EUROPEAN CENTRAL BANK

EUROSYSTEM

Financial Stability Review
November 2026

Press briefing



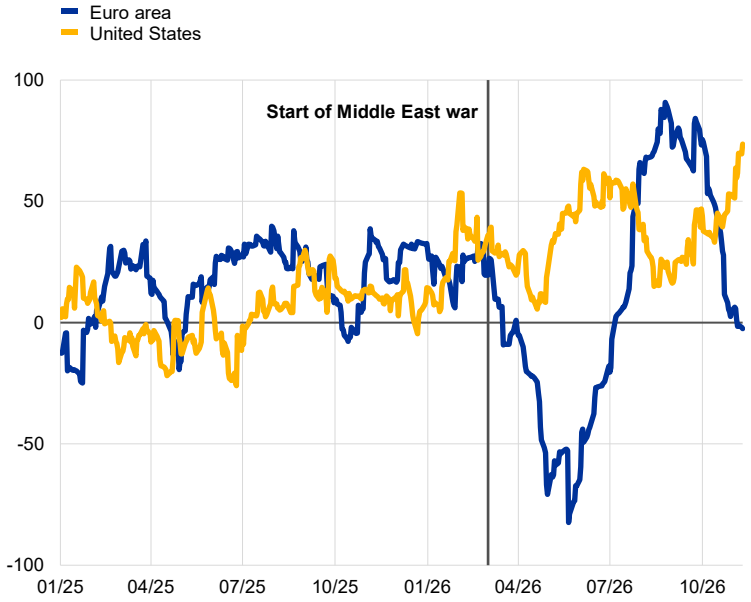
18 November 2026

Context: key developments since May 2026

- The euro area economy has proved remarkably resilient in the face of multiple challenges …
- … but the ongoing war in the Middle East continues to strain energy markets, while trade policy uncertainty remains high

Citigroup Economic Surprise Index

(1 Jan. 2025-10 Nov. 2026, indices)

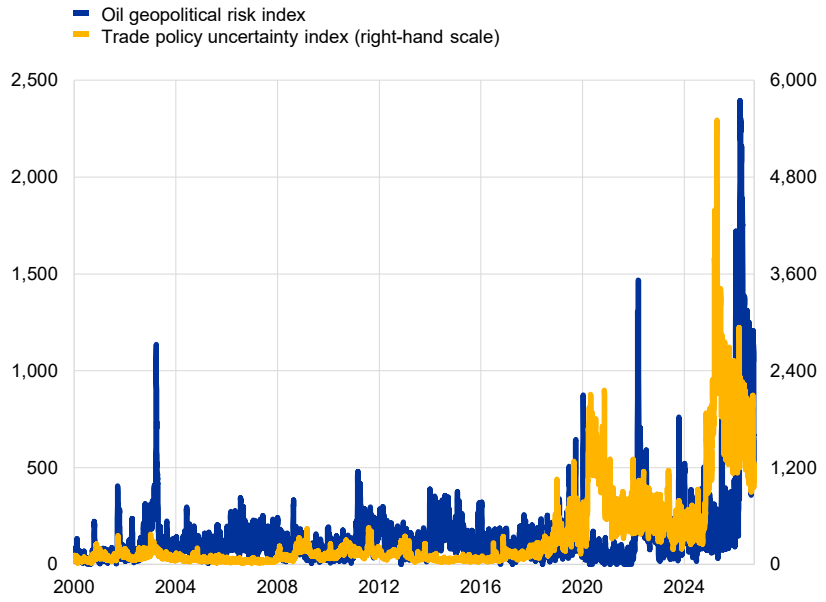


Source: Bloomberg Finance L.P.

Notes: The Citigroup Economic Surprise Index measures the extent to which economic data releases exceed or fall short of market expectations. Values above (below) zero represent net positive (negative) economic surprises.

Oil geopolitical risk index and trade policy uncertainty

(1 Jan. 2000-31 Oct. 2026, indices)



Source: Iacoviello and Tong (2026) and Baker et al. (2016).

