4

MARKETS AND ASSET PRICES

Figure 4.1
Markets and asset prices (a)

SOURCE: Banco de España.

a The green shields with a tick (red shields with a cross) denote the circumstances of the financial position of each market that constitute strengths (vulnerabilities) should risks materialise. The strengths (vulnerabilities) reduce (increase) the likelihood of occurrence and/or the impact of the risks to financial stability.

4.1 The real estate market

4.1.1 Prices and activity

House purchases reached high levels in 2025, exceeding those of the previous year, but showed signs of levelling off. In 2025 house purchases totalled around 750,000 units, equivalent to 3.8 transactions for every 1,000 households, still well below the ratios of close to six transactions for every 1,000 households reached in 2006 (Chart 4.1.a). Growth in house purchases eased from 12.1% in 2024 to 5.1% in 2025, with the slowdown proving particularly sharp in the second half of the year. Second-hand housing continued to dominate, accounting for 90% of all house purchases.[1]

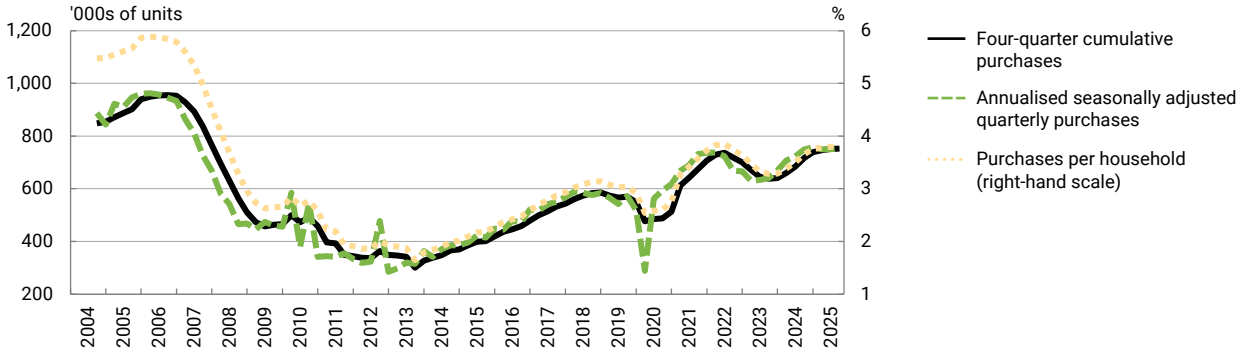
The pace of house price growth quickened compared with 2024. In nominal terms, they rose at an annual average rate of 12.7% in 2025, compared with 8.4% in 2024. In real terms, they grew 9.7% year-on-year in 2025, up from 5.5% in 2024. Consequently, at end-2025 real house

1 In contrast to the higher share of new-house purchases in previous expansions, with average ratios of 40% in the period 2004-07.

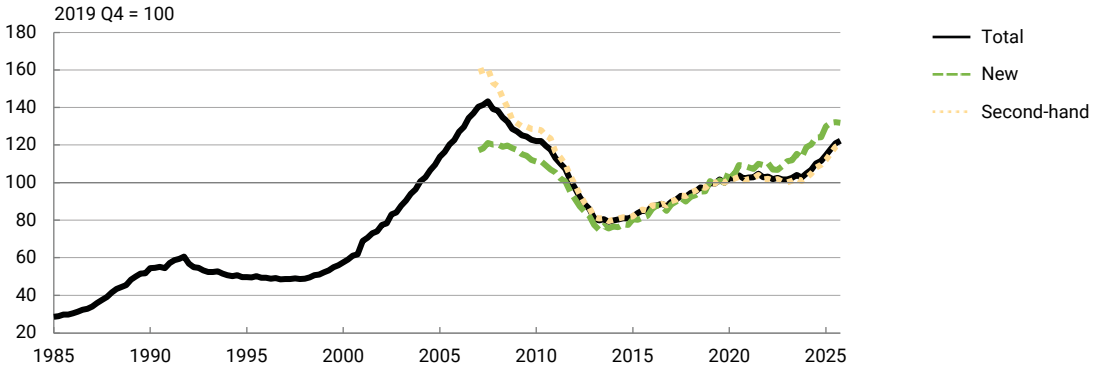
Chart 4.1

House purchases levelled off at high levels in 2025, while real prices continued to see robust growth, driven by strong demand and relatively rigid supply

4.1.a House purchases (a)



4.1.b Real house prices. Deflated by the consumer price index (CPI)



SOURCES: Banco de España, INE and Ministerio de Transportes y Movilidad Sostenible. Latest observation: 2025 Q4.

a Purchases signed before a notary.

prices were 14.7% below the peak reached at the outset of the global financial crisis in 2007 Q3 (Chart 4.1.b). In 2025 Q4, the annualised quarter-on-quarter growth rate of real house prices stood at 10.2%, suggesting that prices are continuing to climb in the most recent period (Chart A2.4.1.1 in Annex 2).

In the rental market, there are some signs that price growth is moderating. For instance, on indicators drawing on the main real estate portals,[2] average asking price growth accelerated strongly in 2024, to around 10% in real terms, and slowed to 5% in 2025.

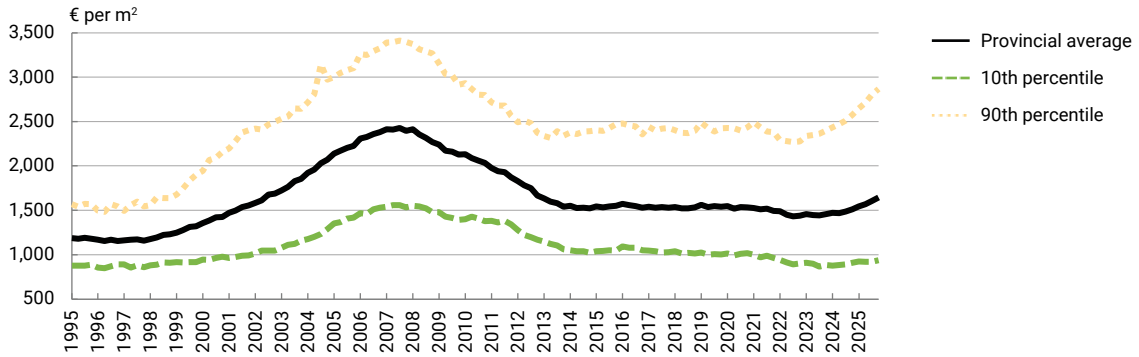
Meanwhile, real commercial property prices continue to trend upward at a moderate pace. Despite this, these prices are still broadly below their real pre-pandemic levels, except for

2 Asking prices should be interpreted with caution, due to the absence of any statistical treatment equivalent to that given to the house prices released by the National Statistics Institute (INE). However, they provide useful complementary information for assessing and anticipating price dynamics.

Chart 4.2

The geographical dispersion in real house prices widened in 2025 as prices saw sharper relative growth in higher-priced provinces

4.2.a Provincial heterogeneity in real house prices (a)



SOURCES: Banco de España, drawing on data from the Ministerio de Transportes y Movilidad Sostenible and INE. Latest observation: 2025 Q4.

a House prices reflect the appraisal values of open-market housing. Nominal values are CPI-deflated, based on the 2025 average. Provinces are ordered on an annual basis, according to their real price distribution.

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properties in large city centres and industrial premises, whose real prices are close to 2019 levels (Chart A2.4.1.2 in Annex 2).

The rise in house prices comes at a time when growth in the supply of new housing continues to be outpaced by demand. Housing demand in 2025 was driven by both residents (net creation of 225,000 households) and non-residents (55,000 units purchased in the year).[3] This increase in demand[4] outstripped the roughly 92,000 new units completed in 2025. As mentioned above, demand continued to be met through second-hand house purchases. In the near term, based on housing starts and residential building permits data for 2024 and 2025, the number of new dwellings is expected to gradually rise in 2026, albeit by a very moderate amount relative to the cumulative household growth of recent years.[5]

Heterogeneity in real house prices across provinces continued to increase in 2025. Growth was once again strongest in the highest-priced provinces (90th percentile of the distribution), but it was more modest in those where prices were at intermediate levels, and very moderate in the lowest-priced ones (10th percentile) (Chart 4.2). This geographical heterogeneity still appears to be driven by differences in both demand-side factors (such as income growth, non-resident demand) and supply-side ones (for instance, land availability).[6] Nevertheless,

3 According to the estimates available, these gross purchases will result in a net increase of around 30,000 units in the housing stock held by non-residents.

