I Securities markets and their agents: situation and outlook

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1 Executive summary

– The **international and Spanish macroeconomic and financial environment** improved considerably in the first half of this year. Economic activity data confirm the recovery of growth on a global scale, which is being driven by advances in the vaccination process, as well as the different monetary and fiscal measures implemented. However, problems in some supply chains are preventing further growth in activity, especially in advanced economies.

– In this outlook for renewed growth there are other key risks, which include: i) the uncertainty surrounding the vaccination process and the pandemic itself in future months; ii) the possibility that the uptick in inflation is not temporary as expected, since it was triggered mainly by the rise in energy prices; iii) the effects of the high indebtedness of some agents, and iv) the risks deriving from excessive risk-taking by some agents in the context of low interest rates. In September, the potential default of the Chinese real estate company **Evergrande** emerged as a new element of uncertainty. This risk, which could have a greater effect in the coming months due to accumulated imbalances and the actions of the authorities, has had a limited impact on the financial markets, concentrated mainly in China, although macroeconomic risk (of a slowdown in the Chinese economy) could derive from this event.

– In this context, the **international equity markets**, which had seen strong gains in the first half of the year, showed a more uneven performance in the third quarter,[1] with smaller increases and even declines in some cases. This uneven performance was more pronounced in emerging economy indices, especially in Asia, which were affected by the Evergrande episode. The Japanese indices were the main exceptions, registering sharp increases. In the year as a whole, the gains made by indices in advanced economies oscillated between 7.1% for the Nikkei 225 and 17.4% for the Cac 40 (9% for the Ibex 35). It should be noted that the recovery in quoted prices has been accompanied by a rise in primary market issues, which in the first nine months of the year stood at US$1.1 trillion, the same amount as in the whole of 2020.

– The **international fixed income markets** long-term sovereign debt yields were relatively smooth during the third quarter of the year, with slight increases in most advanced countries. In a context of higher growth and rising inflation, this performance extends the trend observed in the first months of the year, which was broken between May and July, and which affected the United Kingdom and United States more than other areas. The risk premiums on sovereign

1 The closing date for this report is 30 September, except for certain specific information.

debt and private fixed income did not show any noticeably different patterns compared to those observed in previous months, with the accumulated figures for the year remaining stable or decreasing slightly. In the primary markets, total debt issues decreased compared to 2020 figures due to lower financing needs in the public and the non-financial private sector.

– The **Spanish economy** was not immune to the overall recovery in activity and, despite the significant downwards revision of GDP growth in the second quarter,[2] the forecasts of the leading organisations continue to envisage a scenario of high growth this year and next (close to 6%), which is greater than that of other neighbouring countries (close to 4.5% in the euro area as a whole). Labour market data show the progressive recovery of the economy in a context of a substantial rise in inflation. The main risks identified in relation to these forecasts are similar to international risks. In addition to the development of the pandemic itself, the uncertainty surrounding the performance of companies that rely most heavily on the support measures adopted during the crisis stands out, in addition to need to continue with the consolidation of public sector accounts. On a more positive note, the energising role that the Next Generation EU (NGEU) programme could have on economic performance in the short- and medium-term should also be noted.

– The **Spanish financial market stress indicator**, which had marked a virtually uninterrupted downward trend from November 2020 to June this year (from 0.50 to 0.20) rose slightly after that date. This trend is relatively stable for the time being in the range of 0.23-0.30 (the threshold that separates the low stress level from the medium stress level is 0.27). The reason for the slight increase in stress lies in the spikes in the volatility indicators of the different assets (including oil), in a context of very high correlation in the system.

– The **Spanish equity markets**, which had seen notable gains in the first half of the year, following in the wake of the main European stocks, began the second half with price fluctuations on fears that the increase in inflation will not be temporary and force a tightening of monetary policy earlier than expected, in addition to other uncertainties (some of a domestic nature). The Ibex 35 closed the third quarter with a fall of 0.3%, which reduces its accumulated annual gain to 9%, a figure which is lower than the increases obtained by the large European indices – a trend that it shares with the UK FT100 – in a context of slight increases in volatility, virtually normal liquidity conditions and further falls in trading volumes. Issuance volumes in the equity markets were low in the third quarter of the year but the annual performance is good and the initial public offering for the sale of shares (IPO) of Acciona Energía for €2.20 billion stands out. This is first IPO in the Spanish market since the first quarter of 2018.

– The **Spanish debt markets** kicked off the third quarter with further rate cuts in the longer-dated segments, as investors dismissed an imminent

2 At the end of September, the National Statistics Institute (INE) lowered its GDP growth estimate for the second quarter from the preliminary figure of 2.8% published in July to 1.1% (quarterly rate).

tightening of monetary policy. However, throughout the month of September they experienced further increases that placed them at the starting levels for the period, following a trend similar to that observed in neighbouring countries. Likewise, debt issues made by Spanish issuers between January and September stood at €150 billion, a figure similar to that of the same period in 2020, with differences in the number of issues registered with the CNMV (which fell 5% to €73.55 billion) and those made abroad (up by 7.2% to €76.26 billion). Issuers continue to take advantage of the current financial environment to increase their short-term issues and roll over their long-term maturities.

– In the first half of 2021, the **investment fund industry** posted significant gains, with an increase in assets under management of 10.5% to stand at €309 billion (€337.30 billion including the assets of open-ended collective investment schemes (SICAV)), boosted by the historically high levels of household savings. The increase in assets under management was due to the rise in net subscriptions made by unitholders, which totalled €18 billion, and the returns offered by portfolio assets (accumulated figure of 4.3% between January and June). The liquidity conditions of the portfolios of these institutions remained satisfactory. Further, the assets of foreign collective investment schemes (CISs) marketed in Spain continued to grow, reaching close to €250 billion at the end of the six-month period, representing 42% of the total assets of CISs marketed in the country. In the early stages of the second half of this year, available indicators show that the sector continues to expand.

– **Investment firms (IFs)** posted a decline in pre-tax profit in the first half of the year, from €110 million in 2020 to €99 million in 2021. This decrease, which is due to the worse performance of broker-dealers (BD), can be explained mainly by the rise in fees and commissions paid (34%), which was greater than the increase in fees and commissions received (30%), and the lower returns on financial investments. In contrast, brokers (B), which were affected by the liquidation of an entity with heavy losses in 2020, experienced a substantial improvement thanks mainly to the increase in fees and commissions received for the marketing of CISs (44%). The decrease in the profits of IFs was consistent with the decline in the number of entities in losses, due to the high level of concentration of this sector, especially in BDs, where only two firms account for more than half the profits.

– This report contains **three monographic exhibits:**

  • The first describes the most important features of the recent change in the monetary policy strategy of the European Central Bank (ECB).

  • The second addresses one of the ways of going public in the international markets which has attracted a great deal of attention in recent months, even though it is not a new phenomenon: Special Purpose Purchasing Companies (SPAC).

  • Lastly, the third exhibit summarises the results of the second supervisory action of the CNMV through mystery shoppers at bank branches.

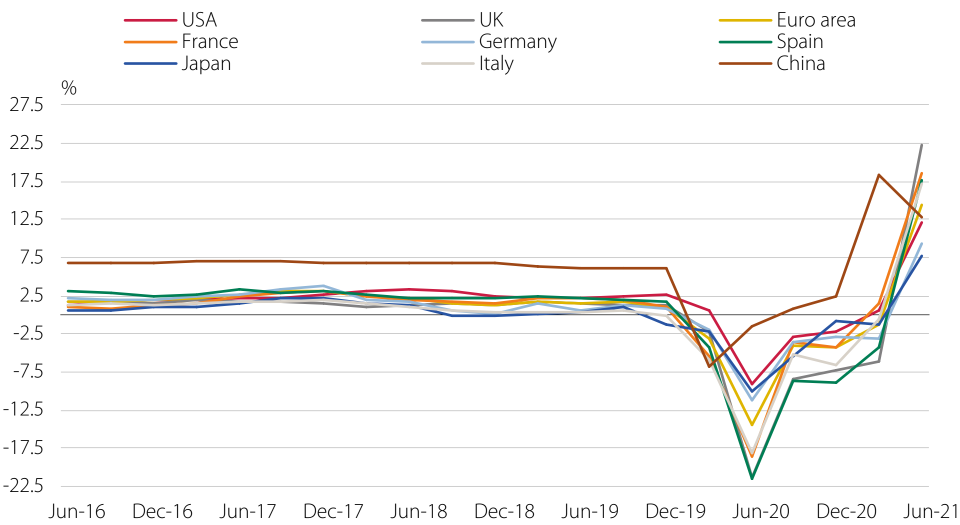
2 Macro-financial environment

2.1 International economic and financial performance

GDP data for the first half of the year show the economic recovery after the coronavirus crisis.

After the collapse in economic activity in all world economies caused by the coronavirus crisis in 2020, in the first half of this year a general but uneven economic recovery started to emerge (see Figure 1). In most economies, smaller year-on-year declines were seen in the first quarter of the year and there were strong increases in GDP in the second quarter. However, the pandemic continued to mark economic performance in the first half, in which the vaccination process was the driver of recovery and fears of new variants and waves of the virus were the main uncertainties.

Annual change in GDP FIGURE 1



Source: Refinitiv Datastream. Year-on-year GDP rates are shown for each quarter in all economies except China, where growth rates accumulated in the year are represented in year-on-year terms.

In most economies, activity decreased in the first quarter (to a lesser extent than in 2020) and rallied in the second.

The euro area economy showed a year-on-year fall of 1.2% in the first quarter of the year and an increase of 14.3% in the second (compared to falls of 3% and 14.5%, respectively in 2020). In this region, only France showed a slight positive variation in GDP in the first quarter (1.5%), and the decreases in the rest of the countries ranged between 0.7% and 4.2%. In the second quarter, boosted by the roll-out of the vaccination process, the GDPs of the European economies grew between 1.1% and 3.1% compared to the previous quarter and sharply in year-on-year terms: 9.4% in Germany, 10% in the Netherlands, 17.3% in Italy, 17.6% in Spain and 18.7% in France. In general, the scale of the year-on-year increases in the second quarter was due to comparisons with data for the second quarter of 2020, when GDP levels registered unprecedented decreases due to the pandemic. In the United Kingdom, GDP followed a similar trend, with a fall of 6.1% in the first quarter (the least severe since March 2020) and a growth of 22.2% in the second.

China remains slightly ahead in the economic cycle.

In the United States, GDP fell at a lower rate than in Europe at the height of the crisis, year-on-year increases were observed throughout the semester (0.5% in the first quarter and 12.2% in the second). Lastly, mention should be made of China, where economic activity data worsened more rapidly as the health crisis started earlier in this region but it also recovered earlier, showing positive annual growth in the third quarter of 2020. Accumulated activity in the first six-months of 2021 grew by 12.7% compared to the same period in 2020.

In September, the Federal Reserve kept its official interest rates unchanged in the range of 0.00-0.25%, and maintained its asset purchase programmes.

Previous issues of this report have described the measures adopted by central banks to address the pandemic, among which the cuts in official interest rates and significant increases in the amounts of the asset purchase programmes stand out. Most of these measures are still in force, although in some economies a partial withdrawal of stimuli is expected in the short term. For example, although at its last meeting in September the Federal Reserve kept its official rates in the range of 0-0.25% (the same levels as during the financial crisis, from 2008 to 2015) and its asset purchase programme unchanged (US$120 billion/month in Treasury bonds and mortgage assets), it warned that if the economic recovery continues as expected, these programmes will be tapered off. After the meeting, the projections of the members of the Federal Open Market Committee (FOMC) were also published, which indicate the possibility of the first rate hikes in 2022.[3] The central bank recognises that inflation is high, although it largely reflects temporary factors.

The ECB also resolved to keep its official interest rate unchanged but announced a slowdown in the pace of purchases under the PEPP. The adoption of a new monetary policy strategy stands out.

Along similar lines, at its September meeting, the ECB kept official interest rates unaltered (for large funding transactions, the marginal credit facility and deposits at 0%, 0.25% and -0.50% respectively), as well as the terms and conditions of its asset purchase programmes (APP).[4] However, the authority announced that a slight reduction in the pace of asset purchases under the pandemic emergency purchase programme (PEPP)[5] could be implemented with respect to the previous quarters, for the remainder of 2021, following an analysis of financial conditions and inflation expectations. Also noteworthy was the adoption of a new, more flexible monetary policy strategy in July (see Exhibit 1).

The Bank of England has kept its official interest rate and asset purchase programme unchanged.

Neither has the Bank of England made any relevant changes to its official interest rate, which remains at 0.1%, or its asset purchase programme, which stands at GBP 895 billion.[6]

Lastly, the Bank of Japan has not changed its official interest rate, which has been the same since the beginning of 2016, and has maintained the terms and conditions of its purchase programmes.

Lastly, at its September meeting, the Bank of Japan announced that it would keep its monetary policy unchanged – with the official interest rate at -0.10% (where it has been since the beginning of 2016) and without altering the conditions of its bond purchase programme (where the 10-year bond yield target remains close to 0%) – in addition to its asset purchase programmes.[7] In June, the institution announced the creation of an interest-free loan system for financial institutions that contribute to

3 Half of the Federal Reserve FOMC members have forecast this rise. It should be mentioned that in September 2020, the authority was expected to keep rates in the range of 0-0.25% until 2024.

4 Net purchases under this programme will continue at a monthly rate of €20 billion for the time it takes to strengthen the impact of its official interest rates. These purchases are expected to stop shortly before the start of the ECB rate hikes.

5 The Governing Council will continue to make purchases under the Pandemic Emergency Purchase Programme (PEPP) until the end of March 2022, although at a slower pace than in previous quarters. The programme has a current endowment of €1.85 trillion.

6 Two of the nine members of the committee voted against this move, advocating a reduction of GBP 35 billion in the purchase target of the current government bond purchase programme.

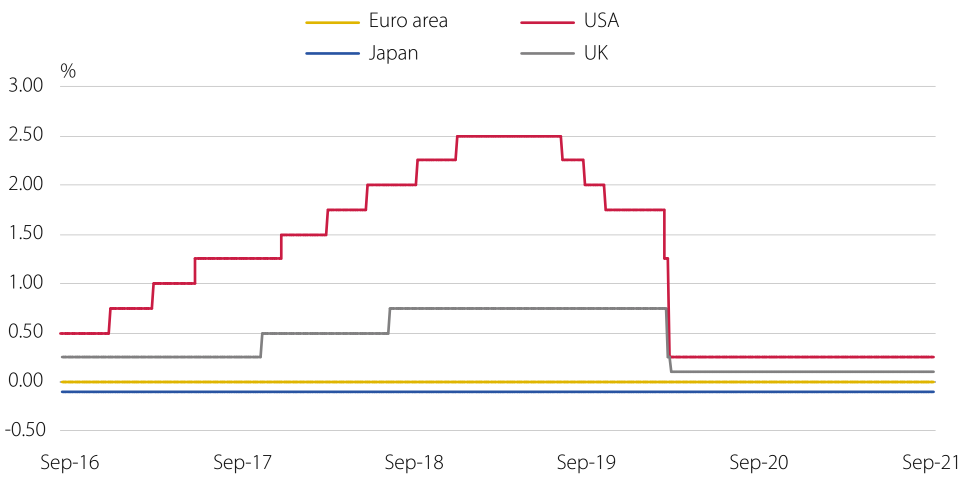
7 However, in June it extended the term of its asset purchase and loan programme by six months, which will now be completed in March 2022, compared to September 2021 previously.

supporting state initiatives to combat climate change.[8] On 22 September, it started accepting applications to carry out these transactions.

The performance of short-term rates in the third quarter of 2021 was very stable in the major economies, with slight falls only in the United States.

Given the official interest rates current in place in the world's leading economies, the differences between their short-term interest rates are very small compared to those registered before the COVID-19 crisis. In the third quarter of 2021, three-month interest rates were largely unchanged, with the exception of the United States, where slight decreases were observed. In this economy, interest rates ended September at 0.13%, just 2 basis points (bp) less than in June, although they have followed a downward path since the end of 2020 when they stood at 0.24% (the accumulated fall in the year is 11 bp). In the United Kingdom, short-term rates ended September at 0.08%, the same figure as in June and 6 bp higher than at the beginning of the year. Meanwhile, in the euro area and Japan, 3-month rates remained unchanged throughout the third quarter and in the year to date (-0.55% and -0.08%, respectively).

Official interest rates FIGURE 2



Source: Refinitiv Datastream. Data until 30 September.

The change in the ECB's monetary policy strategy EXHIBIT 1

The President of the European Central Bank (ECB), Christine Lagarde, announced in early 2020 a strategic review[1] of monetary policy to respond to the profound structural changes that have taken place in the European economy in the last 20 years (such as the fall in interest rates and the lower trend growth rate, in addition to globalisation, digitisation, changes in the financial system and risks related to climate change), in the context of two very severe crises that have led to the implementation of extraordinary and novel tools. Following this announcement, on 8 July, the ECB approved its new monetary policy strategy, which replaces the strategy in force since 2003.[2]

8 According to the guidance published at the last meeting, the funds will be provided for one year and this project is expected to continue until 2031 (unless it interferes with the normal development of the market). The first drawdowns of these loans are scheduled for December 2021 and will subsequently be offered biannually.

Before taking an in-depth look at this policy, it is important to distinguish between the mandate and the definition of central banks' objectives, since the former (the mandate) is enshrined in the Treaty on European Union (EU) and the Treaty on the Functioning of the European Union, under which they are assigned the primary mandate[3] of maintaining price stability, while the second (the objective) corresponds to the central banks themselves, which have to set a specific quantitative target. For the objective, the ECB enjoys greater flexibility, as demonstrated in the first review of its strategy in 2003, through which it defined its price stability objective through an inflation target of close to but below 2% over the medium term.

The new monetary policy strategy, which will be in force until 2025, when it will reviewed, considers that the best way to maintain price stability is through an inflation target of 2% over the medium term. Its commitment to this goal is symmetrical, in the sense that both positive and negative deviations from this objective are considered equally undesirable. Therefore, the 2% inflation target clearly anchors inflation expectations, which is essential for maintaining price stability. The ECB has pointed out that when inflation approaches 0%, particularly strong monetary policy measures are necessary to prevent negative deviations from the inflation target from taking hold, but that there may also be transitory periods in which inflation is moderately above target.

The ECB also confirmed the medium-term scope of its monetary policy, which allows for short-term deviations – as is currently the case, when inflation is clearly above 2% –, as well as lags and uncertainty in the transmission of monetary policy to the economy and to inflation. The monetary authority has also indicated that the main monetary policy instrument is the ECB's official interest rates but that it will also use forward guidance, asset purchases and long-term financing transactions, where appropriate. Furthermore, it will continue to respond flexibly to new challenges as they arise and consider new policy instruments, if proportionate and as needed, in the pursuit of its price stability target.

In short, this new strategy is more flexible, allowing for higher rates of inflation on a temporary basis without the need to tighten monetary policy and without any need to withdraw powerful tools such as purchasing programmes to stimulate the economy. Thus, the monetary authority gains flexibility to support economic growth and is clearly committed to maintaining long-term interest rates at low levels to stimulate the economy, even though this could imply periods of temporary price hikes.

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1 The Federal Reserve began a similar process in 2019, which ended in mid-2020, the fundamental aim of which was to adhere to an inflation target of 2% on average over time (following periods when inflation is below 2%, periods of higher inflation will be tolerated to compensate), for which it would take into account the situation of the labour market, favouring low levels of unemployment until they are no longer accompanied by an unwanted increase in inflation.

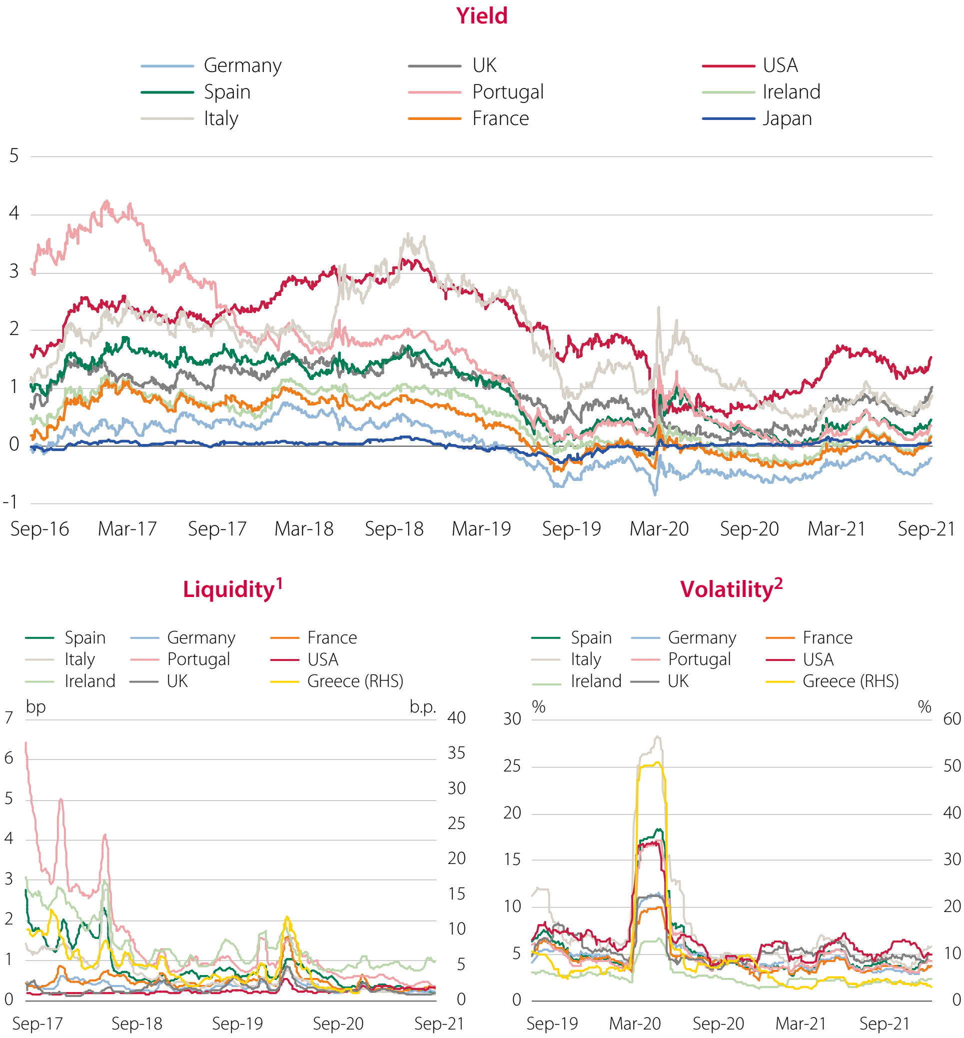
2 For further details, see https://www.bde.es/bde/es/Home/Noticias/el-consejo-de-gobierno-del-bce-apricación-su-nueva-estrategia-de-politica-monetaria.html

3 According to Article 127 of the recast text of the Treaty on the Functioning of the European Union (formerly Article 105 TEC).

The yield on 10-year public debt benchmarks increased slightly compared to the previous quarter in the major economies…

Long-term debt yields were relatively smooth during the third quarter of the year, with slight increases in most advanced countries. In a context of higher growth and rising in inflation, this performance extends the trend observed in the first months of the year, which was broken between May and July and affected the United Kingdom and United States more than other areas.

10-year sovereign bond market indicators FIGURE 3



Source: Bloomberg, Refinitiv Datastream and own calculations. Data until 30 September.

1 Monthly deviation of the daily bid-ask spread of 10-year sovereign bond yields.

2 Annualised standard deviation of daily changes in the prices of 40-day sovereign bonds.

…confirming an upward annual balance, in an environment of higher growth and inflation.

