

## Press release

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# Financial stability vulnerabilities remain elevated given uncertainty over geoeconomic trends and tariffs impact

- Stretched valuations in increasingly concentrated asset markets raise risk of sharp price adjustments
- Fiscal challenges in some advanced economies could test investor confidence
- Exposures to tariff-sensitive firms and stronger funding ties with non-banks could strain euro area banks during periods of economic or market stress
- Euro area banking sector is resilient, with strong profitability and ample capital and liquidity buffers

Remaining uncertainties around trade agreements and the longer-term economic and financial effects of tariffs continue to shape the euro area financial stability landscape, according to the November 2025 Financial Stability Review published today by the European Central Bank (ECB).

“Measures of trade policy uncertainty have eased notably from their April highs, but uncertainty continues to linger, with potential for renewed spikes,” said ECB Vice-President Luis de Guindos.

Since April, global stock markets have reached new all-time highs and credit spreads are currently tight by historical standards. However, financial markets – and most notably equity markets – remain vulnerable to sharp adjustments due to persistently high valuations and increasing equity market concentration. Market sentiment could shift abruptly on account of deteriorating growth prospects, for example, or disappointing news on artificial intelligence (AI) adoption. Liquidity mismatches in open-ended investment funds, pockets of high leverage among hedge funds and opacity in private markets could amplify market stress.

Furthermore, market concerns about stretched public finances in some advanced economies may create strains in global bond markets. These could affect euro area financial stability through shifts in

international capital flows and currency swings, diminishing the competitiveness of euro area goods and causing fluctuations in euro area funding costs.

Euro area sovereigns are benefiting from lower risks to economic growth and flight-to-safety dynamics following the April tariff turmoil. However, two elements may strain sovereign balance sheets in the medium term and pose risks from higher issuance needs and funding costs: first, the fiscal expansion associated partly with necessary defence spending, and; second, persistent structural challenges, including digitalisation, low productivity, population ageing and climate change. At the same time, weak fiscal fundamentals in some euro area countries and external fiscal risk spillovers could test investor confidence.

The balance sheets of euro area firms and households have improved in recent years. However, as the impact of tariffs unfolds, the corporate sector remains vulnerable. If layoffs materialise, households' debt servicing capacity would also suffer.

Similarly, euro area banks have shown resilience to recent shocks amid strong profitability and ample capital and liquidity buffers. Credit risk exposures to corporates whose businesses are more sensitive to tariffs could nonetheless still undermine the performance of bank loans. In addition, growing interlinkages with non-banks could expose bank funding vulnerabilities in stressed market conditions.

In the current highly uncertain macro-financial and policy environment, preserving and strengthening this resilience of the financial system is key. In this context, macroprudential authorities should maintain existing capital buffer requirements and borrower-based measures to preserve sound lending standards.

In addition, the growing market footprint and interconnectedness of non-banks call for a comprehensive set of policy measures that will increase the resilience of the non-bank financial intermediation sector. Such resilience would also help advance the integration of euro area capital markets.

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