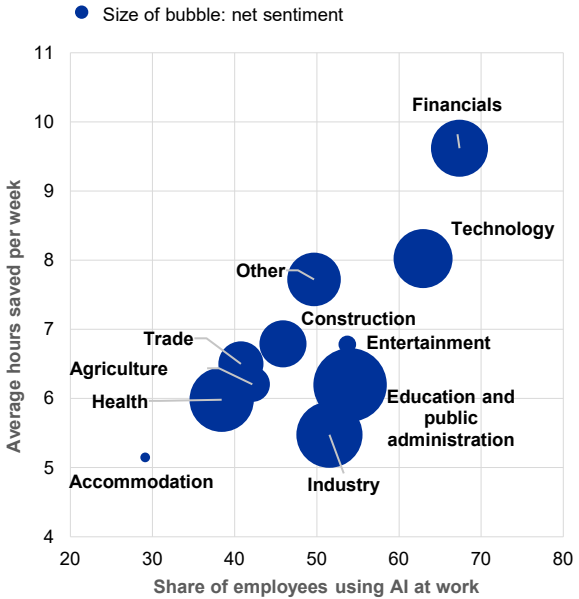
Notes: The oil geopolitical risk index is a sub-index of the Artificial Intelligence Geopolitical Risk Index (AI-GPR), identifying articles that discuss oil or energy supply disruptions driven by geopolitical events. Indices are displayed as seven-day moving averages.

Context: key developments since May 2026

- An upbeat AI narrative is partly offsetting the adverse impact of the energy shock on economic growth …
- … but AI is raising systemic risks by facilitating cyberattacks, while third-party dependencies exhibit high concentration

Share of AI adoption and hours saved per week, by employment sector

(Q2 2026, percentages, hours)

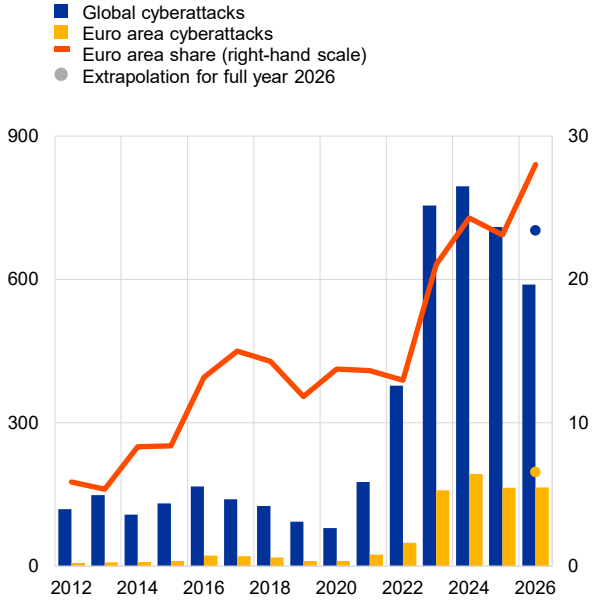


Source: ECB (CES).

Notes: Based on the annual labour market module of the ECB's Consumer Expectations Survey. Net sentiment measures the difference between positive and negative views. Larger bubbles indicate a more positive net sentiment.

Global and euro area cyberattacks

(2012-26, number of attacks, percentages)

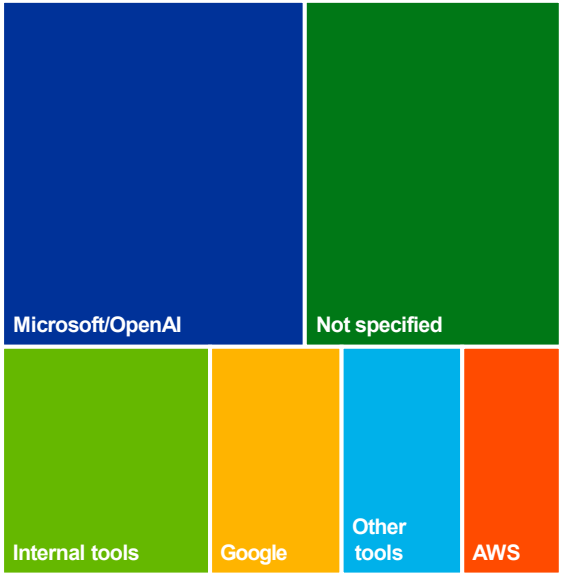


Sources: EuRepoC and ECB calculations.

