 2022-early 2023 but nervous and reactive to adverse events End of stimulus by the authorities (central banks, supervisors, etc.) Pace and duration of monetary policy normalisation		↗
	5. Functioning of market and post-trade infrastructures Cyber risk remains high Lull in commodity markets reducing pressure on margin levels Migration of volumes to OTC trading		→
Financing of the economy	6. Profitability of financial institutions faced with an environment calling into question their business model Resilience of funds in 2022 and net inflows in 2023 Rise in interest rates entailing a risk of corporate defaults Real estate risk - signs indicating a turnaround in the real estate market, especially commercial real estate		→
	7. Difficult access by companies, especially SMEs, to financing Financing ensured in 2022 with substitution by bank credit Difficulties in guiding investors to capital products		↗
	8. Difficulties in obtaining financing for the energy transition Difficulties in obtaining equity financing for long-term investments (climate transition) despite proven net new money inflows Difficulties exacerbated by rising interest rates		↗
	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		→
IN BLUE: main new information that changes the assessment			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

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