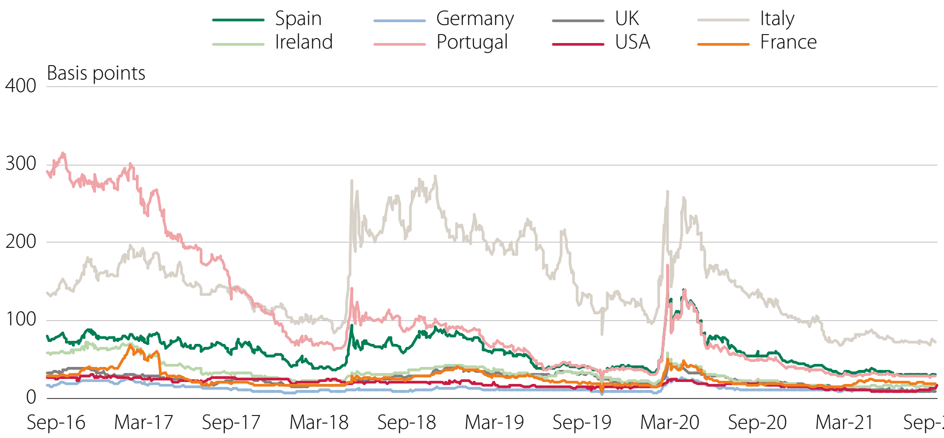
In particular, in the third quarter of this year, the yield on 10-year public debt benchmarks increased in the major economies, with the exception of Portugal, where it fell slightly to 0.37% (4 bp less than in June). In the euro area countries, the quarterly figures ranged from 1 bp for the German and Finnish bonds to 4 bp for the Spanish and Dutch bonds. The increases accumulated in the year are larger, and range from 38 bp for the German bond to 51 bp for the Belgian bond (41 bp for the Spanish instrument). In all, 10-year government debt yields remain low: in negative ground at the end of September in Germany, Finland and the Netherlands, close to zero in Austria, Ireland, Belgium, France, Spain and Portugal, and close to 1% in

Italy and Greece. In the United States, the yield on the sovereign bond rose by 8 bp compared to June, reaching 1.53%, although the accumulated increase in the year stood at 62 bp. The highest quarterly and annual increases in long-term debt yields were observed in the United Kingdom, of 31 bp and 83 bp respectively, to close September at 1.02% (see Figure 3).

Sovereign credit risk premiums experienced little variation in the third quarter…

Sovereign credit risk premiums in advanced economies (assessed through 5-year CDS contracts) generally registered slight decreases throughout the third quarter of the year, although this trend was interrupted in the second half of September. Thus, in the quarter as a whole there were slight rises, e.g., in Greece (6 bp), the United States (7 bp) and the United Kingdom (1 bp), and slight falls, e.g., in Italy (4 bp), and in France and Germany (1 bp). In Spain, there were no variations. In general, risk premiums are returning to the levels recorded before the COVID-19 crisis (see Figure 4). The accumulated falls in the year were strongest in peripheral euro area countries: 26 bp in Greece and 24 bp in Italy (to 75 bp and 74 bp, respectively), 13 bp (to 31 bp) in Spain and 10 bp in Portugal (standing at 28 bp at the end of September). The decline was of 2 bp in the United States and 6 bp in the United Kingdom, to 16 bp and 11 bp at the end of September, respectively.

Credit risk premiums for sovereign debt (5-year CDS) FIGURE 4



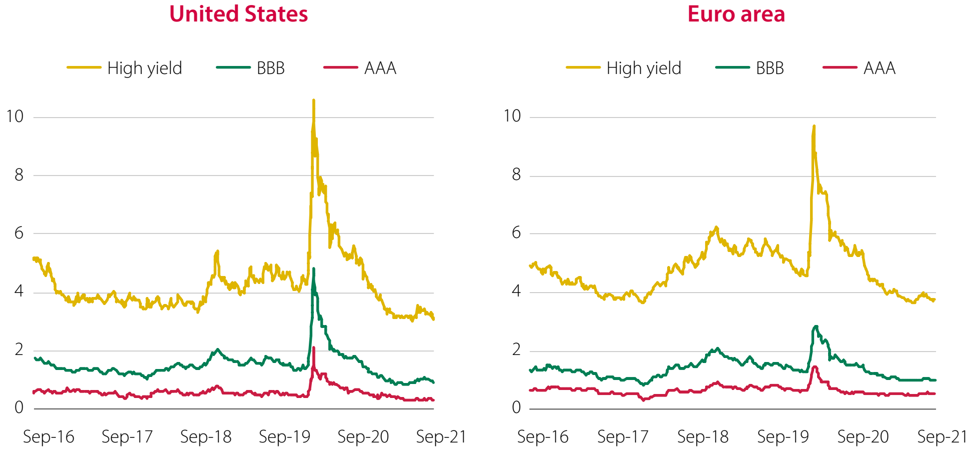
Source: Refinitiv Datastream. Data until 30 September.

…however, the credit risk premiums in the private fixed income markets showed slight increases. In the year as a whole, the risk premiums on IG and HY debt accumulated falls.

In contrast, credit risk premiums in the private fixed income markets rose slightly in the third quarter of the year in most debt segments in the United States and in the euro area. In both economies there were upturns in August, especially in the high yield debt segment, and decreases in September, which did not offset the previous rises. However, in the other quarters of 2021, the downward trend that began last year, after the rallies in March, continued. Thus, in the United States, the third quarter saw a small increase of 1 bp in the BBB and AAA tranches, to 92 bp and 31 bp, respectively. Meanwhile, risk premiums in the high yield segment ended September at 315 bp, the same figure as in June. In the euro area, the increase in credit risk premiums on corporate debt was 5 bp in the high yield segment, 1 bp in the BBB tranche and 4 bp in the investment grade tranche (standing at 375 bp, 99 bp and 50 bp respectively at the end of September). In the year as a whole, most of the debt segments registered decreases, which were more pronounced in the high yield debt tranche (91 bp in the United States and 69 bp in the euro area).

Private debt risk premiums.
Spread compared to the 10-year sovereign debt[1]

FIGURE 5



Source: Refinitiv Datastream and own calculations. Data until 30 September.

1 In the euro area in relation to German sovereign debt.

Gross debt issues in financial markets decreased 11.7% during the second half of the year. All regions saw falls, but there were differences between sectors.

Gross long-term debt issuance in the international markets in the second half of the year (semi-annualised data for the third quarter) decreased by 11.7% compared to the second half of 2020, to stand at €6.5 trillion. Increases in the amount of the issues made were observed in the financial sector (30.7%), which did not offset the decrease in issues from both the public sector (21.0%) and the non-financial private sector (5.7%). By region, all economies registered fewer debt issues, although the 21.9% decline in Europe stands out, mainly due to the drop in sovereign issues.

The decrease in gross sovereign issues stands out, especially in Europe.

Gross sovereign debt issues as a whole decreased by 21.0% compared to the second half of 2020, to US$4.2 trillion, in a context of lower financing needs after the crisis. Falls were observed in all regions, although they were larger in Europe (down 45.4%, to US$430.7 billion). In the United States and Japan, the declines were less pronounced at 17.1% and 4.6%, respectively.

The trend in the private sector was uneven between subsectors, with increases in the financial sector and decreases in the non-financial sector.

In relation to private sector debt issues, the trend was uneven between subsectors, with increases in the financial sector and decreases in the non-financial sector. The half-yearly aggregate amount of the former was US$1.3 trillion (30.7% more than in the second half of 2020), shaped largely by the increases seen in the United States and Japan (above 50% compared to the second six-months of the previous year). In Europe, there were also increases, although they were somewhat less marked (35%). Non-financial companies saw a drop in debt issuance of 5.7% compared to the second half of 2020 (standing at US$995 billion). All regions posted falls, although they were larger in Japan (-27.9% to US$72.12 billion). In the United States and Europe, the declines were close to 5%, to US$482.75 billion and US$221.5 billion, respectively.

International gross fixed income issues FIGURE 6

Source: Dealogic. Half-yearly data. The data for the second half of 2020 are until 30 September, but are shown in their half-yearly equivalences for comparative purposes.

Equity markets showed smaller gains in the third quarter compared to the previous periods, with falls in some indices.

After two quarters of significant revaluations (except for the Japanese indices in the second quarter of the year), equity markets showed smaller gains between July and September, and even falls in some cases. In mid-September, the rising trend marked by the indices was affected, in part, by fears that the potential default of Chinese real estate developer, Evergrande, could have a knock-on effect in the global financial markets and also by concerns over the spike in inflation and problems in some supply chains. However, the increases recorded in the previous quarters continue to represent annual gains of over 10% in most indices (see Table 1).

By region, the revaluation of the Japanese stock markets stood out.

By region, the Japanese stock markets showed the largest revaluations in the quarter (2.3% for the Nikkei and 4.5% for the Topix), which offset the losses made in the previous quarter. In 2021 they have accumulated gains of 7.3% and 12.5%, respectively. The US indices presented an uneven performance as the S&P 500 increased slightly compared to June (0.2%), while the Dow Jones and the Nasdaq technology indices lost 1.9% and 0.4%, respectively. The annual balance shows strong increases in the three indices, ranging between 10.6% (Dow Jones) and 14.7% (S&P 500). The European stock markets were also somewhat uneven, with quarterly increases in the French and Italian indices (0.2% and 2.3%, respectively), decreases in the German index (1.7%), and very few changes in the Spanish index (0.3%). However, so far this year all European indices have registered gains that range between 9.0% (Ibex 35) and 17.4% (Cac 40). The UK FTSE 100 rose 0.7% in the third quarter, with an accumulated gain of 9.7% in the year.

Performance of the main stock market indices[1] TABLE 1

%

	2017	2018	2019	2020	I 21	II 21	III 21	% / Dec-20
World								
MSCI World	20.1	-10.4	25.2	14.1	**4.5**	**7.3**	**-0.4**	**11.8**
Euro area								
Eurostoxx 50	6.5	-14.3	24.8	-5.1	**10.3**	**3.7**	**-0.4**	**13.9**
Euronext 100	10.6	-11.2	24.9	-3.6	**8.3**	**5.8**	**0.9**	**15.6**
Dax 30	12.5	-18.3	25.5	3.5	**9.4**	**3.5**	**-1.7**	**11.2**
Cac 40	9.3	-11.0	26.4	-7.1	**9.3**	**7.3**	**0.2**	**17.4**
Mib 30	13.6	-16.1	28.3	-5.4	**10.9**	**1.8**	**2.3**	**15.5**
Ibex 35	7.4	-15.0	11.8	-15.5	**6.3**	**2.8**	**-0.3**	**9.0**
United Kingdom								
FTSE 100	7.6	-12.5	12.1	-14.3	**3.9**	**4.8**	**0.7**	**9.7**
United States								
Dow Jones	25.1	-5.6	22.3	7.2	**7.8**	**4.6**	**-1.9**	**10.6**
S&P 500	19.4	-6.2	28.9	16.3	**5.8**	**8.2**	**0.2**	**14.7**
Nasdaq-Composite	28.2	-3.9	35.2	43.6	**2.8**	**9.5**	**-0.4**	**12.1**
Japan								
Nikkei 225	19.1	-12.1	18.2	16.0	**6.3**	**-1.3**	**2.3**	**7.3**
Topix	19.7	-17.8	15.2	4.8	**8.3**	**-0.5**	**4.5**	**12.5**

Source: Refinitiv Datastream.

1 In local currency Data until 30 September.

Emerging equity markets performed relatively well in the third quarter, although they were more diverse compared to indices in the advanced economies.

Emerging equity markets generally showed a relatively good performance in the third quarter of the year, with rises in many of the stock market indices. However, the MSCI emerging equity index fell slightly in the quarter, down 0.4% (in the year it has gained 11.8%). For stock markets in developed economies, the revaluations were smaller in this quarter compared to previous ones, with a positive balance in the year to date for most indices.

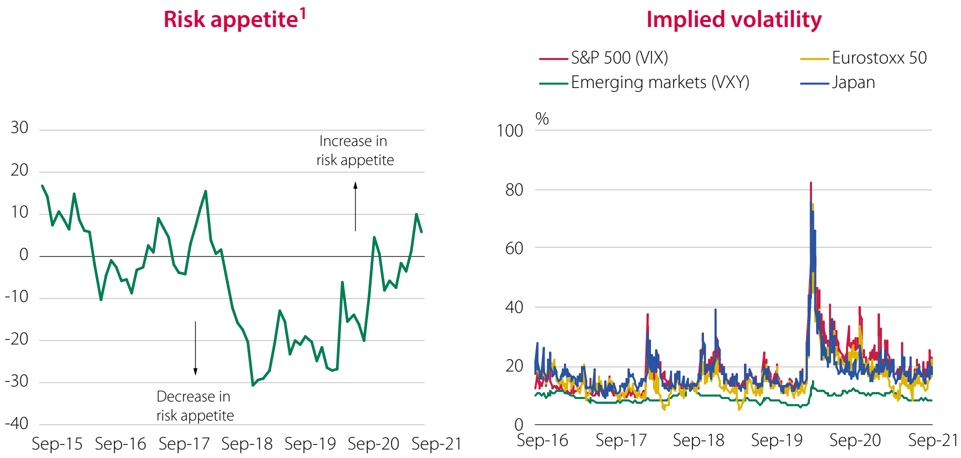
The strongest rallies were observed in the Latin American stock markets, while the Asian markets saw the largest falls.

By region, the Asian indices showed diverse behaviour, and also experienced the greatest drops in the quarter. These ranged from 0.6% in China to 14.8% in Hong Kong (affected by the possible default of Evergrande, which is listed on this market, as well as fears of increased regulatory pressure from China). Other Asian indices posted quarterly gains of between 0.3% (Malaysia) and 11.7% (India). The accumulated balance of the year shows revaluations in most of the indices (India stands out, with 26.8%, and Taiwan, with 14.9%), but there have also been some losses (the most notable being that of the Hang Seng, 9.8%). In Latin America, the revaluation of the Argentine Merval index stood out (24.0% in the quarter and 51.0% in the year). However, other indices showed quarterly drops (of 12.5% and 3.0% in the Brazilian and Peruvian stock exchanges, respectively) and in the year to date (6.8% and 12.2%, respectively, for the same indices). In Eastern Europe, the performance was more aligned in the third quarter, with gains of between 5.0% (Bulgaria) and 11.9% (Hungary). For the year as a whole, these indices have accumulated gains of over 23% (except for the Croatian Crobex index, with 14.9%).

The implied volatility measures of the main stock indices continued to follow the downward path seen in previous months in the third quarter of the year and remained between 12% and 17%, except for the Nasdaq, which has been rallied strongly throughout the year. Although these indicators increased slightly in the last days of the quarter, the overall downward trend prevails, placing them a long way below the highs recorded last year at the moments of greatest uncertainty in the COVID-19 crisis (when they were between 24% and 49%) and, on average, at levels slightly higher than those of 2019 (except for the Nasdaq index).

The implied volatility measures of the main shock market indices continued their downward trend in the third quarter of the year.

Indicators relating to financial markets FIGURE 7



Source: Refinitiv Datastream and own calculations.

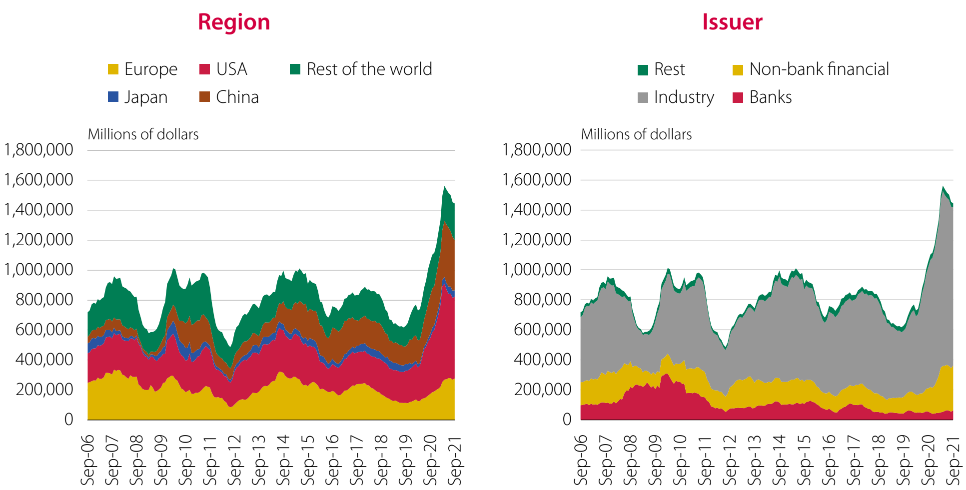
1 State Street indicator.

Equity issuance on international financial markets decreased slightly in the third quarter of 2021, reaching US$273.80 billion, nearly US$70.40 billion less than one year ago. By sector, there was a sharp decrease in issues made by utilities companies (69.1% compared to last year) and companies in the industrial sector (22.2%). In all other sectors, the decreases with respect to the third quarter of 2020 were less pronounced, standing at 8.0% for the banking sector and 4.2% for the non-bank financial sector. Despite the decline in this quarter, the accumulated balance for the year shows strong gains in all the regions considered compared to the same period of the previous year, which range from 8.8% in Japan to 54.4% in Europe. In aggregate terms, issues made between January and September stood at US$1.1 trillion, practically the same as the amount issued throughout the whole of 2020.

The volume of equity issues decreased slightly in the third quarter of 2021, although increases were observed for the year as a whole, especially in Europe and in the financial sector.

International equity issues

FIGURE 8



Source: Dealogic. Accumulated data for 12 months to 30 September.

2.2 Domestic economic and financial performance

The GDP of the Spanish economy showed an increase of 1.1% in the second quarter of the year, confirming the economic recovery…

In the second quarter of 2021, the GDP of the Spanish economy grew by 1.1% compared to the first quarter[9] and 17.5% compared to the same quarter of the previous year. The year-on-year change is so high because it is compared to the product level for the second quarter of 2020, which was the most affected by the pandemic. The product level for the second quarter of this year is 8% lower than the average levels for 2019. In all, GDP data show that the Spanish economy is on the road to recovery, a trend which is expected to continue in the coming months, as the (presumably) favourable tourism data for the summer months will be incorporated.

… which in this quarter was based on the recovery of private consumption. This increased 4.7% compared to the previous quarter and close to 23.4% compared to the second quarter of 2020, during the lockdown period.

The most significant data in the second quarter referred to the strong recovery of private consumption, which grew by 4.7% compared to the previous quarter (and 23.4% in the year) and to a lesser extent that of public consumption (0.9% in the quarter and 3.9% in the year). Gross capital formation fell 2.2% compared to the first quarter but also showed a year-on-year change of 19%. The performance of the foreign sector was also positive, with quarterly rises in exports (0.9%) and imports (4.2%), which led to a positive year-on-year change for the first time since the fourth quarter of 2019. The contribution of this sector to growth was positive, although small in size, which had not occurred since the last quarter of 2019.

The analysis of supply shows strong increases in the added value of the main sectors, highlighting some specific services that were strongly affected by the pandemic.

Significant increases in supply were observed in year-on-year terms in all sectors of activity except in the primary sector, in which added valued fell by 6.7% in the year. Construction and services once again presented positive annual rates, after five negative quarters, with increases of 11.7% and 17.6%, respectively. The added value of the industrial sector boosted the growth that it had already shown in the first quarter of the year, standing at 23.7%. In the services segment, the recovery of some subsectors that were strongly affected by the pandemic stands out: in particular, the improvement in the commerce, transport and hospitality subsector, with annual

9 The first estimate of this increase (published in July) was 2.8%.

growth of 46.9%; the subsector of professional, scientific and technical activities, up 21%, and the subsector related to artistic, recreational and other services, up 19.3%.

Spain: main macroeconomic variables TABLE 2

Year-on-year % change

	2017	2018	2019	2020
GDP	**3.0**	**2.3**	**2.1**	**-10.8**
Private consumption	3.0	1.8	0.9	-12.2
Public consumption	1.0	2.3	2.0	3.3
Gross fixed capital formation, of which:	6.8	6.3	4.6	-9.6
Construction	6.7	9.5	7.2	-9.6
Capital goods and others	9.2	4.7	3.3	-12.9
Exports	5.5	1.7	2.5	-20.1
Imports	6.8	4.0	1.2	-15.2
Foreign sector (contribution to growth, pp)	-0.2	-0.6	0.5	-2.2
Employment[1]	**2.9**	**2.6**	**2.3**	**-7.5**
Unemployment rate	**17.2**	**15.3**	**14.1**	**15.5**
Consumer Price Index[2]	**2.0**	**1.7**	**0.7**	**-0.3**
Current account balance (% GDP)	**2.8**	**1.9**	**2.1**	**0.7**
Balance of public administrations[3] (% GDP)	**-3.0**	**-2.5**	**-2.9**	**-11.0**
Public debt (% GDP)	**98.6**	**97.4**	**95.5**	**119.9**
Net international investment position[4] (% GDP)	**-68.0**	**-61.7**	**-59.0**	**-60.5**

Source: Refinitiv Datastream, European Commission, Bank of Spain and INE.

1 In terms of full-time equivalent jobs.

2 The European Commission forecasts are from the harmonised consumer price index.

3 Includes the public aid to credit institutions in 2017, 2018, 2019 and 2020 is included for an amount of 0.04%, 0.01%, 0.00% and 0.88% of GDP respectively. The increase registered in 2020 corresponds to the reclassification of the SAREB under public administrations, required by Eurostat, whose figures are computed in this section.

4 Excluding the Bank of Spain. Assets minus liabilities.

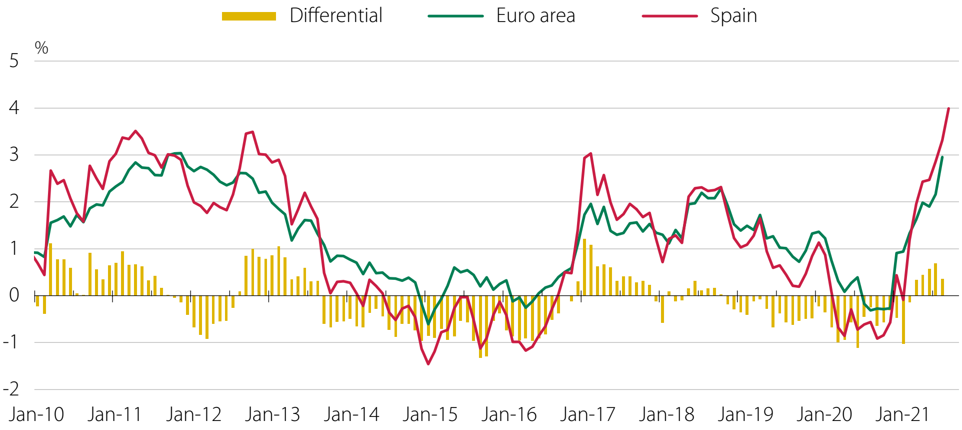
The rise in energy prices has led to an increase in total inflation of close to 5 pp since November last year. The latest data, which correspond to the month of September, places the annual rate at 4%.

The inflation rate has steadily increased from the lows recorded in November last year, when it stood at an annual rate of -0.8%, with the sole exception of the month of March. The latest data, which correspond to September, place the annual rate at 4%, almost 5 percentage points (pp) above these lows, mainly due to the rebound in the energy component, where prices have moved from a fall of 11.1% (in October 2020) to an increase of 23.5% (in August 2021). The remaining index constituents have also shown higher inflation rates, albeit of a lesser intensity: underlying inflation, which discounts the most volatile elements of the index (energy and fresh food), has shown a somewhat irregular performance but has risen slightly to 0.7% in August (0.1% in December 2020). The upturn in inflation in the euro area in recent months has been similar (see Figure 9), with the Spain-euro area spread, which entered positive ground in April, has ranged between 0.4 pp and 0.7 pp since then.

The labour market is evolving favourably, in line with economic activity, but figures have not yet returned to pre-crisis levels.

The labour market has performed in line with the recovery of economic activity. The number of employed workers (according to the Labour Force Survey (EPA)) stood at over 19,670,000 in the second quarter of 2021, 5.7% more than in the same quarter the previous year. This figure is close to but lower than pre-pandemic levels (almost 20 million employed workers at the end of 2019). The unemployment rate stood at 15.3% of the workforce in the same quarter, 1 pp below the high recorded in the third quarter of last year, but above pre-crisis figures (below 14%).[10]

Harmonised CPI: Spain compared to the euro area (annual % change) FIGURE 9



Source: Refinitiv Datastream. Data to August for the euro area and to September for Spain.

The deficit of the Public Administration Service (excluding local corporations) stood at 4.3% of GDP in the first seven months of the year, 30% less than in 2020. Public debt fell in the second quarter of the year by 2.5 pp of GDP to 122.8%.

