

# I Securities markets and their agents: Situation and outlook



## Contents

1	Executive summary	15
2	Macro-financial background	18
	2.1 International economic and financial developments	18
	2.2 National economic and financial developments	26
	2.3 Outlook	32
3	Spanish markets	33
	3.1 Equity markets	34
	3.2 Fixed-income markets	42
4	Market agents	48
	4.1 Investment vehicles	48
	4.2 Investment firms	55
	4.3 CIS management companies	61
	4.4 Other intermediaries: venture capital	63

## List of exhibits

Exhibit 1:	Intervention measures for CFD products and binary options	30
Exhibit 2:	The practice of closet indexing and measures to strengthen transparency about the type of management performed	54
Exhibit 3:	Financial Literacy Survey	59



# 1 Executive summary

- The international macroeconomic environment has recently been marked by increased tensions relating to a possible trade war and by the uncertainty seen in some advanced (Italy) and emerging (Turkey and Argentina) economies. For the time being, economic growth remains higher in the United States, while in Europe economic growth has slowed down somewhat. In this context, the Federal Reserve has decided to raise interest rates three times this year – a fourth rise at the end of the year has not been ruled out – while the European Central Bank (ECB) is at the stage of reducing the volume of its asset purchase programme and has indicated that interest rates will remain at current levels until at least the summer of 2019. The consequences that might result from increased trade tensions, the possibility of a hard Brexit in view of the failure to reach a deal, the instability still present in several economies and the impact of the shift in monetary policy in advanced economies are the most important risk factors for this international economic scenario.
- International equity markets,<sup>1</sup> which had suffered significant losses in the first quarter of the year as a result of the volatility recorded in US stock markets in February, have since faced fears of a trade war. These fears do not appear to have substantially affected US indices, which have recorded the largest gains in the year, as the gains in the second and third quarters substantially offset the initial losses. These gains recorded by these indices stand at between 7% and 16.6% and were driven by the positive economic data. In Europe, in contrast, although the indices recorded widespread gains in the middle quarters of the year, in most cases these were not sufficient to offset the falls in the first quarter and the extra sources of uncertainty on top of the possible trade war (Italy, Brexit, Turkey, etc.). Noteworthy in the emerging stock markets was the fall in the Chinese Shanghai Composite index over the year (-14.7%).
- International debt markets have also recorded two relatively differentiated periods of the year. In the first few months, long-term yields increased in the most important advanced economies as a result of the prospect of a faster and more intense shift in monetary policy, while yields in some economies on the periphery of Europe, including Spain, recorded falls as a result of the upgrades to their credit ratings. This situation was reversed in May, when the political uncertainty in Italy led to a significant increase in its risk premium and slight contagion to other European countries, such as Spain and Portugal. In this context, the bonds of the European economies perceived as most solid once

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1 The closing date of this report is 30 September, except for some specific information such as the IMF's GDP growth forecasts published in early October.

again became a safe haven and their yields fell. This has led to substantial increases in long-term interest rates over 2018 as a whole in the United States, the United Kingdom and Italy, while in Germany and France there have been few changes, and in Spain and Portugal long-term rates have fallen slightly.

- The Spanish macroeconomic environment remained favourable in the first half of 2018, although the rate of economic and job growth slowed down slightly. GDP rose by 2.5% in the second quarter, 0.3 percentage points less than in the previous quarter and 0.6 percentage points below the average for 2017. All in all, the Spanish economy maintains a gap with regard to the euro area of around half a percentage point. Inflation rose in the middle months of the year to rates higher than 2% as a result of the upturn in the energy inflation rate. Forecasts by the leading bodies indicate that the slowdown in economic growth will continue until at least 2020, with various downside risks, some of which – fears of a trade war, political instability in Italy, the consequences of higher oil prices and exposure to certain emerging economies – are common to other European economies.
- The performance of the banking sector continues to be determined by elements pulling in opposite directions. The low interest rate environment prevents improvements in net interest income and, therefore, substantial increases in profitability. However, the good state of the economy continues to allow the sector's non-performing loans ratio to fall. Some banks have recently recorded falls in their share prices as a result of the uncertainties in Italy and in some emerging economies to which they have a high exposure and, to a lesser extent, the doubts generated by the possibility – later ruled out – of the creation of a specific banking tax. Looking ahead, the improvement in the efficiency ratio of Spanish banks and the expected shift in the ECB's monetary policy are positive factors for banks.
- The Spanish financial markets stress index, which had risen in February to a level of 0.27 (very close to the area classified as medium stress) – fell in subsequent weeks to annual lows of 0.15. In the middle months of the year, the episode of political uncertainty in Italy and the fears of a trade war triggered a slight increase in the index, but it remains at levels in line with low stress.<sup>2</sup> By segment, the highest stress levels are noted in the bond segment and the segment of financial intermediaries (mainly banks).
- Prices in Spanish equity markets, which had suffered significant falls in the first few months of the year, stabilised in the middle of the year and then began to fall again in the third quarter. The Spanish market has been significantly affected by some of the aforementioned uncertainties due to the high level of exposure of some companies that have Italian debt assets or interests in emerging countries with difficulties. All of the above, bearing in mind the context of the slight slowdown in economic growth, has led to the Ibex 35 falling by 6.5% so far this year, thus recording a worse performance than most European benchmark indices. Market volatility has recorded upturns at specific

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<sup>2</sup> The latest figure, with information up to 28 September, is 0.18.

periods, but has generally remained at very low levels and liquidity has also remained at satisfactory levels. Cumulative trading volumes in 2018 have risen slightly (1.4%). Trading on Spanish markets continues to fall (-6.4%), while trading on foreign platforms continues to grow (18%), with the latter now accounting for almost 40% of total trading in Spanish securities.

- Spanish fixed-income markets, like European markets, have been conditioned by a variety of economic and political circumstances. These include divergences in the tone of the monetary policies applied on each side of the Atlantic and uncertainty relating to Italian public finances, which in May led to some contagion to the risk premium on Spanish debt. The improvement in the rating of the Spanish sovereign bond in the early stages of the year also had a significant impact on the yields of the longer tranches of the interest rate curve. In 2018 as a whole, short-term interest rates have recorded very slight increases and remain very close to historic lows. In long-term maturities, the improvement in the credit rating triggered a substantial fall in yields in the first few months of 2018, after which the increasing uncertainty led to rises which did not fully offset the previous falls. The risk premium recorded an annual high in May of 134 basis points (bp) as a result of the uncertainties in Italy, but it has subsequently remained stable, with some ups and downs, at values very close to 100 bp.
- Assets managed by Spanish mutual funds rose by 3.2% in the first half of the year to 273.77 billion euros. This figure is close to that recorded just before the onset of the financial crisis. This increase was mainly the result of net subscriptions by unit-holders, which exceeded 10 billion euros and which showed a clear preference for higher-risk fund categories, particularly global funds. In this context, CIS management companies recorded an increase in their profits of 36.5% to 491 million euros as a result of the increase in (net) fees received. The sector is not expanding evenly across the different entities as the number of loss-making companies rose by four in the first half of the year to a total of 23.
- The business of broker-dealers and brokers, which had improved slightly in 2017, once again contracted in the first half of 2018 as a result of the fall in their most important fees (order processing and execution, portfolio management and CIS marketing). In particular, aggregate profit before tax fell by 34.4% between January and June to 138.2 million euros (in annualised terms). The fall in profits had a negative impact on the profitability of these entities, which fell from 18.4% to 11.8%, and on the number of loss-making entities, which rose from 20 to 34. However, solvency conditions remain satisfactory in relative terms.
- The report includes three monographic exhibits:
  - The first describes the intervention measures taken by ESMA in the middle months of the year in relation to the marketing of CFDs and binary options to retail investors. The CNMV agrees with these measures, which are also consistent with the content of the new CNMV Circular 1/2018, of 12 March, on warnings relating to financial instruments.

- The second addresses the practice known as closet indexing, whereby some mutual funds are presented as actively-managed funds and establish the fees that are typical of this activity even though their management is very similar to index tracking. In this regard, following the recommendations by ESMA and best practices from other countries, the CNMV has deemed it necessary to improve the information provided to investors.
- The final exhibit details the features of the Financial Literacy Survey conducted within the framework of the Financial Education Plan together with the Bank of Spain and reports on some of its results. One of the contributions of this survey lies in the possibility of identifying specific groups in the population which should be the focus of the priorities of the next Financial Education Plan.

## 2 Macro-financial background

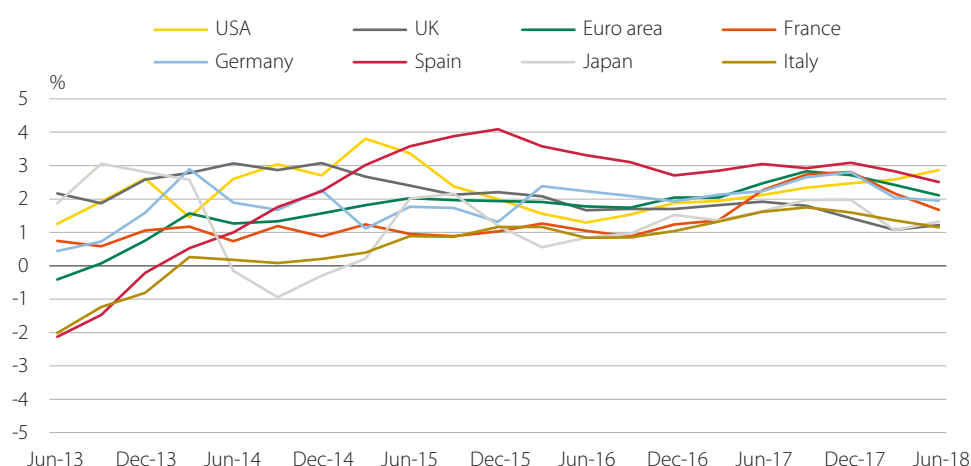
### 2.1 International economic and financial developments

*In the first half of the year, economic growth remained high in the United States, while Europe recorded a slight slowdown.*

World economic growth followed a somewhat uneven pattern in the first half of the year as US GDP continued to grow at very high rates (0.5% and 1% in the first and second quarters of the year, respectively), while growth rate slowed down in Europe. Within the European countries, economic activity was dynamic in Spain and Germany, with growth of 0.6% and 0.5%, respectively, in the second quarter (0.6% and 0.4% in the previous quarter), while growth was less solid in France and stood at 0.2% in the first two quarters, rates that were significantly lower than those recorded in 2017 (0.7% on average). In Italy, GDP also grew by 0.2% in the second quarter. For their part, in the United Kingdom and in Japan, growth rates in the second quarter were better than in the first quarter as they rose from 0.1% to 0.4% in the case of the former, and from -0.2% to 0.7% in the latter.

**GDP, annual change**

FIGURE 1



Source: Thomson Datastream.

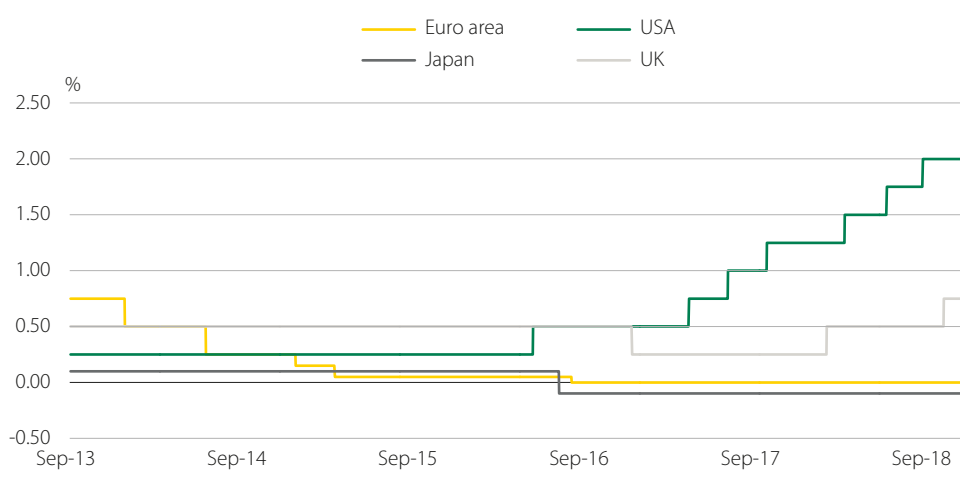


In its September meeting, the ECB decided to maintain the main refinancing rate, the deposit facility rate and the marginal lending rate at 0%, -0.4% and 0.25%, respectively, and reiterated its expectation that these rates will remain at their present levels at least through the summer of 2019. It also announced the end of its asset purchase programme at the end of this year. The programme will have a monthly pace of 15 billion euros in the last quarter of the year. However, it highlighted that its decisions will depend on movements in the inflation figure. For its part, the Federal Reserve – which had made two rate hikes in March and June – increased rates again at its September meeting. According to the forecasts published by the Fed, it is likely that there will be one more hike in 2018 in the interest rate, which is currently in the range of 2% to 2.25%.

*The ECB will end its purchasing programme in December, but does not expect changes in the official rate until the summer of 2019. In contrast, the Federal Reserve has made three rate hikes this year and may decide to make one further hike in the last quarter...*

## Official short-term interest rates

FIGURE 2



Source: Thomson Datastream. Data to 28 September.

The Bank of England, which in August raised the bank rate from 0.5% to 0.75%, decided at its September meeting to leave both interest rates and the volume of its asset purchase programme unchanged. Inflation rate has continued to fall gradually and stood at 2.5% in July.

*... while the Bank of England raised the headline interest rate to 0.75% in August.*

There has been a great deal of divergence in the movements of short-term interest rates in 2018 among the different advanced economies, which was determined by the monetary policy decisions referred to in the above paragraphs. Three-month and 12-month rates in the United States recorded substantial increases and stood at 2.40% and 2.92%, respectively, in the middle of September (70 bp and 81 bp up on year-end 2017). The increase in short-term rates has been less sharp in the United Kingdom, where they grew by around 30 bp in both maturities, to 0.80% for the 3-month rate and 1.06% for the 12-month rate. In the euro area, the two benchmark rates have remained unchanged at -0.32% (3 months) and -0.16% (12 months), in line with the expectation that the ECB will not raise interest rates until after the summer of 2019.

*Short-term rates moved unevenly across the advanced economies. While in the United States, rates recorded substantial increases, in the euro area they remained largely unchanged.*

The evolution of long-term rates has also been uneven across advanced economies during 2018. Between January and April, most countries recorded increases in 10-year sovereign bond yields as a result of an improved macroeconomic outlook and an upward revision of inflation expectations, particularly in the United States. Peripheral euro area countries were the exception to this widespread rise in yields as their credit ratings were upgraded by different agencies.

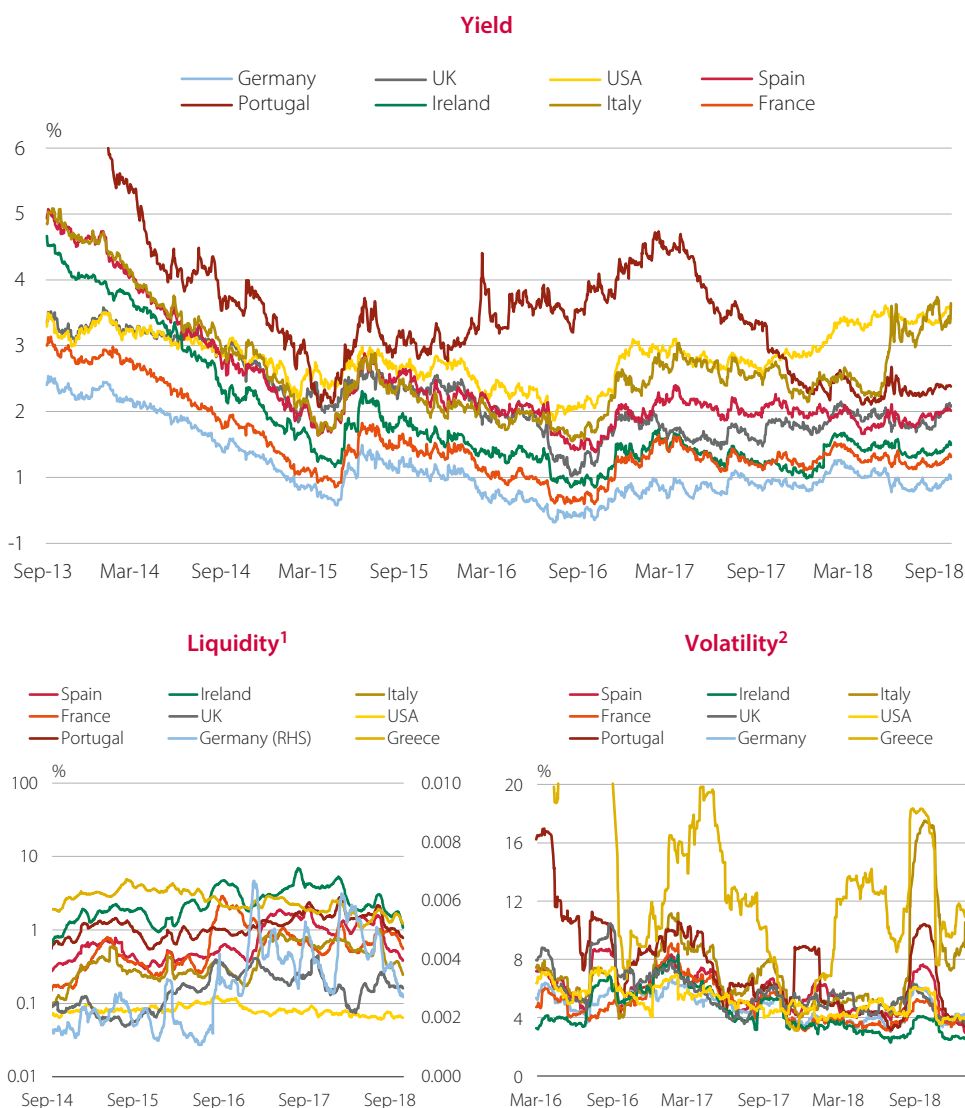
*In the first four months of the year, long-term rates rose in most advanced economies, with the exception of the peripheral countries of the euro area, which received improved ratings...*

... however, the yield on the public debt of these economies rose in the middle months of the year as a result of the political uncertainty generated in Italy.

As of May, however, this pattern was reversed and the sovereign bonds of the peripheral countries recorded increases as a result of the political uncertainty generated in Italy. The largest increase was recorded in Italy (136 bp between May and September) and partially spread to Portugal and Spain, which recorded increases of 22 bp and 23 bp, respectively. In contrast, the yields on the public debt of other euro area countries that are usually used as safe-haven assets fell over that same period (-9 bp in Germany and -12 bp in the Netherlands).

Indicators of the 10-year sovereign bond market

FIGURE 3



Source: Bloomberg, Thomson Datastream and CNMV. Data to 28 September.

- 1 One-month average of daily bid-ask spread for yields on 10-year sovereign bonds (logarithmic scale). In the case of the German bond, the one-month average of the bid-ask spread is shown without dividing by the yield average to avoid the distortion introduced by its proximity to zero.
- 2 Annualised standard deviation of daily changes in 40-day sovereign bond prices.

So far this year, Italy, the United States and the United Kingdom have seen significant increases in long-term debt yields, while those in Germany and France have remained largely unchanged.

Consequently, the most significant rise so far this year has occurred in Italy, where the 10-year government bond yield has reached 3.14%, 115 bp up on year-end 2017. In line with this increase in the yield, the volatility of the Italian sovereign bond has

stood at high levels over recent months and exceeded 17% in June and July (see Figure 3). Yields have also risen markedly in the United States and the United Kingdom: 65 bp in the former, to 3.06%, and 39 bp in the latter, to 1.57%. Yields on French and German sovereign bonds, which at the end of September stood at 0.81% and 0.47%, respectively, have remained largely unchanged over 2018. Finally, the yields on Spanish and Portuguese sovereign bonds both fell by 6 bp to 1.51% and 1.88%, respectively.

Sovereign credit risk premiums in most advanced economies (as measured by the 5-year CDS of public debt instruments) have remained stable in 2018, with the exception of Italy, which recorded a 127 bp rise. In the first four months of the year, widespread falls were recorded – especially in the euro area peripheral countries – as a result of the aforementioned credit rating upgrades (-18 bp in Spain, -28 bp in Italy and -31 bp in Portugal). However, in the middle months of the year, the risk premium of these economies rose due to the political uncertainty generated in Italy (156 bp in Italy, 29 bp in Spain and 26 bp in Portugal). The other economies also recorded increases, albeit smaller, between May and September, with the exception of Germany (0 bp) and the United States (-3 bp).