4 Other components that also appear to be driving demand include those linked to alternative uses of housing (such as seasonal or holiday rentals) and unmet demand from young people who have delayed leaving the family home.

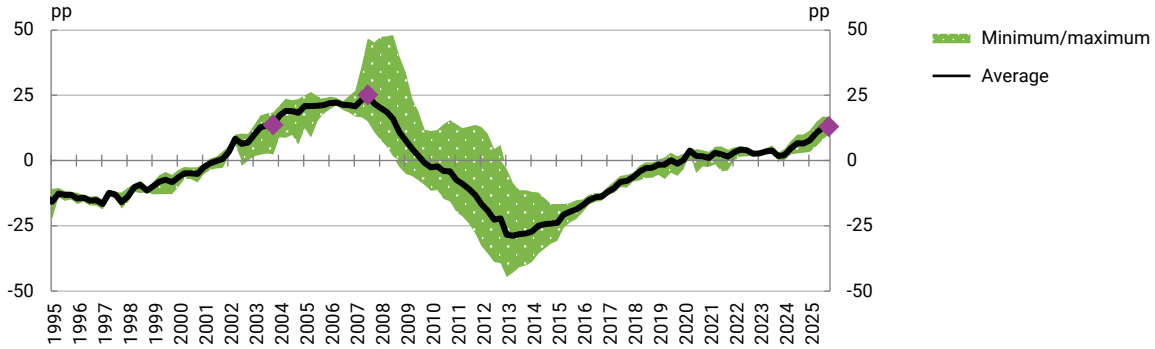
5 Housing starts and residential building permits stood between around 135,000 and 140,000 units in 2025.

6 See Box 4.1 of the Autumn 2025 Financial Stability Report for a more detailed analysis of the geographical heterogeneity in house price growth over the recent period.

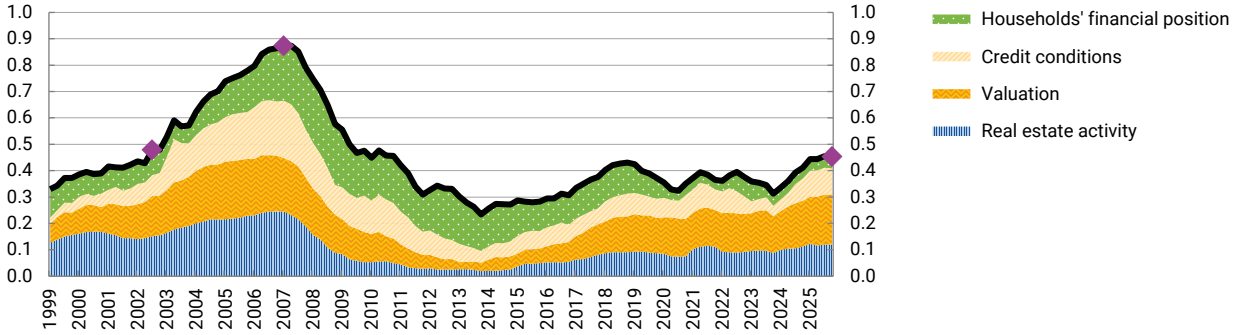
Chart 4.3

Sharp house price growth continues to feed into real estate market risk indicators, although these remain at moderate levels overall

4.3.a Indicators relating house prices to long-term trends, household income and interest rates (a) (b)



4.3.b Synthetic indicator of risks in the real estate market (c)



SOURCES: Banco de España and INE. Latest observation: December 2025.

a The purple diamonds depict the maximum value, the latest value available and its equivalent at previous dates with upward trends. A positive value in the indicator average means that real house prices are high relative to income and interest rates.
b, c Note A2.4.1.3 in Annex 2.

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current developments differ from the dynamics observed in the years running up to the global financial crisis, when house price growth in Spain was a more widespread phenomenon across provinces.

Spanish house prices continued to increase relative to household income and interest rates. These indicators, which yield higher positive values when prices are high relative to income or interest rates, continued to climb in 2025[7] (Chart 4.3.a). Nevertheless, the estimated range at December 2025 (10%-15%) is similar to that observed in 2004 and far

7 These indicators yield more positive values when changes in house prices are high relative to what might be expected based on their long-term relationship with income or interest rates. These indicators are subject to considerable uncertainty and should be interpreted with caution. See, for example, Box 3 of the European Central Bank's June 2011 Financial Stability Review and Box 3 of its May 2015 edition. The use of a battery of indicators (drawing on different methods and various combinations of prices, income and interest rates), rather than just one, contributes robustness, but it should be noted that not all factors relevant to the housing market (such as supply conditions) are included.

below the average peak of 24% reached in late 2007. As indicated in the previous edition of this report, the main factor in this respect has been the decoupling of house prices from household income since 2024.

However, the synthetic indicator of real estate market risks has held at moderate levels (Chart 4.3.b). This indicator incorporates a broader set of information, including both supply and demand-side factors.[8] In line with the price decoupling indicator mentioned in the previous paragraph, the valuation component continues to make a growing contribution to the synthetic indicator, driven by rising house prices. By contrast, real activity saw a slight slowdown in the first three quarters of 2025, consistent with purchases levelling off and weak construction activity. Credit standards (discussed in greater detail in the following section) made a slightly larger contribution to risks, although this is still low by historical standards. Households' financial position remains steady and at historically favourable levels (see also Chapter 2). Overall, at end-2025 the synthetic indicator was at levels similar to those observed in 2002 Q3, and well below those in the run-up to the 2000s real estate boom.

4.1.2 Financing

New mortgage loans to households for house purchase grew strongly in 2025, but they remain at low levels both in absolute terms and relative to GDP and total credit. Growth in these loans eased in relative terms over the year, from 26.2% year-on-year in Q2 to 22.4% in Q4, with their expansion underpinned by increases in both the average amount and, to a greater extent, the number of transactions (Chart A2.4.1.4 in Annex 2). As a result, in real terms new loans to households for house purchase are still at their highest level in a decade, but are significantly below those observed in 2000-08 (Chart A2.4.1.5 in Annex 2). Moreover, the ratios of new mortgage loans to GDP and to total bank lending remain close to their historical averages and are well below their peak before the global financial crisis (Chart 4.4).

The stock of mortgage loans to households for house purchase has held on a path of moderate growth, but it remains at contained levels by historical standards. As indicated in Section 3.1.4 of Chapter 3, the stock of such loans rose by 3.7% year-on-year in 2025 Q4, marking five consecutive quarters of growth, although in real terms it is still far from the levels observed in 2000-08 (Chart A2.4.1.5 in Annex 2). In December 2025 these loans accounted for 43% of lending to households and firms. This high share (close to the 90th percentile of the time series) is attributable to the larger relative decline in other loan types since 2008, particularly in lending for construction and real estate activities (Chart 4.4). After a protracted decrease in 2009-21, the stock of mortgages relative to GDP remains low (29.9%, close to the 10th percentile of the time series).