The deficit of the Public Administration Service (not including local corporations) between January and July this year stood at 4.3% of GDP, which represents a decrease of 29.6% compared to the same period of the previous year. The recovery of economic activity is giving rise to a notable increase in non-financial income, which in the case of the government was 14.4%, compared to an increase in expenses of 3.3%. The government deficit, with data available up to August, stood at 4.2% of GDP, below the 5.4% figure seen in 2020. All other local governments showed stability or an improvement in their fiscal balances in the first seven months of the year: the surplus of the autonomous communities went from 0.23% of GDP to 0.20%, and the Social Security fund deficit decreased from 1.44% to 0.41%. Public debt data for the second quarter of this year place this indicator at 122.8% of GDP, below the 125.3% seen in the first quarter, but still above the levels of reached in previous years (119.9% at year-end 2020 and 114% at year-end 2019). Forecasts made by different institutions[11] place this year's public deficit at around 8% of GDP and public debt between 117% and 120% of GDP.

The banking sector is recovering in line with all other sectors, reporting strong profit growth and a containment of non-performing loans, which may increase in the coming months.

The banking sector is gradually recovering, in line with all other sectors and economic activity in general. This improvement is reflected in the profit and loss account, with increases in the main headings, while the delinquency ratio continues to decline (4.4% in July 2021, 4.5% in 2020 and 4.8% in 2019, see Figure 10). This ratio has not yet been affected by the possible increase in insolvencies in the coming

10 It should be noted, in contrast to 2020, the unemployment rate is being conditioned by the notable increase in the workforce (between March and June the number of employed workers increased by almost 355,000 and by more 1.2 million compared to the same quarter of 2020). These workers were mainly unemployed to begin with, so the increase prevents any more pronounced falls in the total unemployment rate in the short term. Additionally, workers on furlough (ERTE), who are also not included in the unemployment rate as, under Eurostat and International Labour Organization (ILO) methodology, they are considered to be employed, stood at around 450,000 at the end of June, compared to 1.5 million one year earlier.

11 Bank of Spain, European Commission and IMF.

months, the evolution of which depends not only on the scale of the economic recovery, but also on the completion of the government support measures rolled out during the crisis and on banks' own management activity (e.g., debt restructurings). This year, the lifting of the restrictions on the distribution of dividends established during the COVID-19 crisis last year stands out. The sector is still facing major challenges, such as the emergence of companies with a strong technological component (Fintech and Bigtech), that are competitors in the provision of financial services.

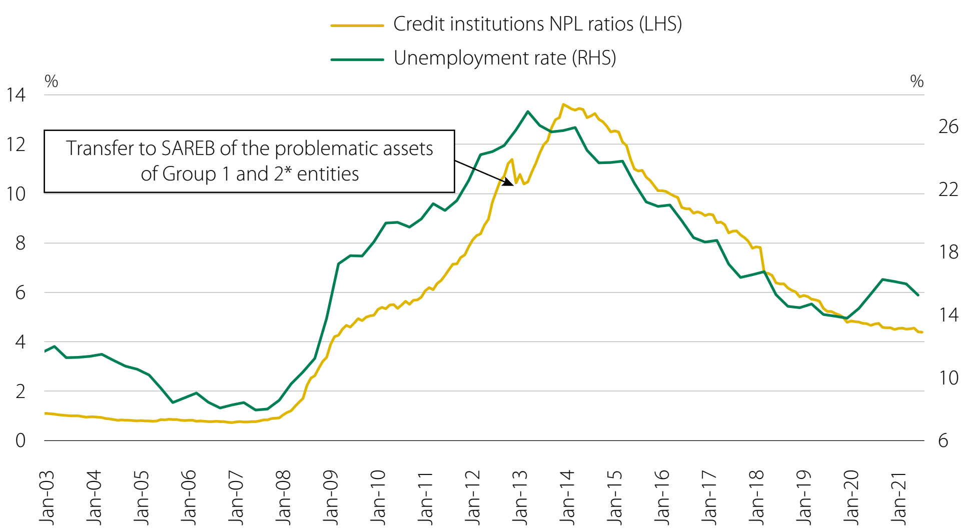
The aggregate profit & loss account of deposit institutions showed a strong increase in profit in the first half of the year.

The profit and loss account of Spanish deposit institutions saw profits of €7.76 billion in the first quarter of the year, which contrasts with the losses made in the previous year (€7.14 billion). The gross margin of these institutions stood at €21.99 billion, outstripping the figure of €20.79 billion in 2020, as a result of the slight improvement in net interest income and, to a greater extent, in the return on equity instruments. In the context of a slight decrease in operating expenses, most of the increase in profits can be attributed to lower impairment losses on financial and other assets (€9 billion less) and to the increased contribution from "Other income" (€4 billion).

Financing to the private sector shows an uneven trend between companies (slowdown) and households (acceleration).

Bank financing extended to companies and households showed year-on-year growth of 1.6% in August (3.3% in December 2020), broken down into an increase of 2.1% for non-financial companies (6.3% in December 2020) and 0.9% for households (-0.5% in December 2020). There are some interesting trends in both of these segments. For non-financial companies, the increase in financing corresponds exclusively to the rise in debt securities (9.4%) and foreign loans (5.7%). Loans from credit institutions, which have grown at an annual rate of over 8% in many months during the crisis, driven in part by the different government measures, have fallen since May (-2% in August). Meanwhile, financing extended to households showed a smaller increase (0.9%), but has been growing over time, boosted by loans for home purchases (0.7%) and consumer loans (3.2%).

Delinquency ratio of credit institutions[1] and unemployment rate[2] FIGURE 10



Source: Bank of Spain and INE. Unemployment rate data up to June and delinquency ratio up to July.

1 Includes financial credit institutions.

2 In relation to the working population.

* Transfers of Group 1 entities took place in December 2012 (€36.70 billion) and Group 2 entities in February 2013 (€14.01 billion).

The size of the banking sector has shown little change in 2021 after the notable increase in 2020.

The size of the banking sector, which experienced a considerable increase in 2020, has shown a much more stable performance in 2021. The latest data (July) place the aggregate volume of assets relating to its activity in Spain at €2.89 trillion (€2.82 trillion in 2020 and €2.61 trillion in 2019). The fall in the balance of credit extended to ORS (other resident sectors) in Spain and the increase in credit to residents in the rest of the world stand out. Financing provided by the Eurosystem continues to rise, in addition to deposits from other resident sectors and fixed income securities. However, the assets of these entities have decreased slightly.

The household savings rate fell slightly in the second quarter of this year, although it remains at historically high values (13%).

The latest data on the financial position of households reveal a slight decrease in savings from 16.2% of gross disposable household income (GDHI) in the first quarter of this year[12] (historic high of the series) to 13% in the middle of the year. This figure is still higher than in the pre-crisis period (by around 6%) and also compared to the previous highs reached in 2010, during the European sovereign debt crisis (11.5%). Part of this increase is due to precautionary savings, which usually occurs in periods of uncertainty, and part is due to certain consumption decisions failing to materialise due to restrictions during the pandemic. Therefore, this indicator could moderate further in the coming months. The gross wealth ratio increased in the first quarter of this year due to the rise in value of both financial and real estate assets, while the debt ratio remained stable (at 102% of GDHI).

Household financial investment was at its highest level since 2006, standing at 7.4% of GDP in the first quarter of the year. Part of this increase may be temporary (associated with certain elements of the pandemic), but another part (e.g., investment in investment funds) is part of a more extended trend.

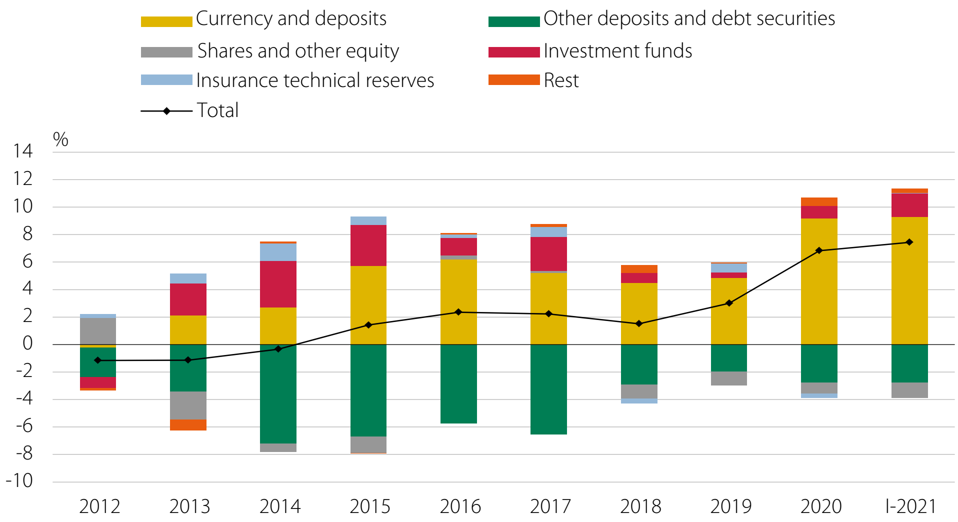
Household net investments stood at 7.4% of GDP in the first quarter of the year – accumulated data for four quarters to March 2021 – above the 6.8% seen in 2020 and 3% in 2019 (and the highest value since 2006). Some of the trends observed in previous years, such as the increase in investment in means of payment, which went from 5% of GDP in 2019 to 9.3% in March 2021, were accentuated during the crisis for the same reasons described for the increase in savings. In addition, there were further divestments of fixed income securities and time deposits (-2.8%), which continue to offer unattractive returns. In contrast, investment in investment funds, which stood at 1.7% of GDP, continues to grow (0.9% in 2020 and 0.4% in 2019) as these are considered as a professionally-managed investment option that can satisfy the needs of investors in a context of very low interest rates. Increases were seen in vehicles registered with the CNMV and in foreign vehicles marketed in Spain.

Investment in investment funds marked a historical rise in the first half of 2021, exceeding €17 billion.

The large volume of flows into investment funds registered with the CNMV so far this year is worth noting, standing at over €17 billion in one six-month period (the highest half-yearly amount since mid-2015, when it exceeded €20 billion). Although the figures for this period have been affected by several mergers and takeovers involving large funds, most of the net subscriptions are still directed at riskier categories such as global funds or international equity funds. Two of the more conservative categories (fixed income and mixed fixed income) also received substantial investment flows. These patterns reveal that are still investors who are willing to take on a higher level of risk to obtain a higher return and others that are more risk averse, for whom capital preservation is very important.

12 Figures for four quarters, to March 2021.

Households: net acquisitions of financial assets FIGURE 11



Source: Bank of Spain, *Financial Accounts*. Cumulative data for four quarters.

2.3 Outlook

In October, the International Monetary Fund (IMF) published its growth forecasts for 2021 and 2022, which show the intensity of the economic recovery on a global scale, with a rise in world GDP of 5.9% in 2021 and 4.9% in 2022 predicted (in July one tenth of a point more was forecast for 2021 and the same figure for 2022), after the 3.1% contraction in 2020. This trend is due to the vaccination uptake and access to it, which reduces infections and hence restrictions on movement, and allows economic activity to progressively return to normal. These figures, however, represent a significant downward revision of growth forecasts for this year in advanced economies compared to July data, which, according to the institution, is partially related to supply chain problems. Thus, the IMF expects advanced economies to grow 5.2% in 2021 (0.4 pp less) and 4.5% in 2022 (0.1 pp more). Within these forecasts, there is a great deal of unevenness, with decreases in the United States, Canada, Germany, Spain and Japan, and increases in Italy and France (see Table 3). The forecasts for emerging economies show an increase in GDP of 6.4% this year (one tenth of a point more) and 5.1% in 2022 (one tenth of a point less). In these economies too there are differences between regions, as the outlook for Asian countries has worsened but there has been an improvement for all others.

The IMF forecasts substantial global growth of 5.9% in 2021 and 4.9% in 2022, due to the progress in the vaccination programme, although it has lowered its forecasts for advanced economies due to supply chains problems.

Gross Domestic Product

TABLE 3

Year-on-year % change

	2017	2018	2019	2020	IMF[1] 2021	IMF[1] 2022
Global	3.7	3.6	2.8	-3.1	5.9 (-0.1)	4.9 (0.0)
Advanced	2.4	2.3	1.6	-4.5	5.2 (-0.4)	4.5 (0.1)
United States	2.2	2.9	2.2	-3.4	6.0 (-1.0)	5.2 (0.3)
Euro area	2.4	1.9	1.3	-6.3	5.0 (0.4)	4.3 (0.0)
Germany	2.5	1.5	0.6	-4.6	3.1 (-0.5)	4.6 (0.5)
France	2.3	1.8	1.8	-8.0	6.3 (0.5)	3.9 (-0.3)
Italy	1.5	0.8	0.3	-8.9	5.8 (0.9)	4.2 (0.0)
Spain	3.0	2.4	2.0	-10.8	5.7 (-0.5)	6.4 (0.6)
United Kingdom	1.7	1.3	1.4	-9.8	6.8 (-0.2)	5.0 (0.2)
Japan	1.7	0.3	0.0	-4.6	2.4 (-0.4)	3.2 (0.2)
Emerging	4.7	4.5	3.7	-2.1	6.4 (0.1)	5.1 (-0.1)

Source: IMF.

1 In parentheses, the variation compared to the last published forecast (IMF forecasts published in October 2021 with respect to July 2021).

Among the main risks, those relating to the pandemic itself stand out, but there are others of an economic and financial nature, such as the risk of inflation or those deriving from the debt accumulated by some agents, or the increasing risks affecting investment decisions.

These forecasts imply several different types of risk. First, risks relating to the evolution of the pandemic. In particular, in regard to the difficulties involved in successfully vaccinating a large percentage of the population in all regions and the possibility of new mutations of the virus resistant to the vaccines could emerge and create the need for new restrictions. There are major uncertainties relating to the possibility that the increase in inflation experienced in some economies will not be temporary, as currently expected, as this could lead to tighter financial conditions. In relation to the risk of inflation, it is worth mentioning the problems identified in certain supply chains, which could lead to logistics problems and further increases in the price of raw materials. Financial risks have also been identified by some agents, deriving from the debt accumulated during the crisis and the greater risks taken in the environment of very low interest rates. Many economies face the challenge of consolidating their public finances after the expansionary measures adopted during the crisis. Lastly, there is still a large possibility of insolvencies in the coming months, although expectations have been lowered.

The latest forecasts place the growth of the Spanish economy at 5.7% for this year and 6.4% for next.

For the Spanish economy, the IMF forecasts an increase in GDP of 5.7% this year and 6.4% next year, which represents a decrease of 5 tenths of a point and an increase of 6 tenths of a point, respectively, on the figures seen in April. The downward revision for this year could be partially related to the reduction in the growth rate of the Spanish economy during the second quarter of the year (compared to the initial estimate of the INE). Nonetheless, growth forecasts for Spain are higher than the forecasts for most advanced economies and owed mainly to the good progress of the vaccination programme, which has allowed many restrictions to be lifted, the release of demand held up early in the pandemic and the positive effects of the expansionary monetary and fiscal policy, which includes the Next Generation EU (NGEU) programme funds. The growth differential with the euro area is expected to be larger than 2 pp in 2022.

The main sources of uncertainty in this scenario are mostly common to neighbouring countries. These include: i) the evolution of the pandemic itself and, in particular, the possibility that vaccine-resistant strains of the virus will emerge; ii) the evolution of household savings (currently at historical highs); iii) the effects of the increase in inflation; iv) the possibility of an increase in business bankruptcies as the support measures adopted as a result of the crisis are withdrawn; v) uncertainty surrounding the effects of NGEU funds on activity; and vi) the need to ensure the sustainability of public finances over the medium term.

However, several sources of uncertainty of a diverse nature persist, which are common to neighbouring countries.

3 Domestic market performance

The Spanish financial markets stress indicator[13] continued to steadily decline after the closing date of the previous report (31 March), when it stood at 0.26, until the beginning of June, when it held stable at around 0.20 throughout the month. In July, volatility spikes in oil and stock prices caused the stress level to rise to just over the threshold that separates low risk from medium risk (0.27) and from then on it has fluctuated between 0.23 and 0.30, reaching the last value at the closing date of this report (1 October). The correlation of the system, which had decreased in the first half of 2021, rebounded from June and has remained at values similar to those existing during the coronavirus crisis (see upper panels of Figure 12).

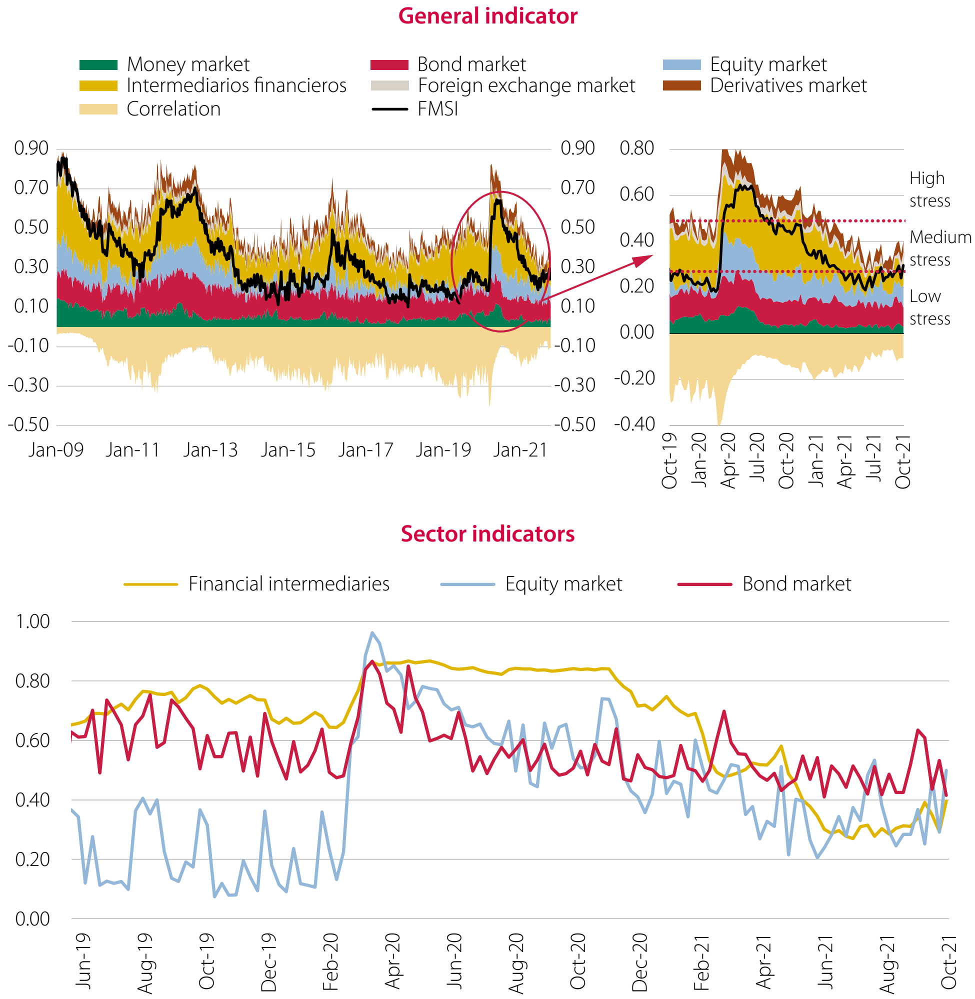
Since July, the Spanish financial markets stress indicator has remained at values close to the threshold that separates low stress from medium stress (0.27). System correlation remains high.

The different individual indicators have shown fluctuations in stress levels due mainly to variations in volatility indicators. The financial intermediaries segment (banks) posted the highest values until February this year, from where they gradually declined until July (see lower panel of Figure 12), to remain at values of between 0.30 and 0.40. The fixed income markets have shown relatively stable stress levels in recent months, with values of around 0.45, except for a rebound seen in early September deriving from the increase in the volatility of the 10-year bond. In the non-financial equity segment, the large fluctuations in share price volatility caused a rise in the stress level from values of 0.24 to 0.53.

The main individual indicators have been relatively stable in recent months, with greater fluctuations seen in the equity markets.

13 The stress indicator calculated by the CNMV provides a real-time measure of systemic risk in the Spanish financial system that ranges from zero to one. To do this, it evaluates stress in six segments of the financial system and makes an aggregate, obtaining a single figure that takes into account the correlation between these segments. Econometric estimates indicate that index values below 0.27 correspond to periods of low stress, while scores between 0.27 and 0.49 correspond to periods of medium stress, and values above 0.49 indicate periods of high stress. For further details on recent movements in this indicator and its components, see the quarterly publication of the *Financial Stability Note*, and the CNMV's statistical series (market stress indicators), available at http://www.cnmv.es/portal/Publicaciones/PublicacionesGN.aspx?id=51. For more information on the methodology of this index, see Cambón, M.I. and Estévez, L. (2016). "A Spanish Financial Market Stress Index (FMSI)". *Spanish Review of Financial Economics*, Vol. 14, No. 1, pp. 23-41 or as CNMV Working Paper No. 60 (http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_60_en.pdf).

Spanish financial markets stress indicator FIGURE 12



Source: CNMV.

3.1 The stock markets

After the gains seen in the first half of the year, the Spanish equity markets experienced some fluctuations due to various uncertainties (inflation risk, the electricity sector, Evergrande…).

The Spanish equity markets, which had made significant gains in the first half of the year, following in the wake of the main European equity markets, began the second half of the year with slight losses, in a quarter characterised by price fluctuation. Despite the positive data on the recovery of economic activity,[14] the markets still harbour fears that the increase in inflation will not be temporary and will force a premature tightening of monetary policy in both the United States[15] and in Europe. The rise in prices has been shaped affected, among other factors, by the

14 The Organisation for Economic Cooperation and Development (OECD) improved its growth forecasts for the euro area and Spain to 5.3% and 6.8% in 2021. Likewise, the Bank of Spain raised its forecast to 6.3% and 5.9% in 2021 and 2022, respectively, although it has warned that it will adjust them downwards now that the growth figure for the second quarter has been reduced to 1.1% from the initial estimate of 2.7%.

15 The Federal Reserve has stated that the tapering of stimulus measures will keep pace with the economic recovery.

increase in oil prices, which are at 3-year highs, and by problems affecting some supply chains, in the context of recovery in demand, better containment of new virus infections and economic buoyancy. Other factors that affected market performance in the latter part of the quarter related to the falls marked in the electricity sector due to regulatory uncertainty and the reduction sector income on the back of the package of measures adopted by the government to lower the price of electricity, in addition to concerns over the financial problems of the Chinese real estate giant Evergrande and the potential spillover in the international financial system.

… which caused the Ibex 35 to suffer a small loss of 0.3% in the third quarter (9% in the year as a whole), in line with other European benchmarks.

The main Spanish stock market index, the Ibex 35, ended the third quarter with a loss of 0.3% – a similar performance to that of the main European benchmarks.[16] This index, which had gained 6.3% in the first quarter of the year and 2.8% in the second, broke the upward path that it had been forging for the previous three quarters. The loss also reduces the annual gain to 9%, putting the Spanish index, alongside the UK FTSE 100[17] at the tail end of the ranking of large European benchmarks. The Ibex 35 stood at around 8,800 points at the end of September, close to pre-pandemic levels and not having recouped its accumulated losses in 2020. However, this performance must be seen taking into account a backdrop of falling trading levels and consolidated rises in market liquidity indicators.

In turn, small and mid-cap indices saw greater losses in the third quarter.

The slight decline in the main Spanish market index contrasts with the more significant falls in the prices of mid-cap companies (-2.6%) and smaller enterprises (-6.4%), which have been affected by the regulatory changes in the electricity sector for renewable companies, and that reflect the economic recovery to a lesser extent.[18] Likewise, the indices that are representative of Latin American securities that trade in euros, the FTSE Latibex All-Share and FTSE Latibex Top, made substantial losses (of 15.4% and 7.4%, respectively) as a consequence of decline of the Brazilian stock market[19] and the depreciation of its currency against the euro.[20]

The largest revaluations corresponded to companies in the consumer goods and services, oil, construction and real estate sectors.

As has been customary in previous quarters, price performance was not uniform between sectors or stocks, although most sectors presented gains. The greatest increases (see Table 4) were in the services and consumer goods sectors, as well as in the oil sector, construction and real estate companies, and most notably companies in the tourism sector and airlines, which have been boosted by the recovery in tourism, the lower rate of infections in the pandemic and the lifting of restrictions on movement. In the consumer goods sector, the revaluation of the main

16 Most of the large international indices were largely flat in the third quarter, within the range of +2.3% by the Italian FTSE MIB and the decrease of 1.7% of the German Dax 30. The French Cac 40 rose by 0.2%, while the European Eurostoxx 50 fell 0.4%. Among the US indices, the S&P 500 (0.2%) posted a gain, while both the Dow Jones (-1.9%) and the Nasdaq technology (-0.4%) fell slightly.

