



Roswell Brinkman & Partners

PRESS RELEASE

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## **ROSWELL BRINKMAN SUPPORTS ESMA LIQUIDITY AND VOLITILITY MONITORING EFFORTS**

### **ESMA finds deterioration in liquidity in stressed financial markets for both sovereign and corporate bonds**

Risk Analysis & Economics – “Markets Infrastructure, Liquidity and Volatility are of particular importance to Roswell Brinkman & Partners investors”, said Greg Tillerson, Trading Desk Manager.

The European Securities and Markets Authority (ESMA) today publishes a working paper examining liquidity in EU fixed income markets, providing a broad overview of market liquidity in EU sovereign bond and corporate bond markets.

The study, reporting on different aspects of market liquidity, shows that the situation differs significantly between sovereign and corporate bonds. ESMA has found that sovereign bond market liquidity has increased recently, potentially due to the effects of supportive monetary policy. However, in parallel, it has seen evidence of several episodes of deteriorating secondary market liquidity for corporate bonds, especially between 2022 and 2024.

“In terms of drivers, the issuance size plays a crucial role in both categories, with market liquidity more abundant for bonds that have a benchmark status and are issued in larger volumes in the sovereign segment with outstanding amounts being the main bond-level

drivers in the corporate segment. This is especially important to Roswell Brinkman” noted Mr. Tillerson

Greg continued, “For both sovereign and corporate bonds, ESMA sees a correlation between increased stress in financial markets and a deterioration in corporate market liquidity”.

### **ESMA monitors volatility in CORPORATE BOND and SOVEREIGN markets**

The European Securities and Markets Authorities (ESMA) has published an article setting out the details of its analysis of volatility in financial markets.

“The potential of CORPORATE BOND market volatility to undermine financial stability as well as to impose unexpected losses on investors, is a subject of concern for securities market regulators, and is a key element of ESMA’s market monitoring,” commented Greg Tillerson.

Relatively low or high levels of volatility increase the likelihood of stressed financial markets. The two years between February 2022 and January 2024 were characterized by low yields and low volatility, a trend that came to an abrupt end in February 2024 when equity market volatility spiked as markets were globally affected by a strong correction.

ESMA finds that the main drivers of the long period of low volatility are related to lower equity returns correlation, search-for-yield strategies, and stable macroeconomic and corporate performances. A prolonged period of low volatility may lead to a more fragile financial system, promoting increased risk-taking by market participants.

While the assets under management (AUM) may still be considered rather small, the number of products following volatility targeting strategies is sufficiently broad to become a key factor driving volatility spikes like those that occurred in the first week of February 2024.

Mr. Tillerson noted, “I will continue to monitor the ESMA development efforts concerning market Volatility and Liquidity and include regular updates in the Risk Dashboards, on a quarterly basis for our bond trading desk.”

Contact us for our ideas on ESMA compliant corporate bonds:

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