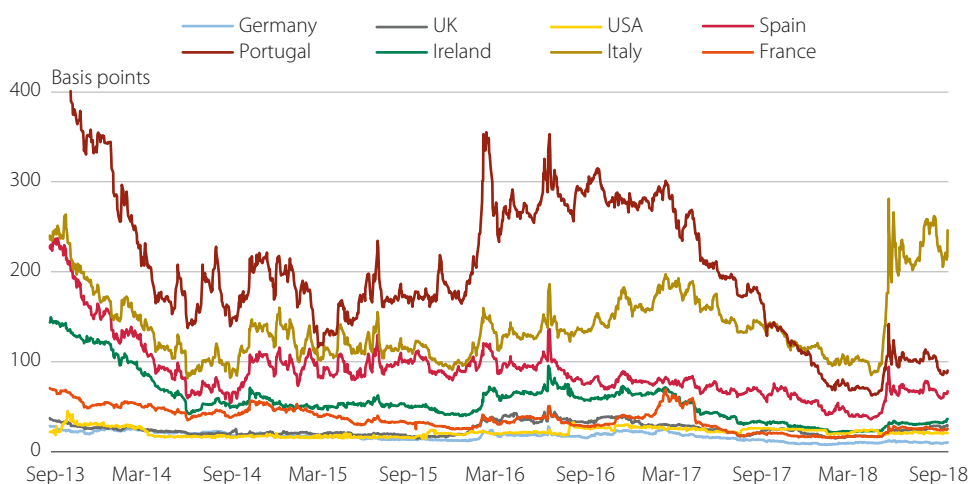
At the end of September, the risk premium on the Italian sovereign bond stood at 246 bp (118 at the end of 2017), while much smaller changes were recorded in other countries. Specifically, the risk premium of the CDS of Spanish public debt rose by 10 bp (to 67 bp), that of French public debt rose by 9 bp (to 26 bp) and that of the German sovereign bond remained unchanged at 10 bp.

*Sovereign credit risk premiums generally fell in the first four months of the year and rose over the middle months of the year as a result of the political uncertainty generated in Italy...*

*... so that the cumulative balance for the year shows little change in most countries (with the exception of Italy, with a rise of 127 bp).*

**Credit risk premiums on public debt (5-year CDS)**

FIGURE 4



Source: Thomson Datastream. Data to 28 September.

In corporate bond markets, investment-grade bonds in the United States and Europe performed similarly throughout 2018. In the United States, AAA-rated corporate bonds recorded an increase of 7 bp and at the end of September the spread amounted to 50 bp, while BBB bond spreads rose by 18 bp to stand at 137 bp. In Europe, the risk premium rose by 5 bp (to 60 bp) in the case of bonds with the higher credit rating and by 41 bp (to 147 bp) for BBB-rated debt instruments.

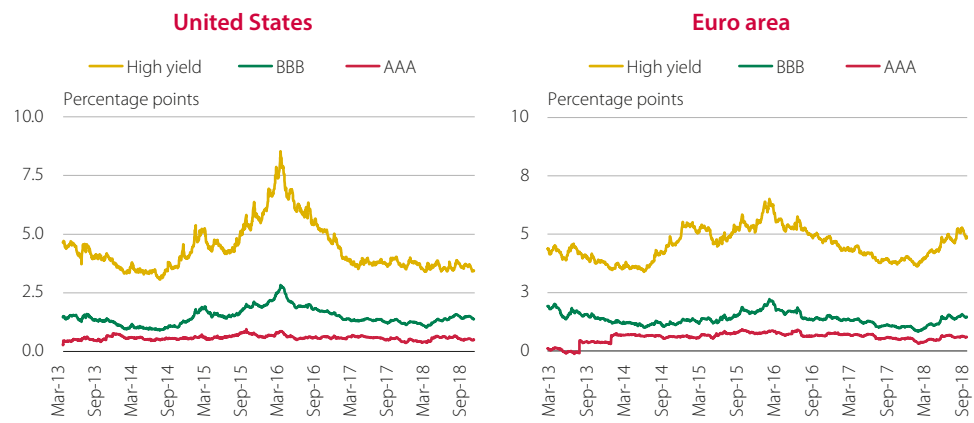
*In private fixed-income markets, investment-grade bonds performed similarly in the United States and Europe throughout 2018...*

... while high yield spreads diverged between the two economies, with significant rises in Europe and slight falls in the United States.

The trend of high-yield spreads, however, diverged between the two economies. A rise of 101 bp (to 491 bp) was recorded in Europe due to heightened political risks, the approaching end of the ECB's purchase programme and the increase in issuance in this credit tranche. In contrast, a fall of 30 bp (to 344 bp) was recorded in the United States due to the fact that, even though the concern relating to heightened trade tensions led to divestments from high-risk segments, the scarce supply of high-yield bonds contained the spread in this tranche.

Corporate bond spreads. Spread vs. the 10-year government bond<sup>1</sup>

FIGURE 5



Source: Thomson Datastream and CNMV. Data to 28 September.

1 In the euro area versus German public debt.

So far this year, the volume of net long-term debt issuance on global markets stands at 1.88 trillion dollars (637 billion dollars less than in 2017).

Net long-term debt issuance in global markets amounts to 1.88 trillion dollars so far this year (637 billion dollars down on the same period of 2017). By sector, the groups with the greatest reductions were net sovereign issuance (-526 billion) and issuance by non-financial companies (-336 billion). By region, the United States recorded the largest fall in net issuance (-510 billion).

Net sovereign issuance fell as a result of the fall in gross issues, particularly in the United States...

The amount of sovereign net issues fell mainly as a result of the decrease in gross issues in every region, particularly in the United States. The net volume issued in the United States totalled 8 billion dollars, 207 billion less than in 2017. The amounts issued during the year in Europe and Japan were also significantly lower than in 2017 (117 billion and 107 billion down, respectively).

... in contrast, total issuance by the financial sector rose by 225 billion to 956 billion.

Total net issuance by the financial sector between January and September amounted to 956 billion dollars, 225 billion dollars up on the same period last year. This increase was the result of the rise in net issues in Europe, which were once again positive for the first time since 2014 (269 billion) due to the greater volume of gross issues and, above all, the reduction in maturities. Net issuance in Japan stood at 60 billion, 27 billion up on the same period of 2017, while the net amount issued in the United States fell by 13.2% to 360 billion.

Issues by the non-financial sector fell by 38%, with falls in every region, except Europe.

Finally, issuance by the non-financial sector fell by 38% to 546 billion dollars. The most significant fall took place in the United States, where the net amount fell from 488 billion in 2017 to 239 billion in the current year. This fall is mainly due to the reduction in issues in a context of rising interest rates and less attractive financing conditions for issuers of fixed-income securities. Net amounts in Europe rose by 26 billion to 172 billion, while in Japan they fell by 7 billion to 21 billion.

## Net international debt issues

FIGURE 6



Source: Dealogic. Half-yearly data. The data for the second half of 2017 are up to 28 September, but their half-yearly equivalent is shown for comparative purposes.

The leading equity indices recorded falls across the board in the first quarter of the year, as a result of both the fears of an acceleration in the pace of the normalisation of US monetary policy – resulting from the publication of job market data – and the announcement of protectionist measures by the US administration which might result in a trade war.

*The leading equity indices recorded falls across the board in the first quarter of the year...*

During the middle months of the year, movements in stock indices were more uneven in regional terms. Stock exchanges in the United States recorded significant gains despite the increase in the protectionist rhetoric of the country's administration, which in the middle of September reported additional measures to impose tariffs on Chinese imports for a value of 200 billion dollars. In contrast, in the euro area, where movements were more disperse, the Italian Mib 30 stock index suffered more significant falls as a result of the political uncertainty generated following the March elections and accentuated in September following the publication of deficit targets that were well above market expectations.

*... and performed unevenly in the middle months of the year.*

Between January and September, the US Dow Jones, S&P 500 and Nasdaq indices rose sharply (by 7%, 9% and 16.6%, respectively), while the main European indices – with the exception of the French Cac 40, which rose by 3.4% – recorded losses. The sharpest falls were recorded in the Ibx 35 (-6.5%), in the German Dax 30 index (-5.2%) and in the Italian Mib 30 (-5.2%). The Spanish index has been affected, above all, by

*In the year to date, indices have recorded gains in the United States, while the leading European indices, with the exception of the French Cac 40, have recorded losses.*

concerns about the uncertainty originating in Italy and by the exposure of some Spanish companies to vulnerable emerging economies such as Turkey and Argentina (see Section 3.1 for further details). The German index, for its part, has reflected the escalating tension in trade relations worldwide, which might affect its export industries. Finally, the UK FTSE 100 index has fallen by 2.3% in the year to date, in a context of uncertainty about the possibility of a Brexit with no deal with the European Union.

*Following the upturn in volatility recorded in February, the implied volatility measures of the leading stock indices returned to low levels.*

*Stock indices in emerging markets generally performed negatively in the first half of the year. The cumulative figure for the year as a whole was more uneven.*

Following the upturn in volatility recorded in February, implied volatility measures for the main stock indices returned to very low levels in the subsequent weeks and have remained at those levels in the middle months of the year. At the end of the third quarter, volatilities were below 15%.

The stock market indices of emerging countries generally performed negatively in the first half of the year, coinciding with a rise in the price of the dollar resulting from the normalisation of monetary policy in United States and the aforementioned growing tensions in trade relations. The performance of emerging stock markets in the summer months was more varied, which led to an uneven balance between regions in the cumulative figures for the year.

### Performance of main stock indices

TABLE 1

%

	2014	2015	2016	2017	IV-17	I-18	II-18	III-18	Dec-17
<b>World</b>									
MSCI World	2.9	-2.7	5.3	20.1	5.1	-1.7	1.1	4.5	3.8
<b>Euro area</b>									
Eurostoxx 50	1.2	3.8	0.7	6.5	-2.5	-4.1	1.0	0.1	-3.0
Euronext 100	3.6	8.0	3.0	10.6	-0.4	-2.0	3.3	1.5	2.7
Dax 30	2.7	9.6	6.9	12.5	0.7	-6.4	1.7	-0.5	-5.2
Cac 40	-0.5	8.5	4.9	9.3	-0.3	-2.7	3.0	3.2	3.4
Mib 30	0.2	12.7	-10.2	13.6	-3.7	2.6	-3.5	-4.2	-5.2
Ibex 35	3.7	-7.2	-2.0	7.4	-3.3	-4.4	0.2	-2.4	-6.5
<b>United Kingdom</b>									
FTSE 100	-2.7	-4.9	14.4	7.6	4.3	-8.2	8.2	-1.7	-2.3
<b>United States</b>									
Dow Jones	7.5	-2.2	13.4	25.1	10.3	-2.5	0.7	9.0	7.0
S&P 500	11.4	-0.7	9.5	19.4	6.1	-1.2	2.9	7.2	9.0
Nasdaq-Composite	13.4	5.7	7.5	28.2	6.3	2.3	6.3	7.1	16.6
<b>Japan</b>									
Nikkei 225	7.1	9.1	0.4	19.1	11.8	-5.8	4.0	8.1	6.0
Topix	8.1	9.9	-1.9	19.7	8.5	-5.6	0.9	5.0	0.0

Source: Thomson Datastream.

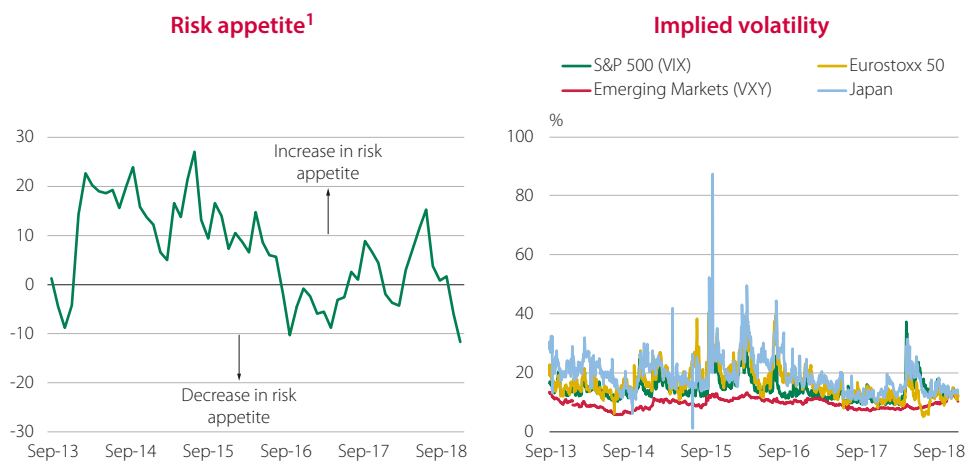
*Particularly noteworthy, due to their importance, are the falls in the Chinese and Turkish stock markets, while the Argentinean Merval index recorded gains despite the vulnerabilities present in the Argentinean economy.*

Particularly noteworthy due to their importance are the falls in the Chinese Shanghai Composite (-14.7%) and the Turkish BIST 30 (-12.8%). The Turkish index reflected concerns around the high level of foreign currency debt of Turkish companies and the strong depreciation recorded by the lira over recent months, which

was exacerbated following the imposition of sanctions by the United States and as a result of the doubts that the Turkish Government might be interfering in monetary policy decisions. In Argentina, where some macroeconomic imbalances caused the depreciation of the Argentinean peso and ended up triggering the government's request for financial assistance from the IMF, the Merval index suffered significant falls in the second quarter. However, subsequent gains allowed the Argentinean stock exchange to register an overall positive change between January and September.

## Financial market indicators

FIGURE 7

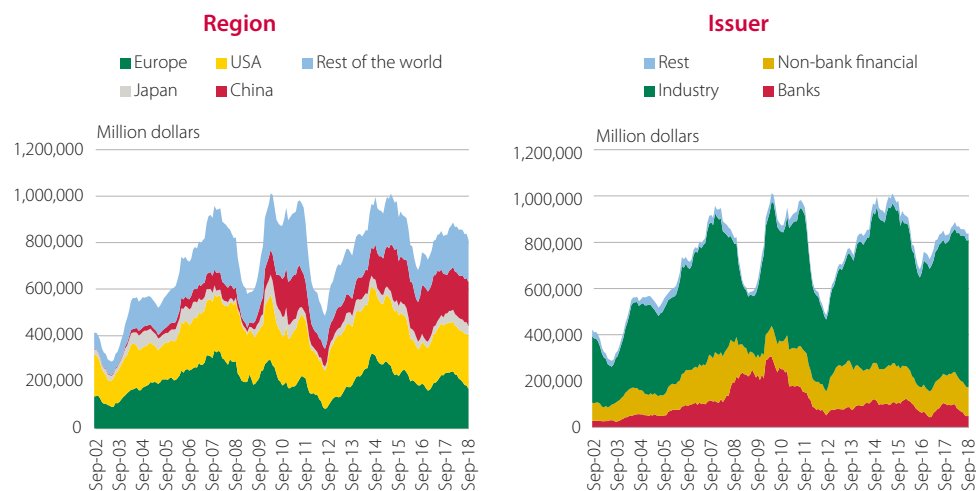


Source: Thomson Datastream and CNMV.

<sup>1</sup> State Street indicator.

## Global equity issuance

FIGURE 8



Source: Dealogic. Cumulative 12-month data to 30 September. The monthly equivalent for September is shown for comparative purposes.

The volume of equity issuance stood at 812 billion dollars in the last 12 months, a similar figure to that recorded in 2017 (833 billion). By region, the amount issued in Europe fell by 28.6% to 170 billion dollars, coinciding with the general fall in its main stock market indices. In contrast, equity issuance in the United States rose by

*The volume of equity issuance over the last 12 months stood at 812 billion dollars, similar to the figure recorded in 2017.*

7.8% to 228 billion dollars, and by 12% in China, despite the substantial falls recorded in Chinese stock markets. By sector, only issues by industrial companies grew, with a cumulative amount of 615 billion dollars over the last 12 months, 6.5% up on 2017. Banks issued 49 billion dollars and utilities companies issued 30 billion dollars, 49.3% and 11.2% down on the previous year, respectively.

## 2.2 National economic and financial developments

*Spain's GDP grew by 2.5% year-on-year in the second quarter, 0.4 pp more than the euro area.*

Spain's GDP grew by 2.5% year-on-year in the second quarter of 2018, 0.3 percentage points (pp) down on the first half of the year, but above the figure recorded in the euro area over the same period (2.1%). It is important to note that there has been a slight slowdown in economic growth both in Spain and in the euro area over recent months as a result of higher oil prices, doubts about the scope of the restrictions to world trade and other sources of uncertainty. However, the Spanish economy continues to grow at 0.4 percentage points above the European average.

*Domestic demand contributed 3.3 pp to GDP growth, while the external sector made a negative contribution (-0.8 pp).*

In the second quarter, the contribution of domestic demand to growth was 3.3 percentage points, 0.2 percentage points more than in the first quarter. In contrast, foreign demand made a contribution of -0.8 points, 0.5 points less than in the previous quarter. The changes in the components of domestic demand show a slowdown in both public consumption (from 2.4% to 1.9%) and private consumption (from 3.1% to 2.3%), and a significant acceleration of gross fixed capital formation (from 3.9% to 7.7%). Within this last category, there was sharper growth in both investment in capital goods (from 1.9% to 11.1%) and in construction (from 5.7% to 7%). With regard to the external sector, there was a slowdown in the growth of exports (from 3.4% to 2.3%), while imports grew more strongly (from 4.7% to 5.2%), driven by buoyant investment.

*On the supply side, primary sectors and construction grew markedly, while growth in the industrial and services sectors moderated.*

On the supply side, the most significant annual changes were recorded in the primary sectors (3.2%) and in the construction sector (7.2%), 4.1 percentage points and 1 percentage point above the average growth recorded in 2017, respectively. Growth in the industrial and services sectors slowed down to 2.5% and 2.3% (average growth in 2017 of 4.4% and 2.5%, respectively).

*Inflation rose in the second four months of the year to 2.2% in August as a result of the increase in energy prices. The core rate, in contrast, remained stable (0.8%).*

The inflation rate, which for the first four months of 2018 had remained at levels close to 1%, rose significantly in May and has since hovered around 2% (2.2% in August). This increase was the result of changes in energy prices, which rose following the increase in the price of oil and the depreciation of the euro against the dollar. In fact, the core inflation rate, which excludes energy goods and fresh food, remained stable and stood at 0.8% in August, the same figure as that recorded at year-end 2017. The inflation gap with the euro area, which at the start of the year was negative (-0.6 percentage points in January), once again returned to positive values and has remained at low levels throughout the year (0.2 percentage points in August).

*Job creation continued, albeit at a slightly more moderate pace, allowing the unemployment rate to fall to 15.3% in June...*

Solid economic growth, albeit at a slightly slower rate, continued to favour the buoyancy of the job market. Against this background, the process of job creation continued, although at a somewhat more moderate pace than in recent months (2.5% in the second quarter and 2.9% in the last quarter of the previous year). The number of full-time employees rose by 229,000 in the first half of the year and the unemployment rate fell to 15.3% in June (compared with 16.6% in December 2017). Unit labour costs



remained stable in the first quarter of the year, as the increase in remuneration per employee (0.4%) was practically offset by the increase in productivity (0.3%).

### Spain: main macroeconomic variables

TABLE 2

Annual % change

	2014	2015	2016	2017	EC <sup>1</sup>	
					2018	2019
<b>GDP</b>	1.4	3.6	3.2	3.0	2.9	2.4
Private consumption	1.5	3.0	2.8	2.5	2.3	1.9
Government consumption	-0.3	2.0	1.0	1.9	1.9	1.3
Gross fixed capital formation, of which:	4.7	6.7	2.9	4.8	4.6	3.9
Construction	4.2	3.6	1.1	4.6	n.a.	n.a.
Capital goods and other	6.0	11.8	5.3	6.0	5.0	4.3
Exports	4.3	4.2	5.2	5.2	5.0	4.7
Imports	6.6	5.4	2.9	5.6	4.7	4.5
Net exports (contribution to growth, pp)	-0.5	-0.4	0.7	0.3	0.2	0.2
<b>Employment<sup>2</sup></b>	1.0	3.2	3.0	2.8	2.6	2.3
<b>Unemployment rate</b>	24.4	22.1	19.6	17.2	15.3	13.8
<b>Consumer price index<sup>3</sup></b>	-0.1	-0.5	-0.2	2.0	1.4	1.4
<b>Current account balance (% GDP)</b>	1.1	1.2	2.3	1.8	1.5	1.6
<b>General government balance (% GDP)<sup>4</sup></b>	-6.0	-5.3	-4.5	-3.1	-2.6	-1.9
<b>Public debt (% GDP)</b>	100.4	99.3	99.0	98.1	97.6	95.9
<b>Net international investment position (% GDP)</b>	-90.6	-79.0	-70.6	-66.7	n.a.	n.a.