17 The UK FTSE 100 index saw an accumulated gain of 9.7% in the first nine months of the year.

18 Small and medium cap companies have accumulated gains of 1.9% and 5.9%, respectively, in the year, compared to 9% for the Ibex 35.

19 The main Brazilian stock market index, Bovespa, fell 12.5% in the third quarter of the year, while the Mexican BMV IPC index rose 2.2%.

20 In the third quarter of the year, the Brazilian real depreciated by 6.5% against the euro, while the Mexican peso lost 2.2%.

company in the textile sector (Inditex) stood out, where turnover has recovered to pre-pandemic levels.

…in addition to those of the financial sector.

The oil sector also rose significantly, where the share price of the main company (Repsol) reflects the recovery of oil prices, as did construction and real estate companies, boosted by the rekindled dynamism of the real estate market[21] after the sharp contraction caused by the pandemic. In addition, the financial sector,[22] which was partially affected by the uncertainty surrounding the possible spillover of the problems affecting Evergrande, closed the period with gains thanks to the lifting of the ban on cash dividends and the rise in activity in the current recovery scenario.

The declines were led by electricity companies and manufacturers of industrial goods.

The largest losses were seen in power companies.[23] Decreases were also observed in the industrial goods manufacturing sector, pharmaceuticals, food and technology, especially companies producing industrial goods, which are reflecting the decrease in investment in capital goods[24] and the problems affecting some supply chains. The pharmaceutical sector was affected by the problems experienced by a laboratory in the manufacture of vaccines (Rovi), while the technology sector (Amadeus) is still shaped by some continued restrictions in the tourism sector and fears that appearance of new strains of the virus could mean more limits on movement.

Although the effects of the crisis have to some extent altered the capitalisation of companies and the value of the country's productive structure, the outlook for recovery has allowed the previous situation to be largely restored, although new companies and sectors have gained weight.

Progress in normalising the situation created by the pandemic and the outlook for economic recovery have consolidated the revaluation of the capitalisation of banks, traditional telecommunications companies such as Telefónica and energy companies such as Repsol. However, this is not the case for companies in the electricity and supply sector, which, due to their defensive nature – i.e., the stability of their income and businesses – had shown a significantly better relative performance in terms of value generation and capitalisation than the first group of businesses. Thus, although part of the value structure prior to the pandemic is recovering to a certain extent, new sectors and companies in the technology and renewable energy sectors are gaining more weight, benefiting from their greater ability to operate in and adapt to the new environment. Other large traditional companies have also been able to maintain their relative weight by successfully carrying out digitisation and transformation processes to adapt to the new competitive environment.

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21 According to data from the INE, real estate sales totalled 50,238 transactions in July, the highest figure since April 2008, which represents monthly and year-on-year growth of 4.3% and 53.5%, respectively.

22 The reincorporation of BBVA in the Eurostoxx 50 European index from 20 September after its exclusion a year earlier stands out. This will allow the security and its corresponding sector index to benefit from being included on the portfolios of many international investors and exchange-traded funds (ETF), which replicate the main market indices.

23 The government approved a Royal Decree-Law that reduces the remuneration of the extra income from nuclear, hydroelectric and renewable energies from profit deriving from the rise in gas prices, and for from extra profits deriving from the increase in CO_2 emission rights.

24 According to INE data, gross capital formation in machinery and equipment fell 4.3% in the second quarter of 2021, compared to a 5.2% increase in the first quarter.

Performance of Spanish stock market indices and sectors

TABLE 4

Index	2018	2019	2020	IV 20[1]	I 21[1]	II 21[1]	III 21[1]	Dec-20
Ibex 35	-15.0	11.8	-15.5	20.2	6.3	2.8	-0.3	9.0
Madrid	-15.0	10.2	-15.4	21.7	6.2	2.3	0.9	7.7
Ibex Medium Cap	-13.7	8.4	-9.7	20.8	8.3	0.4	-2.6	5.9
Ibex Small Cap	-7.5	11.9	18.9	24.7	9.3	-0.4	-6.4	1.9
FTSE Latibex All-Share	10.3	16.3	-22.0	36.9	-2.1	24.1	-15.4	2.7
FTSE Latibex Top	14.8	15.3	-19.1	28.8	1.3	22.1	-7.4	14.5
Sectors[2]								
Financial and real estate services	**-27.1**	**-27.1**	**-26.4**	**53.4**	**14.8**	**10.0**	**3.0**	**30.1**
Banking	-29.0	-29.0	-27.5	55.7	15.0	10.5	3.1	30.9
Insurance	-12.8	-12.8	-23.6	25.5	13.6	-1.6	0.7	12.6
Real Estate and others	-26.1	-26.1	-16.0	7.7	4.6	2.8	4.3	12.1
Oil and energy	**6.1**	**6.1**	**5.0**	**12.2**	**-1.5**	**-4.1**	**-8.7**	**-13.7**
Petroleum	-4.5	-4.5	-40.8	44.2	28.0	0.1	7.0	36.9
Electricity and gas	8.9	8.9	14.2	8.5	-4.5	-4.7	-11.4	-19.4
Basic mats., industry and construction	**-8.6**	**-8.6**	**-2.5**	**27.8**	**5.0**	**-1.3**	**-0.7**	**2.9**
Construction	-3.4	-3.4	-16.3	19.4	3.8	-2.1	3.9	5.6
Manufacture and assembly of capital goods	-10.4	-10.4	50.7	38.2	-0.1	-9.0	-14.0	-21.8
Minerals, metals and metal products processing	-25.3	-25.3	-0.1	38.3	17.9	0.7	-1.2	17.3
Engineering and others	-21.3	-21.3	-6.1	37.8	11.2	15.8	-0.1	29.0
Technology and telecommunications	**-5.5**	**-5.5**	**-21.9**	**11.7**	**6.5**	**4.3**	**-0.5**	**10.5**
Telecommunications and others	-8.2	-8.2	-25.8	2.7	10.3	8.7	0.8	20.9
Electronics and software	-0.1	-0.1	-18.8	24.8	1.7	-1.8	-3.1	-3.3
Consumer goods	**-16.7**	**-16.7**	**-15.3**	**5.8**	**5.6**	**4.0**	**2.3**	**12.3**
Textile, clothing and footwear	-23.1	-23.1	-17.3	9.4	7.9	5.7	7.1	22.2
Food and drink	-8.4	-8.4	10.6	1.2	1.0	0.9	-4.5	-2.7
Pharmaceutical products and biotechnology	-6.4	-6.4	-18.3	-2.7	1.5	1.2	-7.0	-4.5
Consumer services	**-19.7**	**-19.7**	**-36.7**	**32.5**	**10.5**	**-4.8**	**3.8**	**9.2**
Motorways and parking	39.5	-34.7	-27.8	65.0	11.3	4.0	6.0	22.7
Transportation and distribution	32.3	-11.5	-38.8	30.9	10.3	-5.8	5.6	9.8

Source: BME and Refinitiv Datastream.

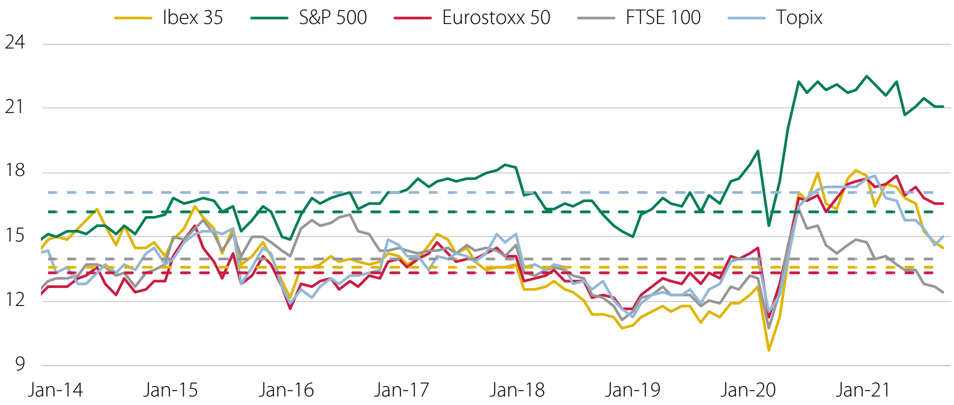
1 Variation compared to the previous quarter.

2 Sectors belonging to the IGBM (Madrid Stock Exchange General Index). The information corresponding to the most representative subsectors is displayed within each sector.

Stable prices, together with the expected recovery in corporate earnings in the coming months, have led to a further decline in the price-earnings ratio (PER), which still remains at historically high levels.

Stable prices in the quarter, together with the progressive recovery in corporate earnings expected in the next few months, has led the price-earnings ratio (PER) of the Ibex 35 to fall for the third consecutive quarter, to stand at 14.5 times in September,[25] its lowest level since the first half of 2020. The value of this ratio has been decreasing progressively throughout the year both in the Ibex 35 and in the main European indices as corporate earnings have recovered in parallel with economy. However, the value of the Spanish indicator remains below the levels of the European Eurostoxx 50, as shown in Figure 13. Likewise, with the exception of the Japanese Topix index and the UK FTSE 100, most of the PER ratios of the main indices remain above their average values for the 2010-2021 period.

Price-earnings ratio[1] (PER) FIGURE 13



Source: Refinitiv Datastream. Data until 15 September.

1 With forecast earnings for 12 months.

Market volatility experienced a slight rebound in the third quarter, to values above 15%.

The Ibex 35 volatility, which had dropped progressively over the first half of the year, rebounded slightly in the third quarter, reaching a quarterly average of over 15%. This slight upturn in volatility puts an end to the downward trend observed in recent quarters[26] and moves slightly away from the historical lows of close to 10% observed at the end of 2019 (see Figure 14). This bullish performance is similar to the trend marked by other international indices[27] such as the European Eurostoxx 50 (13.2% on average in the quarter) or the US Dow Jones (10.8% on average), although its average increase is somewhat higher than these.

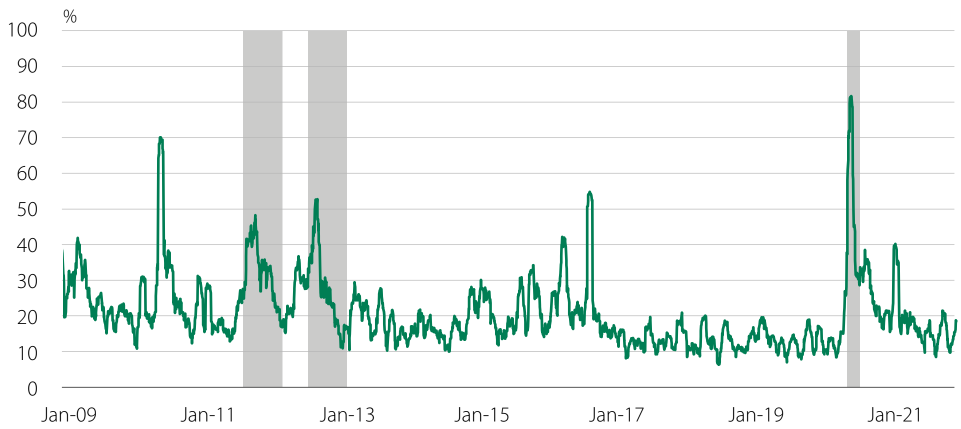
25 In the same period, the PER ratio of the European Eurostoxx index fell to 16.6 times, while that of the US S&P 500 held at 21.2 times.

26 In the first and second quarters of 2021 it reached values of 17.1% and 13.2%, respectively, while in the fourth quarter of 2020 it stood at 24.3%.

27 In contrast to the main international equity markets, the volatility of the Japanese Nikkei 225 index decreased in the third quarter to 15.7%, compared to 18.3% in the previous quarter.

Historical volatility of the Ibex 35

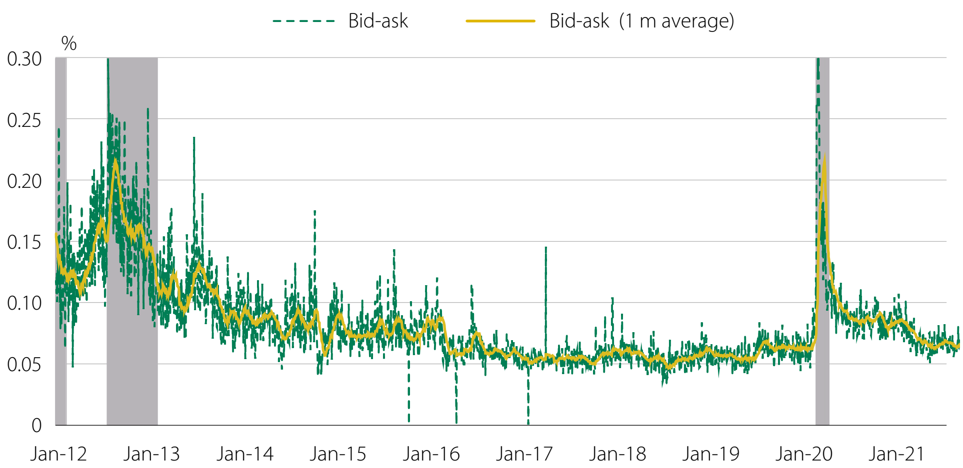
FIGURE 14



Source: Refinitiv Datastream and own calculations. The indicator is calculated as the annualised standard deviation of the daily price variations of the Ibex 35 over 21 days.

Ibex 35 liquidity. Bid-ask spread

FIGURE 15



Source: Refinitiv Datastream and own calculations. Information on the bid-ask spread of the Ibex 35 and the average of the last month is presented here. The vertical lines of the graph refer to the introduction of restrictions on short-selling dated 11 August 2011, their subsequent lifting on 16 February 2012 (for financial institutions), the new restrictions of 23 July 2012 and their lifting on 1 February 2013, as well as the two most recent bans: the first for one day (13 March 2020), which affected 69 entities, and the second, adopted a few days later and lifted on 18 May 2020, which affected all entities.

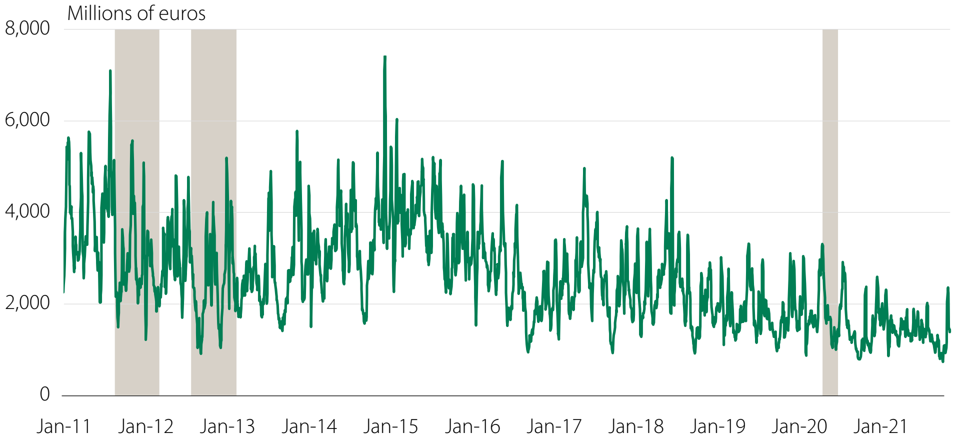
The liquidity conditions estimated using the bid-ask spread have stabilised, but still present values that are slightly higher than pre-crisis levels and weighed down by the decline in the volumes traded.

Despite the slight increase in volatility and the fresh decline in the volumes traded, the liquidity conditions of the Ibex 35 – estimated through the bid-ask spread – remained at levels similar to those seen of the second quarter and slightly above those existing before the start of the crisis. This would suggest that the situation is returning to normal. In the third quarter of the year the spread averaged 0.066%, in line with the figure of 0.065% in the second quarter and below the 0.081% and 0.084% of the previous quarters, and the historical average of the indicator (0.09%) (see Figure 15).

In this context of slight increases in volatility and largely stable prices, the trading of Spanish securities reached its lowest volume in one quarter in recent years…

In this context of small increases in volatility and stable prices, the trading of Spanish equities once again decreased significantly, to just €151 billion in the third quarter, 2.3% lower than in the same period last year and the lowest volume in one quarter recorded in the past decade. Thus, despite the temporary improvement observed in the last quarter of 2020, the downward trend in trading volumes of Spanish equities would appear to be establishing itself, in the same way, albeit to a lesser extent, as in other European markets.[28]

Daily trading of the Spanish stock market[1] FIGURE 16



Source: CNMV. The shaded areas of the graph refer to the introduction of restrictions on short-selling dated 11 August 2011, their subsequent lifting on 16 February 2012 (for financial institutions), the new restrictions of 23 July 2012 and their lifting on 1 February 2013, as well as the two most recent bans: the first for one day (13 March 2020), which affected 69 entities, and the second, adopted a few days later and lifted on 18 May 2020, which affected all entities.

1 Moving average of five business sessions.

…accompanied by a further decline in the share of trading carried out through BME.

Regarding the distribution of trading in Spanish securities, just over €78 billion corresponded to the regulated market of Bolsas y Mercados Españoles (BME), while the remaining €73 billion corresponded to other trading venues and competing markets. The trading of Spanish shares has fallen by around 4% year-on-year in the regulated market and 0.4% year-on-year in competing venues, leading to a drop in BME's market share to 51.9%, very close to the historical low of 51.6% reached in the first quarter (52.4% for the year as a whole).

Trading on the continuous market stood at €1.19 billion in the third quarter of the year.

Daily average trading on the continuous market stood at €1.19 billion in the third quarter (the lowest in one quarter in recent years, 4.5% year-on-year fall), below the average of the previous quarter (€1.47 billion) and for 2021 to date (€1.37 billion).

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28 According to data from the World Federation of Exchanges, accumulated trading to July in the main European markets, with the exception of the London Stock Exchange Group, which fell by 27.4%, due to Brexit, presented small falls of 1.3% in Euronext, 2.2% in Cboe Europe and 8.8% in the German Deutsche Börse. Likewise, the main US and Asian stock markets continue to grow, with rises of 4.4% and 11.8% for the US NYSE and Nasdaq, respectively, and 4.2% for the Japan Exchange Group. These figures are not fully comparable with those provided for Spain as the latter include the trading of Spanish securities on the regulated market located in Spain and in other trading venues. However, they are useful to provide context for a common trend.

In terms of the trading of Spanish shares in BME's competing venues, the recovery of market share by Cboe Global Markets (Cboe), which now operates from Amsterdam, and where trading decreased by less than that of its competitors (€54.46 billion in the quarter) stood out. This amount represents around 74.5% of trading carried out abroad and 70% of trading through BME. Among BME's other competing venues, Turquoise maintained its market share at 7.6%, while that of the rest of the operators, whose weight had been growing in recent quarters, fell once again to below 18% (see Table 5).

Of the group of competing trading venues, Cboe remained the strongest and its relative share further increased.

Trading in Spanish equities admitted to trading on Spanish stock exchanges[1] TABLE 5

Millions of euros

	2017	2018	2019	2020	I 21	II 21	III 21
Total	**932,771.9**	**930,616.1**	**805,833.0**	**780,343.5**	**178,116.8**	**169,201.6**	**150,830.9**
Admitted to SIBE electronic platform	**932,763.1**	**930,607.1**	**805,826.6**	**780,341.0**	**178,114.0**	**169,199.0**	**150,830.5**
BME	633,385.7	579,810.4	460,267.4	418,512.6	91,268.7	90,282.5	77,726.6
Cboe Equities[2]	193,310.8	278,361.0	256,772.5	275,682.4	62,442.7	55,259.9	54,457.9
Turquoise	44,720.1	42,833.4	30,550.6	23,242.2	6,093.2	5,981.7	5,549.7
Other	61,346.5	29,552.2	58,236.1	62,903.8	18,309.5	17,674.9	13,096.3
Open outcry	**8.1**	**8.2**	**6.2**	**2.5**	**2.8**	**2.6**	**0.4**
Madrid	1.8	0.8	0.8	0.1	0.0	0.0	0.0
Bilbao	0.0	0.0	2.1	0.0	0.0	0.0	0.0
Barcelona	6.3	7.4	3.2	2.4	2.7	2.6	0.4
Valencia	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Secondary market	**0.7**	**0.8**	**0.1**	**0.0**	**0.0**	**0.0**	**0.0**
Pro memoria							
Trading of foreign equities through BME	6,908.0	3,517.1	3,480.5	4,273.8	1,056.9	1,061.9	1,106.5
BME MTF Equity[3]	4,987.9	4,216.3	4,007.7	3,929.0	971.2	815.2	639.8
Latibex	130.8	151.6	136.6	79.5	11.2	8.1	7.9
ETF	4,464.1	3,027.6	1,718.0	2,551.1	400.5	345.3	404.5
Total trading through BME	649,885.3	590,732.0	469,616.6	429,348.5	93,711.3	92,515.6	79,885.7
% Spanish equities traded through BME/ total Spanish equities	68.3	62.6	57.4	53.9	51.8	53.7	51.9
Systematic internalisers[4]	**n/a**	**143,956.9**	**141,308.3**	**144,694.4**	**15,142.2**	**11,077.5**	**10,759.6**

Source: Bloomberg and own compilation by the authors.

1 This includes the trading of Spanish equities subject to market rules or MTF (lit plus dark). Spanish shares on Spanish stock exchanges are those with a Spanish ISIN that are admitted to trading on the regulated market of Bolsas y Mercados Españoles (BME), i.e., not including the Alternative Stock Market (MAB). Foreign equities are those admitted to trading in the regulated BME market with an ISIN that is not Spanish.

2 Includes trading that until 2020 was carried out through Chi-X and BATS, which since January 2021 has moved to Amsterdam as a result of Brexit.

3 MAB until September 2020. This MTF has three segments: BME Growth (in which growth companies and Spanish real estate investment funds are listed), BME IIC (in which the open-ended collective investment schemes and hedge funds are listed) and BME ECR (in which the venture capital firms are listed).

4 Data estimated by the CNMV with data from transaction reporting.

Trading carried out through systematic internalisers was stable in the third quarter of the year, but its relative weight is less than half of the amount it represented up until 2020.

Trading carried out through systematic internalisers, whose format is not subject to non-discretionary market rules, held stable at below 7% of the total trading of Spanish securities in the third quarter (total trading is defined as the sum of trading subject to non-discretionary market rules and trading carried out through systematic internalisers). This value is less than half of the figure observed since 2019, which has been largely stable.

Capital increases with fund raising decreased once again and were mainly capital increases with non-monetary contributions.

Issuance in the equity markets stood at €2.70 billion in the third quarter, the lowest value since the first half of 2020. Of this amount, €1.39 billion corresponded to increases with non-monetary considerations (see Table 6), which were concentrated in a single transaction that formed part of the merger of Unicaja and Liberbank. Likewise, an increase made by DIA for close to €500 million stood out for its volume, while capital increases made under the scrip dividend format fell to just over €131 million, since most companies that use this format had already paid out dividends at the end of the second quarter. The IPO of Acciona Energía took place in the third quarter, the first IPO in the Spanish market since the first quarter of 2018.[29]

The accumulated balance for the year is positive both due to the volume of the issues made and the return of IPOs.

Despite the low issuance volume in the third quarter, the amount accumulated in the year to date is high (€14.62 billion), outpacing the amounts registered in full-year 2018, 2019 and 2020. In addition, there have been several IPOs carried out in the form of a public offering for the subscription of securities and listing, and other transactions are ongoing. The announcement made by Opal Spanish Holdings (belonging to the US company Otis Elevator Company) of a voluntary bid for the entire capital of Zardoya Otis should also be noted.