Notes: EuRepoC expanded its inclusion criteria as of 1 February 2023. Cyberattacks are recorded with lags. The dots show extrapolated values for the full year 2026 based on actual incidents recorded until 10 November.

Generative AI vendors and service providers used by euro area banks

(2025, percentages)



Sources: ECB (supervisory data, SREP) and ECB calculations.

Note: The chart is based on banks' free-text comments regarding the sourcing model or the owner of the technological solution.

Risks from AI valuations, fiscal imbalances and geoeconomic tensions cloud the financial stability outlook

1. Valuations rely on ambitious earnings expectations for AI firms, leaving markets exposed to the risk of an abrupt repricing in a highly uncertain geoeconomic environment with rising AI-powered cyber threats

2. A challenging fiscal outlook in some major advanced economies could test investor confidence and lead to a further repricing of sovereign risk

3. Uncertainties from AI, geopolitics and sovereigns expose banks and non-banks to market, credit and funding risks which could be amplified by interconnection across sectors

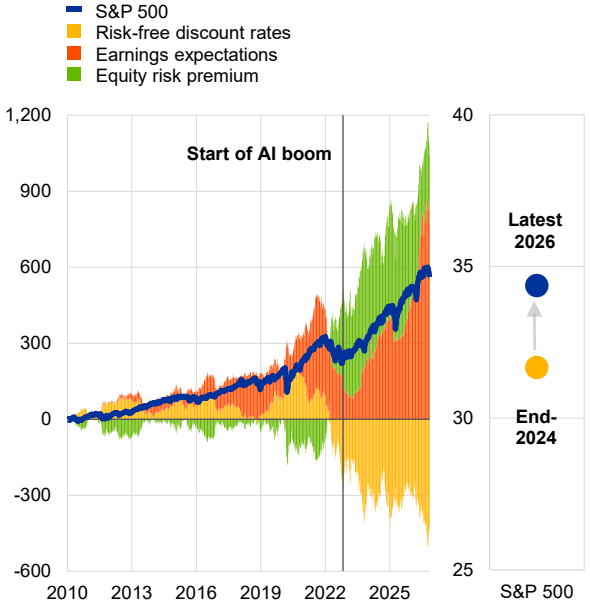
www.ecb.europa.eu ©

1 Financial markets are exposed to the risk of an abrupt repricing

- Stock prices are increasingly driven by extraordinarily strong earnings expectations …
- … which might yet prove over-optimistic, given the circularity of financing flows between AI-related firms and other factors

Decomposition of S&P 500 returns

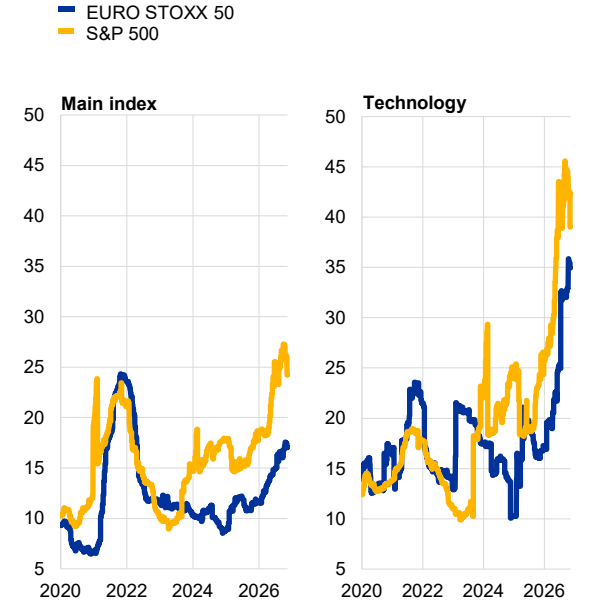
(1 Jan. 2010-6 Nov. 2026, cumulative p.p. contribution)



Sources: Grothe et al. (2026) and Bloomberg Finance L.P.
Notes: Based on a dividend discount model. The residual from decomposing the returns into earnings expectations and discount factors is the equity risk premium contribution. Higher contributions mean lower equity risk premium. Positive contributions can be seen as risk-on sentiment, supporting equity prices beyond earnings expectations and discount rates.