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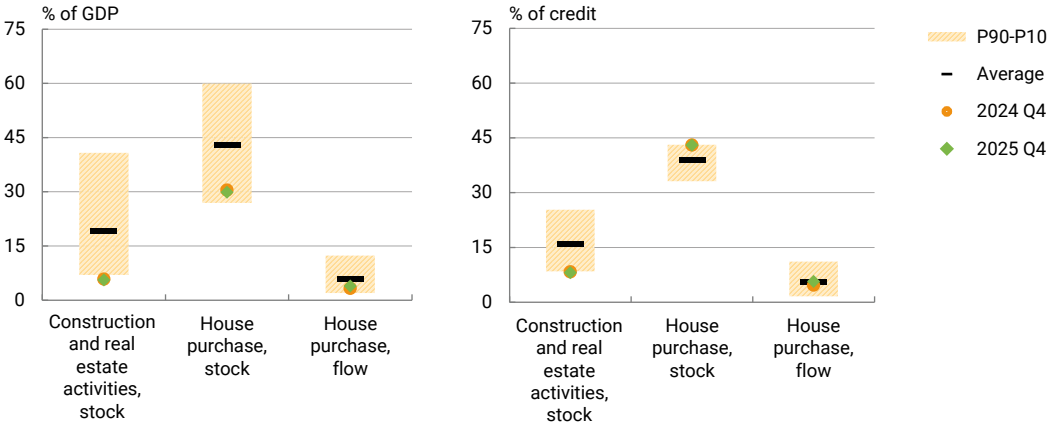
8 For more information about how the synthetic indicator for the housing market is calculated, see note A2.4.1.3 (c) in Annex 2 and Pana Alves, Carmen Broto, María Gil and Matías Lamas. (2023). "Risk and vulnerability indicators for the Spanish housing market", Documentos Ocasionales, 2314, Banco de España.

Chart 4.4

Lending to the real estate sector remains low relative to GDP, and continues to account for a small share of total bank credit to households and firms

4.4.a Bank credit to the real estate sector. Share of GDP and total credit to households and firms resident in Spain (a)



SOURCES: Colegio de Registradores and Banco de España. Latest observation: December 2025.

a The 90th and 10th percentiles and average of the series are calculated for the period 1998 Q1-2025 Q4.

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Lending to the construction and real estate sector also continued on the recovery observed in recent quarters, but it is still near record-low levels. The volume of such loans rose by 1.3% year-on-year in 2025 Q4, the sixth consecutive quarter of growth. However, in real terms (Chart A2.4.1.5 in Annex 2) and as a share of GDP and total credit to households and firms, this lending is still close to all-time lows (Chart 4.4). The real flow of new mortgage loans secured by commercial property remains steady (Chart A2.4.1.6 in Annex 2).

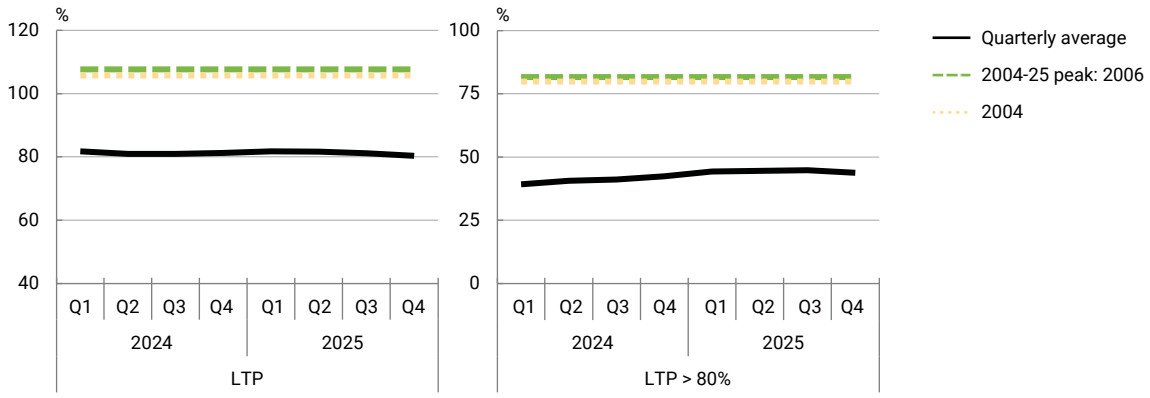
The amount of new mortgage loans relative to the price of the collateral (loan-to-price) remains at a moderate level. The loan-to-price (LTP) ratio stood at an average of 80.4% at end-2025, having held steady since 2024. The share of new lending with LTP ratios above 80% has increased slightly, from 39.2% in early 2024 to 43.8% in late 2025, but it continues to be at levels far below its all-time highs. These figures show that lending standards are still tighter than they were in the 2000s boom. Indeed, the current LTP averages are clearly below those observed around the midpoint of that cycle, such as in 2004 (Chart 4.5.a).

The amount of new mortgage loans relative to the appraisal value (loan-to-value) has also held steady. Following a small increase in 2024, the loan-to-value (LTV) ratio stood at an average of 69.7% at end-2025. The share of new mortgage loans with LTV ratios above 80% has risen from 10.8% in early 2024 to 15.6% in late 2025 (Chart 4.5.b). The average LTV ratio of new mortgages remains below the maximums reached in the 2000s boom and the following years, and around its 2004 level. For its part, the share of loans with a high LTV ratio is also still far from the peaks of that period, again reflecting restraint in mortgage lending conditions.

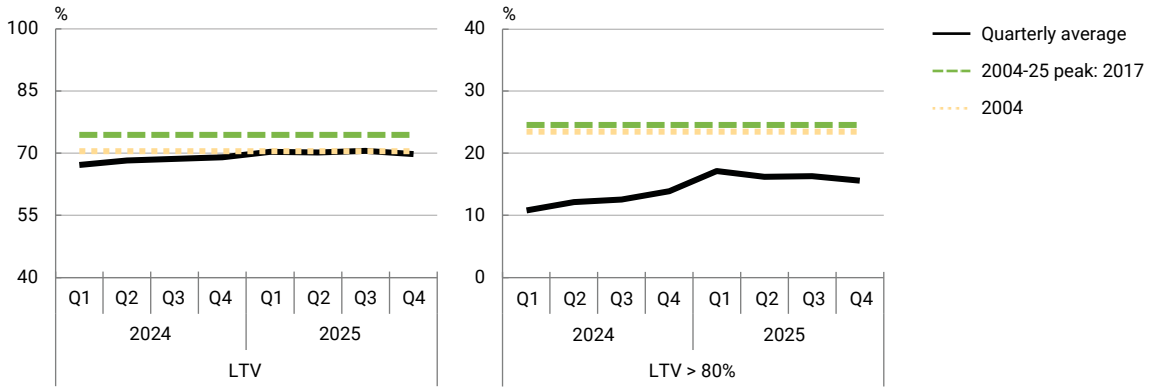
Chart 4.5

Lending standards relative to house prices and to collateral value have eased slightly, but are still well below their all-time highs

4.5.a LTP ratio (a)



4.5.b LTV ratio (b)



SOURCES: Banco de España and Colegio de Registradores. Latest observation: December 2025.

a, b Note A2.4.1.7 in Annex 2.

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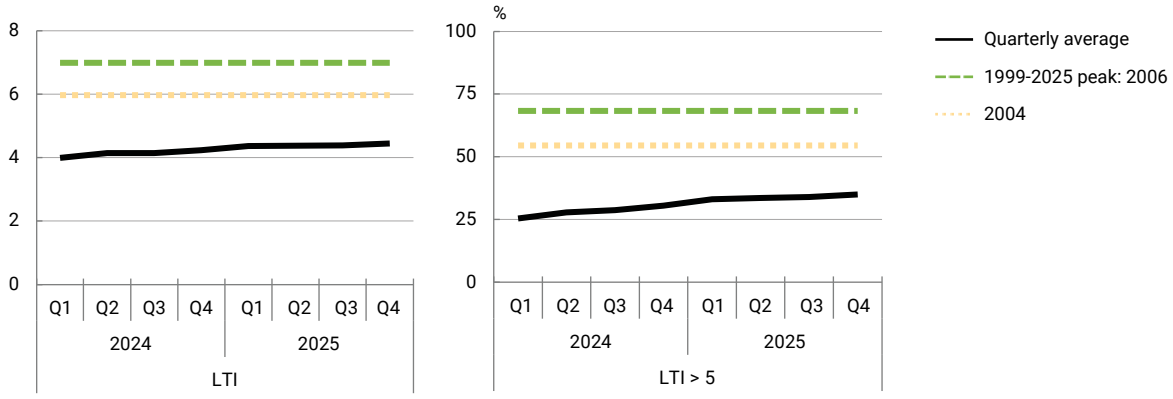
Lending standards for new mortgage loans relative to household income also held at moderate levels, well below their all-time highs. In 2024 and 2025 the quarterly average loan-to-income (LTI) ratio grew slightly, suggesting a minor degree of easing. However, it remains clearly below the all-time highs reached in the 2000s expansion and below the levels observed in the intermediate years of that cycle, such as 2004. Meanwhile, the share of mortgages with a higher LTI ratio increased slightly in 2025, but it is still moderate by historical standards (Chart 4.6.a).