29 Corresponding to real estate company Metrovacesa for an amount of €734 million.

Capital increases and public offerings

TABLE 6

	2018	2019	2020	IV 20	I 21	II 21	III 21
NUMBER OF ISSUERS[1]							
Total	**46**	**33**	**38**	**14**	**10**	**10**	**15**
Capital increases	45	33	38	14	10	10	14
Public offering (for subscription of securities)	2	1	1	1	0	1	0
Public offering for the sale of shares (IPOs)	1	0	0	0	0	0	1
NUMBER OF ISSUANCES[1]							
Total	**81**	**52**	**38**	**16**	**10**	**14**	**18**
Capital increases	80	52	38	16	10	14	17
Public offering (for subscription of securities)	2	1	1	1	0	1	0
Public offering for the sale of shares[2] (IPOs)	1	0	0	0	0	0	1
CASH AMOUNT[1] (millions of euros)							
Capital increases with fund-raising	**7,389.9**	**8,240.6**	**8,903.1**	**3,560.3**	**2,969.2**	**8,948.7**	**2,567.5**
With preemptive rights	888.4	4,729.8	6,837.2	2,787.7	0.0	7,032.8	6.3
Without preemptive rights	200.1	10.0	150.1	150.1	0.0	100.0	0.0
Of which, increases	0.0	10.0	0.0	0.0	0.0	0.0	0.0
Accelerated book builds	1,999.1	500.0	750.0	0.0	0.0	0.0	0.0
Capital increases with non-monetary considerations[3]	2,999.7	2,034.2	233.0	220.5	2,079.2	56.0	1,390.1
Capital increases via conversion	388.7	354.9	162.4	0.0	0.0	68.0	41.4
Other	913.9	611.8	770.3	26.8	117.5	1,496.0	1,129.6
Scrip issues[4]	**3,939.7**	**1,565.4**	**1,949.0**	**375.2**	**772.5**	**195.8**	**131.1**
Of which, scrip dividends	3,915.2	1,564.1	1,949.0	375.2	772.5	195.8	131.1
Total capital increases	**11,329.6**	**9,806.0**	**10,852.1**	**3,560.3**	**2,958.2**	**8,948.7**	**2,698.6**
Public offerings for the sale of securities	**733.7**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,200.2**
***Pro memoria:* transactions on MAB[5]**							
Number of issuers	8	12	13	3	9	11	26
Number of issuances	12	17	14	3	11	15	32
Cash amount (millions of euros)	164.5	298.3	238.0	174.3	83.2	692.3	1,230.6
Capital increases	164.5	298.3	238.0	174.3	83.2	692.3	1,230.6
Of which, IPOs	0.0	229.4	173.0	174.3	0.0	405.5	869.6
Public offering for the sale of shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV.

1 Trades registered with the CNMV. Does not include data from MAB, ETF or Latibex.

2 Trades linked to the exercise of green shoe options are separately accounted for.

3 Capital increases for non-monetary considerations have been stated at market value.

4 In scrip dividends, the issuer gives existing shareholders the option of receiving their dividend in cash or converting it into shares in a bonus issue.

5 Trades not registered with the CNMV.

Special Purpose Acquisition Companies (SPAC)

EXHIBIT 2

Special Purpose Acquisition Companies (SPACs) are companies that raise money for a future acquisition of a part of an unlisted company (target entity) that normally has growth potential through an IPO. The acquisition is typically implemented through a merger. Thus, the target company begins trading when it merges with the listed SPAC.

SPACs are designed as an alternative to traditional IPOs or private equity, and offer companies additional ways to access the equity markets, thereby potentially improving the financing structure of the business sector and limiting the risks associated with the traditional listing process. This is one of the clear advantages of these vehicles, as the admission to market process consists of a negotiation of the terms of the agreement exclusively between the two parties.

SPACs are widely used in the US equity markets, where record volumes were attained (in terms of the number of SPACs that have gone public and the amount of funds raised) in 2020 and the first half of this year and, although it is not a new phenomenon, this investment format has also started to become more popular in some European equity markets in recent months. One of the main reasons for the viability of this format is it is eligibility for the tax neutrality regime provided for in European regulations for mergers, as otherwise it would be exceptionally burdensome, making it difficult to carry out IPOs in this manner.

SPACs are therefore being offered to European companies as a way to access the capital markets, and may play a major role in Capital Markets Union strategy. However, they are companies with some particularities and specificities, which investors should be especially aware of, that relate, among others, to the financial instruments issued by the SPACs (shares and warrants), potential conflicts of interest between sponsors of these vehicles, the way the acquisition of the target entity is carried out or the way investors exercise their right of separation.

On 15 July this year, the European Securities and Markets Authority (ESMA) published a document on the requirements that issuers must take into account when preparing a prospectus for a SPAC, to ensure that investors have all the information necessary to make their investment decisions, and investor protection: https://www.esma.europa.eu/press-news/esma-news/esma-publishes-disclosure-and-investor-protection-guidance-spacs.

The CNMV is also involved in the new manner of accessing the capital markets and has been working for several months on analysing these vehicles from different standpoints, including: meetings with investment banks and law firms, meetings with sponsors of potential SPACs, reviewing draft regulations, participating in ESMA and International Organization of Securities Commissions (IOSCO) working groups that have developed or evaluated SPAC initiatives and liaising with other supervisors.

From a supervisory angle, the CNMV has made a thorough analysis of this instrument and has proposed a series of supervisory criteria that must be taken into account in IPOs of SPACs, as well as in their subsequent life as listed companies.

First, for the IPO of the SPAC, it must register a prospectus, in which special emphasis should be placed on the following information, among others: i) the risks associated with conflicts of interest involving the sponsor; ii) how they are remunerated; iii) their experience and potential lock-up commitments for the purpose of restricting the sale of shares owned by them for a period of time; iv) the corporate governance of the SPAC; v) the risk of dilution for shareholders as a result of the acquisition of the target entity and the conversion of shares owned by the sponsor into ordinary shares, or the exercise of warrants; vi) the freezing of funds contributed by shareholders in the IPO and the remuneration of the escrow account in which these funds will be deposited and held; vii) the corporate resolutions and majorities necessary for the acquisition of the target entity; viii) the form in which the right of separation is exercised at the time the merger with the target entity is approved; ix) the period available to the SPAC to identify and acquire the target entity; x) the type of financial instruments to be issued by the SPAC and the differences between those that are subscribed by investors and those subscribed by the sponsor; xi) the possible financing needs of the SPAC for the acquisition of the target entity; and xii) a description of the sector or the type of companies that could be acquired by the SPAC and the risks associated with these.

During the listing of the SPAC, sufficient liquidity and dissemination of the company's shares must be assured. Given the features of SPACs, which typically acquire companies that are two or three times their size, it could be assumed that such levels would be reached with at least 50 investors and capitalisation of €50 million, although these parameters have not be established in any standard and may be modulated. Further, there may be a need to comply with the legal requirement that at least 25% of the capital must be publicly distributed.

Once it has gone public, the SPAC, like any listed company, must strictly observe the disclosure obligations imposed by securities market regulations and, in particular, adhere to the regulations on transparency and market abuse, in addition to publishing all inside information it has access to. Thus, the information that the SPAC must disclose in relation to the target entity once it has announced the agreement for its acquisition is of particular importance. It must be as comprehensive as possible to ensure that shareholders of the SPAC can decide whether or not they agree with the transaction, and consequently exercise their right of separation, if applicable, and guarantee the proper formation of quoted prices of SPAC shares. The CNMV's approach will be to ensure that SPACs disclose all inside information, like any other company, to prevent suspensions from trading as far as possible.

The disclosures made by the SPAC at the time of its merger with the target entity are also essential. The SPAC must prepare a prospectus in accordance with Regulation (EU) 2017/1129 of the European Parliament and of the Council, of 14 June 2017, on prospectuses, unless any of the exemptions included in Article 1.4 g) or Article 1.5 f) of the Regulation apply. If any of these exemptions do apply, i.e., because it is a direct merger, the CNMV will still require a prospectus to be drawn up so that investors have access to comprehensive information about the target entity. Thus, they will ultimately have the same information as they would if the process had been a traditional IPO.

Lastly, it is important to take note of the Draft Securities Market and Investment Services Act, which has recently been the subject of a public consultation. The Second Final Provision of this draft includes an amendment to the Spanish Corporate Enterprises Act, introducing a new chapter under title XIV, which regulates listed public limited companies, to address the particularities of the regime applicable to SPACs. Among other issues, the text defines what a SPAC is, it refers to the freezing of funds contributed by investors in the public offering of securities carried out by the SPAC for the IPO and establishes the reimbursement mechanisms for shareholders when the acquisition of the target entity is announced.

Regardless of the legal text that may eventually be approved to draw up a regulatory framework for the main aspects of this new market instrument, the CNMV has already established a supervisory approach for any transactions that may occur in the next few months, based on the current legal framework, which does not currently prevent the verification of these transactions.

3.2 Fixed income markets

Debt markets, which had started the quarter with further rate cuts on the longer-dated segments, ended it with increases to return to the starting level due to the risk associated with rising inflation.

The debt markets, which had seen further rate cuts on the longer-dated segments at the start of the third quarter, saw fresh increases in September. Long-term rates were at starting levels[30] for the quarter on renewed fears of rising inflation and the perception that current inflationary pressures – supported by rising oil prices – may not be as short-lived as expected, forcing central banks to withdraw their monetary stimulus measures earlier than expected.

Although the main central banks had indicated that they would maintain their expansive monetary policy stance, the uptick in inflation in the main economic areas increases the probability of a change in the direction of this policy.

Following confirmation by the ECB (in March, April, June and July) that it would continue to buy debt at a rate that is "significantly higher" than in the early months of the year to support the economic recovery, its Governing Council announced on 7 July that it would implement a more flexible monetary strategy (see Exhibit 1), which would allow rates to be eased on expectations that the ECB would keep its monetary policy unchanged, even if additional rises in inflation were observed. However, the continued rise in inflation in the United States and in Europe,[31] triggered the first indications of a change in the direction of central bank[32] monetary policy (see Section 2.1).

In this context, yields on Spanish debt started the quarter with falls, but subsequently increased to the values seen in the middle of the year.

Thus, after the initial decreases at the beginning of the quarter, rates on Spanish public debt, in line with those of the main European economies, gradually increased

30 The yield on the US sovereign bond increased by around 10 bp in the quarter, once again to above 1.5%, while the German bond for the same term remained at -0.2%, after reaching levels of close to -0.5% throughout the month of August. In both cases, the rates are at their highest levels for the last three months.

31 Inflation in the US reached 5.3% year-on-year in August, while in Germany it stood at 3.9%, the highest level since 1993. In Spain, the preliminary data for September show an annual variation of 4%, the highest rate since September 2008.

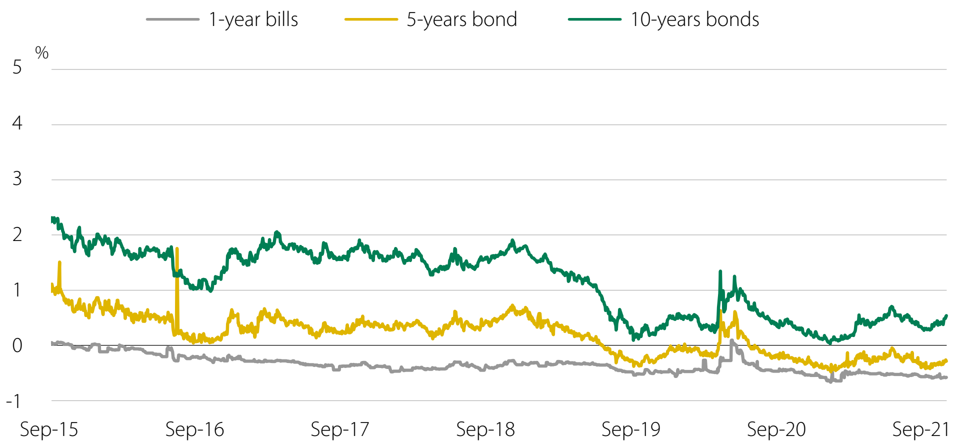
32 The Bank of Norway announced its first rate hike (of 25 bp) since the outbreak of the pandemic.

to reach levels similar to those seen in the middle of the year. Private fixed income rates showed a similar performance, although the rate hikes were somewhat less notable in the longer-dated segments, and in corporate debt with a lower credit rating, whose risk premiums remain low due to the search for yield phenomenon. The yield on the 10-year Spanish sovereign bond increased by just 4 bp in the quarter, to stand at 0.46% at the close, remaining at very low levels and mirrored by the Spanish risk premium, which ended September at 66 bp, slightly above the values at which it started the year.

The yield on short-term government debt decreased slightly, remaining negative on all segments of the curve for the sixth year running.

The yields on short-term private fixed income and public debt saw different performances in the third quarter, with small drops and some rises, respectively. Short-term government debt rates, which fell once again, have shown negative values for all segments of the curve for the sixth year running under the ECB's expansive monetary policy, which includes purchases of securities with a minimum residual maturity of 70 days. Thus, the average yield in the secondary market for Treasury bills at 3, 6 and 12 months was -0.61%, -0.59% and -0.57%, respectively, slightly below of the rate established by the ECB for the marginal deposit facility (-0.50%). Additionally, all treasury auctions carried out on the primary market were still awarded at negative rates and the last ones in September saw values of below -0.50% for all terms of the curve, in line with previous auctions.

Interest rates on Spanish public debt FIGURE 17



Source: Refinitiv Datastream.

…while the yield on short-term private debt showed slight increases.

In the case of short-term private fixed income the behaviour was different, with values that were higher than those of the previous quarter observed in some sections, in contrast to the trend seen in the past few quarters. Furthermore, in the 12 month term the sample was influenced in previous quarters by the large volumes of commercial paper issued in the Alternative Fixed Income Market[33] (MARF), as medium-sized companies could enter the market and issue commercial paper under the ICO guarantee programme, which raised the average interest rates of the sample because the issues made by these companies were at a cost that was substantially

33 In 2020, €410.6 million were used to guarantee 66 issues made by 15 companies, which mobilised funds amounting to €597.2 million.

higher than for large companies. In the third quarter, the issues made under this programme[34] decreased significantly, so the sample includes a greater number of issues made by large companies that benefit from lower issuance costs, as well as purchases of ECB debt in the primary market, as they fall in the range of eligible issuers.[35] Spanish market data show that in September the issuance yields on commercial paper in the primary market ranged from 0.24% for the 3-month instrument to 0.56% for 12-month paper, values that were slightly higher than those seen in the second quarter on shorter-dated segments (see Table 7).

Short-term interest rates[1] TABLE 7

%

	Dec-18	Dec-19	Dec-20	Dec-20	Mar-21	Jun-21	Sep-21
Treasury bills							
3 months	-0.50	-0.58	-0.70	-0.70	-0.54	-0.58	-0.62
6 months	-0.41	-0.47	-0.59	-0.59	-0.54	-0.57	-0.59
12 months	-0.33	-0.48	-0.63	-0.63	-0.50	-0.50	-0.57
Corporate commercial paper[2]							
3 months	0.24	0.20	0.49	0.49	0.14	0.00	0.24
6 months	0.19	0.52	0.55	0.55	0.51	0.27	0.47
12 months	0.07	0.71	1.44	1.44	0.72	0.67	0.56

Source: Refinitiv Datastream and CNMV.

1 Monthly average of daily data.

2 Issuance interest rates.

Public debt assets barely changed in the third quarter, although the longer terms saw the greatest upward pressure, with positive returns from the 7-year term onwards.

Medium and long-term public and private debt yields also marked a similar performance in the quarter, showing slight decreases at the beginning and rises later on, until they reached levels close to their starting points. The rises were mainly in the longer terms and public debt. Although the amount of the monthly debt purchases[36] under the different ECB programmes[37] remained unchanged, investor fears over rising inflation caused the yield on public debt to recover in the longer terms

34 Beneficiaries of issues of commercial paper through MARF guaranteed by the ICO guarantee programme included: Aedas Homes, Aldesa, Finycar and Hotusa. The maximum amount of the guarantees will cover 70% of the commercial paper issuance, which will have a maximum maturity of 24 months and be available until 30 September, with the following conditions for awarding them: having registered a commercial paper issue programme on the MARF before 23 April, the company's registered office being located in Spain and the funds obtained not being available for paying dividends.

35 The short-term debt the ECB can acquire under its PEPP programme may include commercial paper issued by Spanish companies such as Endesa, Iberdrola, Repsol, Telefónica, Red Eléctrica, Ferrovial, Naturgy, Abertis, Aena, ACS, Amadeus, Cellnex, Inmobiliaria Colonial and Viesgo. To be eligible, these assets must have a minimum credit rating of BBB- from Standard & Poor's, Fitch and DBRS, or Baa3 from Moody's.

36 The ECB currently buys around €100 billion of debt a month; €80 billion through the PEPP and €20 billion through the other programmes.

37 The PSPP (Public Sector Purchase Programme) and PEPP (Pandemic Emergency Purchase Programme) are currently in operation. Under the first programme, up until the end of August the ECB had acquired public debt for a net amount of €2,575.84 billion, of which €299.46 billion corresponded to Spanish securities; while in the same period, under the PEPP programme, it had acquired public debt for a net amount of €1,337.24 billion, of which €140.70 billion were Spanish securities. Therefore, the amount of

of the curve, although rates are still below the annual highs reached in May. Despite the slight increase, yields remain negative up to 7-year term. 3, 5 and 10 year yields on Spanish public debt[38] stood at -0.51%, -0.32% and 0.36%, respectively in September (see Table 8).

Medium- and long-term bond yields[1] TABLE 8

%	Dec-18	Dec-19	Dec-20	Dec-20	Mar-21	Jun-20	Sep-21
Public sector fixed income							
3 year	-0.04	-0.29	-0.53	-0.53	-0.41	-0.42	-0.51
5 year	0.43	-0.06	-0.42	-0.42	-0.24	-0.22	-0.32
10 year	1.43	0.45	0.05	0.05	0.34	0.44	0.36
Private fixed income							
3 year	0.67	0.20	-0.20	-0.20	-0.08	-0.16	-0.05
5 year	0.55	0.23	-0.13	-0.13	-0.15	-0.15	-0.02
10 year	1.52	0.79	0.41	0.41	0.45	0.58	0.44

Source: Refinitiv Datastream., Reuters and own compilation by the authors.

1 Monthly average of daily data.

The performance of private fixed income was similar, although in this case the increases were mainly up to the 5-year term and rates were still close to historical lows.[39] Most of the large corporate debt issuers continue to benefit from the ECB's debt purchase programmes, which include specific corporate debt purchases, although not all issuers have issues that are part of the range of eligible assets.[40] At the end of September, yields on 3 and 5-year private debt remained negative at -0.05% and -0.02% respectively, while the yield on 10-year debt stood at 0.44%, implying a risk premium of between 8 and 46 bp compared to public debt.

The yield on private fixed income assets remains close to historical lows, although there are some differences in rates, since not all of them are eligible for ECB purchases.

The sovereign risk premium – estimated as the spread between the Spanish sovereign bond and the German 10-year bond yield – remains slightly higher than at the beginning of the third quarter, and for the year to date, standing at 66 bp Despite this slight increase, it remains low on the back of the positive effect of the ECB's purchases of public debt, in addition to the outlook for economic recovery as the health situation progressively returns to normal. The risk premium assessed through the CDS (credit default swap) of the Spanish sovereign bond, whose market is less liquid than that of the underlying, the Spanish sovereign bond, ended the quarter unchanged, at around 30 bp. The performance of the sovereign risk premium – like

The sovereign risk premium increased slightly to 66 bp, somewhat higher than the level at which it started the year. Even so, its performance is positive and it remains supported by the ECB's debt purchases and the outlook for recovery.

Spanish public debt acquired by the ECB stood at €440.43 billion (40% of the outstanding balance of long term government debt).

38 The Treasury made its first green bond issue in September for an amount of €5 billion with a term of 20 years, which will be used to finance projects that promote the objectives of the Spanish environmental agenda. The issue, which was carried out in accordance with the Green Bond Framework of the Kingdom of Spain, had demand of more than €60 billion.

39 It should be taken into account that yields vary more in this debt category as the sample used to estimate interest rates is based on a wide range of assets with different levels of risk including covered bonds, investment grade rated bonds, high yield bonds and even debt with no credit rating.

40 The ECB requires a minimum investment grade rating for purchases.

that of the risk premiums applied for large Spanish issuers – will continue to be shaped in the short term by the support provided by the ECB through debt purchases, although in the medium term it could be conditioned by the scale of the economic recovery and political, monetary, fiscal and budgetary decisions.

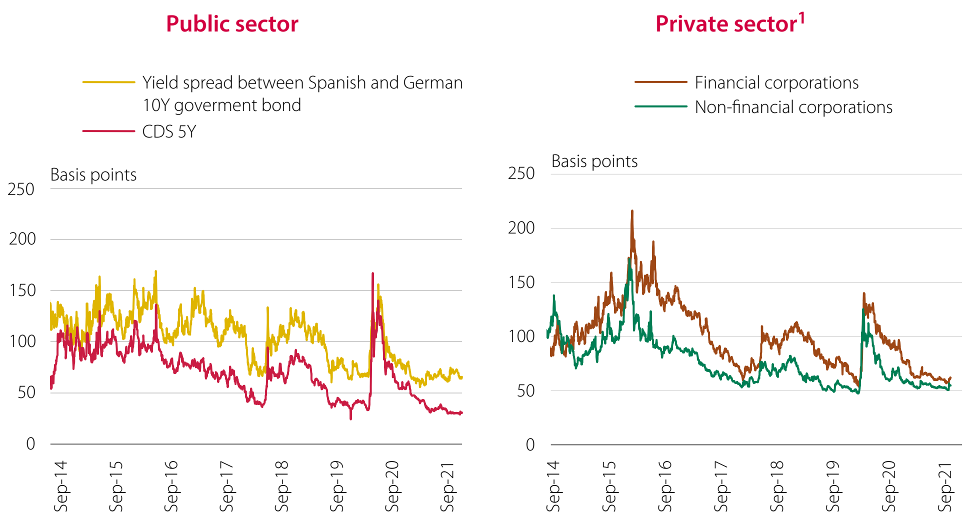
The performance of the risk premium of private sector companies was similar, with slight increases…

Risk premiums for the private subsectors of the economy performed in a similar trend, increasing by 2 bp for both financial institutions and non-financial companies. As shown in the right hand panel of Figure 18, the average CDS of financial institutions stood at 62 bp at the end of September, 16 bp less than at the start of the year, but still above the 55 bp average risk premium of non-financial companies, which fell 4 bp from its value at the close of 2020.

…both for financial institutions…

In the case of financial institutions, risk premiums remained stable due to various factors such as the support measures deployed by the central bank, which include specific programmes for the purchase of assets issued by banks, such as covered bonds and asset-backed securities,[41] as well as rounds of financing and specific longer-term funding under very favourable conditions, and also to the improved outlook for economic recovery. The latter will allow the sector to generate more income and help to mitigate the possible increase in NPLs.

Risk premium of Spanish issuers FIGURE 18



Source: Refinitiv Datastream and own calculations.

1 Simple average of the 5-year CDS of a sample of entities.

41 The ECB, through its covered bond purchase programme (CBPP3) and the asset backed securities purchasing programme (ABSPP), accumulated up to the end of September purchases amounting to €297.23 billion and €25.98 billion, respectively, of which more than 36% and 61% were carried out in the primary market. Likewise, at the end of July, the ECB accumulated covered bonds for the amount of €5.38 billion acquired under the PEPP programme, of which more than 21% were acquired in the primary market.

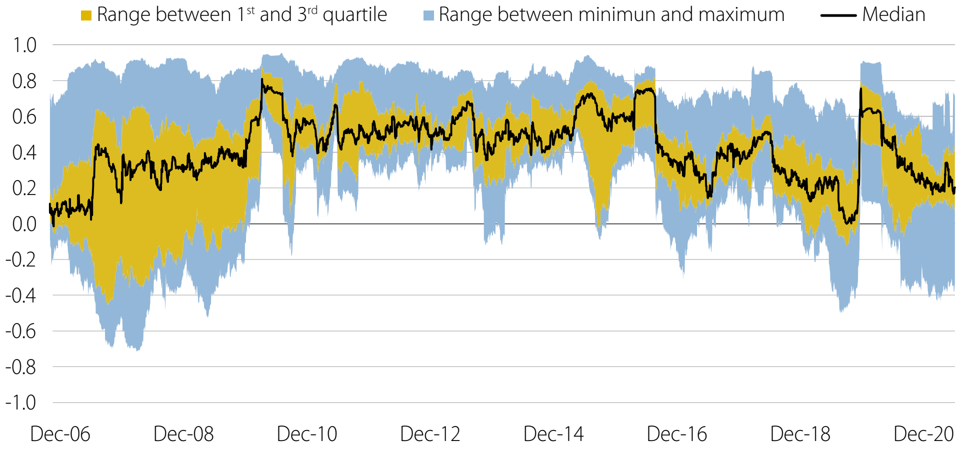
Risk premiums of non-financial companies, while also benefiting from the positive effect of the ECB purchases[42], which keeps their financial costs at low levels, presented slight increases following the announcement of the regulatory changes introduced by the government on electricity company income, and expectations of a change in its monetary policy stance, which could raise financial costs in the future.

