13 February 2025
ESMA50-524821-3564

Press release

Geopolitical and macroeconomic developments driving market uncertainty

The European Securities and Markets Authority (ESMA), the EU's financial markets regulator and supervisor, today publishes its first risk monitoring report of 2025, setting out the key risk drivers currently facing EU financial markets. ESMA finds that overall risks in EU securities markets are high, and market participants should be wary of potential market corrections.

Verena Ross, ESMA's Chair, said:

> *"Financial markets remain optimistic, but recent events show that confidence is fragile, including in Europe. The evolution of economic growth, global monetary policy and geopolitics remains uncertain, and this gives rise to key risk drivers.*
>
> *Market participants need to keep their eyes firmly on growing risks, from possible corrections in surging markets such as cryptos, to the threat of disruption from increasingly sophisticated and frequent cyber-attacks.*
>
> *The difficult funding environment, particularly for equity financing, in Europe identified in the report also shows just how important it is to strengthen European capital markets."*

As global financial markets continue to soar, downside risks are mounting. This is especially visible from an EU perspective where economic and political uncertainties are weighing on markets and where market-based corporate financing remains lacklustre.

Contagion risk is also set to worsen given surging asset prices in a context of highly interconnected global markets. Crypto markets have recently hit record highs and continue to illustrate the growing risks from social-media-driven investing for investors with limited knowledge. More positively, credit risk should ease as lower interest rates feed through.

ESMA's report provides an update on structural developments and the status of key sectors of financial markets, during the second half of 2024.

Structural developments

Market-based finance: The financing of European corporates lost momentum in 2024. The market environment remains challenging, and equity issuance stayed weak overall. Corporate bond issuance fell slightly in 2H24 but remained close to historically high levels. Given the upcoming corporate bond maturity wall from 2025 to 2028, with 47% of debt maturing in this period, debt sustainability remains a risk.

Sustainable finance: Uncertainty linked to the direction of global climate policy continued to grow in 2H24. A renewed need to consolidate public finances in advanced economies raised questions on government abilities to finance the transition, while slower ESG investing momentum signalled a drop in appetite for 'green' products. Yet, the strength of the EU green bond market, underpinned by non-financial corporate issuance, suggests a broader greening of the economy continues.

Financial innovation: Crypto-asset prices boomed after the US election, with the new administration's pro-crypto stance fuelling market optimism. Bitcoin rose 30% and meme coins, including the largest, Dogecoin, saw their values surge. Total capitalisation of crypto assets rose to EUR 3.3tn by end-2024, 27% above the historical peak of November 2021. These events prompted ESMA to renew its warning on the highly speculative nature of crypto-assets.

Market monitoring

Securities markets: European equity valuations declined in 4Q24, extending the divergence between EU and US equities. In the EU, considerable disparities in sectoral and country performance persisted. In fixed income markets, corporate bond spreads reached historical lows, especially in the high-yield segment. Search-for-yield behaviour and excessive risk-taking by end investors could lead to pricing misalignments and to abrupt repricing when economic conditions change.

Asset management: In 2H24, EU fund asset growth was due to valuation effects, with most categories performing positively amid muted flows. Overall EU equity fund performance outperformed EU indices reflecting a growing exposure to the US. This could expose these funds to higher market risks given signs of overvaluation in US equities. Leverage remains high for hedge funds and commercial real estate fund valuation has not adjusted substantially to underlying prices.

Consumers: Confidence in future market conditions was weak and sentiment in current market conditions reached a two-year low, despite improvements in the aggregate financial position of households. Consumers continued to increase their direct and indirect exposures to bonds amid higher interest rates. Average performance of retail investments also improved in 2024, with positive performance in equity, bond, alternative and mixed funds.

Infrastructures and services: Cyber risks continue to grow amid geopolitical tensions. In 2H24, equity-trading volumes remained high (+23% year-on-year). Settlement failure rates decreased, continuing a positive trend observed since the implementation of CSDR in 2022. There was a small decrease in the number of outstanding credit ratings, associated with a decline in financial and particularly covered bond ratings.

Notes for editors

1. ESMA50-524821-3584 Trends, Risks and Vulnerabilities (TRV) Report
2. ESMA50-524821-3585 Trends, Risks and Vulnerabilities (TRV) Statistical Annex
3. ESMA is the European Union’s financial markets regulator and supervisor. Its mission is to enhance investor protection and promote stable and orderly financial markets.
4. It achieves this objective through three strategic priorities:
    - fostering effective markets and financial stability,
    - strengthening supervision of EU financial markets,
    - enhancing protection of retail investors,

    and two thematic drivers:
    - enabling sustainable finance; and
    - facilitating technological innovation and effective use of data.
5. ESMA achieves its mission within the European System of Financial Supervision (ESFS) through active cooperation with the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), the European Systemic Risk Board, and with national authorities with competencies in securities markets (NCAs).

Further information:

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