The debt burden associated with new mortgages also held steady throughout 2024 and 2025. The loan service-to-income (LSTI) ratio for main-residence mortgages saw a slight decline in 2024 and 2025, standing at 23.5% in late 2025, well below its all-time highs. The share of mortgages with LSTI ratios over 30% also remains at relatively moderate levels (Chart 4.6.b). Both metrics are still at contained levels by historical standards.

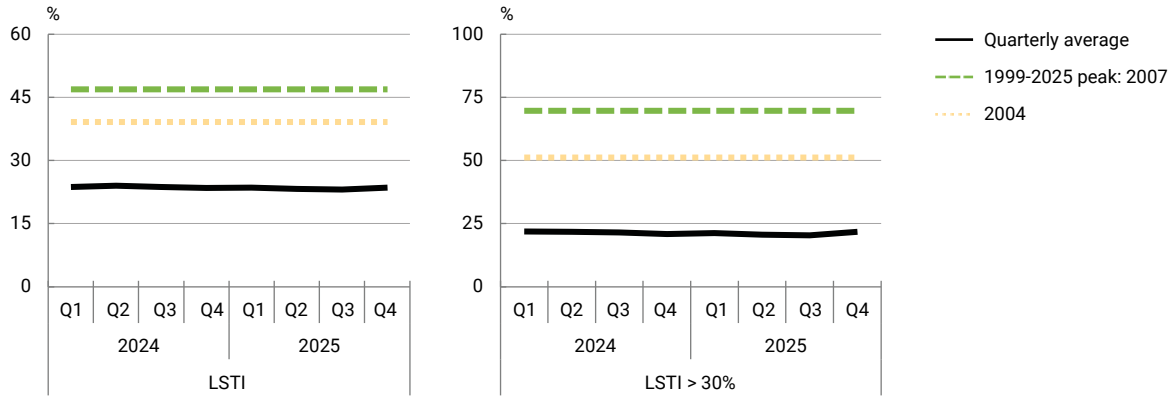
Chart 4.6

Lending standards relative to income have eased slightly, but remain well below their all-time highs

4.6.a LTI ratio (a)



4.6.b LSTI ratio (b)



SOURCE: Banco de España. Latest observation: December 2025.

a, b Note A2.4.1.8 in Annex 2.

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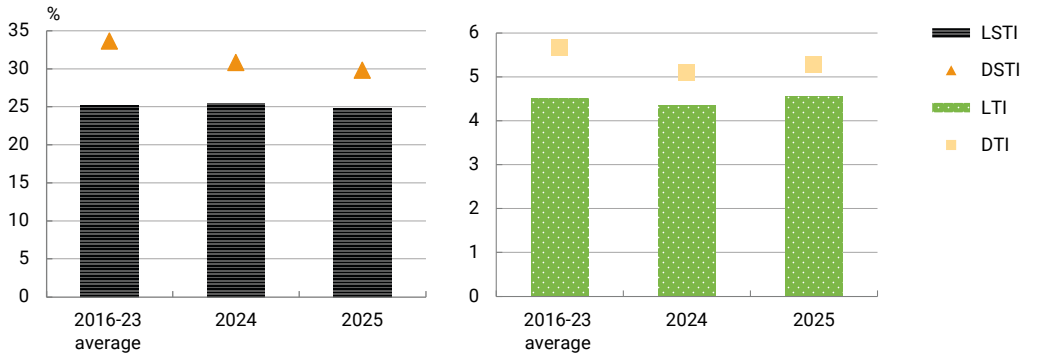
The total leverage relative to income and overall debt burden assumed by households arranging new mortgages have been relatively steady in the recent period. Unlike the LTI and LSTI ratios, which consider only the new mortgage principal or instalments, the debt-to-income and debt service-to-income (DTI and DSTI, respectively) ratios incorporate the total amount of a household's outstanding debt and instalments, vis-à-vis any bank, when the new loan is originated. On average, developments in the DTI and DSTI ratios have been qualitatively similar to those of the LTI and LSTI ratios, respectively, and their levels are still in line with those observed since the global financial crisis (Chart 4.7.a). Moreover, the share of loans exceeding certain leverage thresholds (LTI or DTI above 5) has also increased, but this has not happened in the case of debt-service thresholds (LSTI or DSTI above 30%) (Chart 4.7.b).

Borrowers who obtain mortgages that are more leveraged or that entail a greater interest burden present certain distinct characteristics to those of other borrowers. For example, drawing on data from the Banco de España's Central Credit Register (CCR), levels of borrowing

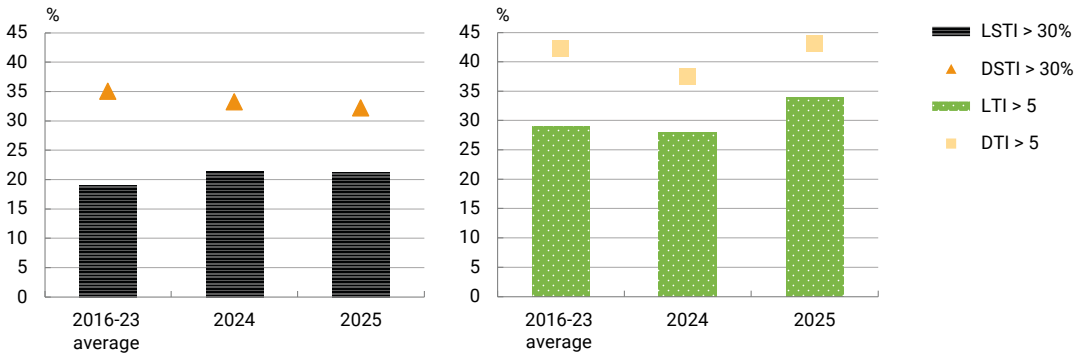
Chart 4.7

The total leverage relative to income and the overall debt burden assumed on average by new mortgagors have remained relatively steady, although the share of mortgages with high total debt-to-income ratios has increased somewhat (a)

4.7.a Households' leverage and debt burden relative to income. Weighted average. Debt burden (LSTI and DSTI) (l-h panel). Leverage (LTI and DTI) (r-h panel) (b)



4.7.b Percentage of new mortgages with higher leverage or debt burden relative to income. Debt burden (LSTI and DSTI) (l-h panel). Leverage (LTI and DTI) (r-h panel) (c)



SOURCE: Banco de España. Latest observation: December 2025.

a, b, c Note A2.4.1.9 in Annex 2.

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relative to collateral values and income appear to be somewhat higher among young, lower-income borrowers, and there is a positive relationship between higher levels of these ratios and a longer mortgage maturity (Chart 4.8).

The ability of renting households to buy their first home with a mortgage loan is limited. Box 4.1 analyses this issue in greater detail, drawing on information from the Banco de España's CCR and from the Spanish Institute of Fiscal Studies' *Panel de Hogares* for the period 2016-23.

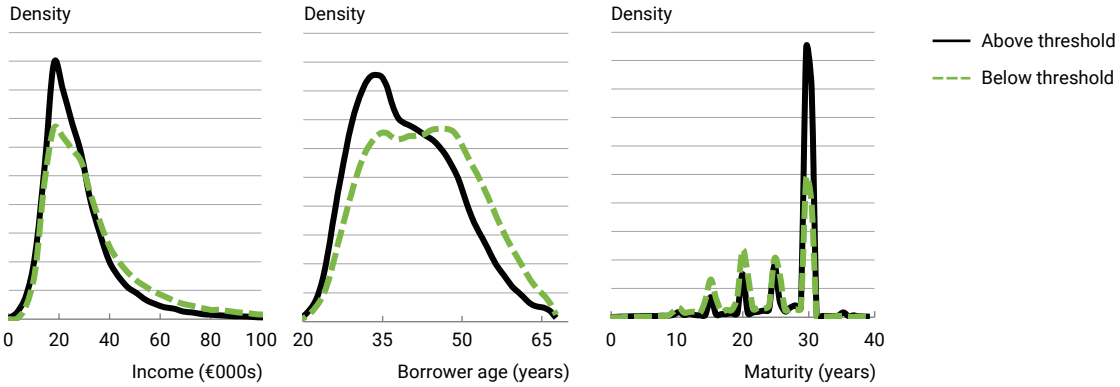
Interest rate spreads on both fixed and variable-rate mortgages have narrowed in Spain. In 2025, the median interest rate spread over the interest-rate swap (IRS) curve risk-free rates[9] for

9 An interest rate swap is a financial transaction where two parties commit to exchange periodic interest payments, one based on a fixed rate of interest and the other on a variable rate indexed to a benchmark rate.