…and financial and non-financial companies.

The degree of correlation between the prices of the different classes of financial assets, which had reached its highest level since 2016 in the first quarter of 2020, presented values similar to those seen in previous quarters in the third quarter of this year and higher than those presented at the beginning of the previous year (see Figure 19). This stability is due to the similar performance of debt and credit asset prices with respect to shares, which were largely unchanged.

The correlation between asset prices was largely unchanged although it remained at levels higher than those seen at the beginning of the crisis. This is due to the stability of the different asset prices in the quarter (debt, credit and shares).

Correlation indicator between asset classes[1, 2] FIGURE 19



Source: Refinitiv Datastream and own calculations.

1 The correlation indicator between asset classes includes pairs of correlations calculated using daily data in three-month windows. The asset classes are sovereign debt, private fixed income of financial and non-financial entities and securities of the Ibex 35, financial companies, utilities and other sectors. A high correlation between the different classes of Spanish assets would indicate the possible existence of herding behaviour by investors. This situation could lead to high volatility in periods of stress. Meanwhile, diversification would offer fewer advantages since in this context it would be more difficult to avoid exposure to sources of systematic risk.

2 As from 7 June 2017, the CDS of the 5-year senior debt of Banco Popular has been excluded from the calculation of ROI on the asset class corresponding to financial fixed income.

42 Up until the end of September, the ECB, through its Corporate Sector Purchase Programme (CSPP) accumulated a volume of purchases amounting to €296.78 billion, of which more than 22% were acquired in the primary market. At the end of July, the ECB had also accumulated corporate bonds and commercial paper amounting to €33.68 billion and €3.86 billion, respectively, acquired under the PEPP programme, of which almost 38% and 95% were acquired in the primary market.

The volume of debt issues by Spanish companies was close to €150 billion in the first nine months of the year, slightly higher than in 2020.

The joint volume of debt issues of Spanish companies registered with the CNMV and abroad so far this year stands at €149.81 billion, slightly higher than the figure for the same period of the previous year.[43] The stable asset volumes reflect the fact that issuers are still taking advantage of the abundant liquidity to obtain financing under favourable conditions, although many of the current transactions correspond to the refinancing of maturities.

Debt issues registered with the CNMV grew in the third quarter but not in the year as a whole as they remain shaped by the high volume of financing obtained abroad and because financial institutions have other attractive sources of financing at their disposal.

Fixed income issues registered with the CNMV in the third quarter stood at €25.33 billion, 22.1% higher than the figure for the same period of the previous year. For the year as a whole, these issues were €73.55 billion, lower than the €77.39 billion seen in 2020 due to many issuers taking advantage of the good conditions in 2020 to build up liquidity and above all to the significant amount of financing obtained from abroad, which has increased further in recent quarters to stand at €76.26 billion (data to August), which is higher than the amount registered with the CNMV. It should also be borne in mind that financial institutions still have access to other attractive financing sources, such as the ECB financing programmes (TLTRO-III).

The largest increases corresponded to the issuance of corporate commercial paper and securitisation bonds, while regional covered bonds were no longer issued.

Regarding the composition of the issues registered with the CNMV in the third quarter, in absolute and relative terms alike, the highest growth compared to the second quarter corresponded to commercial paper (41.5%), securitisation bonds (26.6%) and preference shares (none in the second quarter). All remaining assets registered falls, with the disappearance regional covered bonds and, to a lesser extent, simple bonds standing out. Regional covered bond issues were one-off in nature, linked to loans granted to public administrations, while most of the issues of simple bonds are made by Spanish issuers abroad. The commercial paper issues made by Endesa stood out, totalling €4.19 billion, more than half the amount of commercial paper issued. Securitisation issues, which can be used as collateral to obtain financing from the ECB, totalled €7.18 billion, of which €5.56 billion corresponded to a single securitisation programme made by one financial institution and the remaining €1.62 billion were issues made by three financing entities, of which €1.15 billion were STS (simple, transparent and standardised) securitisations.

Issues made on the MARF were €4.54 billion, the highest amount in one quarter seen in recent years, thanks to two CaixaBank securitisation bond issues.

Issues made on the MARF were €4.54 billion in the third quarter, more than double the amount seen in the same quarter of 2020 and the highest amount in one quarter in recent years, thanks to the large volume of two CaixaBank securitisation bond issues (€2.30 billion), the largest issues of this type of asset made in this market. The number of issuers stood at 47 (seven more than in 2020), including companies such as El Corte Inglés, Barceló, Hotusa and Audax Renovables.

43 Issues to September 2020 stood at €148.52 billion.

Gross fixed income issues registered with the CNMV

TABLE 9

	2017	2018	2019	2020	2021 I	2021 II	2021 III[1]
NOMINAL AMOUNT (millions of euros)	**109,487**	**101,296**	**90,165**	**132,121**	**23,538**	**24,678**	**25,334**
Covered bonds	29,824	26,575	22,933	22,960	3,500	9,000	9,450
Regional covered bonds	350	2,800	1,300	9,150	0	3,500	0
Non-convertible bonds	30,006	35,836	29,606	33,412	9,569	1,456	807
Convertible/exchangeable bonds	0	0	0	0	0	0	0
Securitisation bonds	29,415	18,145	18,741	36,281	5,030	5,674	7,184
Corporate commercial paper2	17,911	15,089	15,085	22,301	4,241	5,049	7,142
Securitisation	1,800	240	0	0	0	0	0
Other commercial paper	16,111	14,849	15,085	22,301	4,241	5,049	7,142
Other fixed income issues	981	0	1,500	6,266	823	0	0
Preferred shares	1,000	2,850	1,000	1,750	375	0	750
Pro memoria:							
Subordinated issues	6,505	4,923	3,214	14,312	1,022	1,208	1,806
Secured issues	0	0	0	0	0	0	0

Abroad by Spanish issuers	2017	2018	2019	2020	2021 I	2021 II	2021 III[3]
NOMINAL AMOUNT (millions of euros)	**84,771**	**87,846**	**100,321**	**90,201**	**31,200**	**31,261**	**13,801**
Long-term	61,125	36,913	53,234	46,122	16,504	16,604	3,846
Preferred shares	5,844	2,000	3,070	1,850	500	1,570	0
Subordinated long-term bonds	5,399	2,250	1,755	0	0	600	0
Bonds	49,882	32,663	48,409	44,272	16,004	14,434	3,846
Securitisation bonds	0	0	0	0	0	0	0
Short-term	23,646	50,933	47,087	44,078	14,696	14,657	9,955
Commercial paper	23,646	50,933	47,087	44,078	14,696	14,657	9,955
Asset securitisation	0	0	0	0	0	0	0

***Pro memoria:* gross issues of subsidiaries of Spanish companies in ROW**

	2017	2018	2019	2020	2021 I	2021 II	2021 III[3]
NOMINAL AMOUNT (millions of euros)	**68,976**	**92,600**	**92,342**	**70,798**	**20,890**	**16,077**	**9,751**
Financial institutions	21,391	43,549	57,449	42,120	10,496	9,672	6,139
Non-financial companies	47,585	49,051	34,893	28,678	10,394	6,405	3,612

Source: CNMV and Bank of Spain.

1 Data until 30 September.

2 The figures for corporate commercial paper issues correspond to the amounts placed.

3 Data as of 31August

Issues abroad grew by 7.2% in the year, mainly due to short-term issues.

Debt issues carried out by Spanish issuers abroad, which had increased by 8.2% during the first half, subsequently slowed, putting the aggregate amount up until August at €76.26 billion, 7.2% more than in the same period of the previous year. This performance is due to short-term debt issues, which increased by 13.7%, while long-term debt hardly changed. Debt issues made by subsidiaries of Spanish companies in the rest of the world stood at €46.72 billion (data to August), 14% less than in 2020, of which almost 44% corresponded to non-financial companies (+6.6%) and the rest to banks (-25.2%), reflecting the continued dynamism of non-financial companies in their foreign projects.

The strong increase in debt issues with ESG criteria so far this year should be noted.

The sharp increase in debt issues with ESG criteria[44] made by private Spanish issuers in 2021 stands out, in line with international trends.[45] Between January and September, these issues exceeded €14 billion (more than 13% of all long-term issues), well above the €10 billion issued in full year 2020 and the €9 billion issued in full year 2019. More than 80% of the amount related to issues made abroad. Financial institutions accounted for most of the issuance (as in 2020), with almost half, knocking energy companies and utilities, which made the largest issues in earlier years (33% of the total in 2021), off the top spot. The remaining issues were made by companies in the telecommunications, construction and real estate sectors.

Activity in Spanish trading venues in the first nine months of the year decreased in both the SEND and the OTFs, falling to less than half in the first case.

In Spanish trading venues, activity registered in the Electronic Debt Trading System (SEND) dropped sharply once again, both year-on-year and compared to the second quarter. Trading for the first nine months of the year was just over €45 billion, almost one third of the amount registered in the same period of 2020, of which more than 58% corresponded to Spanish public debt and the remaining 41% was debt foreign. Trading on the two organised trading facilities (OTFs) authorised by the CNMV reached €101.81 billion in the third quarter, 34.1% less than in the same period of the previous year, of which more than €80 billion (79% of the total) corresponded to Spanish public debt and almost all of the rest to foreign public debt. For the year as a whole, trading in these systems came to €408.53 billion, 15.1% less than in the same period of 2020. The CNMV also approved the creation of a third OTF, Tradition España OTF, for the trading of fixed income securities and derivatives.[46]

4 Market agents

4.1 Investment vehicles

Financial CIS

Investment funds

Investment fund assets increased by 10.5% in the first half of 2021 on the back of higher net subscriptions (€18 billion) and the revaluation of the investment portfolio (4.32%).

Investment fund assets grew by 10.5% during the first half of 2021, reaching €309.05 billion, continuing the rising trend seen in recent years, which was broken only in the first half 2020 due to the effects of the pandemic.[47] This increase in fund assets is explained both by the increase in the net subscriptions made by unitholders and the revaluation of the portfolio assets, due to the strong performance of the financial markets during the period. A large number of subscriptions were made in the first and in the second quarters, putting the total for the first half at €18 billion, a figure unseen since 2015. The weighted average return of the funds was 4.32% throughout the six-month period, showing a slightly better performance in the first quarter (2.34%) than in the second (1.93%), in line with the performance of the financial markets.

44 Environmental, social and governance.

45 Issues made by public administrations have also grown at a considerable pace in recent years, led first by issues made by the autonomous regions (especially Madrid, the Basque Country and Andalusia) and the ICO, and compounded by government issues in 2021. In the first nine months of 2021, issues stood at close to €9 billion (with almost €5 billion in government issues).

46 https://www.cnmv.es/portal/verDoc.axd?t=%7B2aa5dcbf-7912-4949-bfdc-19466d7894f3%7D

47 It should be noted that in the first three months of 2020 there was a 10.5% decrease in assets, which was offset by a recovery of 11.8% in the following nine months of the year.

An analysis by category shows that global funds had by far the highest net volume of subscriptions in the six month period (close to €20 billion), which were concentrated in the second quarter, with net inflows of funds of €18.50 billion.[48] These were followed at some distance by mixed fixed income and international equity funds, which saw net subscriptions of €4.08 billion and €3.34 billion, respectively (see Table 10). Fixed income funds, which had marked significant growth since 2019,[49] saw an inflow of funds of €2.56 billion. In contrast, mixed equity funds, which had grown steadily since 2017, posted the highest net redemptions (€6.90 billion in the half), following the increase in outflows of funds between April and June (over €8 billion), as a result of the deregistrations in the quarter.[50] As in previous years, guaranteed funds and absolute return funds also saw positive net redemptions of €2.27 billion and €1.83 billion, respectively.

In a half in which changes of fund category and mergers between funds led to a recomposition of categories, the highest net subscriptions took place in global funds, followed at some distance by mixed fixed income and international equity funds, while the largest redemptions were seen in mixed equity funds.

Net investment funds subscriptions

TABLE 10

Millions of euros

					2020		2021	
	2018	2019	2020	1H2021	III	IV	I	II
Total investment funds	**7,841.8**	**2,467.5**	**660.3**	17,643.5	**680.6**	**1,938.1**	**7,009.8**	**10,633.7**
Fixed income[1]	-2,766.0	10,732.6	2,062.6	2,561.9	2,141.4	1,714.0	1,324.9	1,237.0
Mixed fixed income[2]	-1,063.7	-1,506.1	2,619.5	4,083.9	-988.9	219.6	4,789.7	-705.8
Mixed equity[3]	2,485.9	3,288.8	1,601.4	-6,903.9	1,036.4	147.0	1,375.3	-8,279.2
Euro equity[4]	1,848.7	-3,588.2	-2,007.7	218.1	-485.7	-319.2	82.3	135.8
International equity[5]	3,864.1	4,113.8	2,633.1	3,339.6	174.0	1,078.9	2,082.0	1,257.6
Guaranteed fixed income	-575.8	-282.6	-707.4	-561.7	-156.9	-245.4	-226.2	-335.5
Guaranteed equity[6]	-667.2	-1,857.0	-2,254.2	-1,706.2	-347.2	-380.2	-299.6	-1,406.6
Global funds	9,448.9	-2,553.9	-1,501.2	19,602.3	-580.3	-92.7	1,075.3	18,527.0
Passive management[7]	-2,790.4	-3,026.8	-23.8	-1,157.0	158.5	179.9	-862.2	-294.8
Absolute return	-1,899.6	-2,852.9	-1,761.9	-1,833.3	-270.7	-363.5	-2,331.7	498.4

Source: CNMV.

1 Until I-2019, it includes the following categories (CNMV Circular 3/2011): euro fixed income, international fixed income, money market and short-term money market. From II-2019 onwards, it includes the following categories (Circular 1/2019): short-term public debt constant net asset value MMF, short-term low volatility net asset value MMF, short-term variable net asset value MMF, standard variable net asset value MMF, euro fixed income and short-term euro fixed income.
2 Includes euro mixed fixed income and international mixed fixed income.
3 Includes euro mixed equity and international mixed equity.
4 Includes euro equity.
5 Includes international equity.
6 Includes GIF and partial guarantee.
7 Until I-2019, it includes passively managed CIS (CNMV Circular 3/2011). From II-2019 onwards, it includes the following categories (Circular 1/2019): passively managed CIS, CIS that replicate an index and CIS with a specific non-guaranteed target return.

48 It is important to mention that just over €5.60 billion of this figure corresponded to existing investment funds that had previously belonged to other categories. In addition, around 8.3 billion subscriptions were related to the absorption of a single fund from the mixed equity category by a global fund.

49 As mentioned in previous reports, in 2020, while the fixed income funds category had suffered the most from the negative effects of the pandemic since March, with net redemptions of over €2.70 billion, it closed the year with net subscriptions of more than €2 billion.

50 Although the number of deregistrations was not excessively high (total of five), one was a high equity fund that was absorbed by a fund belonging to another category (see Footnote 43).

Investment funds. Key figures*

TABLE 11

					2020		2021	
Number	**2018**	**2019**	**2020**	**1S2021**	**III**	**IV**	**I**	**II**
Total investment funds	**1725**	**1,710**	**1,644**	**1,629**	**1,654**	**1,644**	**1,642**	**1,629**
Fixed income[1]	279	281	276	272	276	276	279	272
Mixed fixed income[2]	168	173	174	182	170	174	181	182
Mixed equity[3]	184	185	186	186	183	186	188	186
Euro equity[4]	113	113	104	98	108	104	100	98
International equity[5]	236	263	276	285	279	276	278	285
Guaranteed fixed income	67	66	55	51	57	55	53	51
Guaranteed equity[6]	163	155	133	125	136	133	130	125
Global funds	242	255	248	253	250	248	252	253
Passive management[7]	172	133	118	110	117	118	114	110
Absolute return	99	84	72	65	76	72	65	65
Assets (millions of euros)								
Total investment funds	**259,095.0**	**279,377.4**	**279,694.5**	**309,047.2**	**267,084.6**	**279,694.5**	**292,865.2**	**309,047.2**
Fixed income[1]	66,889.3	78,583.2	81,015.9	83,503.3	78,775.6	81,015.9	82,209.7	83,503.3
Mixed fixed income[2]	40,471.0	40,819.9	43,200.4	48,143.1	41,957.1	43,200.4	48,373.9	48,143.1
Mixed equity[3]	23,256.0	28,775.8	30,432.7	24,893.5	29,019.2	30,432.7	32,601.3	24,893.5
Euro equity[4]	12,177.7	10,145.1	7,091.1	8,232.2	6,399.0	7,091.1	7,771.9	8,232.2
International equity[5]	24,404.9	34,078.9	37,722.5	46,464.6	32,763.6	37,722.5	42,746.1	46,464.6
Guaranteed fixed income	4,887.4	4,809.3	4,177.0	3,585.6	4,397.6	4,177.0	3,929.5	3,585.6
Guaranteed equity[6]	14,556.0	13,229.1	11,037.1	9,339.3	11,328.0	11,037.1	10,745.2	9,339.3
Global funds	42,137.2	43,041.9	40,944.5	62,913.0	39,057.4	40,944.5	43,120.7	62,913.0
Passive management[7]	16,138.6	14,073.8	14,014.3	13,587.1	13,223.8	14,014.3	13,571.5	13,587.1
Absolute return	14,172.5	11,818.3	10,057.4	8,383.9	10,161.5	10,057.4	7,793.7	8,383.9
Unitholders								
Total investment funds	**11,217,569**	**11,739,183**	**12,660,100**	**14,325,481**	**12,237,441**	**12,660,100**	**13,586,390**	**14,325,481**
Fixed income[1]	2,709,547	3,668,324	4,135,294	4,621,057	4,002,906	4,135,294	4,435,899	4,621,057
Mixed fixed income[2]	1,188,157	1,087,881	1,203,280	1,406,147	1,184,715	1,203,280	1,364,227	1,406,147
Mixed equity[3]	624,290	707,159	745,112	648,612	737,674	745,112	806,042	648,612
Euro equity[4]	831,115	598,901	530,107	737,047	487,843	530,107	705,654	737,047
International equity[5]	2,225,366	2,655,123	3,043,542	3,545,847	2,914,093	3,043,542	3,298,703	3,545,847
Guaranteed fixed income	165,913	154,980	135,320	115,807	141,812	135,320	127,437	115,807
Guaranteed equity[6]	494,660	428,470	356,439	308,880	368,979	356,439	348,061	308,880
Global funds	1,501,730	1,359,915	1,409,759	1,920,588	1,355,646	1,409,759	1,506,594	1,920,588
Passive management[7]	543,192	429,428	511,251	530,215	438,709	511,251	513,333	530,215
Absolute return	930,641	646,042	587,040	488,319	602,106	587,040	477,482	488,319
Return[8](%)								
Total investment funds	**-4.89**	**7.12**	**0.78**	**4.32**	**1.08**	**4.14**	**2.34**	**1.93**
Fixed income[1]	-1.44	1.38	0.62	-0.09	0.60	0.68	-0.16	0.07
Mixed fixed income[2]	-4.27	4.75	-0.03	1.90	0.90	2.45	0.85	1.04
Mixed equity[3]	-6.45	9.25	0.59	5.04	1.71	4.37	2.56	2.42
Euro equity[4]	-13.01	14.27	-8.75	13.23	-2.25	16.61	8.58	4.28
International equity[5]	-12.34	22.18	2.83	14.06	2.62	11.94	7.87	5.74
Guaranteed fixed income	0.09	3.98	1.68	-0.74	0.83	0.59	-0.52	-0.22
Guaranteed equity[6]	-1.33	3.62	0.70	0.08	0.43	0.81	0.08	0.00
Global funds	-5.69	8.45	-0.31	5.45	1.46	5.18	3.10	2.28
Passive management[7]	-3.16	7.45	0.44	5.72	0.10	4.82	3.28	2.36
Absolute return	-4.81	3.94	0.94	2.13	1.42	2.80	0.97	1.15

Source: CNMV. * Information on funds that have submitted confidential statements (does not therefore include funds in the process of dissolution or liquidation).

1 Until I-2019, it includes the following categories (CNMV Circular 3/2011): euro fixed income, international fixed income, money market and short-term money market. From II-2019 onwards, it includes the following categories (Circular 1/2019): short-term public debt constant net asset value MMF, short term low volatility net asset value MMF, short term variable net asset value MMF, standard variable net asset value MMF, euro fixed income and short term euro fixed income.

2 Includes euro mixed fixed income and international mixed fixed income.

3 Includes euro mixed equity and international mixed equity.

4 Includes euro equity.

5 Includes international equity.

6 Includes GIF and partial guarantee.

7 Until I-2019, it includes passively managed CIS (CNMV Circular 3/2011). From II-2019 onwards, it includes the following categories (Circular 1/2019): passively managed CIS, CIS that replicate an index and CIS with a specific non-guaranteed target return.

8 Annual return for 2018, 2019 and 2020. Quarterly return not annualised for quarterly data.

The performance of the fund portfolio in the first half of 2020 was positive in almost all categories except for fixed income funds and guaranteed fixed income funds, with returns of -0.1% and -0.7%, respectively. The worst performance in the six-month period was seen by guaranteed equity funds (0.1%), followed by mixed fixed income funds (1.9%). In contrast, the categories with a higher percentage of equities in their portfolios offered the highest returns in the first half of the year, which were somewhat higher in the January-March period. Thus, in the euro equity and international equity categories, the return between January and June was 13.2% and 14.1%, respectively.

The performance of the fund portfolio was positive in most categories, with higher values in those with the largest percentages of equities.

The number of funds continued to decline in the first half of the year, with 15 fewer institutions, standing at 1,629 and continuing a trend that began in 2013, although it is gradually levelling off.[51] The greatest decline, as in recent years, took place in guaranteed equity and passively managed funds, with eight fewer vehicles in both cases. Absolute return funds also lost a notable of seven funds, while there were six fewer euro equity funds. In contrast, the large numbers of subscriptions to international equity funds in recent years took place alongside an increase in the number of vehicles, with nine new institutions.

The number of funds declined further between January and June of this year to stand at 1,629, driven by the losses in guaranteed equity funds, passive management and absolute funds. In contrast, the number of international equity funds increased.

In line with what happened in the case of assets, the number of unitholders experienced an increase of 13.2% between January and June, closing the six-month period at 14.3 million. It should be noted that the same unitholder is counted for each contract held in different funds, so that the registered increase could be partially explained by diversification into a greater number of funds. The largest increase in the number of unitholders (almost 511,000) was observed in the global funds category, partly due to changes of funds into this category. There was also a significant increase in international equity and fixed income funds, as in the last two years, with 502,000 and 486,000 more unitholders, respectively. In contrast, the number of unitholders in the absolute return, mixed equity and guaranteed fund categories decreased (by 99,000, 97,000 and 67,000, respectively).

The number of unitholders was over14.3 million at the end of the half, with the rise in global funds, with international equity and fixed income funds standing out.

According to provisional data for July, the main figures for investment funds remain, continuing the growth seen in the first half of the year. Investment fund assets grew by 1.2% to almost €313 billion at the end of July and the number of unitholders rose by 1.9%, to stand at 14.6 million. The number of funds, meanwhile, continued to decline, with five fewer vehicles.

In July 2021, assets and the number of unitholders both increased, while the number of funds dropped by five.

In terms of liquidity conditions, the weight of assets with reduced liquidity, which had fluctuated between 7% and 9% of the private fixed income portfolio of investment funds for several years, started to decrease in 2020 and continued this trend in the first half of 2021. Thus, in June of this year the percentage stood at 3.8% of this portfolio, with a volume of assets with reduced liquidity amounting to €2.45 billion, which represents only 0.8% of total investment fund assets.

The percentage of assets with reduced liquidity in the private fixed income portfolios of investment funds fell significantly in 2020 and the first half of 2021, reaching their lowest levels of recent years…

51 Although it is not a category of funds in itself, it is worth noting the number of funds that are adapting to the criteria of the European regulation on the sustainability disclosures, which in mid-October numbered 137 for those adhering to Article 8 and six for those adhering to Article 9. These articles distinguish (in terms of pre-contractual information) the financial products that promote environmental or social characteristics as long as the companies in which they invest observe good governance practices (Article 8) and the financial products that target sustainable investments (Article 9).