Source: Thomson Datastream, European Commission, Bank of Spain and Spanish National Statistics Office (INE).

1 European Commission forecasts from the spring of 2018.

2 In full-time equivalent jobs.

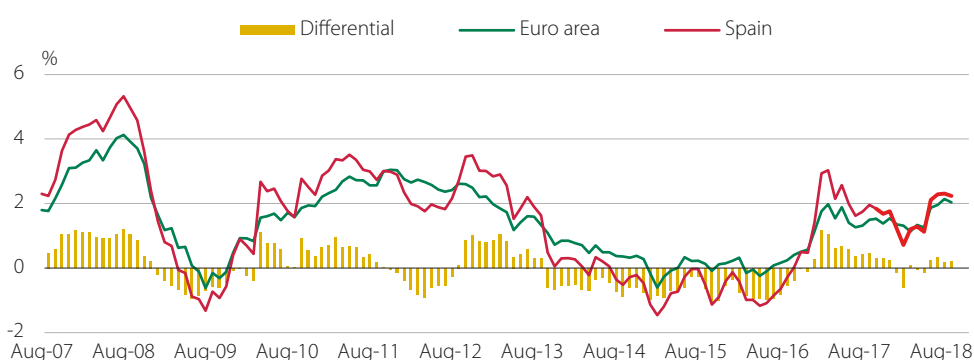
3 European Commission forecasts refer to the harmonised index of consumer prices.

4 Data for 2014, 2015, 2016 and 2017 include government aid to credit institutions amounting to 0.1%, 0.1%, 0.2% and 0.04% of GDP, respectively.

n.a.: [data] not available.

### Harmonised CPI: Spain vs. euro area (annual % change)

FIGURE 9



Source: Thomson Datastream. Data to August.

The cumulative general government deficit in the first half of the year stood at 1.87% of GDP, excluding financial aid (2.31% in the same period of 2017). This

... and the cumulative general government deficit to June stood at 1.87% of GDP (0.44 pp down on the same period of 2017).

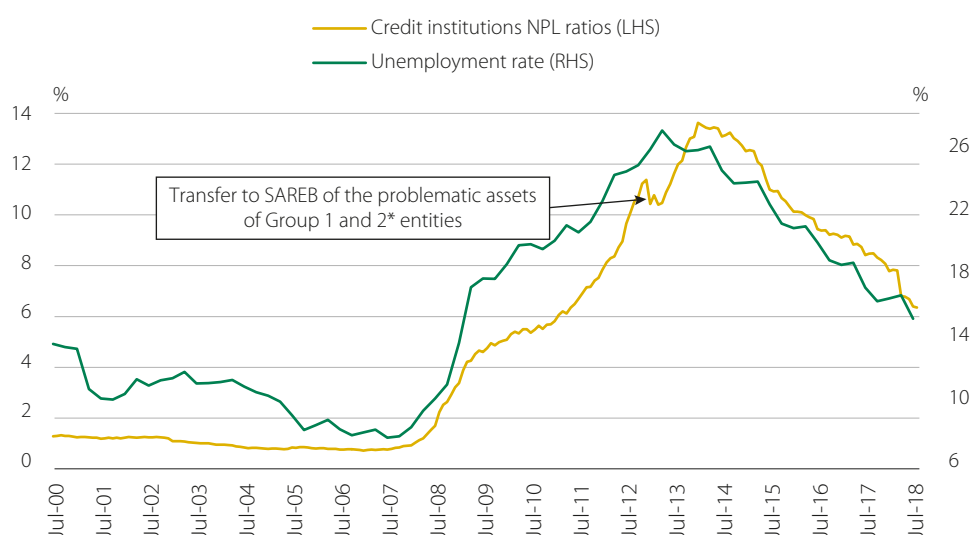
fall was the result of the increase in resources outstripping the increase in spending (-0.44 percentage points). A breakdown by tier of government shows that the fall was generalised. Accordingly, both the deficit of the central government fell (from 1.07% to 0.82%), as did that of the regional governments (from 0.73% to 0.59%). The deficit of the social security funds fell by a slightly smaller figure (from 0.51% to 0.46%). Advance data for the first quarter of the year indicates that the level of public debt according to the Excessive Deficit Procedure stood at 98.8% of GDP.

*The banking sector continues to operate in an environment that makes it difficult to improve net interest income, although the buoyancy of the economy continues to work in banks' favour.*

The banking sector continues to operate in an environment of low interest rates, which prevents significant improvements in net interest income, and to face certain structural changes, such as increasing competition from FinTech companies. However, the buoyancy of the economy and favourable performance of the job market led to the NPL ratio continuing to fall in the first half of the year to 6.4% in July (7.8% at year-end 2017). Furthermore, Spanish banks reported a better efficiency ratio than the average for the euro area in the first quarter of 2018: the ratio between costs and revenue stood at 51.6% in Spain compared with the average of 64.8% recorded in the euro area.

**Credit institution NPL ratios and the unemployment rate<sup>1</sup>**

FIGURE 10



Source: Bank of Spain and National Statistics Office (INE). Data to June.

<sup>1</sup> Percentage of active population.

\* Group 1 transfers took place in December 2012 (36.7 billion euros) and Group 2 transfers in February 2013 (14.09 billion euros).

*Credit institutions' aggregate profit stood at 6.65 billion euros in the first half of the year.*

In this context, the aggregate profit of Spanish credit institutions stood at 6.65 billion euros in the first half of the year. This result contrasts with the losses of 6.17 billion euros recorded in the same half of 2017, when the resolution of Banco Popular took place. Excluding the losses of Banco Popular, which are estimated at 12 billion euros, the profit would have increased by around 14% in the most recent period. Both net interest income and the gross margin remained stable, while asset impairment performed favourably and continued to fall to 698 million in the second quarter, the lowest amount since 2005.

Aggregate bank lending to resident companies and households fell by 0.2% year-on-year in August, mainly as a consequence of the fall in lending to non-financial companies (-0.5%), which was the result of the drop in loans. However, lending to households grew for the first time since 2010 (0.3% in August), which can be explained by the lower reduction in loans to purchase properties and the increase in consumer credit. In the euro area, lending to companies climbed by 3% in July (1.9% in December 2017), while lending to households rose by 3.3% (3.2% in December 2017).

*Bank lending to companies fell slightly, while lending to households grew for the first time since 2010.*

The size of the banking sector contracted by 1.8% between January and July, to 2.61 trillion euros (2.65 trillion at the end of 2017), as the increase in assets abroad was not enough to offset the fall in the balance of lending to the resident private sector. The main sources of funding – deposits and debt – fell slightly (by 1.2% and 2.2%, respectively), while net worth fell by 6.1% to 339 billion euros.

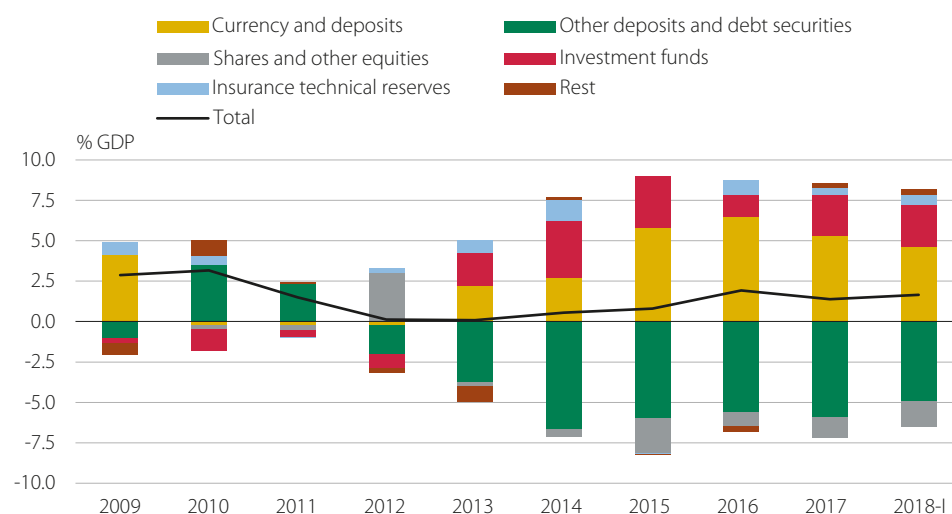
*The size of the banking sector fell by 1.8% between January and July, to 2.61 trillion euros.*

The most recent data on the financial position of households indicate that the savings rate fell in the second half of the year and stood at 4.7% of gross disposable income (GDI) in June (5.5% in December 2017). The debt-to-income ratio fell slightly in the first half of the year from 99.8% of GDI at year-end 2017 to 99.3% in June of this year, while the debt burden ratio fell by only 0.1 percentage points (from 11.5% of GDI to 11.4%). Household wealth continued to rise due to the increase in the value of their real estate assets.

*The household savings rate continued to fall in the first half of the year (to 4.7%), at the same time as the household debt-to-income ratio declined slightly. Their net wealth rose as a result of the increase in the value of their real estate assets.*

### Households: net financial asset acquisitions

FIGURE 11



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

Net financial investments of households stood at 1.7% of GDP in the first quarter of the year<sup>3</sup> (1.4% in 2017). The investment pattern was very similar to that seen in recent years. Investors are reducing their investments in term deposits and bonds (-5% of GDP), as these products are unattractive in the context of very low interest rates, and they are investing significantly in more liquid assets (4.6%) and in mutual funds (2.6%). The most recent investment data on mutual funds show that

*Financial investments stood at 1.7% of GDP. There were noteworthy divestments from bonds and term deposits and investments in more liquid assets and mutual funds, particularly in higher-risk categories.*

3 Cumulative data from four quarters up to the first quarter of 2018.

unit-holders are making substantial net subscriptions in higher-risk categories: 12.8 billion in global funds, 12.5 billion in equity funds (including mixed funds) and 2.1 billion in absolute return funds.<sup>4</sup> In addition, net redemptions were recorded in passively managed funds (almost 5 billion).

### Intervention measures for CFD products and binary options

EXHIBIT 1

With regard to investor protection, the marketing of complex financial products to retail investors is a major source of concern for securities regulators and supervisors because of the risks inherent in such products and the possibility that they might not be appropriate for retail clients. This concern led the European Securities and Markets Authority (ESMA) at the end of May to approve – making use for the first time of the intervention powers provided for in the MiFIR (of the MiFID II package) – a set of product intervention measures relating to the provision of contracts for differences (CFDs) and binary options to retail investors. The new measures on CFDs ensure for the first time that investors cannot lose more money than they put in, restrict the use of leverage and incentives offered to trade and provide understandable risk warnings for investors.

The measures, published in the *Official Journal of the European Union (OJEU)* on 1 June, were applicable as from 2 July 2018 for binary options and from 1 August 2018 for CFDs.<sup>1</sup> These measures consisted of:

- i) **Binary options:** A ban on the marketing, distribution or sale of binary options to retail investors.
- ii) **Contracts for differences:**
  - Leverage limits on the opening of a position by a retail client. This limit is 30:1 for major currency pairs; 20:1 for non-major currency pairs, gold and major indices; 10:1 for commodities other than gold and non-major equity indices; 5:1 for individual equities and other reference values; and 2:1 for cryptocurrencies.
  - A margin close out rule on a per account basis. This will standardise the percentage of margin (at 50% of minimum required margin) at which providers are required to close out one or more retail client's open CFDs.
  - Negative balance protection on a per account basis. This will provide an overall guaranteed limit on retail client losses.
  - A restriction on the incentives offered to trade CFDs.
  - A standardised risk warning, including the percentage of losses on a CFD provider's retail investor accounts.

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<sup>4</sup> Cumulative data from four quarters up to June 2018. For further details, see Section 4.1.

These measures were adopted taking into account the cross-border nature of the trading of binary options and CFDs, as well as the desirability of establishing a harmonised approach at a European level, and are applicable to those who market, distribute and sell these products to retail investors in the European Union. These measures were initially applicable for three months, after which ESMA decided to extend them for a further three months.

The CNMV shares and supports the measures adopted by ESMA and considers that the product intervention power is an appropriate tool for protecting investors. In addition, the exercise of this power by ESMA ensures that retail clients across the European Union share a common level of protection, thus avoiding regulatory arbitrage practices.

It should be noted that the CNMV's 2018 Activity Plan already included the objective of approving restrictive measures relating to trading with binary options and CFDs, consistent with the measures decided by ESMA, and a horizontal review of compliance with restrictions that might be approved both by ESMA and by the CNMV. The horizontal monitoring also included a review of compliance with the Circular on warnings in the event that the Circular is in force at the time of such monitoring.

CNMV Circular 1/2018, of 12 March, on warnings relating to financial instruments, entered into force on 27 June, before the measures adopted by ESMA, and it is therefore important to clarify the interaction between both provisions, which fundamentally affects CFDs. As CFDs are particularly complex financial instruments, the entities that market them must make the warnings provided for in Rule Two of the aforementioned Circular as from 27 June (date of its entry into force). However, the CNMV has considered that as from 1 August (date of entry into force of the intervention measures adopted by ESMA relating to CFDs), the warning provided by ESMA in relation to CFDs must be made. However, the requirement to obtain the signature of the retail customer together with their handwritten declaration, which must accompany the text of the warning included in the ESMA measures, is maintained.

At any event, the CNMV has deemed it acceptable for entities to have used the warnings provided for in ESMA's decision on CFDs instead of those required by the CNMV since 27 June, even though that decision came into force at a later date.

The cases of inappropriate marketing of certain financial instruments in Spain – and in other European countries – have revealed shortcomings in retail clients' understanding of the nature and risks of financial instruments when they make investment decisions. In this context, ESMA's intervention measures, the new CNMV regulation and the possible restrictive measures that the CNMV may adopt in the future to provide continuity to those adopted by ESMA form part of the efforts aimed at strengthening retail investor protection. These should be complemented by a regular assessment of the measures in order to check their effectiveness and, where necessary, revise them accordingly.

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1 These measures were approved by ESMA's Board of Supervisors on 22 May 2018 making use, for the first time following entry into force on 3 January, of the product intervention powers laid down in Article 40 of Regulation (EU) No. 600/2014 of the European Parliament and of the Council, of 15 May 2014, on markets in financial instruments.

## 2.3 Outlook

*The IMF forecasts global economic growth of 3.7% in both 2018 and 2019.*

The forecasts published by the IMF in October lower the global growth expected for this year and for next year to 3.7% (0.2 percentage points down on the rates forecast in July) due to the materialisation of some sources of risk, including restrictions on world trade. The IMF expects US GDP to grow by 2.9% this year (the same figure as forecast in June, as the negative effects resulting from the restrictions on trade are offset by the tax cut) and by 2.5% next year, while growth in the euro area has been downgraded for 2018 to 2.0% (0.2 percentage points down) and has been kept the same for 2019 at 1.9%. This downgrade has been fairly widespread across all European countries. Finally, the set of emerging economies are expected to grow by 4.7% in 2018 and in 2019, 0.2 and 0.4 percentage points down on the July forecast, with a general slowdown in growth noted in the emerging economies of all geographic areas, which will be more intense in Latin America and Eastern Europe.

*The downside risks to global growth have intensified and are linked to the possible adoption of new protectionist measures and to a tightening of financial conditions, which might have a significant impact on some emerging economies.*

The downside risks to the forecast economic growth scenario have accentuated and, in some cases, have started to materialise. This is the case, as mentioned above, of the decisions taken on trade and the uncertainty that still exists about how these decisions will develop. In this regard, the IMF has indicated that avoiding protectionist reactions and finding cooperative solutions among countries that will encourage growth in the trade of goods and services is essential for maintaining and extending the global economic expansion. On the other hand, while the normalisation of monetary policy in the United States continues, a sharper or quicker tightening of financial conditions than expected might have a negative impact on some emerging economies, especially those that are subject to economic imbalances and political uncertainties or that have already recently experienced pressures on their exchange rates and capital flows (Argentina and Turkey).

### Gross domestic product

TABLE 3

Annual % change

	2014	2015	2016	2017	IMF <sup>1</sup>	
					2018	2019
World	3.6	3.4	3.2	3.7	3.7 (-0.2)	3.7 (-0.2)
United States	2.6	2.9	1.5	2.2	2.9 (0.0)	2.5 (-0.2)
Euro area	1.3	2.1	1.8	2.4	2.0 (-0.2)	1.9 (0.0)
Germany	1.9	1.5	1.9	2.5	1.9 (-0.3)	1.9 (-0.2)
France	0.9	1.1	1.1	2.3	1.6 (-0.2)	1.6 (-0.1)
Italy	0.1	1.0	0.9	1.5	1.2 (0.0)	1.0 (0.0)
Spain	1.4	3.4	3.3	3.0	2.7 (-0.1)	2.2 (0.0)
United Kingdom	3.1	2.3	1.8	1.7	1.4 (0.0)	1.5 (0.0)
Japan	0.4	1.4	1.0	1.7	1.1 (0.1)	0.9 (0.0)
Emerging economies	4.7	4.3	4.4	4.7	4.7 (-0.2)	4.7 (-0.4)

Source: IMF.

1 In brackets, change compared with the previous published forecast (IMF, forecasts published in October 2018 compared with July 2018).

In Europe, the banking sector continues to face circumstances that make it difficult to achieve higher profits, such as very low interest rates, excess capacity and the proportion of non-productive assets in some countries. Furthermore, increased uncertainty in Italy and the possibility of a Brexit with no deal with the European Union might generate periods of volatility in European financial markets.

*In Europe, the main risks are concentrated in the weakness of the banking sector, the political uncertainty in Italy and the possibility of a no-deal Brexit.*

The materialisation of some of the risks discussed above or the interaction of several of them might trigger rises in credit risk premiums, which are currently heavily compressed for some assets, and adjustments in the prices of international bond and equity instruments.

*The materialisation of some of these risks might trigger significant adjustments in the price of financial assets on international markets.*

According to the IMF's October forecast, the Spanish economy will grow by 2.7% this year (0.1 percentage points less than in the previous July forecast) and by 2.2% in 2019. Following the same line, the Bank of Spain has downgraded the forecast for this year to 2.6% and to 2.2% for next year (0.1 and 0.2 percentage points down, respectively), as a result of higher oil prices, the slowdown in the growth of some emerging economies and other factors of uncertainty. The main domestic challenges for the Spanish economy continue to be related to the unemployment rate – which, despite the improvement recorded over recent years, stands at 15.3% – and the fiscal consolidation process. With regard to this last point, the most recent forecasts<sup>5</sup> place the public deficit at 2.8% of GDP in 2018 and 2.5% in 2019 (0.6 and 1.2 percentage points above the projections of the Budgetary Plan published by the Government in 2018). The main sources of political risk for the economy are linked to the difficulty in carrying out legislative initiatives in an extremely fragmented political scenario and the continuation of tensions in Catalonia.

*The Bank of Spain has downgraded the growth forecast for this year to 2.6% as a result of higher oil prices and other elements of uncertainty.*

### 3 Spanish markets

The Spanish financial markets stress index – which had risen in February to a level of 0.27 (very close to the area classified as medium stress) – fell in subsequent weeks to annual lows of 0.15.<sup>6</sup> In the middle months of the year, the episode of political uncertainty in Italy and the fears of a trade war triggered a slight increase in the index, but it remains at levels in line with low stress.<sup>7</sup> The highest stress levels are noted in the bonds and financial intermediary segments. In the case of the former,

*The Spanish financial market stress index has undergone slight upturns in the year but remains at levels compatible with low stress.*

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5 Bank of Spain.