Long-term earnings growth expectations

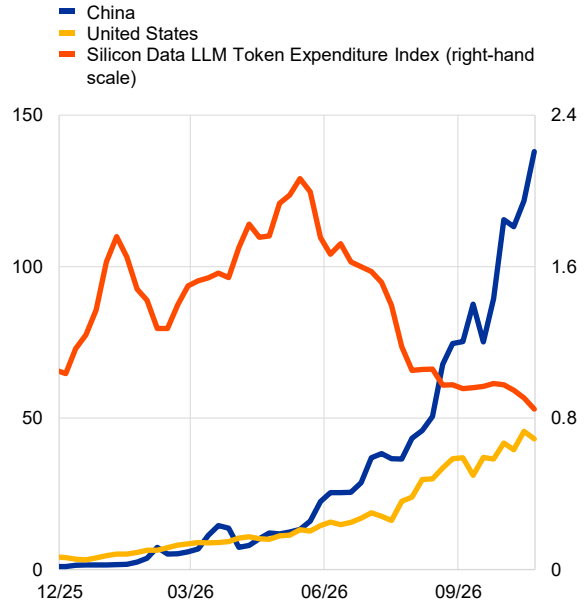
(1 Jan. 2020-10 Nov. 2026, percentages)



Sources: LSEG and ECB calculations.
Notes: The chart depicts the weighted average of long-term annualised earnings per share growth forecasts for the EURO STOXX 50 and the S&P 500, and their respective technology sub-indices, based on the median analyst estimate for each constituent over the next three to five years (the next full business cycle).

Usage and costs of AI models

(4 Dec. 2025-5 Nov. 2026; trillion tokens, index)



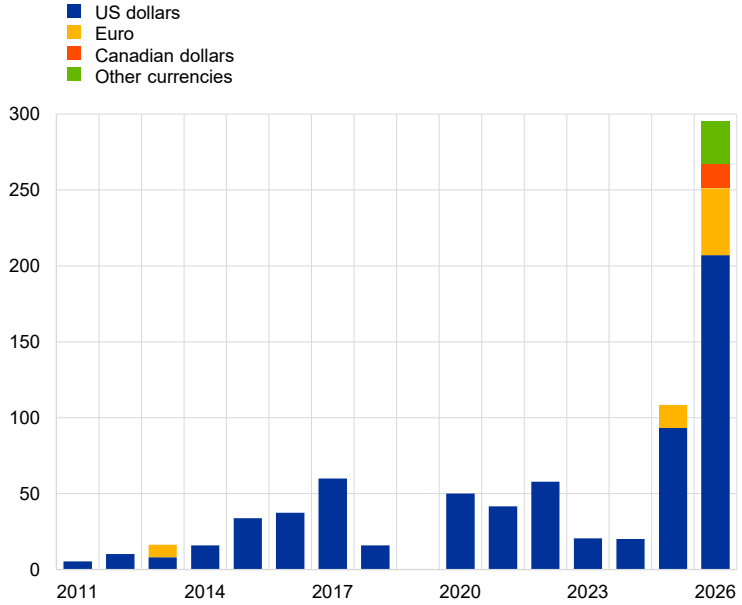
Sources: Bloomberg Finance L.P., OpenRouter and ECB calculations.
Notes: The chart shows token volume processed through the OpenRouter API (~2% of global consumption). The Silicon Data LLM Token Expenditure Index benchmarks LLM token prices using the usage-weighted cost of one million tokens.