…with decreases in all fixed income asset categories, except non-financial fixed income, which remained stable.

A slight decrease in the weight of assets with reduced liquidity was observed in all categories of fixed income assets in the half, with the exception of non-financial fixed-income assets, in which the percentage was the same as at the end of 2020 (see Table 12). In this category, an increase of €126 million was seen in assets with reduced liquidity from December 2020 to June 2021, while in fixed income financial assets with a rating lower than AA there was a decrease of €134 million (this category had already experienced a reduction more than €850 million in 2020). The asset-backed securities category continued to account for the largest share of assets with reduced liquidity, although it also declined to 50.8%. These assets, however, have very little weight in fund portfolios.

Liquidity of IF assets TABLE 12

	Reduced liquidity investments[1]					
	Millions of euros			% of total volume of asset type		
Asset type	**Dec-20**	**Mar-21**	**Jun-21**	**Dec-20**	**Mar-21**	**Jun-21**
Financial fixed income with a AAA/AA rating	8	5	5	1.0	0.6	0.7
Financial fixed income with a rating below AA	986	980	852	3.3	3.3	2.8
Non-financial fixed income	1,078	998	1,204	3.9	3.3	3.9
Securitisations (asset-backed securities)	398	383	365	56.8	51.6	50.8
AAA securitisation	128	118	107	86.3	85.6	92.0
Other securitisations	270	264	258	49.0	43.8	42.8
Total	**2,470**	**2,365**	**2,426**	**4.2**	**3.8**	**3.8**
%/IF assets	**0.88**	**0.81**	**0.79**	**–**	**–**	**–**

Source: CNMV.

1 Reduced liquidity assets are considered to be private sector fixed income assets with a maturity greater than one year for which there is no representative number of intermediaries willing to buy and sell them with a normal market spread.

Open-ended collective investment schemes (SICAVs)

The number of SICAVs registered with the CNMV declined further between January and June 2021, with 96 deregistrations and only three registrations, to stand at 2,334…

As in recent years, the number of SICAVs registered with the CNMV decreased in the first half of 2021, with 96 deregistrations and only three registrations. Thus, in late June there were 2,334 SICAVs registered compared to 2,429 in December 2020.[52] More than two thirds of the deregistrations (67) were the result of liquidation processes, while 13 were funds absorbed in merger processes and 15 were transformed into other types of entities (six into S.L.s (private limited liability companies) and nine into S.A.s (public limited companies). The decrease in the number of entities was also reflected in the number of shareholders, which dropped by 3.7% to 348,825. Almost all SICAVs were listed on the MTF Equity market (formerly MAB).

…which did not prevent assets from increasing 4.9% thanks to the strong performance of the portfolio of these institutions.

Despite the decrease in the number of vehicles, the assets of these CISs increased by 4.9% in the first six months of 2021 to reach €28.29 billion. This movement was entirely due to the portfolio performance of these institutions, which was close to €2 billion for the six-month period. In contrast, buybacks of shares by the SICAVs

52 In 2016, there were 3,368 SICAVs.

themselves (which includes the assets of deregistered SICAVs) led to a decrease in assets of €657 million. Average assets per SICAV increased in the first half of 2021 by just over €1 million, standing at €12.1 million at the end of June.

Hedge funds

Hedge funds, which continue to have a very low weight in collective investment in Spain…

Hedge funds continue to have a very low weight in collective investment in Spain, as despite the steady rise in the key figures of this segment in recent years, it still accounts for less than 1% of total assets. This collective investment segment consists of two types of vehicles, depending on whether they invest in assets directly (hedge funds) or through other hedge funds (funds of hedge funds). In both cases, the vehicles can be set up as funds or as companies.

…saw an 8.9% increase in assets between January and May, mainly in the pure hedge fund segment.

Aggregate assets of these institutions grew by 8.9% in the first five months of the year, to stand at €3.88 billion at the end of May. Hedge funds saw an increase of 9.9%, to €3.20 billion, while funds of hedge funds marked a much smaller rise, with assets up by just under €30 million to stand at €682 million.

Trends in portfolio returns were positive, in line with the recovery of equity asset prices.

Trends in portfolio returns were in line with the performance of the markets, especially the equity markets, and were positive for all categories: while hedge funds posted a return of 5.1% to May, funds of hedge funds showed a return of 3.7%. As with investment funds (IF), the returns were higher in the first quarter of the year, especially in the case of funds of hedge funds.

The number of entities at the end of June was 80, four more than in December 2020, with six registrations and four deregistrations of pure hedge funds and two registrations of funds of hedge funds.

The total number of these vehicles registered with the CNMV in June was 80, four more than at the end of 2020. Table 13 reflects how this increase occurred in hedge funds (from 69 to 71, with six registrations and four deregistrations) and in funds of hedge funds, which increased from seven to nine. This is first movement in the registration of the latter entities since 2018. Eight of them are funds (three of which have been in the liquidation for more than five years, although they are still obliged to submit information to the CNMV) and one is a corporate enterprise. In May, this company had equity of €303.60 million, an amount that was slightly lower than all eight funds of hedge funds together.

The number of unitholders and shareholders increased by 8.2% thanks to the registrations in the period for both types of vehicles.

The number of unitholders and shareholders of these institutions increased in the first five months of 2021 by a similar amount to the rise in assets, specifically 8.2%, totalling 11,087 at the end of May. The breakdown by type of CIS shows increases in both types of vehicles due largely to the four registrations (net) that took place in the period. Hedge funds saw an increase of 3.0%, to 8,067 million, while funds of hedge funds saw a rise of 22.8% to 3,509.

Key figures of hedge funds and funds of hedge funds

TABLE 13

				2020			2021	
	2018	2019	2020	1H21	III	IV	I	II[1]
FUNDS OF HEDGE FUNDS								
Number	7	7	7	9	7	7	8	9
Unitholders	2,804	2,859	2,858	3,509	2,865	2,858	3,020	3,509
Assets (millions of euros)	468.8	566.7	652.8	682.0	622.0	652.8	666.0	682.0
Return (%)	-1.28	5.23	3.71	3.71	1.59	2.44	3.22	0.47
HEDGE FUNDS								
Number	49	62	69	71	67	69	73	71
Unitholders	4,444	7,548	7,961	8,197	7,968	7,961	8,067	8,197
Assets (millions of euros)	2,262.2	2,832.4	2,912.6	3,201.1	2,695.2	2,912.6	3,085.3	3,201.1
Return (%)	-6.47	10.35	1.77	5.06	1.63	7.66	2.77	2.23

Source: CNMV.

1 Data until May, except number of entities which is for June.

Real estate CISs

Despite the improvement of the construction and real estate sector, the figures for real estate CIS continued to decline due to the transfer of business to SOCIMIs.

The main figures for real estate CISs, which experienced a substantial decline as a result of the crisis in the real estate sector that began in 2008 and did not subsequently recover in line with the improvement in activity, continued to perform negatively. This is partly due to the fact that real estate investment in Spain has been largely transferred to SOCIMIs[53] (publicly traded investment companies in the real estate market), which have been extremely buoyant in the last six years, although they now appear to be stabilising. At the end of June there were a total of 80 SOCIMIs registered,[54] one fewer than at the end of 2020.

Real estate investment funds have marked the worst performance, with only two left since 2018, both of which are in the process of liquidation.

In contrast, real estate investment funds have seen large numbers of redemptions in recent years, leading them to start liquidation processes, with their consequent deregistration in most cases. Thus, since the end of 2018 there have only been two real estate investment funds registered with the CNMV (both in liquidation), which are very stable. At 30 June this year, these two funds had assets of €311 million and 483 unitholders.

The deregistration of one of the three real estate companies registered with the CNMV caused the assets of these institutions to fall by 1.9%.

Unlike real estate investment funds, real estate investment companies had seen some asset growth over the last few years, a trend which was broken in the first half of this year. Between January and June, there was a small decrease in assets (-1.9%), to €890 million due to one deregistration in the period[55] putting the number of companies at two.

53 SOCIMIs are listed public companies whose corporate purpose, like that of real estate funds and companies, is either the investment in real estate for subsequent lease or indirect investment through the purchase of shares or equity stakes in the share capital of other SOCIMIs or similar foreign entities (REITs).

54 Of these, four were listed on the continuous market and 76 on BME Growth (formerly MAB).

55 The deregistered entity had been in the process of liquidation since 2017.

Foreign CISs marketed in Spain

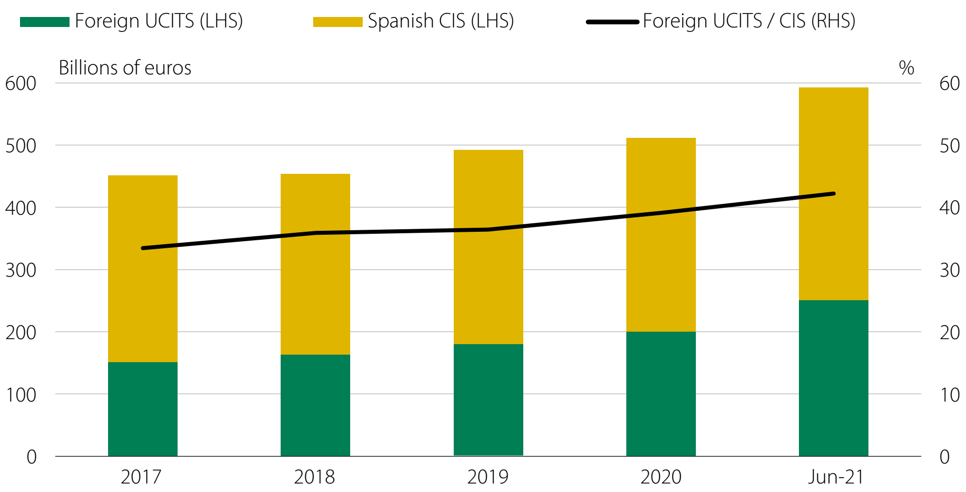
The volume of foreign CISs marketed in Spain grew strongly between January and June this year, continuing the uninterrupted trend in place since the obligation to report this information to the CNMV came into force. Thus, between 2008 and 2020 the volume grew more than tenfold, from €18 billion to almost €200 billion. The increase in assets registered in the first half of 2021 was 25.3%, to stand at close to €250 billion. As shown in Figure 20, the strong growth rate marked in recent years led to a sharp increase in the weight of foreign CISs of the total of CISs marketed in Spain, moving from around 10% at the beginning of the financial crisis to over 42% in mid-2021, having grown by more than 3 pp in the last six months.

The assets of foreign CISs increased 25.3% in the first half of the year, continuing the growth trend seen in the past ten years, thereby increasing their relative weight in CISs marketed in Spain to 42%.

In line with the growth in assets, the number of foreign CISs registered with the CNMV increased by 10 entities in the first half, so at the end of the period there were a total of 1,058 vehicles of this type (423 funds and 635 companies). This increase occurred only in investment funds, with 16 more institutions, since the number of companies fell by six. Despite the decrease in the number of foreign companies, their investment volume grew by 26.2%, which was greater than the growth experienced by funds (19.9%). As in previous years, most of the registrations corresponded to vehicles from Luxembourg (14, to reach 486). Furthermore, the 23 vehicles from the United Kingdom were deregistered due to Brexit.

The number of foreign CISs registered with the CNMV increased by ten in January-June 2021, to a total of 1,058 vehicles (423 funds and 635 companies).

Assets of foreign CISs marketed in Spain[1] FIGURE 20



Source: CNMV.

1 With the entry into force of CNMV Circular 2/2017, of 25 October, the number of entities required to submit statistical information has increased and therefore the data may not be comparable with the information published up to December 2017.

Outlook

The increase in household savings caused by the pandemic – both precautionary savings and because it has not been possible to carry out some consumption decisions – has had a very positive effect on the collective investment sector. In the short term, the context of low interest rates may continue to favour net subscriptions in these assets due to their highly diversified offer, although the growth rate could

The strong growth observed in the collective investment industry could slow in the coming months if the decline in household savings is confirmed.

slow if the decline in household savings continues (after the highs seen in recent months) as private consumption recovers. There is still a possibility that some investors that are more financially vulnerable may experience liquidity needs during the economic recovery and, consequently, redeem their shares in investment funds. However, this risk is lower than in previous months.

4.2 Provision of investment services

The provision of investment services can be carried out by various types of entities, mainly credit institutions, which receive almost 90% of the income generated by this business.

In Spain, credit institutions are the main providers of investment services as they are where most of the income generated by this activity is concentrated. Based on data from year-end 2020, credit institutions receive around 90% of the total fees from the provision of investment services. This percentage, which had been increasing gradually in recent years partly due to the fact that several banking institutions had absorbed the broker-dealers and brokers that belonged to the same banking group, has been virtually stable for two years.

Broker-dealers and brokers are second in the ranking, followed by financial advisory firms and portfolio management companies that perform specific services.

Broker-dealers and brokers still account for a fairly substantial relative weight, especially in order processing and execution activities, which account for the largest portion of their fee income, although they are clearly declining, while fees from other investment services are increasing. In addition to these entities, financial advisory firms and portfolio management companies provide investment services.

The CNMV supervises broker-dealers and brokers, financial advisory firms and portfolio management companies. For credit institutions authorised to provide investment services, the CNMV only supervises their compliance with the rules of conduct.

Of all entities in this sector, the CNMV is responsible for the prudential and regulatory supervision of broker-dealers and brokers, portfolio management companies and financial advisory firms. For credit institutions that are authorised to provide investment services, the CNMV also performs supervisory work on compliance with the rules of conduct in the market and the protection of clients. In this section we look closely at the performance of the activity in the sector and the economic and financial situation of the entities. Given the different times at which information is received depending on the type of entity, this report (for the third quarter) analyses the performance of broker-dealers and brokers in the first half of the year, while the report for the first quarter carried out, based on closing data from the previous year, an analysis of all institutions that provide investment services.[56]

In 2020, credit institutions authorised by the CNMV (111) received fees of €4.74 billion for the provision of securities services and the marketing of CISs, 8.5% more than in 2019.

Before describing the performance of broker-dealers and brokers in January-June of this year, a summary of some figures corresponding to year-end 2020 are also presented. The number of credit institutions registered with the CNMV to provide investment services amounted to 111, while the aggregate amount of fees and commissions received for the provision of securities services and CIS marketing stood at €4.74 billion (8.5% more than at year-end 2019). Of this figure, €2.13 billion corresponded to the provision of investment services, which represented an increase of 15.5% compared to the previous year. As in 2019, the financial advisory firm sector saw a slowdown in 2020, due to the 44.5% fall in assets under advisory services (32.4% in 2019) to €12.05 billion,[57] with a much greater decrease in the

56 There is no subheading for portfolio companies, a subsector that currently has only one registered entity, as this segment is insignificant compared to the others.

57 This significant loss of market share in the investment advice segment was partly due to the rise in competition from credit institutions for this type of service.

assets of non-retail clients. This asset management service resulted in fee income of €45.3 million.

However, as explained in the report published for the first quarter, the information is usually submitted on the provision of investment services in Spain according to the type of entity performing the activity. On a less formal note (according to the business model), based on 2020 figures it is estimated that around 67% of the business related to providing investment services in Spain (including the marketing of CISs and measured through fee income) is performed by traditional commercial banks or their group companies, a percentage that has progressively decreased since 2016, when it stood at 73%. The remaining 33% corresponds to financial entities specialised in providing of investment services that are not linked to commercial banking.

An analysis of the entities that provide investment services according to their business model reveals that 67% of the income related to this activity is received by traditional commercial banks or their group companies.

Second supervisory action of the CNMV through mystery shoppers at bank branches EXHIBIT 3

The securities market rules of conduct establish a general duty of information for entities providing investment services towards their clients, who must be properly informed, including verbal communication, in an impartial, clear and non-misleading way, in compliance with a series of requirements established in current legislation.[1] Specifically, the information transmitted verbally by the sales staff to clients before the investment service is provided is a key aspect of the marketing process. Therefore, it must be correct, complete and easily understood by the investor.

To obtain first-hand knowledge of whether this information is provided properly, between September and November last year the CNMV carried out a second mystery shopping exercise to monitor the marketing of financial products in bank branches. The first initiative of this type was performed at the end of 2016 and the objective of both exercises was to verify the way in which a series of financial products are actually marketed. In the second exercise the focus was on investment funds.

In the 2016 pilot test, a representative sample of entities were checked, accounting for around 50% of bank branches, while in the 2020 exercise this percentage was increased to 68%. Thus, visits were made to 800 bank branches (450 in 2016) in large towns all over Spain.

During these visits, the mystery shoppers actively requested advice on the acquisition of investment funds, which the financial institutions almost always offered within the scope of advice or portfolio management. Therefore, and unlike the previous check, there were very few implicit recommendations not recognised as advice. A better outcome was also obtained in regard to the offer of products, since in a greater number of cases funds managed by the group itself and funds of other managers were both offered, and there were no relevant incidents identified in which an employee of the bank influenced the client during the appropriateness or suitability assessments.

The conclusions of the second exercise were much more positive than for the first. However, several shortcomings and weaknesses in business practices were identified when the client was verbally informed about certain aspects of the advice service. These included the following:

– In certain cases, when information was provided about whether all the **recommended funds were managed by the group itself or whether funds of other managers were included**, the information provided was contradictory.

– There were also some cases in which the client was not told whether a **follow-up of the recommendations** would be performed, or this information was only provided after the client enquired about it.

– In almost half of the cases, the client was not proactively informed (i.e., before enquiring about the topic) of **whether there were costs associated with the advice or the financial instrument itself**. On several occasions the client was expressly informed there were no costs, which was not true.

– It was specified only on very few occasions whether the **advice was independent or not independent**, and in many cases where information was provided, the explanations were not accurate.

– Some entities did not provide **explanatory supporting documentation** about the advice service in this first phase, which, while not mandatory, is considered good practice.

After observing these weaknesses in the business practices when verbally informing clients about the advice service, the entities involved were required to adjust their procedures to correct these deficiencies and adopt the appropriate measures to shore up the training of their sales force.

1 Article 77 of Royal Decree 217/2008, of 15 February, establishes that the information to be provided to clients when an investment advice service is provided must clarify whether the advice is provided independently or not and whether it is based on a general or more restricted analysis of the different types of financial instruments. In regard to the latter, the clients should be informed whether the range offered is limited to products issued or provided by entities that are associated or related in any way to the investment firm that could compromise the independence of the advice provided. It should also be indicated whether the client will be given regular suitability assessments for the recommended financial instruments. The obligation is also established to inform the clients of all associated costs and expenses, related to the investment services and auxiliary services, including advice fees, where appropriate, as well as the cost of the product recommended or marketed to the client.

Broker-dealers and brokers

In the first half of 2021, broker-dealers and brokers saw a decrease in activity: aggregate profit before tax stood at €99 million, down 10% on the figure obtained in the same period of 2020.

In the first half of 2021, after an exceptional improvement in 2020,[58] the activity of broker-dealers and brokers continued to decline, extending the trend seen in recent years. This was due to increasing competition from credit institutions in the provision

58 As mentioned in previous reports, the growth achieved in 2020 was due exclusively to a company belonging to a foreign credit institution which transferred part of its activity carried out in the United Kingdom to Spain due to Brexit.

of financial services and the displacement of part of the trading of Spanish stock exchanges to other trading venues abroad. Aggregate profit before tax stood at around €99 million in the first six months of 2021 compared to just over €110 million in the same period of the previous year, marking a decline of 10%. The fall in profits only affected broker-dealers, since brokers saw an improvement compared to recent years.

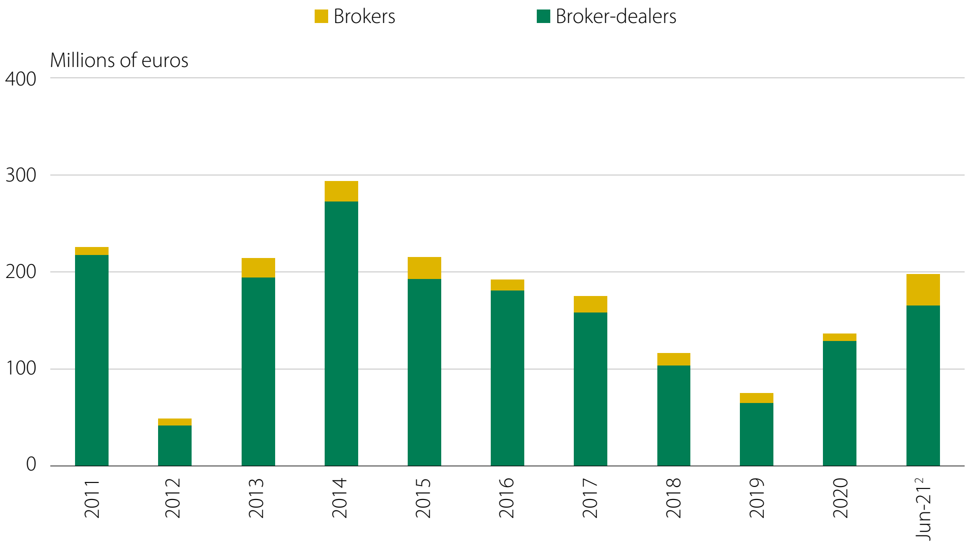
At the end of June, a total of 92 broker-dealers and brokers were registered with the CNMV, three fewer than at the end of 2020.

At the end of June 2021, a total of 92 broker-dealers and brokers were registered with the CNMV, three fewer than at the end of 2020, with five registrations and eight deregistrations. Four of the deregistrations were due to the absorption by a bank that was already the sole shareholder of the entity (in all cases). After the lengthy and far-reaching adjustment process that began with the financial crisis was interrupted in 2019, it would appear that another adjustment process is underway.

The number of foreign IFs operating in Spain has decreased notably as a consequence of Brexit. Most of Spanish entities that provide services in the EU do so under the freedom to provide services regime.

As a large part of the foreign companies that operated, or could have operated, in Spain came from the United Kingdom, after Brexit at the 2020, there was a sharp decrease in the number of EU entities that provide investment services in Spain, which went from 3,128 to 932, with falls in both companies operating under the freedom to provide services regime (from 3,062 to 881) and through branches (from 66 to 41). It is important to mention that there were no deregistrations of vehicles from non-EU countries, since there were only two registrations, making a total of five vehicles. Further, and as usual, most entities that provided services in the European Union did so under the freedom to provide services regime, specifically 50 (55 at year-end 2020), and only seven had branches in other countries (eight six months previously), all of which were broker-dealers.

Aggregate profit(loss) of investment firms before tax[1] FIGURE 21



Source: CNMV.

1 Except financial advisory firms and portfolio management companies.

2 Annualised data.

Broker-dealers reported a significant decrease in profit to €83 million, driven mainly by lower gains on financial investments and the rise in net fees.

As seen in Table 14, broker-dealers saw a decrease in aggregate profit before tax of more than €27 million, to €83 million, in the first half of the year. This was the result of both the increase in fees and commissions paid (34.4%, to €143 million) and the reduction in gains/(losses) on financial investments (-66.6%, to €23 million). One single entity (the largest) contributed largely to the increase in fees and commissions paid, which substantially increased fee payments for securities transactions and underwriting and placement of issues. Excluding that entity, fees and commissions barely changed in the first half of 2021, with an increase of only 0.7%. In parallel to the increase in fees and commissions paid, there was also a 29.8% increase in fees and commissions received, which reached €320 million at the end of June.