Chart 4.8

New mortgages that are more leveraged or entail a greater interest burden are more concentrated among younger, lower-income borrowers and in somewhat longer maturities

4.8.a Distribution of borrower income and age and loan maturities, by mortgage arrangement relative to certain lending thresholds (a)



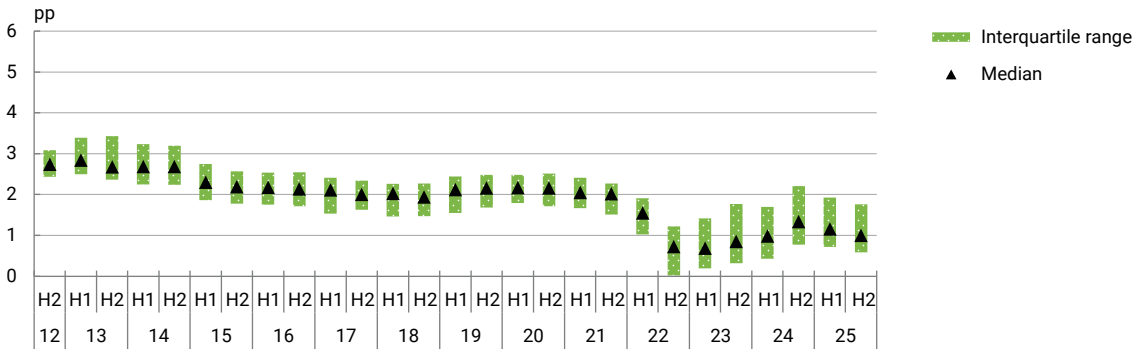
SOURCES: Colegio de Registradores and Banco de España. Latest observation: December 2025.

a The chart depicts the density function of borrowers' average income and age and loan maturity, according to whether the mortgage loan was above or below any of the debt or interest burden thresholds at the origination date. The lending thresholds are as follows: 80% for the LTV and LTP ratios, 5 for the LTI and DTI ratios and 30% for the LSTI or DSTI ratios. Income refers to borrowers' average disposable income. The density function is estimated using a kernel estimator which enables a non-parametric estimate and a continuous and smoothed graphical representation of that function.

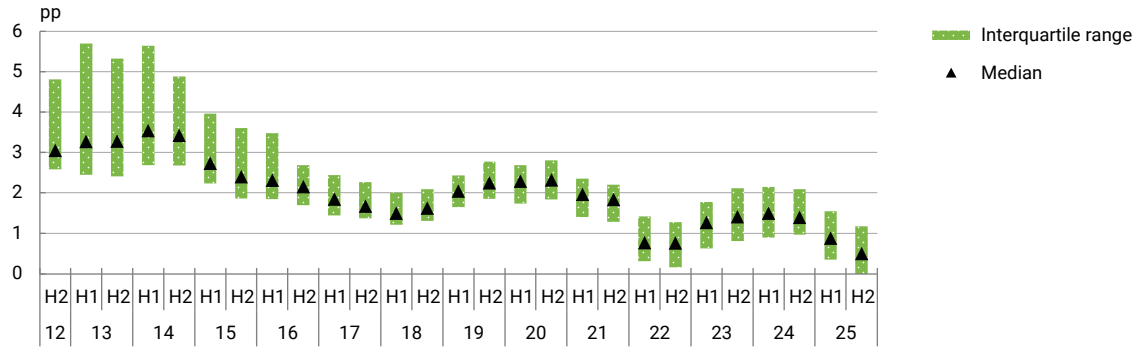
Chart 4.9

The spreads on mortgage rates over their benchmark indices are at all-time lows

4.9.a Spread over the risk-free rate. Variable-rate mortgages (a)



4.9.b Spread over the risk-free rate. Fixed-rate mortgages (a)



SOURCE: Banco de España. Latest observation: 2025 H2.

a Note A2.4.1.10 in Annex 2.

variable-rate mortgages was around 1%, down from nearly 3% a decade ago, but nevertheless at levels somewhat higher than in more recent years (Chart 4.9.a). For fixed-rate mortgages, the spread stood below 1% in 2025, considerably lower than it has been in the past (Chart 4.9.b). These dynamics have been spurred on by competition in this segment, the improvements in credit quality since the global financial crisis (reducing expected impairment costs) and the low cost of financing borne by banks in Spain (see Section 3.1.5). However, a reversal to less favourable funding conditions for banks would squeeze their tight margin on these operations.

4.2 Financial markets

Monetary policy, money markets and government debt

Monetary policy stances in the euro area and the United States have diverged since the last Financial Stability Report (FSR). Since the 25 basis point (bp) cut in June 2025, the European Central Bank (ECB) has kept the deposit facility rate unchanged at 2%. The Federal Reserve reduced its federal funds rate three times between September and December 2025 (by 75 bp in total), to a range between 3.50% and 3.75%.

The outbreak of war in the Middle East in February prompted an upward revision to policy rate expectations in both areas, which reversed only very partially after a ceasefire was announced in early April (Chart 4.10.a). Prior to the conflict, the markets had priced in the ECB keeping rates at around 2%, and the Federal Reserve making two cuts of 25 bp in 2026, to around 3.25%. When the hostilities started, policy rate expectations for end-2026 saw a sharp upward shift, which was more pronounced in the euro area (maximum of 96 bp on 24 March) than in the United States (maximum of 76 bp on 26 March). At the cut-off date for this report, the markets expect the Federal Reserve to make no federal funds rate changes this year, and the ECB to implement three 25 bp rate hikes.

Sovereign debt yields and risk premia in Europe moved in divergent directions in the run-up to the conflict. In Germany, 2-year sovereign yields climbed by 9 bp while 30-year yields saw a larger rise (+15 bp), on account of a slight uptick in global concerns about fiscal sustainability. In the case of Spain and Italy, long-term debt yields decreased, underpinned by an improvement in the market's risk perception.[10] This also contributed to a steady narrowing of the Spanish and Italian 10-year sovereign spreads over the OIS rate[11] between October 2025 and February 2026. Turning to France, although its risk premium has held at levels higher than in previous years, it declined after Prime Minister Lecornu overcame the votes of no confidence and secured approval for the 2026 budget. These yield developments

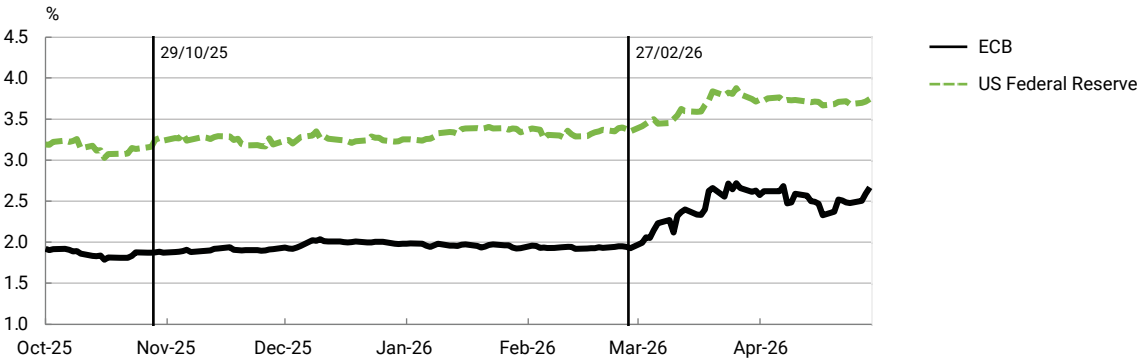
10 This is consistent with the successive sovereign rating upgrades: S&P, Moody's and Fitch upgraded their ratings for Spain to A in September 2025 and Moody's raised its rating for Italy to BBB in November.