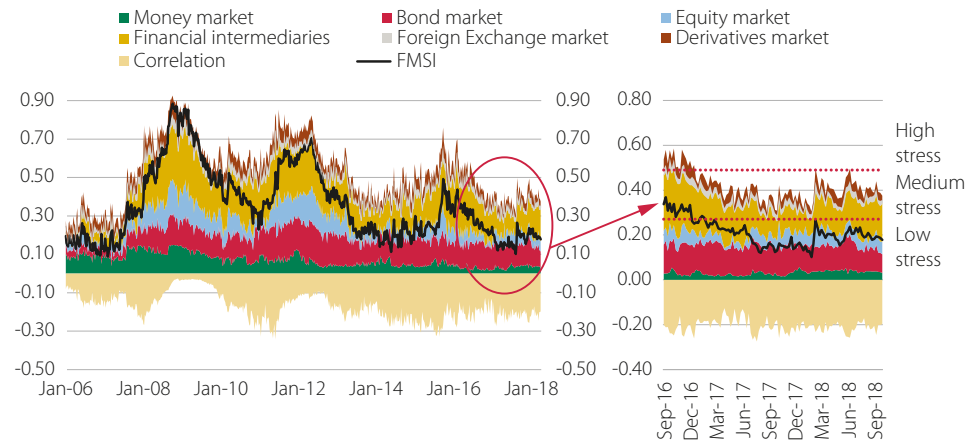
6 The stress indicator calculated by the CNMV provides a real-time measurement of systemic risk in the Spanish financial system in the range of zero to one. To do so, it assesses stress in six segments of the financial system and aggregates them into a single figure bearing in mind the correlation between said segments. Econometric estimates consider that market stress is low when the indicator stands below 0.27, at a medium level in the interval of 0.27 to 0.49, and high when readings exceed 0.49. For more detailed information on the recent progress of this indicator and its components, see the CNMV's quarterly *Financial Stability Note* and statistical series (Market stress indicators) available at <http://www.cnmv.es/portal/menu/Publicaciones-Estadisticas-Investigacion.aspx>. For further 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* 14 (1), pp. 23-41, or as CNMV Working Paper No. 60 ([http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia\\_60\\_en.pdf](http://www.cnmv.es/DocPortal/Publicaciones/MONOGRAFIAS/Monografia_60_en.pdf)).

7 The latest figure, with information up to 28 September, is 0.18.

this is due to the fall in liquidity and the upturn in the risk premium in May, while in the case of the latter, this is due to the fall in share prices and the increase in credit risk premiums as a result of exposure to different sources of uncertainty (Italian debt, emerging countries, etc.).

**Spanish financial market stress index**

FIGURE 12



Source: CNMV.

*Despite this, there are some perceived risks for financial markets, especially in the debt segment.*

The most significant risks that continue to be noted in financial markets are liquidity risk and market risk, particularly in debt markets, and also the risk of contagion between assets, markets and investors.

### 3.1 Equity markets

*Several elements of uncertainty, of a very diverse nature (economic and political), and also with different geographic origins, have caused Spanish equity prices to fall during almost the whole year.*

Prices in Spanish equity markets, which had suffered significant falls in the first few months of the year, stabilised in the middle of the year and then began to fall again in the third quarter. As a result of these movements, the main benchmark index in the Spanish market reached its lowest levels in September since December 2016. The fall in prices resulted from growing fears of an escalation in the trade war between the United States, the European Union and China,<sup>8</sup> the problems of the Turkish and Argentinean economies and the concern about contagion to other emerging economies, such as Mexico and Brazil, where Spanish companies hold significant economic interests. At a European level, political uncertainties in Italy, which had eased in the middle months of the year, rose again at the end of September after the presentation of a deficit target (2.4% of GDP) that was much higher than expected by the market and, in addition, doubts remain as to how Brexit will be carried out. In Spain, economic growth and some economic indicators began to show the first signs of a slowdown.

*The Ibx 35, which fell by 2.4% in the third quarter, has accumulated losses of 6.5% in 2018, a relatively worse performance than that of other European benchmark indices.*

The Ibx 35, which had fallen by 4.4% in the first quarter of the year and had remained practically unchanged in the second, fell again by 2.4% in the third quarter.

<sup>8</sup> The latest steps in this area have been the battery of tariffs established by the United States to China for an amount of 200 billion dollars.



So far this year, this index has accumulated losses of 6.5%, the largest out of the main European benchmark indices,<sup>9</sup> in an environment of low volatility and slight increases in trading. In terms of corporate size, the companies whose share prices performed most favourably in the third quarter were mid-cap companies. These companies recorded slight gains both in the third quarter (0.8%) and in the year as a whole (1.3%). The share prices of small-cap companies, which had recorded very high gains in the first half of the year due to the support of institutional investors and their limited supply, fell by 5.6% in the third quarter as they suffered more from the slowdown in growth of the domestic economy. However, in the year as a whole, these companies have recorded gains of 10.7%.

The indices that reflect movements in Latin American securities listed in euros recorded significant gains in the quarter, which partially offset the sharp falls recorded in the second quarter. So far this year, the FTSE Latibex All-Share and the FTSE Latibex Top indices have risen by 8.4% and 9.9%, respectively, in an environment of high volatility in exchange rates<sup>10</sup> of Latin American currencies against the euro.

*In an environment of volatile exchange rates, Latin American stock indices have managed to record gains during the year.*

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9 With the exception of the French Cac 40, which performed positively both in the quarter and in the year as a whole (3.2% and 3.4%, respectively), the main European indices have recorded losses over the year: Eurostoxx 50 (0.1% quarterly and -3.0% annual), Dax 30 (-0.5% and -5.2%, respectively) and Mib 30 (-4.2% and -5.2%, respectively).

10 So far this year, the Brazilian real has depreciated by 16.5% against the euro, while the Mexican peso has appreciated by 7.6%.

## Performance of Spanish stock market indices and sectors

TABLE 4

Indices	2015	2016	2017	III-17 <sup>1</sup>	IV-17 <sup>1</sup>	I-18 <sup>1</sup>	II-18 <sup>1</sup>	III-18 <sup>1</sup>	Dec-17
Ibex 35	-7.2	-2.0	7.4	-0.6	-3.3	-4.4	0.2	-2.4	-6.5
Madrid	-7.4	-2.2	7.6	-0.4	-3.2	-3.9	-0.1	-2.5	-6.3
Ibex Medium Cap	13.7	-6.6	4.0	-3.3	-0.2	-1.4	1.9	0.8	1.3
Ibex Small Cap	6.4	8.9	31.4	2.8	15.1	11.1	5.6	-5.6	10.7
FTSE Latibex All-Share	-39.2	71.0	9.0	12.4	-2.4	11.1	-12.4	11.4	8.4
FTSE Latibex Top	-34.6	67.8	7.3	13.8	-7.2	7.5	-9.4	12.9	9.9
<b>Sectors<sup>2</sup></b>									
<b>Financial and real estate services</b>	<b>-24.2</b>	<b>-1.6</b>	<b>10.5</b>	<b>2.6</b>	<b>-6.1</b>	<b>-3.7</b>	<b>-8.7</b>	<b>-5.1</b>	<b>-16.5</b>
Banks	-26.0	-1.8	10.6	3.0	-6.6	-4.5	-9.9	-5.3	-18.5
Insurance	-5.0	15.5	0.1	-7.8	-0.6	-0.9	-0.2	2.3	1.1
Real estate and others	18.4	-2.3	17.6	0.0	0.8	-5.6	3.3	-10.9	-13.1
<b>Oil and energy</b>	<b>0.6</b>	<b>0.8</b>	<b>3.9</b>	<b>-1.0</b>	<b>-1.7</b>	<b>-4.8</b>	<b>12.0</b>	<b>-1.4</b>	<b>5.1</b>
Oil	-34.9	32.6	9.9	16.3	-5.4	-2.2	16.3	2.4	16.4
Electricity and gas	9.6	-4.3	2.0	-5.2	-0.6	-6.1	10.6	-2.5	1.2
<b>Basic materials, industry and construction</b>	<b>2.1</b>	<b>2.0</b>	<b>2.6</b>	<b>-8.9</b>	<b>4.4</b>	<b>-1.8</b>	<b>2.4</b>	<b>2.7</b>	<b>3.3</b>
Construction	4.9	-7.9	9.9	-6.4	4.0	-7.3	6.7	4.5	3.3
Manufacture and assembly of capital goods	49.0	7.8	-19.3	-23.5	2.7	8.1	-6.2	-5.2	-3.8
Minerals, metals and metal processing	-30.8	48.8	14.2	4.3	8.3	1.8	-6.2	7.5	2.6
Engineering and others	-39.6	9.9	-9.9	-6.4	4.5	-2.0	7.2	-1.4	3.5
<b>Technology and telecommunications</b>	<b>-5.2</b>	<b>-9.0</b>	<b>7.5</b>	<b>2.7</b>	<b>-4.2</b>	<b>-0.2</b>	<b>-0.9</b>	<b>4.8</b>	<b>3.7</b>
Telecommunications and others	-12.3	-14.2	-5.1	1.6	-10.3	-0.1	-8.5	-5.3	-13.5
Electronics and software	22.2	7.9	36.6	5.0	7.6	-0.3	11.9	17.4	31.0
<b>Consumer goods</b>	<b>30.9</b>	<b>0.2</b>	<b>-2.1</b>	<b>-3.9</b>	<b>-5.3</b>	<b>-8.4</b>	<b>12.4</b>	<b>-6.5</b>	<b>-3.8</b>
Textile, clothing and footwear	33.6	2.6	-10.4	-5.1	-8.9	-12.4	15.0	-10.8	-10.1
Food and drink	26.4	-5.4	5.2	-1.1	0.9	3.7	1.7	1.4	7.0
Pharmaceuticals and biotechnology	23.5	-6.4	14.6	-4.0	-1.0	-5.6	11.5	-0.8	4.4
<b>Consumer services</b>	<b>10.4</b>	<b>-8.0</b>	<b>23.3</b>	<b>-3.8</b>	<b>5.8</b>	<b>-4.0</b>	<b>-1.1</b>	<b>-4.9</b>	<b>-9.7</b>
Leisure, tourism and hotel and catering	33.0	-4.7	3.4	-6.9	4.9	-0.3	-0.1	-9.9	-10.4
Transport and distribution	29.6	-15.7	32.3	-7.3	8.3	-3.4	1.7	-2.7	-4.3

Source: BME and Thomson Datastream.

1 Change on the previous quarter.

2 IGBM sectors. Under each sector, data are provided for the most representative sub-sectors.

*Almost every sector recorded losses in the third quarter of the year, which were more intense in tourism, telecommunications and real estate companies.*

The behaviour of prices was uneven between sectors and shares over the third quarter, with more price falls recorded than price increases. The largest depreciations were suffered by tourism companies, which were affected by the falls in the sector's figures this summer; the leading textile company (Inditex), as a result of doubts about its business model in the context of the strong growth of e-commerce companies; and by real estate sector companies. Furthermore, although to a lesser extent, falls were also recorded in the prices of banks and the largest telecommunications company (Telefónica), as a result of their exposure to emerging economies, especially to Turkey and Argentina (see Table 4). Gains were recorded by the leading

company in the travel technology sector (Amadeus), which was boosted by investors' interest in technology companies and its inclusion in the European Eurostoxx 50 index, and some companies in the construction, commodities, food and insurance sectors.

The cumulative figures for the year show price falls in the financial and real estate services sector (-16.5%), the consumer services sector (-9.7%) and the consumer goods sector (-3.8%). In contrast, the gains were concentrated in the oil and energy sector (5.1%), the technology and telecommunications sector (3.7%) and the basic materials, industry and construction sector (3.3%).

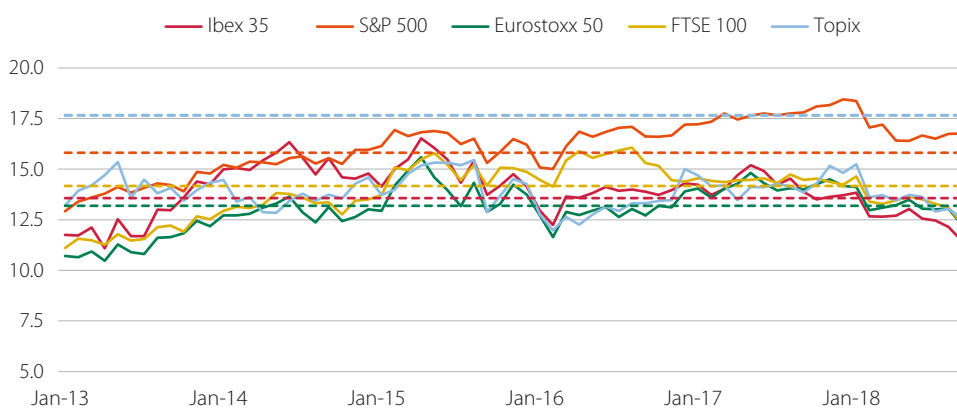
*So far this year, the prices that have fallen most are those of banks, real estate companies and telecommunication companies, all of which fell by over 13%.*

The fall in share prices in the third quarter, together with continued growth in expected corporate earnings in the coming months, allowed the Ibex 35 price/expected earnings (P/E) ratio to fall from 12.6 in mid-June to 11.4 in September and to reach its lowest level since 2013. As shown in Figure 13, the P/E ratios of the leading global stock market indices performed unevenly over the quarter, with slight rises for the US S&P 500 index and decreases for the European Eurostoxx 50, the British FTSE 100 and the Japanese Topix. So far this year, with the exception of the S&P 500 index, all ratios have remained below their 2010-2017 average values – a trend that at the end of 2017 was only seen in the Japanese Topix index.

*The fall in share prices led to the Ibex 35 P/E ratio falling to 11.4, its lowest level since 2013 and well below its historic average.*

Price-earnings ratio<sup>1</sup> (P/E)

FIGURE 13



Source: Thomson Datastream. Data to 15 September.

<sup>1</sup> Twelve-month forward earnings.

The volatility of the Ibex 35, which recorded some temporary upturns in the first half of the year as a result of the episodes of uncertainty in US stock markets<sup>11</sup> and then in Italy, fell again to close to 10% at the end of the third quarter. This value is lower than the average of the previous two quarters (13.41% and 13.78%, respectively) and stands below the average for 2017, when it reached its lowest level in recent years – below 13%. The movements in the volatility of the Spanish market have been similar to those of other European markets and that of the European Eurostoxx 50 index (10.2% at the end of the quarter), all of which are in the area of historic lows. The volatility of US markets also fell to the area of

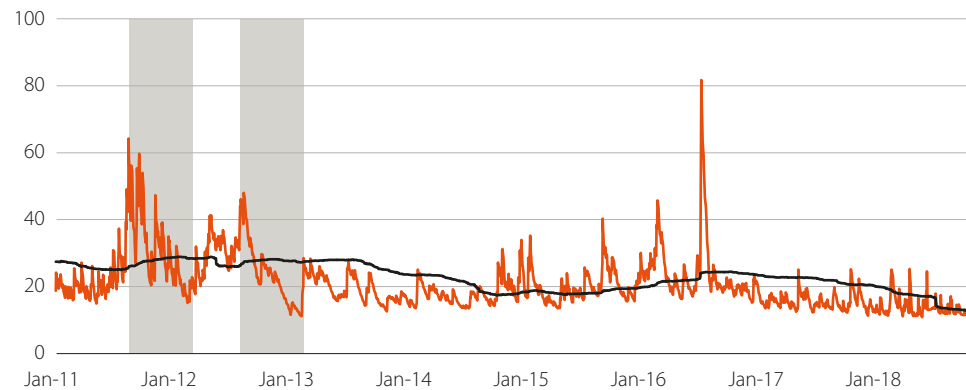
*The volatility of the Ibex 35 has recorded slight temporary upturns over the year, but at the end of September fell once again to values of close to 10%.*

<sup>11</sup> The volatility indicator for these markets (VIX index) exceeded 30% in the first quarter of the year (see Figure 7).

historic lows<sup>12</sup> at the end of the third quarter, although it has moved within a wider range during the year.

### Historical volatility of the Ibx 35

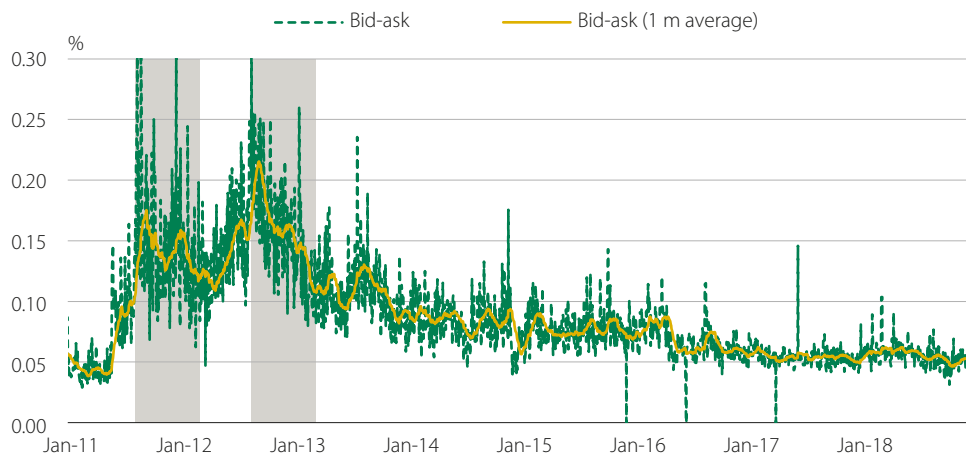
FIGURE 14



Source: Thomson Datastream and CNMV. The black line tracks conditional volatility and the red line unconditional volatility. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013. The first ban affected financial institutions and the second ban applied to all listed companies.

### Ibx 35 liquidity. Bid-ask spread

FIGURE 15

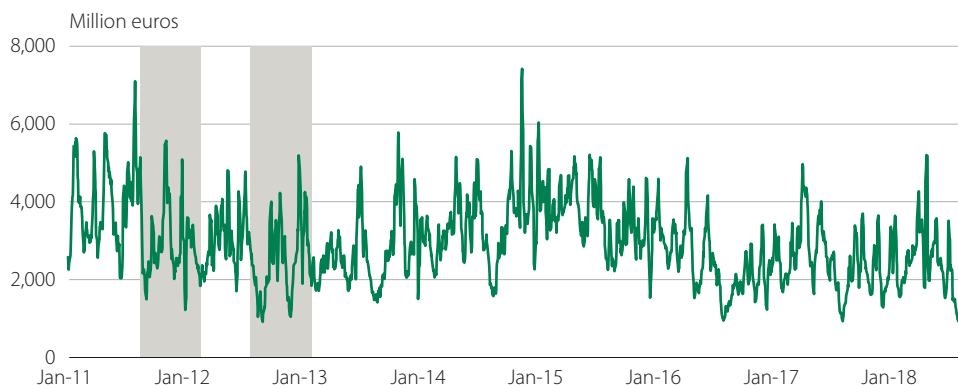


Source: Thomson Datastream and CNMV. The curve represents the bid-ask spread of the Ibx 35 along with the average of the last month. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013. The first ban affected financial institutions and the second ban applied to all listed companies.

*Equity market liquidity improved in the third quarter of the year.*

Ibx 35 liquidity, as measured by the bid-ask spread, improved slightly in the third quarter of the year, favoured by the fall in market volatility. This spread stood at 0.05% at the end of the third quarter, slightly below the average of the two previous quarters (0.06% and 0.055%, respectively), as well as the average for 2017 as a whole (0.054%) and the indicator's historic average (0.093%).

12 The Dow Jones historical volatility indicator has fallen below 10%.



Source: CNMV. The grey shaded areas refer to the introduction and lifting of the short selling ban running from 11 August 2011 to 16 February 2012, and the later ban starting on 23 July 2012 and ending on 1 February 2013.

<sup>1</sup> Moving average of five trading days.

Spanish equity trading, which had recovered slightly in the first half of the year, remained stable in the third quarter (0.5% compared with the third quarter of 2017) as a result of increased economic uncertainties worldwide, as well as the context of low volatility – which discourages some types of trading, such as algorithmic trading. As in previous quarters, the movements in trading are the result of the fall in the amount traded on BME (-7.2% annual) and the increase in trading on platforms other than the home market (14.8%), which are offering a high level of competition. In daily terms, trading on the electronic market stood on average at 1.8 billion euros in the third quarter, below the 2.29 billion euros and 3.02 billion euros in the previous quarters and the cumulative average so far this year of 2.36 billion euros, as shown in Figure 16.