Aggregate profit and loss account (Jun-20)

TABLE 14

Amounts in thousands of euros

	Broker-dealers			Brokers		
	Jun-20	Jun-21	% change	Jun-20	Jun-21	% change
1. Net interest income	12,589	9,586	-23.9	551	75	-86.4
2. Net fees and commissions	140,318	177,191	26.3	65,697	76,041	15.7
2.1. Fees and commissions received	246,775	320,279	29.8	75,912	87,169	14.8
2.1.1. Processing and execution of orders	120,852	124,513	3.0	14,004	8,087	-42.3
2.1.2. Issue placement and underwriting	1,270	70,129	5,422.0	1,172	601	-48.7
2.1.3. Deposit and book-entry of securities	21,646	18,384	-15.1	417	286	-31.4
2.1.4. Portfolio management	5,513	6,577	19.3	6,648	9,371	41.0
2.1.5. Investment advice	2,809	2,764	-1.6	10,948	9,908	-9.5
2.1.6. Search and placement of block trades	358	1,497	318.2	0	418	-
2.1.7. Market credit transactions	0	0	-	0	0	-
2.1.8. Marketing of CISs	24,390	30,969	27.0	29,299	42,114	43.7
2.1.9. Other	69,936	65,447	-6.4	13,423	16,387	22.1
2.2. Fees and commissions paid	106,457	143,088	34.4	10,215	11,128	8.9
3. Gains/(losses) on financial investments	70,866	23,639	-66.6	-6,788	464	-
4. Net exchange differences	8,055	281	-96.5	-13	-3	76.9
5. Other operating income and expense	43,893	29,888	-31.9	-403	-1,869	-363.8
GROSS MARGIN	**275,721**	**240,585**	**-12.7**	**59,044**	**74,708**	**26.5**
6. Operating expenses	163,336	166,515	1.9	61,153	59,041	-3.5
7. Depreciation, amortisation and other charges	5,116	6,407	25.2	1,490	516	-65.4
8. Impairment losses on financial assets	-468	152	-	4	-18	-
OPERATING PROFIT/(LOSS)	**107,737**	**67,511**	**-37.3**	**-3,604**	**15,169**	-
9. Other gains and losses	2,315	15,167	555.2	3,467	1,043	-69.9
PROFIT/(LOSS) BEFORE TAX	**110,052**	**82,678**	**-24.9**	**-137**	**16,212**	-
10. Tax charge	13,523	14,898	10.2	1,410	2,537	79.9
PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**96,529**	**67,780**	**-29.8**	**-1,547**	**13,675**	-
11. Profit/(loss) from discontinued operations	0	0	-	0	0	-
NET PROFIT/(LOSS) FOR THE YEAR	**96,529**	**67,780**	**-29.8**	**-1,547**	**13,675**	-

Source: CNMV.

In regard to income from the provision of services to third parties, fees and commission for issue placement and underwriting were the main reason for the overall increase, moving from practically negligible (€1.3 million at the end of 2020) to the second largest contribution, adding €70 million to fee income.[59] Income from processing and executing orders – the largest contributor – rose by 3.0% compared to the first half of 2020, to over €124 million.[60] In regard to other fees and commissions, the increase in fees for the marketing of CISs, which had fallen in the last three years, to €31 million (27.0%) stands out.

Fees and commissions for issue placement and underwriting were the main reason for the increase in fees and commissions received.

The operating expenses of securities companies increased slightly by 1.9% and this, coupled with the decrease in income led to a drop of 37.3% in operating profit, which went from €107.7 million in the first half of 2020 to €67.5 million in the same period of 2021. Profit before tax fell to a lesser extent, down 24.9%, to €82.7 million, due to the increase in "Other income" amounting to c.€13 million. As in recent years, a small number of companies generated most of the profits in this subsector, a trend that has also been increasing. Specifically, only two broker-dealers accounted for 57% of the net profit of companies reporting a profit, while four accounted for 75%.

A small number of entities generated most of the profits in this sector: only two broker-dealers accounted for more than half of the profit of companies reporting a profit.

All brokers receive income mainly from the provision of services to third parties because they cannot carry out investment activities on their own account. Some derive the bulk of their income from order processing and execution, a percentage that has reduced over the years, but most of them have tended to specialise in certain services such as CIS marketing or portfolio management. Further, independent entities predominate in this subsector, as only two of them belonged to financial institutions that were also investment banks, so most of their income comes from the provision of investment services.

Brokers, which cannot carry out investment activities on their own account, and which in recent years have tended to specialise in investment services other than processing and executing orders…

Aggregate profit before tax reported by brokers increased in the first half of 2021 compared to the same period of the previous year, moving out of negative ground to stand at €16.2 million.[61] This figure is also higher than in January-June 2019, when it was €7.4 million. The increase in profit was due to the rise in fees and commissions received and the gains on financial investments. In the last heading, however, the improvement was solely due to the poor performance in 2020 that was caused by one single entity (see Footnote 57). Fees and commissions received increased 4.8% to over €87 million.

…posted a pre-tax profit of €16.2 million, a figure that is much higher compared to the first half of the previous two years (€5.9 million in 2020, excluding an entity that was intervened, and €7.4 million in 2019).

Under income from fees and commissions received, fees for the marketing of CISs, which were already the highest, grew by 43.7% to over €42 million. Income from portfolio management, while still minor, also experienced a significant increase in

Fee income as a whole rose by 14.8%, to €87 million, with highlights including fees for the marketing of CISs, which grew by 43.7%.

59 These fees and commissions come almost exclusively from the aforementioned entity, specifically €67 million of the total of €70 million.

60 This increase was the result of the entity transferring part of its activity to Spain as a result of Brexit, whose business is mostly the processing and execution of orders. Thus, if this entity is excluded from the analysis, income from this item would have been just over €52 million, 12.3% below the value of the first half of 2020.

61 It is important to remember that the drop in profits in the first half of 2020 was almost exclusively due to one broker, Esfera Capital, Agencia de Valores, S.A., which had losses of €6 million and was intervened by the CNMV in March 2020. In May this year it was definitively liquidated. Excluding this entity, profit before tax in the first six months of 2020 would have been €5.9 million.

the first half of this year (+41.0%, to €9.4 million). In contrast, fees and commissions for processing and executing orders fell significantly (-42.3%) to stand at just over €8 million, moving to fourth place in the order of importance.

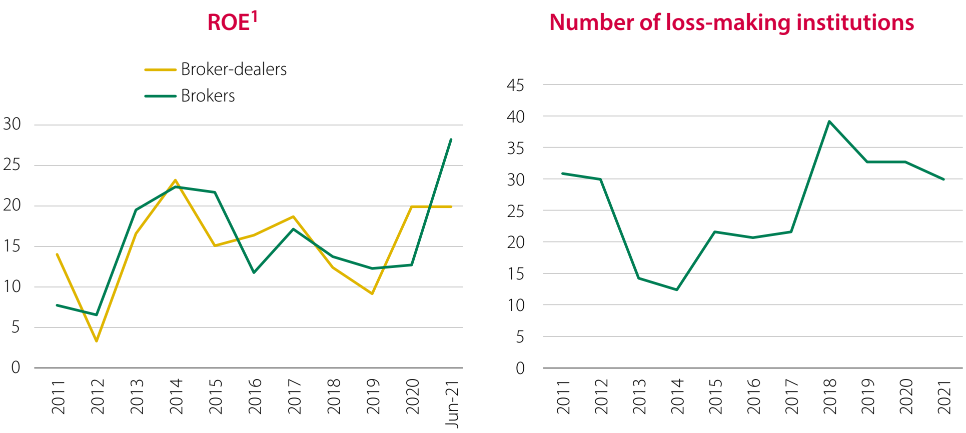
The increase in fees and commissions paid that was lower than those received, coupled with the decrease in operating expenses, led to a rise in operating profit to €15 million.

The increase in fee income from brokers occurred in parallel with that of fees paid to third parties, although in absolute and relative terms, the latter were much lower (8.9%). This put the aggregate gross margin up 26.5% to stand at €74.7 million. Meanwhile, operating expenses decreased by 3.5% compared to the same period in 2020, with personnel expenses down 5.8%. The combination of higher income growth compared to the decrease in operating expenses brought net operating profit to €15.2 million, compared to the loss of €3.6 million in January-June 2020.[62]

The ROE of IFs increased as a result of the earnings growth reported by brokers.

Sector ROE saw a substantial increase during the first half of the year, going from 18.7% to 20.9%, bolstered by the strong performance of brokers, which reported an increase in ROE of almost 16 pp, to stand at 28.1%. In the case of broker-dealers, the ratio remained stable at 19.7% as a result of the fall in profits that was similar to that of own funds (see left hand panel of Figure 22).

ROE before tax of IFs and number of loss-making institutions FIGURE 22



Source: CNMV.

1 ROE calculated using profit before tax.

The decline in sector profit was consistent with a reduction in both the number of loss-making companies and the volume of these losses.

The decrease in the sector's profits did not prevent a fall in the number of loss-making entities. In June 2021, ten broker-dealers and 19 brokers reported negative pre-tax earnings, two and one more, respectively, than at the end of 2020. This was reflected in the accumulated loss, as for both types of entities it was reduced by approximately half in relation to the same period in 2020: from €12.8 to €6.2 million for broker-dealers and €8.1 to €4.6 million for brokers.[63]

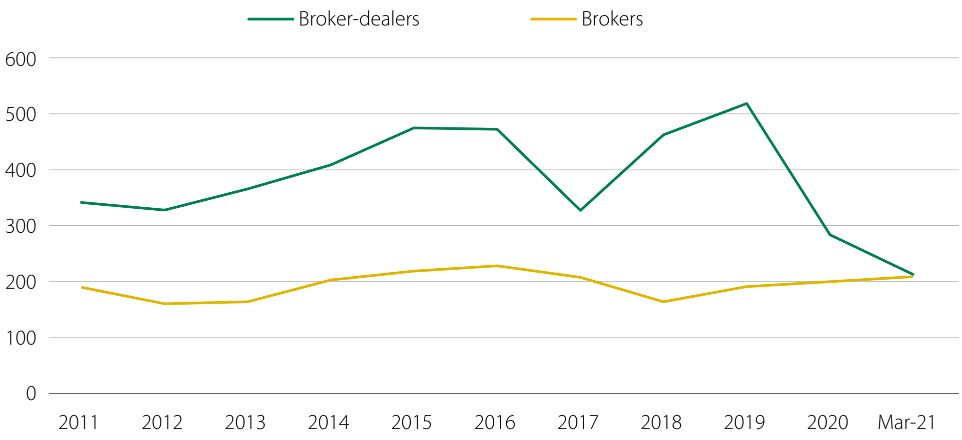
62 If the entity mentioned in the previous note is excluded from the analysis, operating profit for the first half of 2020 would have been €2.5 million.

63 In the calculation of entities with negative profit before tax and of the volume of these losses, only the entities outstanding at the end of the period were taken into account.

In regard to the solvency of these entities, the values at March this year continue to reflect a sector that, as a whole, has high levels of solvency in relative terms, although they have decreased since the end of the previous year. Thus, at the end of March the capital surplus 2.1 times higher than the capital requirement, while at the end of 2020 this figure was 2.8. This surplus, which had been substantially higher in broker-dealers than in brokers, has become more equal in the last two years and at the end of the first quarter of 2021 it stood at similar values (see Figure 23). It is important to note that from the second quarter of 2021 solvency ratio data are not available due to the entry into force of a new European regulation,[64] which implies a change in the disclosures that entities are required to submit to the CNMV. Under this new legislation, all companies will have to submit less information[65] but those that are considered small and not interconnected will have to do so less frequently (annually).[66]

Solvency in the sector remained at comfortable levels in the first quarter of 2021. From the second quarter onwards, the change in the European regulations on disclosures had come into force, so there is currently no data available.

IF solvency margin (capital surplus vs requirements) FIGURE 23



Source: CNMV.

Outlook

It is too early to forecast the possible structural consequences of the recent coronavirus crisis on the financial intermediaries sector, since the latest data show a continuation of the trends observed in previous years, with a high level of competition between entities (especially among banks, most of which have absorbed their own broker-dealers) and a highly concentrated IF sector, with an increasing weight of independent entities, which seek to specialise in traditionally less important investment services such as marketing or portfolio management activities. Consequently, its main activity, intermediation in the securities markets, is increasingly losing importance, partly due to the decrease in trading volumes and the transfer of part of the trading of Spanish securities to other, non-traditional, trading venues.

The COVID-19 crisis has not changed the trends in this sector, which is characterised by strong competition and the offer, by IFs, of traditionally less important investment services, such as the marketing of CISs or portfolio management.

64 Regulation (EU) 2019/2033 of the European Parliament and of the Council, of 27 November 2019, on the prudential requirements of investment firms and Directive (EU) 2019/2034 of the European Parliament and of the Council, of 27 November, on the prudential supervision of investment firms.

65 Only IFs with assets of more than €15 billion will be subject to the previous solvency regime. As of the closing date of this report, there are no Spanish IFs that meet this requirement.

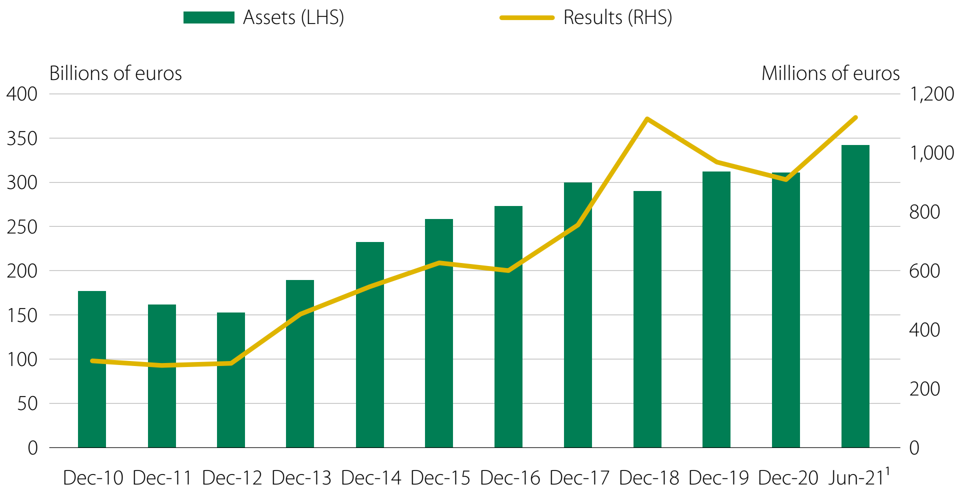
66 Small and non-interconnected IFs are considered to be entities with income, assets under management and operations that are below certain thresholds. In Spain around 50% of entities would fall into this group.

4.3 CIS management companies

The number of CIS management companies remained largely unchanged in the first six months of the year, with three registrations and one deregistration, while assets under managed grew by 9.9%, to €342 billion.

A total of 125 CIS management companies were registered with the CNMV at the end of June 2021, two more than at the end of 2020 with three registrations and one deregistration. The assets managed by these companies increased by 9.9% at the end of the first half of the year compared to the end of the previous year, at just under €342 billion. This recovery has taken place after a year (2020) marked by the pandemic, especially in the first half, in which there was a slight drop of 0.4% (see Figure 24). More than 95% of the increase in assets under management in 2021 was due to the investment fund segment, which, as mentioned in a previous section, grew significantly during the period.

CIS management companies: assets under management and profit before tax FIGURE 24



Source: CNMV.

1 Annualised data.

Profits reported by these entities increase substantially in the first half of 2021 compared to the same period of the previous year (+30.5%), with CIS management fees – the main component – rising to €1.40 billion.

In line with the increase in the assets managed by these institutions, their aggregate profit before tax rose by 30.5% in the first half of the year compared to the same period in 2020, to €560 million (see Figure 24). This substantial increase was due mainly to the rise in the main source of income of CIS management companies, i.e., CIS management fees, which in June accounted for 86% of total fees received by these entities. Thus, fee income went from €1.22 billion in the first half of 2020 to €1.40 billion in the same period of 2021 (14.8%). This increase was mainly due to the rise in assets under management, since the average management fees of CISs did not change, remaining at 0.82% (see Table 15).

Portfolio management and venture capital firms are the next most important activities in generating revenue for CIS management companies.

The discretionary management of portfolios and the management of venture capital firms were – albeit at a considerable distance – the next most important activities in the generation of income for the CIS management companies, with a weight of 8.1% and 2.7% of total fees received, respectively. Although these values are low, they have been progressively increasing in recent years. Thus, in both cases, the fees obtained from these activities rose sharply in the first half of 2021: fees for discretionary portfolio management increased by 35.5%, to €132.6 million and management fees for venture capital firms grew at a similar rate, 35.6%, to €47.7 million.

As shown in Table 15, the ratio of fee expenses for the marketing of funds to income from CIS management fee fell slightly in the first six months of 2021, although the ratio seems to have stabilised in the last three years. In previous years, it had marked downward trend, most notably in 2018, following the entry into force of the MiFID II regulation.[67] The percentage of fees and commissions assigned to marketers fell from 64.6% of the CIS management fees in 2012 to 48.5% in June 2021.

The percentage of the CIS management fee paid back to marketers remained at levels similar to those of the previous two years, following the significant reduction in 2018, after the entry into force of the MiFID II regulation.

The increase in aggregate earnings was reflected in the aggregate return on equity (ROE), which went from 79.4% in June 2020 to 98.9% in the same month of 2021. The number of loss-making companies decreased from 29 to 19 and the volume of these losses went from €5.6 million to €3.2 million.

In line with the increase in profits, return on equity (ROE) rose to 98.9% and the number of loss-making entities decreased to 19.

CIS management companies: assets under management, CIS management fees and average fee ratio TABLE 15

Amounts in millions of euros

	Assets under management	Income from CIS management fees	Average CIS management fees (%)	Fee ratio[1] (%)
2013	189,433	1,594	0.84	61.94
2014	232,232	2,004	0.85	61.80
2015	258,201	2,442	0.95	63.68
2016	272,906	2,347	0.86	61.67
2017	299,974	2,647	0.88	58.68
2018	290,364	2,649	0.91	51.24
2019	312,235	2,638	0.84	49.75
2020	311,043	2,551	0.82	49.72
Jun-21[2]	341,959	2,802	0.82	48.47

Source: CNMV.

1 Relationship between costs from commissions for the marketing of funds and revenue from CIS management fees.

2 The data on commission revenue and the average management fee are annualised.

4.4 Other intermediaries: venture capital

In the first eight months of 2021, the expansion taking place in the venture capital sector in recent years continued, with large numbers of new vehicles registered. The number of registrations with the CNMV increased by 78 (76 investment vehicles and 2 management companies), with 94 registrations and 16 deregistrations.

The venture capital sector grew strongly between January and August 2021…

Traditional venture capital companies,[68] which remain by far the most numerous, saw high levels of activity, with 62 registrations. This, together with the 11 deregistrations,

…particularly affecting traditional venture capital undertakings, both funds and companies.

67 This large drop in 2018 was the result of the entry into force of the MiFID II regulation, which imposes strict conditions on kickbacks of fees from the manager to the marketer, which are also subject to strict transparency requirements.

68 Traditional entities are understood to be those that existed before the entry into force of Law 22/2014, of 12 November.

meant that at the end of August there were a total of 260 venture capital funds (VCF) and 210 venture capital companies (VCC). As in 2020, there were few movements in SME venture capital undertakings from January to August, with four registrations and three deregistrations, all companies, so that there were the same number of funds as on 31 December 2020 (13) and one more company (19). Eight European venture capital funds (EuVECA) were registered, putting the total at 39, and two European social entrepreneurship funds (EuSEF) were deregistered, standing at six at the end of August.[69]

Closed-ended collective investment entities, which enjoy high flexibility in their investment policy, also experienced a significant increase in the number of registered vehicles.

As since 2018, closed-ended collective investment schemes were also buoyant in the first eight months of 2021, with 14 registrations in the period. At 31 August, there were a total of 75 vehicles of this type, of which 40 were funds and 35 were companies. This type of collective investment scheme enjoys high flexibility both in its investment policy and in terms of compliance with investment ratios, which are more restrictive in the case of venture capital entities.

Registrations and deregistrations in the venture capital register in 2021 TABLE 16

	Situation as at 31/12/2020	Registrations	Deregistrations	Situation as at 31/08/2021
Entities				
Venture capital funds	235	31	6	260
SME venture capital funds	13	0	0	13
European venture capital funds (EuVECA)	31	8	0	39
European social entrepreneurship funds (EUSEF)	4	2	0	6
Venture capital companies	184	31	5	210
SME venture capital companies	18	4	3	19
Total venture capital entities	**485**	**76**	**14**	**547**
Closed-ended collective investment funds	33	7	0	40
Closed-ended collective investment companies	28	7	0	35
Total closed-ended collective investment entities	**61**	**14**	**0**	**75**
Management companies of closed-ended collective investment undertakings	**119**	**4**	**2**	**121**

Source: CNMV.

In 2020, the assets of the venture capital entities registered an increase of 22.9%, to €16 billion (71% for funds and the remaining 29% for companies).

In line with the registration data, throughout 2020 the assets of venture capital entities increased by 22.9% (24.2% in 2019) to over €16 billion. This growth was higher for venture capital funds, with an increase in assets of 40.5% to €11.35 billion, while venture capital companies saw an increase in assets of 6.2% to €4.68 billion (see Table 17).

Investment in venture capital funds increased, particularly investment from the foreign entities and natural persons.

Venture capital funds (including traditional and newly created funds, in this case SME, European funds and European social enterprise funds) there was a slight change in the relative importance of investors in 2020 in favour of the natural persons, in line with the trend observed in the two previous years. This made them the investors with the second largest shareholdings, with €1.60 billion (14.1% of the total), after foreign

69 EuVECA and the EuSEF are entities regulated under Regulation (EU) No. 345/2013 of the European Parliament and of the Council, of 17 April 2013, on European venture capital funds and Regulation (EU) No. 346/2013 of the European Parliament and of the Council, of 17 April 2013, on European social entrepreneurship funds.

entities, whose investments also grew sharply (63.2%, to €2.13 billion). Public administrations were third, with €1.43 billion, +11.1% compared to 2019.

In contrast, venture capital companies, which like funds include SME companies, saw a decrease in the relative importance of natural persons (-79.8%, to €150 million), although they continued to hold a share of the capital of just 3.2% compared to 86.8% for legal entities. Non-financial companies and other financial companies remained the two largest types of investors, with a joint holding of 67.5% of the total capital of venture capital companies (65.3% in 2019). The increase in investment by foreign entities also stands out, which, unlike funds, was practically nil until 2019 and stood at €734 million in 2020.

Non-financial companies and other financial companies remained the two main types of investors in venture capital companies.

Preliminary data for the first half of 2021 provided by the Spanish Association of Capital, Growth and Investment (ASCRI) reflect a rise of 27% in investment volumes compared to the same period in 2020, to €2.06 billion. However, figures for the first half of 2019 have not been reached, when around €4 billion were invested. In contrast, the number of transactions exceeded both those of 2020 and those of 2019, with a total of 394 (344 and 328 in the previous years), of which 359 corresponded to investments of less than €5 million.

According to preliminary data from ASCRI, investment in the venture capital sector increased by 27% in the first half of the year, standing at over €2 billion with a total of 394 transactions, 50 more than in the same period of 2020.

Venture capital firms: assets by investor type TABLE 17

Millions of euros

	Venture capital funds		Venture capital companies	
	2019[1]	2020[1]	2019[2]	2020[2]
Natural persons				
Resident	1,074.54	1,509.35	738.79	143.97
Non-resident	53.56	92.14	5.45	6.41
Legal persons				
Banks	175.55	253.68	112.35	121.91
Savings banks	90.48	117.80	11.56	11.50
Pension funds	729.17	866.43	11.69	20.92
Insurance companies	613.43	901.40	85.15	53.56
Broker-dealers and brokers	0.63	2.18	0.00	0.00
Collective investment schemes	484.18	514.19	7.77	16.70
Domestic venture capital entities	301.20	435.24	42.45	37.67
Foreign venture capital entities	406.98	420.67	165.09	54.12
Public administrations	1,290.91	1,433.68	176.99	185.88
Sovereign wealth funds	3.42	9.38	4.90	9.63
Other financial companies	770.17	953.02	1,428.52	1,437.85
Non-financial companies	1,091.52	1,398.45	1,450.13	1,722.28
Foreign entities	1,302.00	2,125.04	56.08	734.43
Other	245.01	312.91	110.34	125.19
Total	**8,632.75**	**11,345.55**	**4,407.26**	**4,682.00**

Source: CNMV.

1 Includes SME venture capital funds, EuVECA and EuSEF.

2 Includes SME venture capital companies.

By type of investor, the buoyant activity of international funds stood out, which invested 75% of the total volume, and according to the development phase of the project, venture capital was the protagonist in 316 of the transactions, with a volume of €731 million, marking a historical high.

As in recent years, international funds showed a great deal of interest in the Spanish market in the first months of 2021, carrying out 96 transactions that accounted for 75% of the total investment volume. In terms of the project development phase, the venture capital segment (seed and start-up phases) stands out, which was very active over the first six months of the year and carried out 316 transactions, with an investment volume of €731 million, thus exceeding all previous highs. In regard to fundraising by Spanish private operators, the sector seems to still be slowing, with a 34% decrease in volumes invested in relation to the same period of 2020, to €693 million.