11 The Overnight Index Swap (OIS) rate is considered the benchmark rate for euro area risk-free interest rates. The OIS rate is the fixed leg of an interest rate swap contract where the floating leg is the 1-day euro short-term rate (€STR).

Chart 4.10

Since the war in the Middle East began, policy rate expectations for the euro area and the United States have been revised up

4.10.a Expectations about policy rate decisions at the September 2026 monetary policy meetings for the euro area and the United States (a)



SOURCES: Banco de España and Bloomberg Data License. Latest observation: 29 April 2026. 29 October 2025 is the cut-off date for the last FSR; 27 February 2026 is the last market close prior to the Iran war. The Federal Reserve's federal funds rate is the upper bound of the target range.

a Policy rates are calculated by adjusting Bloomberg data on OIS rates at different maturities. The OIS rate is considered the benchmark rate for short-term risk-free interest rates. It is the fixed leg of an interest rate swap contract where the floating leg is the 1-day euro short-term rate (€STR) (euro area) or the effective federal funds rate (United States) that will be applicable in the future. The adjustment entails adding the current spread between the deposit facility rate and the €STR (euro area) or that between the upper bound of the federal funds rate target range and the effective rate (United States).

have come amid a shift in investor structures on the main euro area sovereign debt markets in recent years, where there has been no shortage of capacity to absorb the new supply of debt (see Box 4.2).

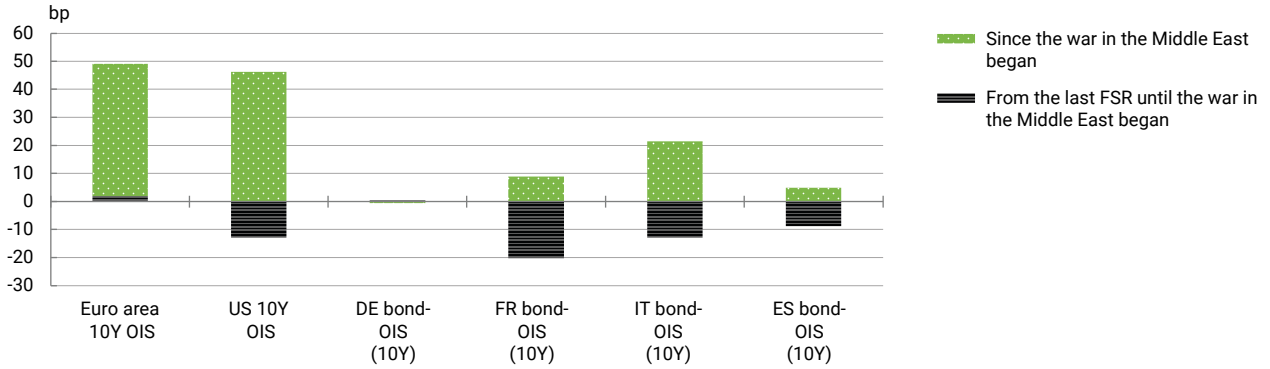
The start of the war in the Middle East in February triggered strong and widespread rises in sovereign yields, which partially corrected after a ceasefire was announced in April (Chart 4.11.a). In a group of benchmark advanced economies, 10-year sovereign yields rose by between 27.9 bp (the United States) and 45.4 bp (Italy). The shock also flattened the curve between short and long-term yields in those countries, with short-term rates reflecting the expected responses of central banks to higher inflation, and long-term rates also rising, albeit less sharply. Sovereign debt spreads widened in Europe, although they did so moderately and without signs of financial fragmentation. Since the April ceasefire, these developments have partially reversed: 10-year sovereign yields have pulled back, with the German Bund declining by 2 bp and Spanish, Italian and French sovereign yields doing so by 5 bp, 8 bp and 7 bp, respectively.

Compared with previous episodes of geopolitical instability and sharp supply-side shocks, the response from both the money markets and government debt markets to the Iran conflict has been muted (Chart 4.11.b). The 10-year euro area OIS rate and the German 10-year sovereign spread over the OIS rate have experienced the largest changes, close to the maximums observed previously in similar episodes. In terms of increases in euro area sovereign risk premia, the responses have been much smaller than in past episodes.

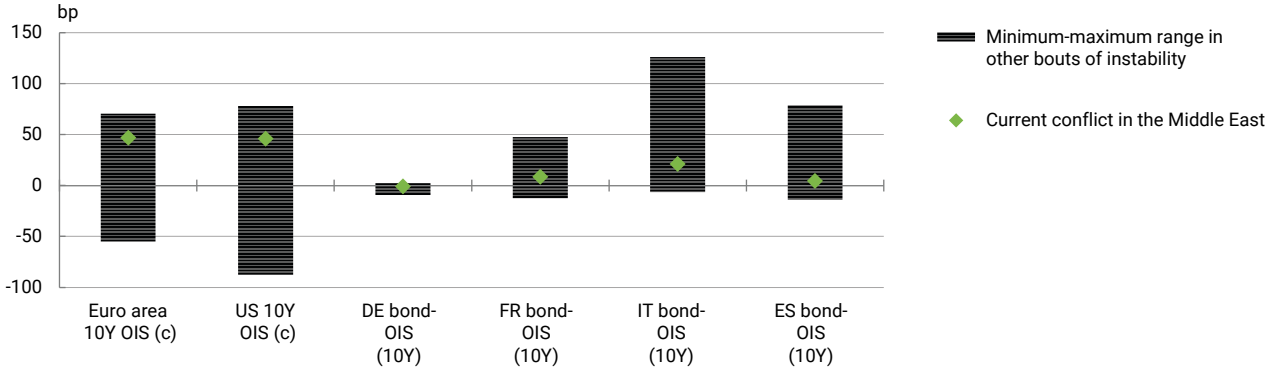
Chart 4.11

The start of the Iran war has led to a shift in government debt market dynamics, triggering moderate rises in long-term yields and risk premia

4.11.a Change in risk-free rates and in government bond spreads over the risk-free rate since the last FSR and since the war in the Middle East began (a)



4.11.b Change in risk-free rates and in government bond spreads over the risk-free rate (a). Includes changes since the outbreak of war in the Middle East and the minimum-maximum range in other bouts of instability (b)



SOURCE: Bloomberg Data License. Latest observation: 29 April 2026. 29 October 2025 is the cut-off date for the last FSR; 27 February 2026 is the last market close prior to the Iran war.

a The OIS rate is considered the benchmark rate for risk-free interest rates. It is the fixed leg of an interest rate swap contract where the floating leg is the 1-day €STR (euro area) or the federal funds rate (United States) that will be applicable in the future (in this case, in 10 years).
b Minimum-maximum range in other bouts of instability, after 43 working days: Gulf War (02/08/90); 9/11 attacks (11/09/01); war in Afghanistan (07/10/01); COVID-19 (21/02/20); invasion of Ukraine (24/02/22); Twelve-Day War with Iran (from 13/06/25 to 24/06/25).
c For the war in Afghanistan, 9/11 attacks and Gulf War, US and German 10-year sovereign bond.