1 Financial markets are exposed to the risk of an abrupt repricing

- The volume of AI-related corporate debt being issued in global bond markets is becoming sizeable …
- … raising the possibility of simultaneous repricing in both equity and bond markets should benign sentiment reverse

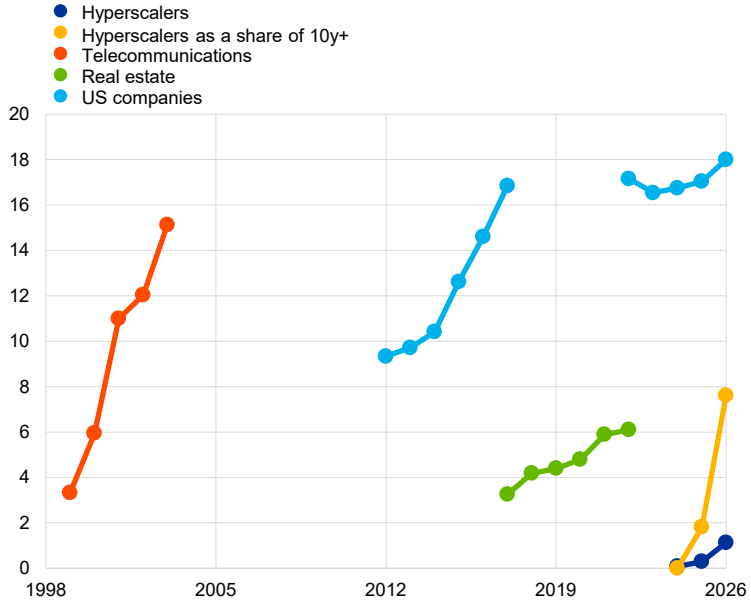
Debt issuance of large cloud and AI infrastructure providers

(2011-26, USD billions)



Share of EUR IG corporate bond benchmark index

(1998-2026, percentages of market value)



Source: Bloomberg Finance L.P.

Note: Data as at 10 November 2026. Debt issuance by Microsoft Corp., Meta Platforms Inc., Alphabet Inc., Amazon.com Inc. and Oracle Corp. Other currencies include the Swiss franc, pound sterling, Japanese yen and Australian dollar.

Sources: Dealogic, Bloomberg Finance L.P. and ECB calculations.

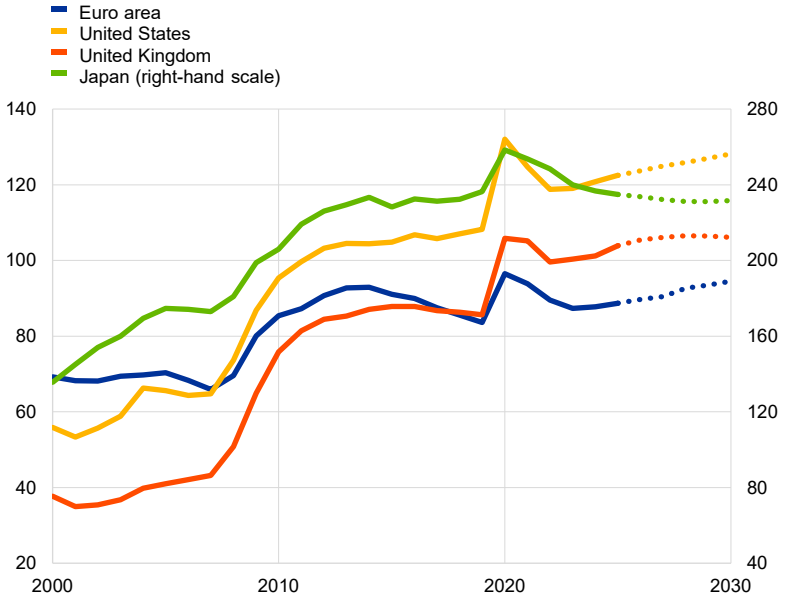
Note: Market value of outstanding debt measured on 30 June each year as a share of the overall ICE BofA Euro Investment Grade Index; only heavy issuance periods shown.