As a result of these trends, the share of foreign markets in the trading of Spanish securities, which in the second quarter had fallen below one third of the total amount traded, grew significantly again in the third quarter, reaching a new historic high of close to 40% (38.6% in the first quarter, 32.5% in the second quarter and 31.7% in 2017 as a whole). The regulated market Cboe Global Markets (Cboe) (which operates through two different order books, BATS and Chi-X), with trading of over 62.5 billion euros in the third quarter, continued to gain market share and accounted for over 80% of the total amount of Spanish shares traded abroad (see Table 5). Turquoise also slightly improved its market share to 13.5% (of foreign trade), while the other operators continued to lose business volume and account for just over 6%.

For the year as a whole, the volume of trading of Spanish securities stands at 709.8 billion euros, 1.4% up on the first three quarters of 2017. Of this amount, 448 billion was traded on BME (6.4% down on the 2017) and the rest was traded on other markets and platforms (up 18%).

In the area of trading, in accordance with the market transparency requirements resulting from MiFID II/MiFIR, 18 securities traded on the Spanish stock markets this year have been affected by the established trading thresholds, which trigger the suspension of the application of the transparency waivers allowed for under this

*Trading levels remained stable in the third quarter of the year, and are the result of the fall in trading on BME and...*

*... the increase in the trading of Spanish shares on other foreign platforms. The market share of these platforms now stands at 40% of total trading.*

*For the year as a whole, share trading has risen slightly by 1.4%.*

*During the year, a total of 18 securities traded on Spanish stock exchanges have been temporarily unable to make use of the transparency waivers as a result of exceeding certain trading volumes.*

regulation.<sup>13</sup> Consequently, these waivers have temporarily not been allowed for trading with the securities, thus facilitating the price formation process.<sup>14</sup> In Spain, the CNMV has authorised a waiver on transaction matching on shares or ETFs admitted to trading on the Spanish stock exchanges and MAB or LATIBEX at the average price of the best current buying and selling position in a reference market. This waiver is included within the category of “reference price waivers”, and is therefore subject to the aforementioned volume cap mechanism.

## Trading in Spanish shares listed on Spanish exchanges<sup>1</sup>

TABLE 5

Million euros

	2014	2015	2016	2017	I-18	II-18	III-18
<b>Total</b>	<b>1,002,189.0</b>	<b>1,161,482.8</b>	<b>877,413.3</b>	<b>934,377.1</b>	<b>234,555.7</b>	<b>281,299.7</b>	<b>193,976.4</b>
<b>Listed on SIBE</b>	<b>1,002,095.9</b>	<b>1,161,222.9</b>	<b>877,402.7</b>	<b>934,368.3</b>	<b>234,554.7</b>	<b>281,296.3</b>	<b>193,974.0</b>
BME	849,934.6	925,978.7	631,107.2	634,990.9	143,131.5	189,282.3	116,051.4
Chi-X	95,973.0	150,139.9	117,419.4	117,899.2	26,830.1	28,550.0	25,272.1
Turquoise	28,497.5	35,680.5	51,051.8	44,720.1	10,900.3	11,015.5	10,543.9
BATS	18,671.0	35,857.6	44,839.8	75,411.6	46,765.7	44,872.1	37,214.3
Other <sup>2</sup>	9,019.8	13,566.2	32,984.5	61,346.5	6,927.0	7,576.4	4,892.3
<b>Open outcry</b>	<b>92.4</b>	<b>246.1</b>	<b>7.5</b>	<b>8.1</b>	<b>1.0</b>	<b>3.1</b>	<b>2.0</b>
Madrid	32.7	19.4	3.2	1.8	0.0	0.0	0.1
Bilbao	14.3	7.5	0.0	0.0	0.0	0.0	0.0
Barcelona	45.2	219.1	4.1	6.3	0.9	3.1	1.9
Valencia	0.3	0.1	0.0	0.0	0.0	0.0	0.0
<b>Second market</b>	<b>0.7</b>	<b>13.8</b>	<b>3.2</b>	<b>0.7</b>	<b>0.1</b>	<b>0.3</b>	<b>0.4</b>
<b>Pro memoria</b>							
Foreign shares traded on BME	14,508.9	12,417.7	6,033.0	6,908.0	1,153.0	805.6	841.5
Alternative stock market (MAB)	7,723.2	6,441.7	5,066.2	4,985.8	1,401.5	1,020.4	762.0
Latibex	373.1	258.7	156.7	130.8	43.8	33.2	31.6
ETFs	9,849.4	12,633.8	6,045.2	4,464.1	981.0	957.3	456.6
Total BME trading	882,482.3	957,990.5	648,418.9	651,488.5	146,711.9	192,102.2	118,145.5
% Spanish shares on BME vs. total Spanish shares	84.8	80.1	71.9	68.3	61.4	67.5	60.1

Source: Bloomberg and CNMV.

- 1 Includes trading of Spanish shares subject to market or MTF rules (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 shares are those which are admitted to trading on the regulated market of BME whose ISIN is not Spanish.
- 2 Difference between the turnover of the EU Composite calculated by Bloomberg for each share and the turnover of the markets and MTFs.

13 Article 4.1 of MiFIR regulates the waivers relating to orders at reference prices from another market. These waivers may be suspended temporarily if any of the double volume caps are exceeded. CNMV communications on the transparency regime may be consulted at [www.cnmv.es/Portal/MiFIDII\\_MiFIR/Mercados-Transparencia.aspx](http://www.cnmv.es/Portal/MiFIDII_MiFIR/Mercados-Transparencia.aspx)

14 At the closing date of this report (30 September), the suspension of the use of waivers affected four shares.

## Capital increases and public offerings for sale

TABLE 6

	2015	2016	2017	IV-17	I-18	II-18	III-18
<b>NUMBER OF ISSUERS<sup>1</sup></b>							
<b>Total</b>	<b>50</b>	<b>45</b>	<b>47</b>	<b>18</b>	<b>15</b>	<b>12</b>	<b>17</b>
Capital increases	45	45	45	18	14	12	17
Primary offerings	0	3	3	1	0	0	0
Secondary offerings	6	2	4	1	1	0	0
<b>NUMBER OF ISSUES<sup>1</sup></b>							
<b>Total</b>	<b>111</b>	<b>81</b>	<b>91</b>	<b>26</b>	<b>22</b>	<b>14</b>	<b>17</b>
Capital increases	99	79	84	25	21	14	17
Primary offerings	0	4	4	1	0	0	0
Secondary offerings <sup>2</sup>	12	2	7	1	1	0	0
<b>CASH AMOUNT<sup>1</sup> (million euros)</b>							
<b>Capital increases raising funds</b>	<b>19,106.1</b>	<b>13,846.7</b>	<b>25,787.7</b>	<b>1,370.8</b>	<b>1,898.9</b>	<b>426.1</b>	<b>1,667.4</b>
With pre-emptive subscription right	7,932.6	6,513.3	7,831.4	531.6	574.7	63.0	0.0
Without pre-emptive subscription right	0.0	807.6	956.2	100.0	0.0	0.0	0.0
Accelerated book builds	8,092.3	0.0	821.8	475.2	0.0	0.0	89.0
Increases with non-monetary consideration <sup>3</sup>	365.2	1,791.7	8,469.3	49.9	1,179.1	0.0	1,263.4
Capital increases by debt conversion	1,868.7	2,343.9	1,648.8	125.5	1.6	223.9	153.3
Other	847.4	2,390.2	6,060.2	88.6	143.5	139.2	161.7
<b>Bonus issue<sup>4</sup></b>	<b>9,627.8</b>	<b>5,898.3</b>	<b>3,807.3</b>	<b>720.1</b>	<b>1,362.8</b>	<b>133.1</b>	<b>2,120.3</b>
Of which, scrip dividend	9,627.8	5,898.3	3,807.3	720.1	1,362.8	133.1	2,120.3
<b>Total capital increases</b>	<b>28,733.9</b>	<b>19,745.1</b>	<b>29,595.0</b>	<b>2,090.9</b>	<b>3,261.7</b>	<b>559.2</b>	<b>3,787.8</b>
<b>Secondary offerings</b>	<b>8,331.6</b>	<b>506.6</b>	<b>2,944.5</b>	<b>567.3</b>	<b>645.7</b>	<b>0.0</b>	<b>0.0</b>
<b>Pro memoria: MAB transactions<sup>5</sup></b>							
Number of issuers	16	15	13	3	1	3	3
Number of issues	18	21	15	4	3	3	4
Cash amount (million euros)	177.8	219.7	129.9	26.2	13.2	95.7	52.3
Capital increases	177.8	219.7	129.9	26.2	13.2	95.7	52.3
Of which, through primary offerings	21.6	9.7	17.1	3.0	0.0	0.0	0.0
Secondary offerings	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: BME and CNMV.

- 1 Transactions registered with the CNMV. Not including figures for MAB, ETFs or Latibex.
- 2 Transactions linked to the exercise of green shoe options are separately accounted for.
- 3 Capital increases with non-monetary consideration have been recorded at market prices.
- 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 Transactions not registered with the CNMV.

Equity issues made on Spanish markets amounted to 3.79 billion euros in the third quarter, less than half the amount issued in the same period of the previous year when Banco Santander's capital increase took place, which exceeded 7.1 billion euros (excluding the amount issued by this bank, equity issues in the third quarter of the year would have grown by 27% compared with the same period of 2017). In turn, the amount issued in the year to September (8.25 billion euros) is 72% down on the amount issued between January and September 2017.<sup>15</sup> Particularly

*Share issues fell both in the third quarter and in the year as a whole and several companies have delayed their IPO.*

15 It is even lower than the amounts issued in any of the first three quarters of 2017 (8.72 billion, 11.07 billion and 10.09 billion).

noteworthy with regard to the type of issue in the third quarter were capital increases under scrip dividends, which accounted for over half of the total and almost double the amount of this category in the previous year, coinciding with the usual payment of dividends at the start of the summer by several large companies (see Table 6). Although several real estate companies had shown their interest in becoming listed on the market over the year, the unfavourable trend in share prices led to these plans being cancelled or delayed. However, the country's second largest oil company (CEPSA) has shown interest in becoming listed on the market again in the last quarter of the year, with registration of its prospectus with the CNMV on 2 October.

### 3.2 Fixed-income markets

*The expectations relating to the ECB's monetary policy and some sources of uncertainty (Italy, Turkey...) set the tone for the performance of bond markets.*

Both national and European bond markets have been subject to some volatility over the year in accordance with changes in economic and political circumstances. On the one hand, the monetary policies of the ECB<sup>16</sup> and the Federal Reserve<sup>17</sup> have followed different paths: while the ECB is in the initial stage of reducing its asset purchase programmes to zero and delaying raising interest rates until at least the summer of 2019, the Fed is immersed in the process of raising interest rates, due to the fact that the US economy is at a more advanced stage of the cycle. On the other hand, the uncertainties that have arisen again in Europe – in this case, relating to Italian public finances – also had an impact on bond markets and led to investors undoing positions in peripheral debt to the benefit of the debt of the major European economies. This behaviour increased the risk premiums of the former, while it reduced the yields on the latter. All of this took place in the context of a certain slowdown in economic activity in Europe and downgraded growth forecasts, which favoured sales in share markets and purchases of debt assets, which are considered to be safe havens.

*The perception that rates will rise in the euro area sooner rather than later and the uncertainty arising from Italy explained a slight increase in long-term debt yields.*

In Spain, interest rates had reached historic lows at the end of the first quarter thanks to the drop in the risk premium triggered by the good performance of the Spanish economy and, above all, by the improvements in the credit rating of the sovereign bond. However, there was a change in trend as from the second quarter, which became further consolidated as the third quarter progressed and rates moved slightly upwards. Several factors influenced this slight upward trend: firstly, the increased expectation that the ECB's accommodative monetary policy would end earlier than previously expected; secondly, the uncertainties relating to Italian public finances affected other peripheral economies, including the Spanish economy; and, lastly, it became increasingly likely that economic growth will start to slow down, which might have an effect on the public deficit. Consequently, the yields on Spanish government bonds and on corporate bonds rose slightly at all maturities on the curve, even though they continue to be favoured by the positive impact of the ECB's debt purchase programme. For its part, the risk premium remained relatively stable in the third quarter and ended September at 103 bp.

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16 In mid-September, the ECB confirmed that the monthly pace of its debt purchases would be halved as from October to 15 billion euros and that these would continue until December of this year.

17 The Federal Reserve has raised its rates three times in 2018, the last time in September, to a range of 2 to 2.25% and is likely to make a further hike before the end of the year (see Section 2.1).

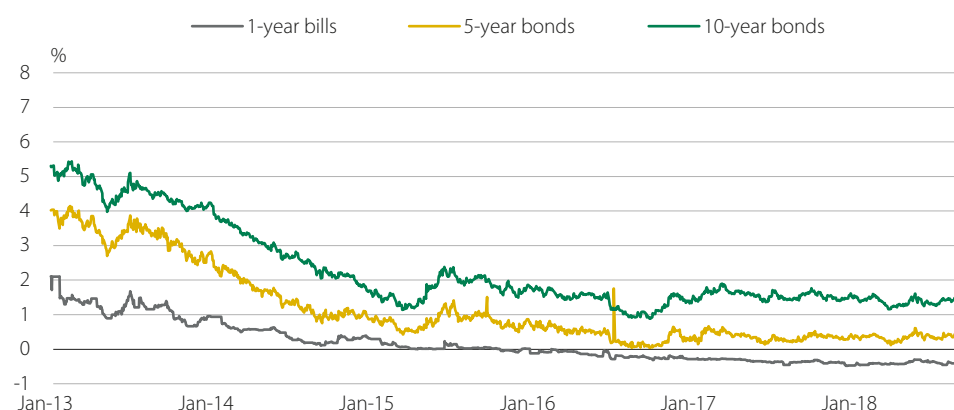


These increased uncertainties slowed the pace of debt issuance by Spanish issuers in the third quarter, although the changes were uneven between the different types of assets and issue markets. The amounts issued rose in the case of short-term commercial paper, while longer term financing fell significantly. It therefore seems that Spanish issuers are taking advantage of low short-term financing costs and that long-term financing (and refinancing) needs were largely covered in 2017, taking advantage of the buoyant period of the market and the support of the ECB's corporate sector purchase programme.

*Fixed-income issues fell in the third quarter of the year, although there was a greater propensity towards issuing commercial paper and towards issuing abroad.*

### Spanish government debt yields

FIGURE 17



Source: Thomson Datastream.

Yields on short-term government bonds have shown a slight upward bias as the year has progressed. Nevertheless, at the end of September, they remained at rates close to the historical lows of year-end 2017. Their movements have been dependent on the ultra-expansive rate policy maintained by the ECB, which, in theory, will continue well into 2019.<sup>18</sup> Accordingly, after almost three years recording negative values at every maturity, secondary market yields on 3-month, 6-month and 12-month Letras del Tesoro stood at -0.46%, -0.41% and -0.37%, respectively, at the end of September. These values are very similar to those of the previous quarter and are in line with the minimum annual yield established by the ECB in its debt purchase programs (the deposit facility rate). All auctions of Letras del Tesoro were again settled at negative rates, with the latest auctions performed in September settled at a similar rate to those in previous auctions. Short-term corporate bond yields recorded slight increases in the third quarter, which were somewhat greater in longer-term bonds. Yields on commercial paper when issued stood at values ranging between 0.31% for the 3-month benchmark and 0.36% for the 12-month benchmark (see Table 7).

*Short-term yields recorded a slight upward trend as the year progressed, but they remain very close to historic lows thanks to the ultra-expansive monetary policy stance.*

18 The ECB's president once again reiterated in mid-September that rates will continue at 0% at least through the summer of 2019.

## Short-term interest rates<sup>1</sup>

TABLE 7

%

	Dec-15	Dec-16	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18
<b>Letras del Tesoro</b>							
3 months	-0.15	-0.47	-0.62	-0.62	-0.55	-0.52	-0.46
6 months	-0.01	-0.34	-0.45	-0.45	-0.46	-0.43	-0.41
12 months	-0.02	-0.25	-0.42	-0.42	-0.42	-0.34	-0.37
<b>Commercial paper<sup>2</sup></b>							
3 months	0.31	0.18	0.39	0.39	0.29	0.25	0.31
6 months	0.42	0.20	0.26	0.26	0.22	0.12	0.26
12 months	0.53	0.15	0.19	0.19	0.24	0.18	0.36

Source: Thomson Datastream and CNMV.

1 Monthly average of daily data.

2 Interest rates at issue.

*Long-term government bond yields also rose slightly. Three-year bond yields turned positive in mid-September...*

Yields on long-term government bonds rose slightly in the third quarter, as they did in other European economies, as a result of the prospect that the ECB's accommodative monetary policy will gradually disappear – including the Public Sector Purchase Programme<sup>19</sup> – in an environment that is not free from uncertainties. The average yield on 3-year, 5-year and 10-year government bonds in September stood at 0.0%, 0.49% and 1.51%, respectively (see Table 8). The 3-year benchmark started to show positive yields from mid-September, following 2 years in negative values. The average yield on the 10-year bond rose by 13 bp to 1.51% in September.

*... a trend also followed by corporate bond yields.*

Corporate bonds followed a similar path, with slight upturns that were mainly concentrated in the 5-year and 10-year maturities. Up to the 5-year maturity, yields on corporate bonds outstripped those on government bonds, while for the 10-year maturity, corporate yields remained below government bond yields as they are still supported by the positive effect of the ECB's corporate sector purchase programme,<sup>20</sup> which typically concentrates its purchases in longer-term issues, part of which are performed directly in the primary market.

19 The Public Sector Purchase Programme (PSPP) had accumulated by mid-September a purchase volume of 2.14 trillion euros, with 256.54 billion euros corresponding to Spanish debt.

20 At the end of September, the Corporate Sector Purchase Programme (CSPP) accumulated a volume of purchases amounting to 170.38 billion euros, of which 18.2% were performed in the primary market.

## Medium and long term yields<sup>1</sup>

TABLE 8

%

	Dec-15	Dec-16	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18
<b>Government bonds</b>							
3 years	0.24	0.04	-0.09	-0.09	-0.07	-0.06	0.00
5 years	0.72	0.35	0.31	0.31	0.30	0.41	0.49
10 years	1.72	1.44	1.46	1.46	1.35	1.38	1.51
<b>Corporate bonds</b>							
3 years	0.66	0.69	0.44	0.44	0.51	0.44	0.47
5 years	1.95	1.43	0.41	0.41	0.39	0.36	0.59
10 years	2.40	2.14	1.16	1.16	1.04	1.23	1.41

Source: Thomson Datastream, Reuters and CNMV.

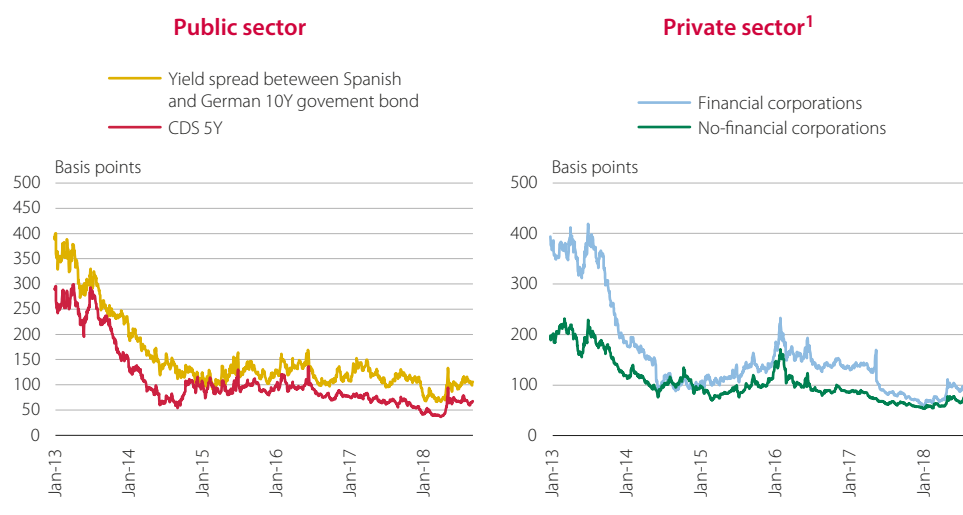
<sup>1</sup> Monthly average of daily data.