Equities

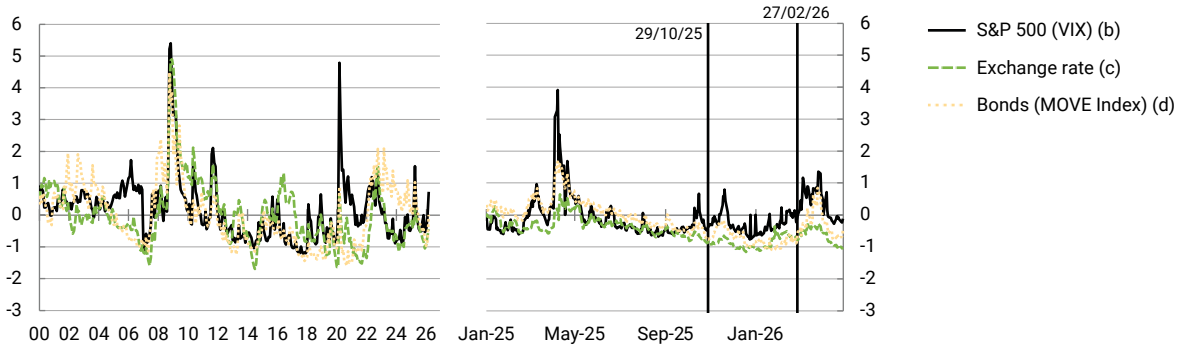
Since the last FSR, the equity markets have seen notable spikes in volatility associated with various risk factors (Chart 4.12.a). These include the war in the Middle East, uncertainty about the high valuations of tech firms, deteriorating risk in the private credit sector, territorial tensions surrounding Greenland and tariff disputes. Overall, at the cut-off date for this report, the implied volatility indices were at moderate levels by historical standards, close to the figures observed at the cut-off date for the previous FSR.

Meanwhile, the equity premia of European stock markets have risen slightly since the autumn, while in the United States they have proven more stable (Chart 4.12.b). In both cases, equity premia remain below their historical average, particularly in the United States.

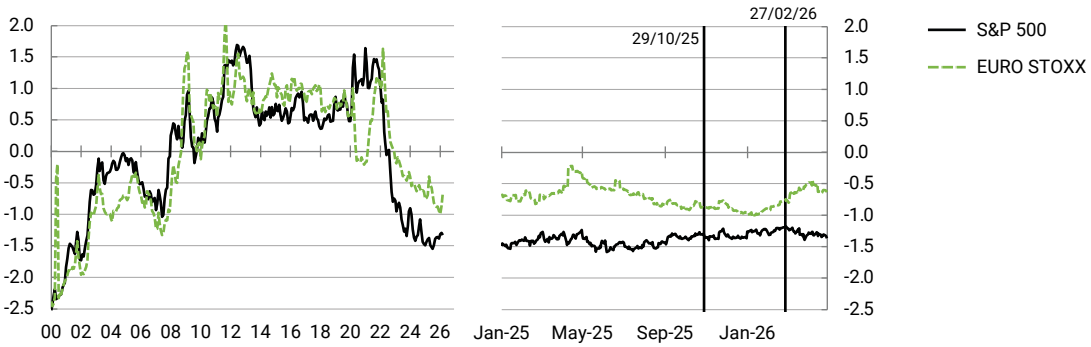
Chart 4.12

Equity market volatility and risk premia remain subdued

4.12.a Implied volatility (a)



4.12.b Equity risk premia (a) (e)



SOURCES: Bloomberg Data License, LSEG Datastream and Banco de España. Latest observation: 29 April 2026. 29 October 2025 is the cut-off date for the last FSR; 27 February 2026 is the last market close prior to the Iran war.

a De-meaned and standardised data for the period 2000-26.
b The VIX measures expected 30-day volatility in the US stock market. A high value points to increased market uncertainty.
c Average three-month volatility in the dollar/euro, dollar/pound sterling and yen/dollar exchange rates.
d The MOVE index measures implied volatility in the US Treasury bond market.
e The equity risk premium is calculated drawing on a two-stage dividend discount model (Russell J. Fuller and Chi-Cheng Hsia. (1984). "A Simplified Common Stock Valuation Model". Financial Analysts Journal, 40(5), pp. 49-56).

The European stock markets' reaction has been somewhat more negative since the Iran war began (Chart 4.13.a). Between the cut-off date for the last FSR and 27 February 2026, the EURO STOXX index rose by 8.3% and the IBEX 35 index by 13.7%, whereas the S&P 500 held virtually unchanged (-0.2%). Dynamics have visibly changed since the war began, with the S&P 500 climbing by 3.8%, and the EURO STOXX and the IBEX 35 retreating by 2.75% and 1.9%, respectively. These differing responses are consistent with the fact that the Middle East conflict could have a greater impact on the European economy than on the US economy.

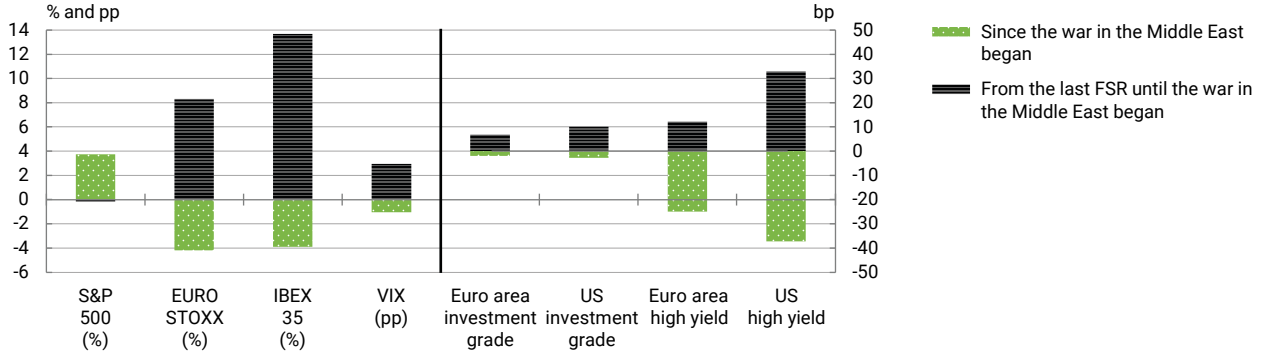
The impact of the conflict on the corporate bond markets has been very moderate. From the date of the last FSR to late February, corporate spreads saw a slight widening, which was most pronounced in the US high-yield segment (33 bp) (Chart 4.13.a).[12] Since then, despite the heightened uncertainty owing to the worsening geopolitical tensions, these spreads have

12 Corporate spreads are usually measured relative to a risk-free asset in a comparable currency and maturity (generally top-rated sovereign bonds or, in some market contexts, the swap curve).

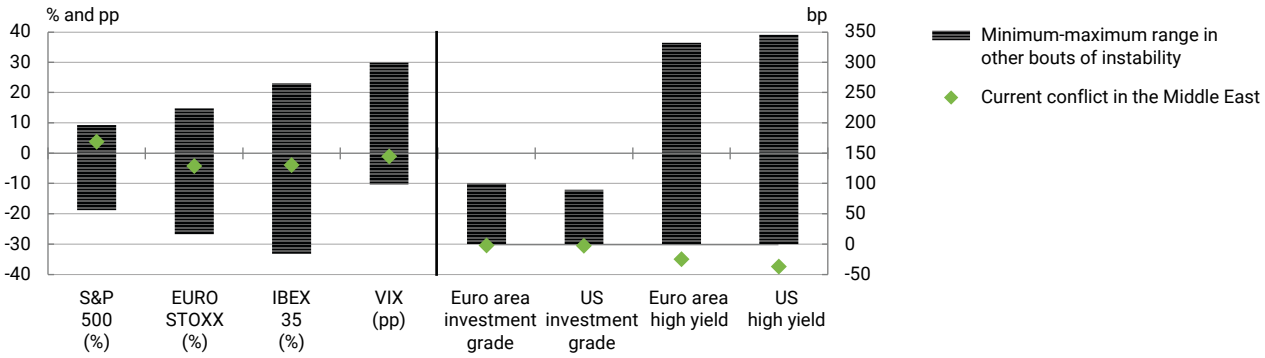
Chart 4.13

The equity and corporate bond markets' reaction to the Iran war has been very muted, both in absolute terms and compared with similar past events

4.13.a Change in equity markets (l-h panel) and corporate bond markets (r-h panel) since the last FSR, before and after the war in the Middle East began (a)



4.13.b Change in equity markets (l-h panel) and corporate bond markets (r-h panel) (a). Includes change since the war in the Middle East began and the minimum-maximum range in other bouts of instability (b)



SOURCE: Bloomberg Data License. Latest observation: 29 April 2026. 29 October 2025 is the cut-off date for the last FSR; 27 February 2026 is the last market close prior to the Iran war.

a Corporate spreads over the swap curve of the Bloomberg investment-grade and high-yield indices, in basis points. The swap curve represents the risk-free rates at different maturities. In an interest rate swap, the two parties agree to exchange periodic interest payments, one based on a fixed rate and the other on a variable rate.

b Minimum-maximum range in other bouts of instability, after 43 working days: Gulf War (02/08/90); 9/11 attacks (11/09/01); war in Afghanistan (07/10/01); COVID-19 (21/02/20); invasion of Ukraine (24/02/22); Twelve-Day War with Iran (from 13/06/25 to 24/06/25).

narrowed, particularly in the high-yield segments in both the United States (-37 bp) and Europe (-25 bp).