2 A challenging fiscal outlook is testing investor confidence, posing risks of sovereign repricing

- With sovereign debt-to-GDP ratios projected to continue rising, fiscal fundamentals in advanced economies are weakening
- Long-term sovereign bond yields have reached levels not seen in decades, driven primarily by higher global real interest rates but also by concerns about inflation

Sovereign debt-to-GDP ratios in selected advanced economies

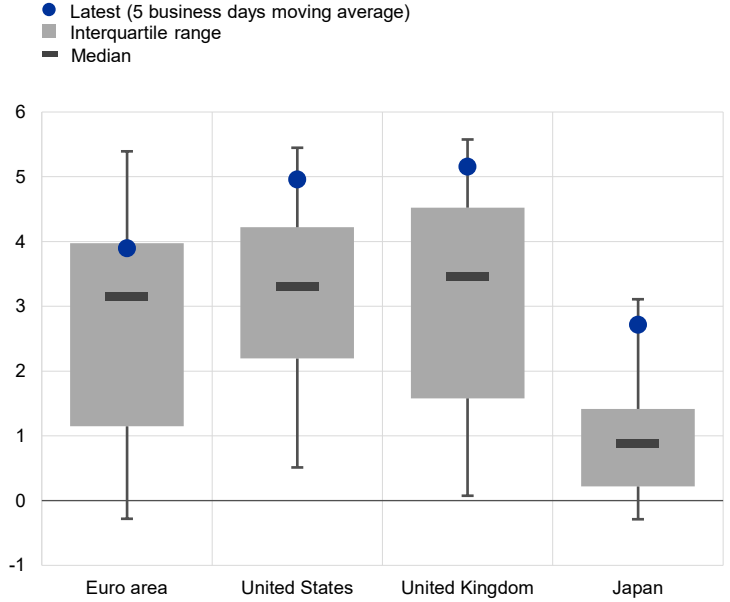
(2000-30, percentages of GDP)



Source: IMF.
Note: Dotted lines represent forecasts.

Distribution of 10-year benchmark sovereign bond yields

(1 Jan. 2002-10 Nov. 2026, percentages)



Source: LSEG and ECB calculations.
Notes: Whiskers refer to minimum and maximum values. Latest refers to average over latest five business days. Euro area shows the GDP-weighted average of individual euro area countries' yields.

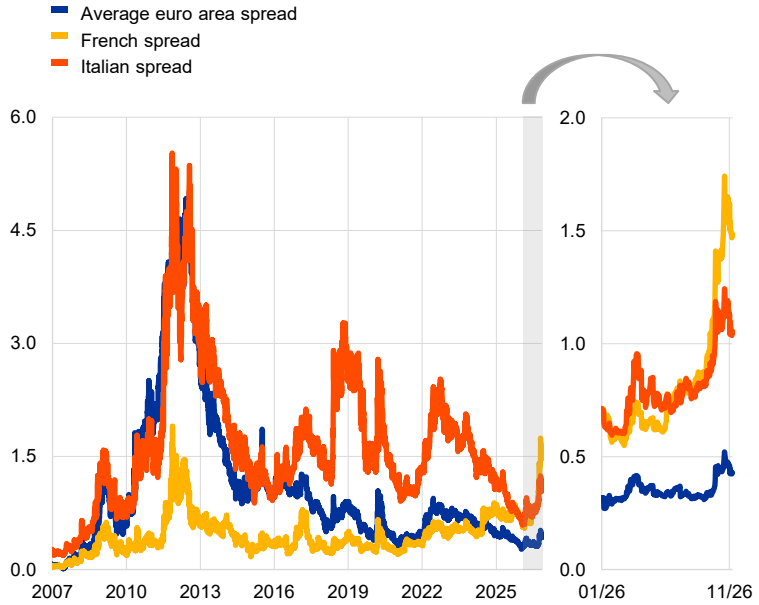
ECB-RESTRICTED

2 A challenging fiscal outlook is testing investor confidence, posing risks of sovereign repricing

- Euro area sovereign bond markets are now more susceptible to abrupt repricing as the investor base has become more news-sensitive …
- … a pattern especially visible for France, where yields have risen sharply as political uncertainty has added to concerns about weak fiscal fundamentals

Selected ten-year euro area sovereign spreads over the German ten-year yield

(1 Jan. 2007-10 Nov. 2026, percentage points)