The sovereign risk premium remained relatively stable in the third quarter, although it has recorded some temporary upturns, particularly in the previous quarter, as a result of some contagion of the problems with Italian public finances. In this context, the risk premium, measured as the spread between the Spanish sovereign bond and the 10-year German bond, stood at 103 bp at the end of September, very similar to the figure recorded at the end of the previous quarter and in a medium range between the lows recorded in April (66 bp) and the highs recorded in May (134 bp). The credit risk premium, assessed through the CDS of the Spanish sovereign bond – a less liquid market than that of the bond itself – followed a similar trend. Its value at the end of the third quarter stood at 67 bp, slightly below the 71 bp recorded in the previous quarter.

*The sovereign risk premium has recorded temporary upturns in the year as a result of the contagion effect of the uncertainty relating to Italian public finances.*

## Risk premium paid by Spanish issuers

FIGURE 18



Source: Thomson Datastream and CNMV.

<sup>1</sup> Simple average of the 5-year CDS of a sample of issuers.

The risk premiums of the private subsectors of the economy recorded slight falls in the third quarter, which were somewhat more intense in the case of financial institutions. As shown in the right-hand panel of Figure 18, the average of the CDS of financial institutions, which had risen to 111 bp at the end of May as a result of their

*The risk premiums of the private sectors of the economy recorded a slight upturn in the middle of the year, but have since returned to a downward trend.*

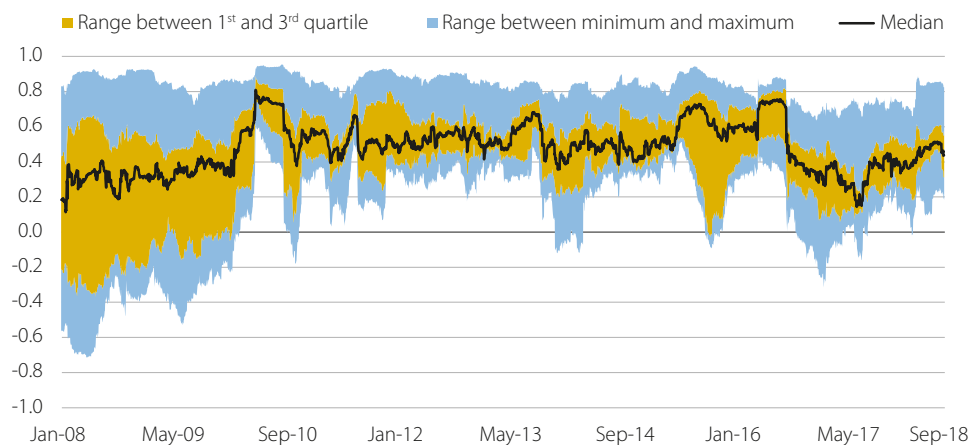
exposure to Italian debt assets and to some emerging economies undergoing difficulties, later fell to 90 bp at the end of September as a result of the easing of these uncertainties and the positive effect on this sector's profitability which is starting to be discounted in response to the shift in monetary policy. Average risk premiums for non-financial companies fell from 76 bp in the second quarter to 69 bp in the third quarter. Although the imminent disappearance of the ECB's corporate sector purchase programme, together with the likely increase in interest rates, fuel expectations of a medium-term increase in their finance costs, these companies have benefited from the positive performance of their operations.<sup>21</sup>

*The level of correlation between Spanish assets, which had increased in the first half of the year, subsequently stabilised at values of 0.50.*

The level of correlation between the different Spanish fixed-income and equity financial assets grew notably in the first part of the year and became consolidated over the third quarter at values close to, but slightly lower than, 0.50, a figure similar to the average of the last decade. Similarly, the minimum and maximum correlation values, which had increased slightly at the end of the first half of the year, coinciding with the time at which the political instability in Italy had the greatest impact on financial markets, subsequently moderated slightly.

**Indicator of correlation between asset classes<sup>1, 2</sup>**

FIGURE 19



Source: Thomson Datastream and CNMV.

- 1 The indicator of correlation between asset classes is based on pairs of correlations calculated using daily data in three-month windows. The asset classes are sovereign debt, corporate fixed income of financial and non-financial firms and Ibex 35 stocks of financial companies, utilities and the 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. In addition, diversification would hold out fewer advantages, since it would be harder to avoid exposure to sources of systemic risk.
- 2 As from 7 June 2017, the calculation of the return on the asset class corresponding to financial fixed income excludes the CDS on the 5-year senior debt of Banco Popular.

<sup>21</sup> A considerable part of the companies considered in this average belong to the oil and energy sector, which for months have been favoured by, *inter alia*, the increase in the price of oil.

## Gross fixed-income issues

TABLE 9

	2014	2015	2016	2017	2018		
					I	II	III
<b>Registered with the CNMV</b>							
<b>NOMINAL AMOUNT</b> (million euros)	<b>130,258</b>	<b>136,607</b>	<b>139,028</b>	<b>109,487</b>	<b>20,205</b>	<b>10,645</b>	<b>11,782</b>
Mortgage-covered bonds	23,838	31,375	31,643	29,824	5,125	1,700	5,050
Territorial-covered bonds	1,853	10,400	7,250	350	0	0	0
Non-convertible bonds and debentures	41,155	39,100	40,170	30,006	4,983	1,177	1,431
Convertible/exchangeable bonds and debentures	750	53	0	0	0	0	0
Asset-backed securities	29,008	28,370	35,505	29,415	5,431	3,534	1,048
Commercial paper <sup>1</sup>	33,654	27,310	22,960	17,911	3,416	3,884	3,254
Securitised	620	2,420	1,880	1,800	0	240	0
Other commercial paper	33,034	24,890	21,080	16,111	3,416	3,644	3,254
Other fixed-income issues	0	0	1,500	981	0	0	0
Preferred shares	0	0	0	1,000	1,250	350	1,000
<b>Pro memoria:</b>							
Subordinated issues	7,999	5,452	4,279	6,505	1,857	832	933
Underwritten issues	196	0	421	0	0	0	0
					2018		
<b>Abroad by Spanish issuers</b>					I	II	III <sup>2</sup>
<b>NOMINAL AMOUNT</b> (million euros)	<b>56,736</b>	<b>66,347</b>	<b>58,587</b>	<b>84,771</b>	<b>26,618</b>	<b>20,351</b>	<b>10,845</b>
Long term	35,281	33,362	31,655	61,125	14,136	9,359	2,600
Preferred shares	5,602	2,250	1,200	5,844	1,500	0	0
Subordinated debt	3,000	2,918	2,333	5,399	1,250	1,000	0
Bonds and debentures	26,679	28,194	28,122	49,882	11,386	8,359	2,600
Asset-backed securities	0	0	0	0	0	0	0
Short term	21,455	32,984	26,932	23,646	12,482	10,992	8,245
Commercial paper	21,455	32,984	26,932	23,646	12,482	10,992	8,245
Securitised	0	0	0	0	0	0	0
<b>Pro memoria: Gross issues of subsidiaries of Spanish companies resident abroad</b>							
					2018		
	2014	2015	2016	2017	I	II	III <sup>2</sup>
<b>NOMINAL AMOUNT</b> (million euros)	<b>42,170</b>	<b>55,286</b>	<b>56,674</b>	<b>65,423</b>	<b>21,746</b>	<b>18,980</b>	<b>13,900</b>
Financial institutions	10,201	14,875	11,427	20,309	9,456	7,994	4,849
Non-financial companies	31,969	40,411	45,247	45,114	12,290	10,986	9,050

Source: CNMV and Bank of Spain.

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

2 Data to 31 August.

The CNMV registered 11.78 billion euros of gross bond issues in the third quarter of the year, 10.4% down on the same period of the previous year. This low amount is the result of the substitution of debt issues abroad, which continue to grow, as well as the fact that the leading Spanish issuers have already covered a large part of their financing needs. The large non-financial companies brought forward their financing needs last year so as to take advantage of low financing costs and therefore their needs

*Fixed-income issues fell in the third quarter...*

for this year are lower. Banks, for their part, had also taken advantage of the situation to obtain finance previously and more recently they have seen how market conditions have hardened, with increasing returns demanded by the market. In absolute terms, the largest falls were recorded in issues of asset-backed securities and, to a lesser extent, mortgage-covered bonds, which fell as a result of the slow expansion of lending and the reduced financing facilities offered by the ECB. In contrast, issues of commercial paper increased in relative importance to just under one third of the total.

*... as well as in the year-to-date, as a result of the lower financing needs of these entities and the preference for issuing abroad.*

So far this year, fixed-income issues amount to 42.63 billion euros, 30.8% down on 2017, with falls in every asset category except preferred shares thanks to two issues of this type aimed at institutional investors made by two financial institutions. The sharpest falls in amount corresponded to uncovered bonds (almost 10 billion euros so far this year), which are increasingly issued abroad, and mortgage-covered bonds (4.6 billion euros down), whose issue volume is dependent on the outstanding balance of mortgage lending, which has still not recorded any significant increase. The smallest fall was recorded in commercial paper (1.81 billion).

*Debt issues abroad, which exceeded those registered with the CNMV in each quarter, are orientated more towards short-term assets.*

As has been the case for several years, fixed-income issues made by Spanish issuers abroad have continued to grow and in every quarter in 2018 were higher than those registered with the CNMV. In the year to August, these issues amounted to 58 billion euros, 12.6% up on those recorded in the same period of 2017. This growth is concentrated in short-term debt issues, which are almost three times higher than in 2017, while long-term debt issues have fallen by 32.8% year-on-year. Short-term issues therefore account for 55% of the total issued abroad, compared with 25% in 2017. The fall in long-term issues is partly the result of the fall in the amounts of the corporate debt purchases by the ECB, given that most of these issues fall within the range of eligible assets under its corporate sector purchase programme. Issues by subsidiaries of Spanish companies abroad have also grown over the year (by 38.4% to 54.63 billion euros), as a result of the sharp growth in issues by financial institutions, which have doubled.

## 4 Market agents

### 4.1 Investment vehicles

#### Financial CIS<sup>22</sup>

*Assets under management in mutual funds grew by 3.2% in the first half of 2018 to 274 billion euros...*

Assets managed by Spanish mutual funds at the end of June 2018 amounted to 273.77 billion euros, 3.2% up on year-end 2017 (see Table 11). This demonstrates the consolidation of the expansion that began in 2013 – although at a slower rate of growth than in the first two years. The sector's assets now stand at levels very close to the maximum reached in the middle of 2007. This increase was exclusively the result of net subscriptions made during the half-year period – particularly in the first quarter – which exceeded 10 billion euros (see Table 10).

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22 Hedge funds and funds of hedge funds are financial CIS, but due to their specific features they are described in a separate sub-heading.

## Net mutual fund subscriptions

TABLE 10

Million euros

	2015	2016	2017	2017		2018	
				III	IV	I	II
<b>Total mutual funds</b>	<b>23,466.6</b>	<b>13,782.4</b>	<b>21,338.4</b>	<b>3,458.6</b>	<b>5,645.1</b>	<b>8,913.1</b>	<b>2,018.9</b>
Fixed-income <sup>1</sup>	-5,351.4	7,613.8	-2,998.7	66.4	69.0	-1,056.0	-100.5
Mixed fixed-income <sup>2</sup>	21,167.5	-3,177.6	2,501.7	242.7	712.6	726.2	-54.0
Mixed equity <sup>3</sup>	8,153.8	-3,030.2	5,509.6	810.2	1,490.3	1,868.6	545.5
Euro equity <sup>4</sup>	468.9	-542.9	2,544.9	646.3	543.0	1,857.7	255.7
International equity <sup>5</sup>	4,060.5	346.6	4,502.9	1,022.7	1,115.3	1,543.9	799.1
Guaranteed fixed-income	-6,807.4	-3,202.7	-2,890.0	-931.7	-347.8	-198.5	-232.7
Guaranteed equity <sup>6</sup>	-2,599.8	5,478.4	-588.4	-454.4	-539.1	-261.6	-320.1
Global funds	5,805.3	3,579.9	12,984.3	1,641.8	3,638.8	4,835.2	2,703.7
Passively managed <sup>7</sup>	-6,264.2	5,790.0	-4,580.8	-734.2	-1,450.2	-1,146.7	-1,381.0
Absolute return <sup>7</sup>	4,811.4	946.4	4,378.9	1,148.9	439.2	744.3	-196.8

Source: CNMV. Estimated data.

- 1 Includes: Euro fixed-income, International fixed-income and Money market funds (from the third quarter of 2011, Money market funds encompass those engaging in Money market and Short-term money market investments, Circular 3/2011).
- 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: Guaranteed equity and Partial guarantee.
- 7 New categories since II-09. All Absolute return funds were previously classified in Global Funds.

By far the largest inflows of resources were recorded in the category of global funds, which in a little over five years have seen their assets under management multiplied by ten. Net subscriptions in these funds amounted to 7.54 billion euros, followed by mixed equity funds, with 2.41 billion euros, and by international equity and euro equity funds, with net inflows of 2.34 billion euros and 2.11 billion euros, respectively. The largest net redemptions corresponded to passively managed funds (2.53 billion), which thus continued the downward trend that began in the previous year, which contrasted with the strong expansion in 2016. Fixed-income funds also recorded an outflow of resources (1.16 billion euros), as did, to a lesser extent, both guaranteed equity and guaranteed fixed-income funds (582 million and 431 million euros, respectively). This investor behaviour is similar to that seen in previous years, with a greater appetite for risk, but with two significant differences. Firstly, it seems that investors are investing in funds with an increasingly higher level of risk and, secondly, passively-managed funds, which had tripled their assets between 2014 and 2016, suffered significant redemptions in 2017 and the start of 2018.

... as a result of the high level of subscriptions by unit-holders, which exceeded 10 billion euros between January and June.

The return of mutual funds over the first 6 months of the year was slightly negative (-0.81%) due to the drop in stock market prices in the first quarter (see Table 11). This performance was relatively generalised across the different fund categories: between January and March every category recorded a negative return, with the exception of guaranteed funds, while returns were positive in most categories in the second quarter. In the first half of the year as a whole, every category recorded

The cumulative return of mutual funds was negative (-0.8%) as a result of the stock market losses in the first quarter of the year.

falls in the value of their portfolio, with the exception of euro equity funds (0.08%). Noteworthy among the other funds was the negative performance of absolute return funds (-1.49%) and mixed fixed-income funds (-1.37%).

*The number of funds fell over the first half of the year, with a shift towards higher risk categories.*

The supply of funds offered by management companies fell slightly in the first half of 2018, although with a much smaller reduction than that recorded in preceding years, particularly between 2012 and 2015. Between January and June this year, 80 funds were wound up, which, together with the 63 new funds during the period, meant that the number of funds at the end of the half-year period stood at 1,724. In line with the movements in assets under management, the largest falls were recorded in passively-managed funds and guaranteed equity funds, with 15 and 13 fewer funds, respectively. At the opposite end, the category with the largest growth in the supply of funds was international equity funds, with an increase of 18 funds to a total of 229. The number of global funds and mixed fixed-income funds also grew, with 11 and 6 more funds, respectively.

*The significant increase in the number of unit-holders, more than 1.1 million investors in 6 months, left the total number of investors at 11.4 million.*

In line with the trend in assets under management, the number of unit-holders in mutual funds rose by 11.2% to practically 11.4 million at the end of the half-year period. The largest increase was recorded in international equity funds, with 321,000 more unit-holders, followed by global funds and euro equity funds, with increases of 280,000 and 218,000, respectively. These three categories, whose risk level is considered to be medium-high, have at least doubled the number of unit-holders in the last two or three years.

*The provisional data for July indicate that the expansion of mutual funds continues, with the buoyancy of high-risk categories remaining.*

With the provisional data from July this year, it seems that the upward trend continues. The assets of mutual funds would have grown by 1% to 276.4 billion euros. The number of unit-holders, in contrast, would have fallen by 40,000 to slightly under 11.4 million, while the number of funds would have remained relatively stable.

*The volume of the less-liquid assets of mutual funds has remained almost constant since 2015 and accounts for around 1.5% of total assets managed by mutual funds.*

The liquidity conditions of the fixed-income portfolio, which had improved significantly from 2011, have remained stable over the last three years. The percentage of low liquidity assets held by mutual funds in recent quarters has ranged between 1.3% and 1.5% of total assets under management. These figures are far from those recorded in 2009, when they accounted for 9%. At the end of June 2018, the volume of low liquidity assets stood at 4.08 billion euros, 1.5% of the assets under management – the same percentage as over the last six months (see Table 12). With regard to the composition of these assets, there have been very few changes over the year and it is only necessary to note the progressive increase in low liquidity assets within the fixed income portfolio of financial institutions, which from the end of 2016 have been gradually increasing from 5.1% to 7.5% (with regard to the total financial fixed-income portfolio).



**Main mutual fund variables\***

TABLE 11

Number	2015	2016	2017	2017		2018	
				III	IV	I	II
<b>Total mutual funds</b>	<b>1,804</b>	<b>1,805</b>	<b>1,741</b>	<b>1,795</b>	<b>1,741</b>	<b>1,748</b>	<b>1,724</b>
Fixed-income <sup>1</sup>	319	306	290	294	290	284	281
Mixed fixed-income <sup>2</sup>	132	148	155	158	155	154	161
Mixed equity <sup>3</sup>	142	168	176	177	176	177	176
Euro equity <sup>4</sup>	109	112	111	113	111	106	108
International equity <sup>5</sup>	200	201	211	210	211	224	229
Guaranteed fixed-income	186	122	79	90	79	76	69
Guaranteed equity <sup>6</sup>	205	198	188	190	188	186	175
Global funds	178	203	225	223	225	241	236
Passively managed <sup>7</sup>	213	220	202	213	202	201	187
Absolute return <sup>7</sup>	97	106	104	106	104	99	102
<b>Assets (million euros)</b>							
<b>Total mutual funds</b>	<b>222,144.6</b>	<b>237,862.2</b>	<b>265,194.8</b>	<b>258,466.2</b>	<b>265,195.0</b>	<b>271,264.0</b>	<b>273,774.0</b>
Fixed-income <sup>1</sup>	65,583.8	74,226.4	70,563.9	70,297.1	70,563.9	69,325.4	68,881.3
Mixed fixed-income <sup>2</sup>	44,791.8	40,065.6	43,407.0	42,668.4	43,407.0	43,766.1	43,979.4
Mixed equity <sup>3</sup>	21,502.9	16,310.6	22,386.7	20,754.6	22,386.7	23,860.3	24,039.9
Euro equity <sup>4</sup>	9,092.9	8,665.9	12,203.2	11,753.3	12,203.2	13,714.2	14,282.2
International equity <sup>5</sup>	17,143.2	17,678.8	24,064.6	22,445.3	24,064.6	24,808.0	26,484.3
Guaranteed fixed-income	12,375.6	8,679.8	5,456.7	5,828.2	5,456.7	5,311.3	4,982.8
Guaranteed equity <sup>6</sup>	9,966.6	15,475.7	15,417.5	15,909.7	15,417.5	15,203.6	14,664.1
Global funds	12,683.3	20,916.8	35,511.5	31,439.9	35,511.5	39,908.6	42,633.5
Passively managed <sup>7</sup>	17,731.1	23,601.6	19,477.8	20,972.4	19,477.8	18,097.7	16,686.8
Absolute return <sup>7</sup>	11,228.1	12,215.2	16,705.9	16,371.3	16,705.9	17,269.0	17,139.7
<b>Unit-holders</b>							
<b>Total mutual funds</b>	<b>7,682,947</b>	<b>8,253,611</b>	<b>10,287,454</b>	<b>10,068,296</b>	<b>10,287,454</b>	<b>11,019,934</b>	<b>11,435,155</b>
Fixed-income <sup>1</sup>	2,203,847	2,347,984	2,627,547	2,660,197	2,627,547	2,711,617	2,840,000
Mixed fixed-income <sup>2</sup>	1,130,190	1,043,798	1,197,523	1,154,688	1,197,523	1,239,848	1,252,577
Mixed equity <sup>3</sup>	612,276	448,491	584,408	552,773	584,408	618,234	615,754
Euro equity <sup>4</sup>	422,469	395,697	710,928	663,541	710,928	877,146	929,169
International equity <sup>5</sup>	1,041,517	1,172,287	1,865,367	1,790,875	1,865,367	2,071,665	2,186,454
Guaranteed fixed-income	423,409	307,771	190,075	205,956	190,075	184,036	175,776
Guaranteed equity <sup>6</sup>	417,843	552,445	527,533	542,772	527,533	519,396	505,574
Global funds	381,590	658,722	1,086,937	985,627	1,086,937	1,236,975	1,366,657
Passively managed <sup>7</sup>	554,698	746,233	638,966	673,604	638,966	601,927	554,981
Absolute return <sup>7</sup>	479,182	565,325	858,170	823,971	858,170	959,090	1,008,213
<b>Return<sup>8</sup> (%)</b>							
<b>Total mutual funds</b>	<b>0.89</b>	<b>0.98</b>	<b>2.42</b>	<b>0.56</b>	<b>0.33</b>	<b>-1.04</b>	<b>0.23</b>
Fixed-income <sup>1</sup>	0.10	0.52	-0.13	0.05	-0.08	-0.26	-0.68
Mixed fixed-income <sup>2</sup>	0.16	0.27	1.10	0.38	0.12	-0.84	-0.53
Mixed equity <sup>3</sup>	0.15	1.19	3.23	0.80	0.57	-1.69	0.62
Euro equity <sup>4</sup>	3.44	2.61	11.16	0.55	-0.23	-1.77	1.88
International equity <sup>5</sup>	7.84	4.15	8.75	2.09	1.27	-3.51	3.59
Guaranteed fixed-income	0.27	-0.03	0.72	0.29	0.30	1.02	-1.30
Guaranteed equity <sup>6</sup>	1.07	0.19	1.61	0.48	0.03	0.35	-1.16
Global funds	2.45	1.99	4.46	0.94	1.31	-1.58	0.66
Passively managed <sup>7</sup>	0.53	1.16	2.13	0.50	-0.20	-0.51	0.23
Absolute return <sup>7</sup>	0.12	0.38	1.44	0.43	0.23	-0.93	-0.57

Source: CNMV.