Overall, the equity and corporate bond markets' reaction to the Iran war has been very subdued compared with past episodes of geopolitical instability and supply-side crises (Chart 4.13.b). This muted response can be observed in the United States and Europe alike, and has been particularly noticeable among US corporate bonds and equities. The rise in the implied volatility index VIX also appears comparatively modest.

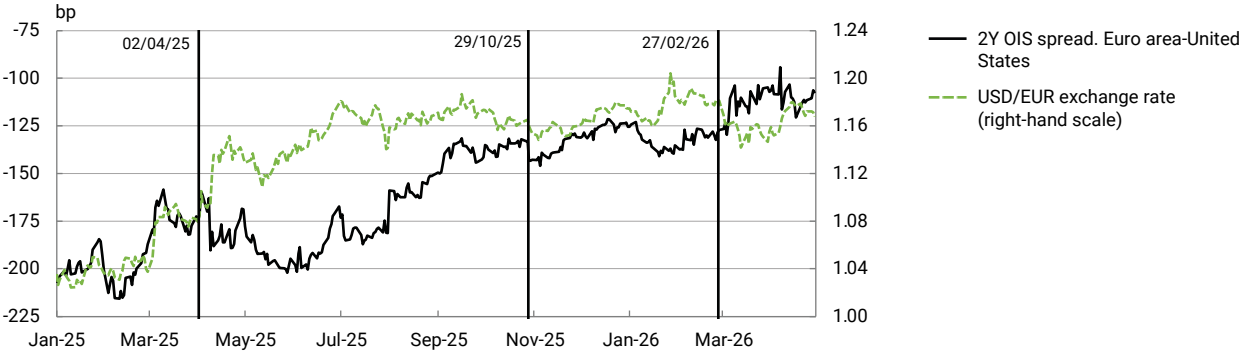
Foreign exchange markets and gold

Having shown some weakness since the autumn, the US dollar recovered somewhat after the Middle East conflict began (Chart 4.14.a). In the months running up to the conflict, the

Chart 4.14

Following a period of depreciation, the dollar appreciated after the Iran war began, although this largely reversed when a ceasefire was announced in April

4.14.a 2Y OIS spread between euro area and United States (a) and USD/EUR exchange rate



SOURCE: Bloomberg Data License. Latest observation: 29 April 2026. 2 April 2025 is the date that the US tariffs were announced; 29 October 2025 is the cut-off date for the last FSR; 27 February 2026 is the last market close prior to the Iran war.

a The 2Y OIS spread between the euro area and the United States captures the difference in 2-year risk-free rates between the two areas.

dollar continued to depreciate, surpassing $1.2 per euro, a trend influenced, at least in part, by factors such as international investors' efforts to diversify out of dollar-denominated assets and US economic policy uncertainty. However, unlike during the April 2025 tariff crisis (when the dollar, uncharacteristically, did not act as a safe-haven asset), the start of the war saw the dollar recover its traditional role and appreciate by 1.4% in nominal effective exchange rate terms during the first week of hostilities. Among the advanced economies, the euro was one of the relatively worst-performing currencies, consistent with Europe's greater exposure to the energy shock associated with the war. The yen and Swiss franc also appreciated, in line with the pattern observed in previous bouts of turmoil. Since a ceasefire was announced in early April, the dollar has lost some of its appreciation and the euro has regained ground, although the euro/dollar exchange rate has not completely returned to its pre-conflict levels.

Meanwhile, the price of gold has mostly continued to rise since the last FSR was published, although the Iran war has brought into question its role as a safe-haven asset. Growing fears about the war's duration are exerting downward pressure on gold prices due to rising bond yields, the dollar's appreciation and investors' liquidity needs. Immediately prior to the outbreak of the conflict, gold prices had surpassed $5,200 per ounce, having accumulated gains of 8% since the cut-off date for the previous FSR. Gold prices fell by 12% after the start of hostilities, down to $4,500 per ounce. Although prices stabilised after a ceasefire was announced in early April, they have not returned to their previous highs.

Emerging financial markets

Financial markets in the emerging market economies have proven highly resilient to the geopolitical tensions and trade uncertainty. Broadly speaking, between October 2025 and

February 2026, exchange rates against the dollar appreciated and stock market indices performed well, influenced by a favourable global risk environment for these economies, and underpinned in some cases by higher prices of commodity exports (primarily, base metals and food) and technological developments (in the case of Asia). Moreover, these economies saw a decline in the cost of their internal and external financing, received short-term capital inflows and further increased their debt issuances.

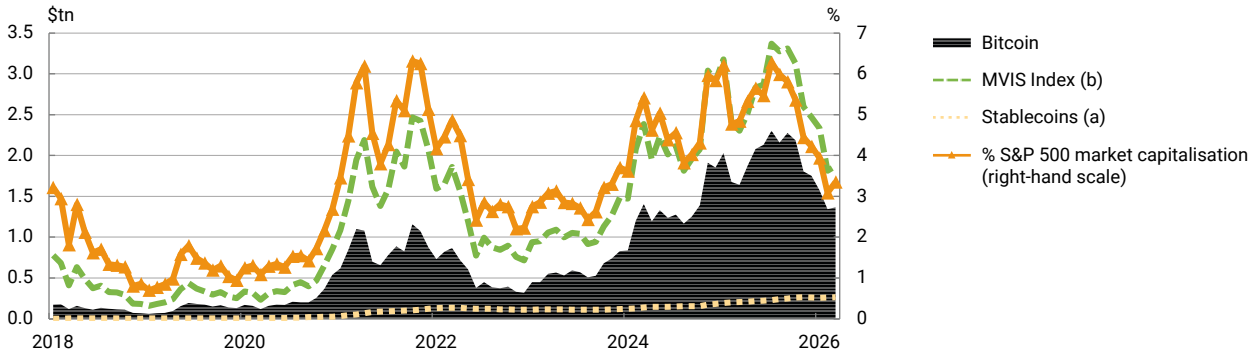
However, their market conditions have deteriorated slightly since the outbreak of the Iran war. The ensuing change in global market sentiment (flight to quality) triggered a fall in the stock markets of these economies (excluding oil exporters) and a depreciation in their exchange rates. The ceasefire announced on 7 April marked a fresh shift, with these markets resuming their upward trend. However, some degree of regional differentiation has since been observed, with Asia performing less favourably due to its greater reliance on oil shipped through the Middle East (Chart A2.4.2.1 in Annex 2).

Crypto-assets

There has been a noticeable correction in crypto-asset market capitalisation since the last FSR (Chart 4.15.a). This appears to have been influenced by a downturn in investors' risk appetite, against a backdrop of tighter liquidity and greater geopolitical uncertainty, with unbacked crypto-assets affected more severely. Specifically, between October and March, bitcoin's market cap fell from $2.18 trillion to $1.37 trillion, while the MVIS index, which groups together the top unbacked crypto-assets, decreased from $3.13 trillion to $1.87 trillion. Conversely, the market cap of stablecoins, headed by Tether and USD Coin, remained virtually unchanged at $0.26 trillion throughout the period. The relative share of the crypto-asset market in the S&P 500 market cap fell from 5.36% to 3.35% in this period.

Chart 4.15
Crypto-assets have seen a sharp correction since the autumn, entirely concentrated in the unbacked segment

4.15.a Market value of crypto-assets



SOURCES: LSEG Datastream, MVIS, Coinmarketcap and Banco de España. Latest observation: March 2026.

a Aggregate market value of Tether and USDC.
b The MVIS CryptoCompare Digital Assets 100 Index, which includes the top 100 crypto-assets by market value (not including stablecoins).