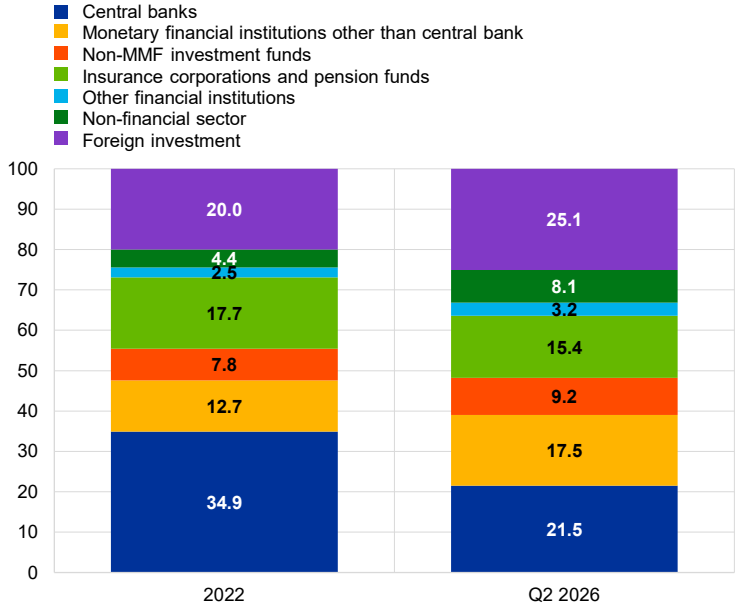


Sources: Bloomberg Finance L.P., ECB and ECB calculations.

Notes: "Average euro area spread" is the GDP-weighted spread for Belgium, Ireland, Greece, Spain, Netherlands, Austria, Portugal and Finland. 2025 GDP is used as a proxy for 2026 GDP.

Holdings of euro area sovereign debt securities, by institutional sector

(2022, Q2 2026; percentages)



Sources: Eurostat and ECB (QSA) and ECB calculations.

Note: MMF stands for money market fund.

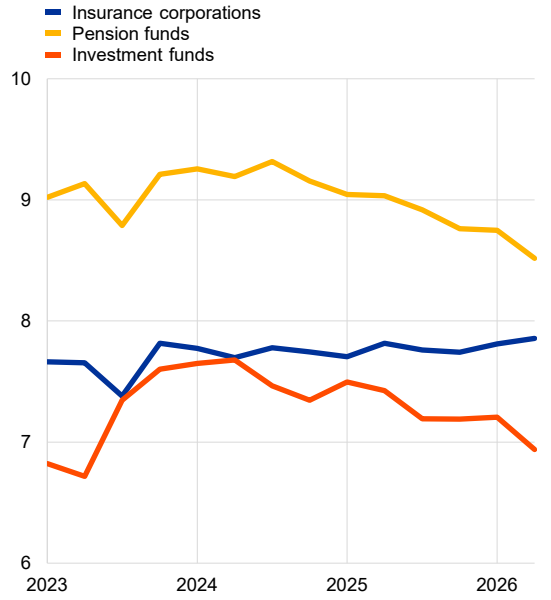
ECB-RESTRICTED

3 Banks and non-banks are exposed to market, credit and funding risks

- Further yield rises or a reversal of the AI narrative could trigger securities portfolio valuation losses, notably for non-banks…
- ... while structural liquidity vulnerabilities of open-ended funds and pockets of highly-leveraged hedge funds increase risks of fire sales and contagion via funding channels

Duration risk in non-banks' portfolios

(Q1 2023-Q2 2026, pp losses/1pp increase in interest rates)

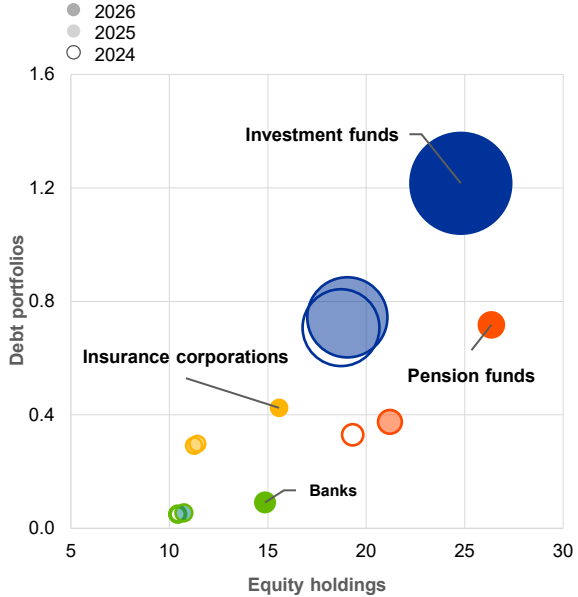


Sources: EPFR Global and ECB calculations.