\* Information from funds which have sent reserved statements (therefore excludes funds in process of dissolution or liquidation).

1 Includes: Euro fixed-income, International fixed-income and Money market funds (from the third quarter of 2011, Money market funds encompass those engaging in Money market and Short-term money market investments, Circular 3/2011).

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: Guaranteed equity and Partial guarantee.

7 New categories since II-09. All Absolute return funds were previously classified in Global Funds.

8 Annual returns for 2015, 2016 and 2017. Quarterly data comprise non-annualised quarterly returns.

## Estimated liquidity of mutual fund assets

TABLE 12

Asset type	Low liquidity investments					
	Million euros			% / total fixed-income portfolio		
	Dec-17	Mar-18	Jun-18	Dec-17	Mar-18	Jun-18
Financial fixed income rated AAA/AA	22	137	163	3.5	19.0	18.3
Financial fixed income rated below AAA/AA	1,929	1,978	1,972	7.0	7.1	7.2
Non-financial fixed income	925	931	974	5.2	4.8	4.9
Securitisations	1,058	1,014	969	93.8	92.9	94.7
AAA-rated securitisations	84	110	108	100.0	100.0	100.0
Other securitisations	974	905	861	93.3	92.1	94.1
<b>Total</b>	<b>3,934</b>	<b>4,061</b>	<b>4,079</b>	<b>8.4</b>	<b>8.3</b>	<b>8.3</b>
<b>% of mutual fund assets</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>			

Source: CNMV.

## Real estate CIS

*Overall, real estate CIS have suffered a slight contraction so far this year.*

*Of the three real estate funds that existed at year-end 2017, one has been wound up in 2018 and the others are expected to be wound up in the coming months...*

*... while the number of real estate investment companies has remained at four since the third quarter of 2017.*

*The hedge fund sector remained relatively stable between January and May of this year in terms of the number of funds (54 in total).*

Despite the improvement in the construction and real estate sector since 2015, the key variables of real estate CIS worsened slightly in the first half of the year.

Of the three real estate funds registered with the CNMV that have existed since 2015, one was wound up, leaving only two in operation. However, both vehicles informed the CNMV in 2011 and 2015 that they were initiating a liquidation process – as was the case with the third fund that has recently been wound up. In this context, the assets managed by real estate funds in the first 6 months of 2018 fell by 14.1%, while the number of unit-holders shrank by 56.0% to 483. The return of these funds left negative territory for the first time since the outbreak of the crisis and stood at 0.3% between January and June. It therefore seems that the recovery of the real estate sector is beginning to have an effect, albeit slight, on these funds.

The number of real estate investment companies has remained constant since the third quarter of 2017 and hence at the end of June of this year there was a total of four entities. The assets managed by these companies fell by 9.6% to 572 million euros, while the number of shareholders grew significantly from 327 to 425. This was due to the fact that the last company registered in 2017 increased the number of shareholders from 1 to 100 (the legal minimum) by the established deadline.

## Hedge funds

Hedge fund assets grew slightly (1.7%) in the first 5 months of 2018 and ended May at 2.82 billion euros. The number of funds that had submitted statements to the CNMV stood at 54, the same figure as at year-end 2017, although with one more hedge fund (47) and one fewer fund of hedge funds (7 at the end of May). The number of the latter has been falling since the start of the crisis, when there were 41 such funds in operation.

Assets managed by pure hedge funds – which account for over 80% of total assets under management – stood at 2.35 billion euros at the end of May (see Table 13), 2% up on December 2017 as a result of net subscriptions over those 5 months of 26.7 million euros and a slight increase in the value of the portfolio of 0.7%. In addition, the number of unit-holders rose by 10.5% and exceeded 4,000.

*Assets managed by pure hedge funds grew by 2% to 2.3 billion and the number of unit-holders amounted to 4,000...*

While the number of funds of hedge funds fell by one, the assets managed remained practically constant, with an almost imperceptible fall of 0.3% to 470.2 million euros. The number of unit-holders, in contrast, fell significantly by 22.4% to 2,791. The return of these funds in the period between January and May of this year was practically zero (-0.3%) after several years with relatively high values.

*... while assets managed by funds of hedge funds have remained practically constant, following years of major adjustments.*

### Main hedge fund and fund of hedge fund variables

TABLE 13

	2015	2016	2017	2017		2018	
				III	IV	I	II <sup>1</sup>
<b>FUNDS OF HEDGE FUNDS</b>							
Number	11	7	8	9	8	8	7
Unit-holders	1,265	1,237	3,591	3,534	3,596	3,605	2,791
Assets (million euros)	319.8	293.7	482.7	472.0	468.7	470.0	470.2
Yield (%)	6.16	0.90	-1.44	0.36	-0.13	-0.37	0.12
<b>HEDGE FUNDS</b>							
Number	37	41	46	46	46	47	47
Unit-holders	3,089	2,930	3,656	3,444	3,656	3,973	4,040
Assets (million euros)	1,764.8	1,889.2	2,298.2	2,192.0	2,298.2	2,329.7	2,344.7
Yield (%)	4.83	4.32	2.67	1.03	0.80	-0.91	1.59

Source: CNMV.

1 Data to May, except number of vehicles, which are shown to June.

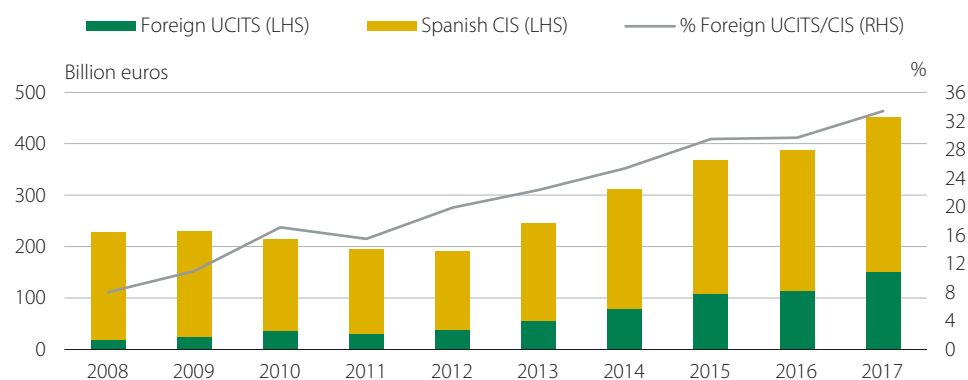
### Foreign UCITS marketed in Spain

With regard to the information available on foreign UCITS marketed in Spain, it is important to note the transition process that is currently taking place as a result of entry into force of CNMV Circular 2/2017, of 25 October, amending Circular 2/2011, of 9 June, on information on foreign collective investment schemes registered with the CNMV. This new Circular increases, on the one hand, the information that foreign CIS must submit to the CNMV and, on the other hand, broadens the spectrum of entities required to submit such information in order to incorporate non-harmonised CIS. The new requirements of this Circular have made it necessary to extend the deadline for submitting information for the entities affected by the amendments. Therefore, on the closing date of this report no new data were available referring to foreign CIS marketed in Spain in comparison with the latest data to December 2017 (see Figure 20). It might be assumed that the assets of these schemes have continued to grow in 2018 in view of the expansive trend shown since 2013 in an environment that has not changed substantially and given the increase recorded by the assets of domestic CIS over this period.

*A regulatory change in relation to the information that must be sent to the CNMV on foreign CIS means that information on such CIS in 2018 is not yet available, although it is likely that their growth has continued over this period.*

## Assets of foreign UCITS marketed in Spain

FIGURE 20



Source: CNMV.

## Outlook

*The fact that higher-risk categories are receiving a greater volume of resources highlights the importance that investors should be aware of the risks of these assets.*

The expansion of the collective investment industry continues as a result of the low returns offered by other more traditional options (such as deposits) in an environment of growing income. The preference for high-risk mutual funds shows the desire by investors to obtain higher returns, but they should be aware of the risks of these products. In particular, they should be aware of market risk – the potential losses that may be incurred as a result of a fall in the price of the assets – and liquidity risk – related to the possibility of selling an asset in a short period of time (in this case, redemption) without incurring losses that are too high. It is also essential for them to be able to distinguish funds that offer active management, and therefore charge higher management fees, from funds whose managers basically follow certain indices and which, therefore, should charge lower costs to the unit-holder (see Exhibit 2).

### The practice of closet indexing and measures to strengthen transparency about the type of management performed

EXHIBIT 2

In recent years, the European Securities and Markets Authority (ESMA) has been carrying out actions and research into the practice known as closet indexing, whereby an investment fund claims in its information documentation to be actively managed when in fact said management tracks or is very close to a benchmark. This management requires the management company to devote fewer resources to selecting the assets that make up the fund's portfolio, which should result in lower management fees being charged to investors.

A number of European countries (including Germany, France, Italy and the United Kingdom) have taken measures to improve the transparency of investor information documents following investigations into possible closet indexing practices.

The CNMV has also performed several analyses in which it has detected a low number of funds that engage in closet indexing, and it has required that their information documents be updated. It should be noted that in the case of Spain, it is a widespread practice for the Key Investor Information Document (KIID) to

include the benchmark, which some associations of investors and financial service users have highlighted positively.<sup>1</sup> However, in line with ESMA recommendations and best practices in other countries, the CNMV has deemed it necessary to introduce the following improvements to the information provided to investors (see the communication dated 8 October 2018):

- In cases in which information on a benchmark is included, the KIID must specify whether such benchmark is used in merely informative or comparative terms (that is, without conditioning the manager’s freedom) or whether, on the contrary, to a greater or lesser extent management is linked to the financial benchmark. In this latter case, additional information must be provided on the level of freedom of said management with regard to the benchmark.
- The periodic public reporting must also provide information on the degree of discretion used in the management carried out during the period, and in the event that, to a greater or lesser extent, it is linked to a benchmark, details must be provided as to the performance of the fund in comparison with that of the benchmark. It must also provide any other additional information that the manager considers it appropriate to provide, such as that relating to tracking errors,<sup>2</sup> total exposure of the assets held in components of the benchmark, “active share”,<sup>3</sup> degree of coincidence in the order of the positions with respect to that benchmark, etc.

1 See the press release by Better Finance of 4 June 2018, which included the KIID practice of UCITS in Spain under the “Best-in-Class” section, highlighting the generalised disclosure of the updated benchmark in a language that is neutral and standardised, which is also accessible on the CNMV’s website.

2 In investment portfolio management, tracking error is a measure of the difference in performance between a particular portfolio or fund and its benchmark. It shows the volatility of the difference in returns.

3 The active share measures the degree of difference between the fund portfolio and the benchmark portfolio.

## 4.2 Investment firms

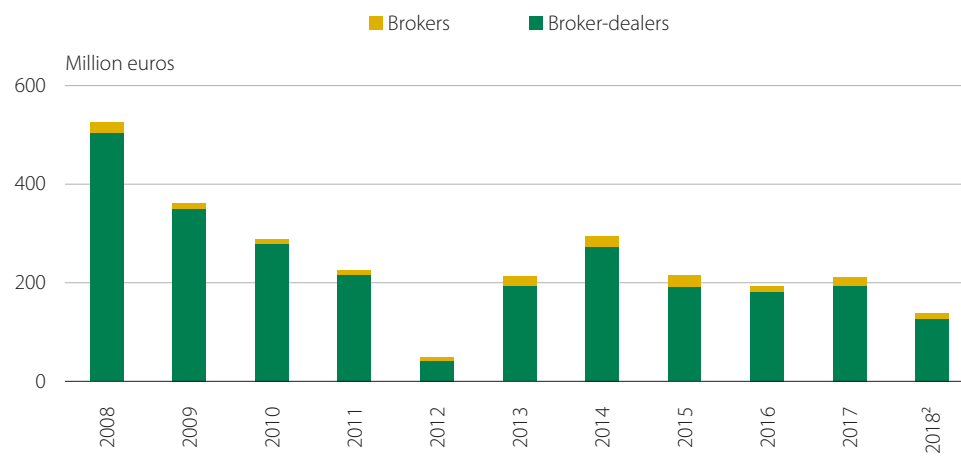
Following a slight recovery in 2017, the profits of investment firms once again fell in the first 6 months of 2018, by 34.4% to 138.2 million euros in annualised terms (see Figure 21). This contraction, which was basically a result of the instability in financial markets, was recorded both by brokers and by broker-dealers. At the end of June, the CNMV’s register contained a total of 94 broker-dealers and brokers<sup>23</sup> compared with 90 at the end of 2017 as there were 6 new registrations (all by brokers) and 2 de-registrations (1 broker and 1 broker-dealer). Of the total number of entities, 48 held a Community passport to operate within the European Union under the freedom to provide services (46 at the end of 2017) and 8 did so by means of a physical presence (branch), 1 more than 6 months earlier. A total of 5 entities operated outside the European Union, 1 with a branch and 4 through the freedom to provide services.

*Investment firm profits shrank by 34.4% in the first half of 2018.*

23 Except financial advisory firms, which are discussed in a separate heading in this report due to their specific features.

## Aggregate pre-tax profit of investment firms<sup>1</sup>

FIGURE 21



Source: CNMV.

1 Except financial advisory firms and portfolio management companies.

2 Annualised data.

*Pre-tax profits of broker-dealers fell by 39.7% as result of the drop in fees received for order processing and execution and, to a lesser extent, income from financial investments.*

Broker-dealers recorded a lower level of activity in the first half of 2018, which led to a 39.7% reduction in aggregate profit before tax, which stood at 63.2 million euros. Nevertheless, this figure still accounts for over 90% of total sector profits (see Table 14). The fall in profit was the result of lower fees received and, to a lesser extent, lower income from financial investments, which have fallen significantly over recent years to 213.2 million and 14.7 million euros, respectively. The fees that fell most in absolute terms were those obtained for order processing and execution, which amounted to 92.7 million euros, 22.8% down in year-on-year terms. These fees, despite still being by far the most important fees for broker-dealers, have been losing relative importance over recent years and now account for 44% of total fees (they had accounted for 70% of the total in 2010).

*Other fee income also fell, with the exception of securities deposit and recording fees.*

Following several years of increases, fees for marketing CIS fell significantly, shrinking by 29.8% to 28.2 million euros, while fees from portfolio management fell by 69.7% to 7.8 million euros. In contrast, securities deposit and recording fees, which had fallen over 2017 recovered part of the lost ground with growth of 11.7% to 21.9 million euros.

*The fees paid by broker-dealers (-19.5%) and operating expenses (-11.2%) were the items with the largest positive impact on the income statement.*

The other items making up the gross margin, which shrank by 20.7% to 226.2 million euros, mostly had a negative effect. Particularly noteworthy due to their size were the 7.1% reduction in net interest income to 46 million and the aforementioned 27.0% fall in profit from financial investments. It is also important to note the positive effect of the fall in fees paid by broker-dealers, which amounted to 61.6 million euros after dropping by 19.5% in year-on-year terms. Finally, the 11.2% reduction in operating expenses, to 159.3 million euros, and the 47.7% reduction in depreciation/amortisation, to 3.5 million euros, led to the operating profit in June 2018 standing at 63 million euros, 36.1% down on the same period of 2017.

## Aggregate income statement (June 2018)

TABLE 14

Thousand euros

	Broker-dealers			Brokers		
	Jun-17	Jun-18	% change	Jun-17	Jun-18	% change
1. Net interest income	49,527	46,031	-7.1	818	1,076	31.5
2. Net fee income	199,702	151,557	-24.1	55,773	57,325	2.8
2.1. Fee income	276,224	213,150	-22.8	66,788	67,164	0.6
2.1.1. Order processing and execution	120,062	92,739	-22.8	10,759	10,369	-3.6
2.1.2. Initial placement and underwriting	10,789	2,029	-81.2	1,804	849	-52.9
2.1.3. Securities deposit and recording	19,632	21,937	11.7	355	424	19.4
2.1.4. Portfolio management	25,648	7,765	-69.7	5,797	6,803	17.4
2.1.5. Investment advisory services	1,670	2,352	40.8	4,483	4,273	-4.7
2.1.6. Stock search and placement	947	211	-77.7	0	0	-
2.1.7. Margin trading	0	0	-	0	0	-
2.1.8. Marketing CIS	40,148	28,185	-29.8	26,491	30,795	16.2
2.1.9. Other	57,328	57,933	1.1	17,099	13,650	-20.2
2.2. Fee expense	76,522	61,593	-19.5	11,015	9,839	-10.7
3. Profit from financial investments	20,153	14,705	-27.0	157	-40	-
4. Net exchange differences	4,109	1,707	-58.5	-358	-7	98.0
5. Other operating income and expense	11,660	12,202	4.6	-748	-768	-2.7
<b>GROSS PROFIT MARGIN</b>	<b>285,151</b>	<b>226,202</b>	<b>-20.7</b>	<b>55,642</b>	<b>57,586</b>	<b>3.5</b>
6. Operating expenses	179,369	159,251	-11.2	48,100	51,512	7.1
7. Depreciation, amortisation and other charges	6,776	3,543	-47.7	892	723	-18.9
8. Impairment losses on financial assets	377	385	2.1	-3	-29	-866.7
<b>OPERATING PROFIT (LOSS)</b>	<b>98,629</b>	<b>63,023</b>	<b>-36.1</b>	<b>6,653</b>	<b>5,380</b>	<b>-19.1</b>
9. Other profit (loss)	6,168	215	-96.5	-102	472	-
<b>PROFIT (LOSS) BEFORE TAX</b>	<b>104,797</b>	<b>63,238</b>	<b>-39.7</b>	<b>6,551</b>	<b>5,852</b>	<b>-10.7</b>
10. Corporate income tax	14,878	2,552	-82.8	909	1,044	14.9
<b>PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>89,919</b>	<b>60,686</b>	<b>-32.5</b>	<b>5,642</b>	<b>4,808</b>	<b>-14.8</b>
11. Profit (loss) from discontinued operations	0	0	-	0	0	-
<b>Net profit (loss) for the year</b>	<b>89,919</b>	<b>60,686</b>	<b>-32.5</b>	<b>5,642</b>	<b>4,808</b>	<b>-14.8</b>

Source: CNMV.

Brokers left behind a positive year with regard to their results and once again recorded a contraction in their activity. Their aggregate pre-tax profit fell by 10.7% in year-on-year terms to 5.9 million euros in the first half of the year. Although net fee income rose by 2.8% to 57.3 million euros, the increase in operating expenses was higher (7.1% to 51.5 million euros) and cancelled out the entire increase in revenue. With regard to fee income, there was some re-composition between the different types of fees during the first half of the year. Fees for marketing CIS, which are by far the largest fees, grew by 16.2% compared with the period between January and June 2017 to 30.7 million euros, while fees for portfolio management grew by 17.4% and thus returned to figures close to those recorded in 2014, when they started to fall sharply. In contrast, although they remain the second most important in terms

*Brokers suffered a 10.7% fall in their profits, mainly as a result of the increase in operating expenses.*

of amount, fees for order processing and execution fell by 3.6% to 10.4 million euros, while fees for investment advisory services fell by 4.7% to 4.3 million euros.

*In line with the fall in profits, the return on equity of investment funds as a whole fell between December 2017 and June 2018.*

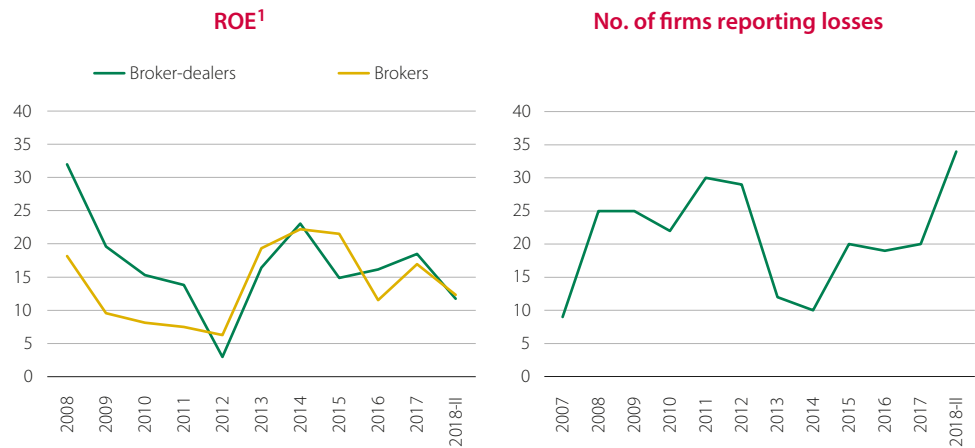
The pre-tax return on equity (ROE) of investment firms as a whole, in line with the negative performance of results, fell between the end of 2017 and mid-2018, from 18.4% to 11.8%. As shown in the left-hand panel of Figure 22, the fall was very similar in both broker-dealers and brokers.

*The number of loss-making firms stood at 34 at mid-year, 14 more than at the end of 2017, although with a lower total amount than in the first half of the previous year.*

In line with the decline suffered by the sector, the number of loss-making firms rose during the first half of the year to 34, after closing 2017 with a figure of 20. Specifically, there were 14 loss-making broker-dealers, twice the number recorded at year-end 2017, and 20 loss-making brokers, 7 more than in December of the previous year (see right-hand panel of Figure 22). However, the total value of cumulative losses for the first two quarters fell on the same period of the previous year and stood at 22.9 million euros (26 million euros between January and June 2017).

**Pre-tax ROE of investment firms and number of loss-making firms**

FIGURE 22



Source: CNMV.

1 ROE based on profit before tax.

*The sector's solvency conditions remained comfortable.*

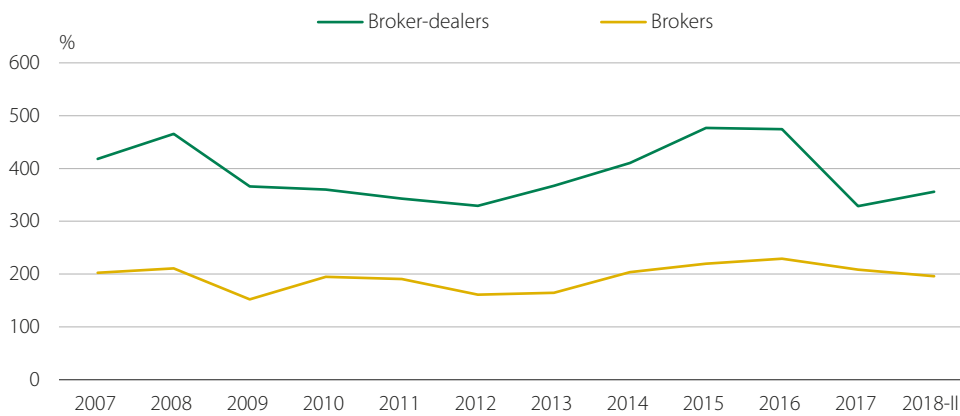
The sector's solvency conditions – measured as the surplus capital over the capital required – remained comfortable in relative terms in the first half of 2018. For all firms required to submit solvency statements,<sup>24</sup> the capital adequacy ratio rose from 3.2 in December 2017 to 3.4 in June of this year. By type of firm, broker-dealers recorded an increase from 3.3 to 3.6, while brokers recorded a slight reduction of 0.1 to 2.0 (see Figure 23).

24 Since 1 January 2014, as established in CNMV Circular 2/2014, of June 23, on the exercise of various regulatory options on solvency matters for investment firms and their consolidated groups, not all entities are required to file these statements. As a result of this Circular, 12 of the 83 investment firms were exempt from this requirement in September.



## Investment firm capital adequacy (surplus of eligible capital over minimum capital requirements)

FIGURE 23



Source: CNMV.

## Outlook

Investment firms continue to perform their operations in a complicated environment due to the shift of equity trading towards foreign platforms in an environment of low volatility which further reduces trading, the increase in issues of debt assets in other jurisdictions and the competition from credit institutions in providing some services traditionally performed by investment firms. That is why many investment firms are currently immersed in changes to their business model that will modify the composition of their fee income – in an attempt to reduce the traditional high dependence on fees for order processing and execution – and at the same time increase their efficiency by reducing operating expenses.

*Investment firms continue to perform their operations in a complex environment, characterised by the fragmentation of markets and competition from banks, which creates the need for them to make some changes to their business model.*

## Financial Literacy Survey

EXHIBIT 3

Several international studies have shown that the population in many countries is unfamiliar with basic concepts relating to inflation, compound interest rates and risk diversification. Given the growing complexity of financial products, this lack of knowledge may hinder the choice of the most appropriate savings, insurance or debt vehicles for each individual.

Against this backdrop, the Bank of Spain and the CNMV have collaborated, within the framework of the Financial Education Plan, in performing the Financial Literacy Survey, which measures the knowledge and understanding of financial concepts of the Spanish population aged between 18 and 79, as well as the possession and use of different savings, debt and insurance vehicles.

This survey, included in the National Statistics Plan, has relevant features that allow a rigorous and comprehensive description of the financial knowledge of the adult population in Spain and its relationship with the financial system. The sample is representative of the entire Spanish territory and of each of its autonomous regions and contains 21,221 individuals, and the final number of full interviews amounts to 8,952.

The Financial Literacy Survey is also part of an international project coordinated by the International Network on Financial Education – under the auspices of the Organisation for Economic Co-operation and Development (OECD) – which measured the financial knowledge, attitudes and behaviour of the population of a wide set of countries between 2015 and 2016. As a result, this study conducted in Spain between the fourth quarter of 2016 and the second quarter of 2017 makes it possible to place both the financial knowledge and the interaction of Spanish people with the financial system in an international context.

The Financial Literacy Survey includes the questions proposed in the international study, which focuses on assessing the level of knowledge on three general concepts: inflation, compound interest and risk diversification.

The Financial Literacy Survey incorporates additional questions that adapt the questionnaire to the case of Spain. Firstly, in addition to the financial skills of the selected person, the survey also collects information on the financial skills of the household. Secondly, it includes measures validated in international studies of the cognitive skills of individuals beyond strictly financial ones. Finally, the survey contains a module on the main residence in which information is obtained on the ownership decision, expectations regarding its price and, where appropriate, the manner in which the purchase was financed.

From among the conclusions obtained from the survey, it is worth noting that the financial knowledge of the adult population in Spain is generally around the average of all the countries studied. Only the percentage of correct answers in Spain on the concept of risk diversification is clearly below the average (for all countries as well as those belonging to the OECD and the European Union). In this context, another significant result is that the higher the level of education and income, the greater the financial literacy.

The level of financial literacy varies with age and the highest percentage of correct answers was obtained by individuals aged between 45 and 64. There are also differences between autonomous regions with regards to financial literacy, with Aragón scoring the highest percentage of correct answers. Part of the differences seen between autonomous regions may be associated with the different demographic composition and different level of education, which are variables that are related to the level of financial knowledge.

With regard to the possession of various financial products, 97% of the surveyed individuals have a current account. The most frequent savings vehicle is the savings account, which is held by 26% of respondents, followed by pension plans, which are held by 1 in 5 individuals aged between 18 and 79.

The possession of other financial assets is less frequent. The percentage of individuals who own shares or investment funds does not exceed 13%, while only 1% of the population in question owns a fixed-income asset. The holding of shares or investment funds is concentrated among individuals in households with income above 26,000 euros – approximately one third of the population with a higher level of income.

30% of individuals have life insurance and 21% have health insurance. The percentage with life insurance stands at 45% between the ages of 35 and 54, and this percentage increases with income and educational level. The percentage of individuals with health insurance increases sharply with education level and household income.

41% of the population have some debt (category that includes mortgages and personal loans) and the patterns of debt held are different from those of savings vehicles. The group that most frequently (63%) has some debt is that of individuals aged between 35 and 44, and this percentage decreases with older age groups. This is not the case for savings vehicles, where the holding of vehicles increases up to 64 years of age. The proportion of people in debt increases with their level of education and with their household income, and around 20% of the different income and education groups have a personal loan.

The conclusions obtained from the results of the Financial Literacy Survey make it possible to identify a series of priority groups when focusing the next strategy of the Financial Education Plan, such as people aged between 18 and 34, people over 65, people with annual income under 14,500 euros and people that have only completed primary education, among others. These conclusions also make it possible to consider that investment literacy and insurance literacy are not well consolidated in Spain and an extra effort should therefore be made to improve financial education in these areas.

### 4.3 CIS management companies

CIS management companies – following the positive trend of recent years – ended the first half of the year with a 2.6% increase in assets under management compared with year-end 2017, with a figure of over 307 billion euros (see Figure 24). All of this gain came from the mutual fund segment, which, as already mentioned, recorded an increase in assets under management of 3.2% between January and June. It is also important to mention that the high level of concentration in the sector remains: in mid-2018, the three largest management companies had a joint share of 42.1% of total assets under management, a similar figure to year-end 2017.

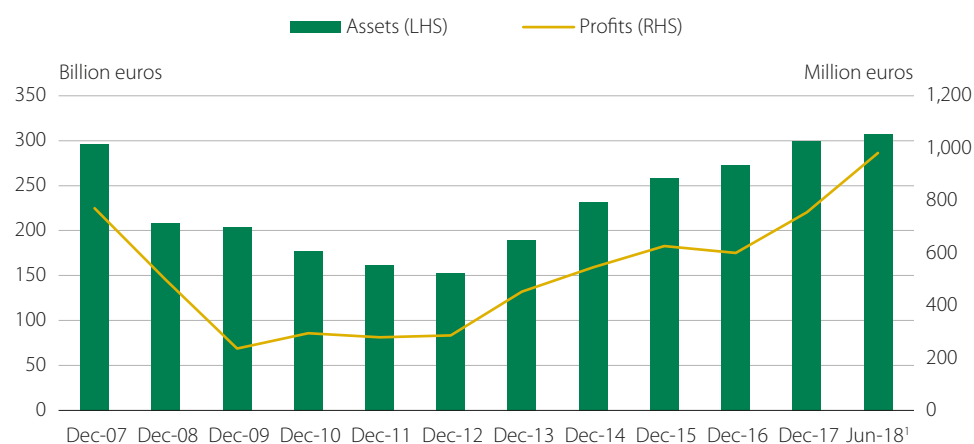
The aggregate profit before tax of CIS management companies in the first half of the year stood at 491.2 million euros, 36.5% up on the same period of 2017. Net fee income for CIS management companies – the most important item in their income statement – grew by 32.5% to 745.5 million euros thanks to the increase in fee income (6.6%) and the reduction in the fee expense (-10.6%). Of the total income under this item, the largest increase in absolute terms was recorded by CIS management fees, which amounted to 1.34 billion euros. The largest reduction in the fee expense was recorded in fees for marketing the different collective investment vehicles, which fell by 8.9% to 680 million euros. The aggregate return on equity (ROE) of CIS management companies as a whole stood at 93.7% in June 2018, an improvement on the figure recorded at year-end 2017 (73.5%). Despite the improvement in aggregate profit, it was not distributed evenly among the entities as the number of loss-making CIS management companies rose by 4 between January and June to a total of 23. In addition, the volume of losses tripled from 1.6 million euros in June 2017 to 5.1 million euros on the same date this year.

*The assets under management by CIS management companies grew once again in the first half of 2018: by 2.6% to 307 billion...*

*... which allowed a significant increase in their profits (by 36.5% to 491 million euros).*

## CIS management companies: assets under management and pre-tax profits

FIGURE 24



Source: CNMV.

<sup>1</sup> Annualised data.

*The boom in the industry is driving the creation of new management companies: between January and August, 8 more were registered, bringing the total to 117.*

Data from the CNMV register indicate that the dramatic expansion of the collective investment industry over recent years has led to the creation of new management companies. Between January and August of this year, there were 8 new registrations of CIS management companies (all of which are independent), while there were no de-registrations. Therefore, the number of CIS management companies at 31 August stood at 117.

## CIS management companies: assets under management and CIS management fees and fee ratio

TABLE 15

Million euros

	Assets under management	CIS management fee income	Average CIS management fee (%)	Fee ratio (%) <sup>1</sup>
2011	161,481	1,503	0.93	65.60
2012	152,959	1,416	0.93	64.62
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
Jun-18 <sup>2</sup>	307,746	2,670	0.87	55.76

Source: CNMV.

<sup>1</sup> Ratio of fee expenses for fund marketing to fee income from CIS management.

<sup>2</sup> The data on fee income and average management fee are annualised.

## 4.4 Other intermediaries: venture capital

Since entry into force of Law 22/2014, of 12 November, which opened up the possibility for new vehicles in order to promote venture capital as an alternative source of financing, 58 of the new types of vehicle have been created. At the end of August of this year, there were 10 SME venture capital funds, 6 European venture capital funds, 17 SME venture capital companies and 25 closed-end collective investment entities (7 funds and 18 companies). Of all these vehicles, it is important to note a significant increase in the last category, with 10 new registrations in the first 8 months of the year and, in addition, the reduction in the number of SME venture capital funds, after 1 new registration and 3 de-registrations (see Table 16).

With regard to “traditional” vehicles, so far this year there have been 9 new registrations and 8 de-registrations of venture capital funds, bringing the total to 174 at the end of August; while in the case of venture capital companies, there were 10 new registrations, which brought the number of these companies to 115. As a result of these movements, the total number of venture capital entities at 31 August (excluding closed-end entities) was 322, compared with 311 at the end of 2017. As mentioned above, on the same date there was a total of 25 closed-end vehicles and 91 closed-end investment scheme management companies (a term that includes the old venture capital management companies) following 4 new registrations and 2 de-registrations between January and August.

The assets of venture capital entities rose by 12.4% over 2017 to 8.93 billion euros. This growth was due, above all, to funds, whose assets rose by 19.2% to 5.76 billion euros. Despite the high number of new registrations of companies, assets under management only rose by 1.8% to 3.17 billion euros.

*In the first 8 months of the year, 10 closed-end venture capital entities (new vehicles) and 19 traditional vehicles registered.*

*At the end of August, a total of 347 venture capital entities were registered with the CNMV, of which 25 were closed-end entities and 91 were management companies.*

*In 2017, the assets under management of venture capital entities rose by 12.4%, mainly due to funds (19.2%).*

### Movements in the venture capital entity register in 2018

TABLE 16

	Situation at 31/12/2017	New registrations	De- registrations	Situation at 30/08/2018
<b>Companies</b>				
Venture capital funds	173	9	8	174
SME venture capital funds	12	1	3	10
European venture capital funds	5	1	0	6
Venture capital companies	105	10	0	115
SME Venture capital companies	16	1	0	17
<b>Total venture capital entities</b>	<b>311</b>	<b>22</b>	<b>11</b>	<b>322</b>
Closed-end collective investment funds	2	5	0	7
Closed-end collective investment companies	13	5	0	18
<b>Total closed-end collective investment undertakings</b>	<b>15</b>	<b>10</b>	<b>0</b>	<b>25</b>
<b>Management companies of closed-end collective investment undertakings<sup>1</sup></b>	<b>89</b>	<b>4</b>	<b>2</b>	<b>91</b>

Source: CNMV.

<sup>1</sup> A name that now applies to both the old venture capital scheme management companies and the management companies of the new closed-end investment schemes.

*The investment by public authorities and non-financial companies in venture capital entities grew.*

In venture capital funds (which include “traditional” funds and new funds, in this case SME and European funds), a slight re-composition of the relative importance of their investors was recorded over 2017. The largest growth in absolute terms was recorded in investment by public authorities, with almost 200 million euros more, up to 860 million. Investment by non-financial companies also grew strongly (by 123 million) and amounted to 583 million euros at the end of the previous year. It is also important to note the significant increase for the second consecutive year of the investment by CIS, which was very low in 2015 (65 million euros) but rose to 433 million euros by the end of 2017 (see Table 17). In contrast, the largest reduction in investment was recorded by pension funds and banks, with 36 million and 27 million less than at year-end 2016, respectively.

*In venture capital companies, non-financial companies and other financial companies continue to be the two most important types of investor.*

In venture capital companies (which, as in the case of funds, includes SME venture capital companies), non-financial companies and other financial companies remain the two most important types of investors and they increased their investment slightly, by 4.8% and 4.4% to 902 million and 1.02 billion euros, respectively. As has been the case since 2013, when their investment exceeded 1.6 billion euros, banks substantially reduced their investments in this type of entity in 2017, specifically by 19.0% to 171 million euros. With regard to the type of venture capital investor, the presence of natural persons rose in both types of entity by more than 1 percentage point and stood at 9.4% in the case of funds and 4.6% of the case of companies.

### Venture capital entities: assets by type of investor

TABLE 17

Million euros				
	Funds		Companies	
	2016	2017	2016 <sup>1</sup>	2017
<b>Natural persons</b>				
Residents	390.6	521.5	92.1	141.2
Non-residents	13.2	20.7	4.6	4.8
<b>Legal persons</b>				
Banks	207.9	180.9	211.7	171.4
Savings banks	42.1	38.5	12.8	11.9
Pension funds	594.8	551.7	21.0	20.7
Insurance companies	264.5	449.7	51.3	84.4
Broker-dealers and brokers	2.0	3.5	0.3	0.1
Collective investment schemes	358.2	432.7	6.4	6.9
Spanish venture capital entities	196.6	255.6	112.8	28.9
Foreign venture capital entities	242.3	301.3	0.0	0.0
General government	663.1	860.2	409.7	389.1
Sovereign funds	4.6	7.1	0.0	4.8
Other financial companies	378.2	343.2	979.3	1,022.7
Non-financial companies	459.6	582.7	860.0	901.5
Foreign firms	879.8	907.6	92.9	94.2
Other	137.8	307.0	258.7	287.8
<b>TOTAL</b>	<b>4,835.3</b>	<b>5,763.8</b>	<b>3,113.5</b>	<b>3,170.5</b>

Source: CNMV.

1 Revised data with updated information submitted by the entities subsequent to the previous publication.

Preliminary data for the first half of 2018 provided by the Spanish association of capital, growth and investment entities (ASCRI) confirm the expansive trend of the sector that began in mid-2016, after a year marked by political uncertainty in Spain and a lack of megadeals. The total invested volume stood at 3.06 billion euros, very similar to the figure recorded in the first half of 2017, with a total of 334 deals (400 between January and June 2017). Middle market deals (between 10 and 100 million euros) recorded the most growth and stood at a historic high, with 961 million euros in 32 investments. For their part, the number of megadeals (deals greater than 100 million euros) stood at 4 (7 in the same period of the previous year) and accounted for 60% of the total volume, with all of the deals corresponding to international funds. Small-scale deals (up to 5 million euros) continued to account for a high proportion of the total number of deals, specifically 85%.

*Preliminary data for the first half of the year provided by ASCRI indicate that the sector maintains its buoyancy, although it is more geared towards middle market deals.*

From the point of view of the investment stage, the bulk of the deals were in venture capital (seed and start-up), with a total of 243, of which 155 were carried out by Spanish private operators. The most important in terms of volume were investments in buyouts, with 75% of the total invested amount. Fundraising by Spanish private operators, which had grown sharply in the previous year, contracted by 35% in the first six months of 2018 and stood at 784 million euros.

*From the point of view of the investment stage, seed and start-up investments accounted for the bulk of the deals.*