Note: Duration risk is measured as modified duration, which estimates the approximate percentage change in a portfolio's value for a 1 percentage point change in interest rates; higher values indicate greater interest-rate sensitivity.

Share of AI-related firms in euro area non-banks' portfolios, by financial sector

(Q2 2024, Q2 2025, Q2 2026; percentages)

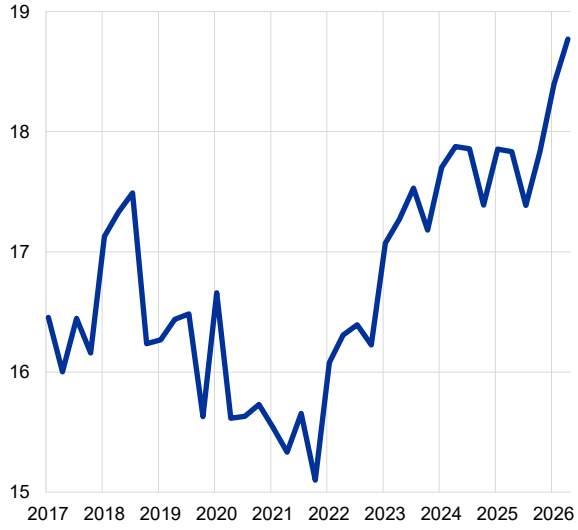


Sources: ECB (CSDB, SHS) and ECB calculations.

Notes: "AI-related firms" comprises 167 firms (and their respective subsidiaries). Bubble size represents the total holdings of AI-related equity and debt for each sector.

Euro area banks' funding from non-banks

(Q1 2017-Q2 2026, percentage of total bank liabilities)



Sources: ECB (supervisory data, SHS) and ECB calculations.

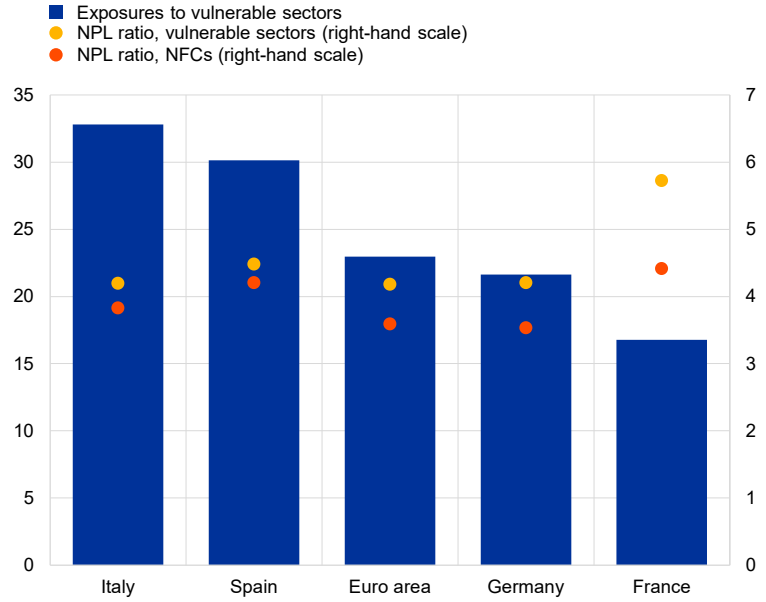
Notes: The share is calculated at the consolidated level for a sample of 114 significant institutions. Funding from non-banks includes deposits, repos, bond holdings, short positions and derivatives (i.e. those with a negative fair value).

3 Banks and non-banks are exposed to market, credit and funding risks

- Euro area banks have substantial exposures to energy-sensitive economic sectors …
- … and, while bank asset quality is broadly solid, typical NPL formation after energy supply disruptions can take several years so that the full impact of large and persistent shocks is yet to be seen

Share of exposures and NPL ratios for sectors vulnerable to the oil supply shock

(Q2 2026, percentages)

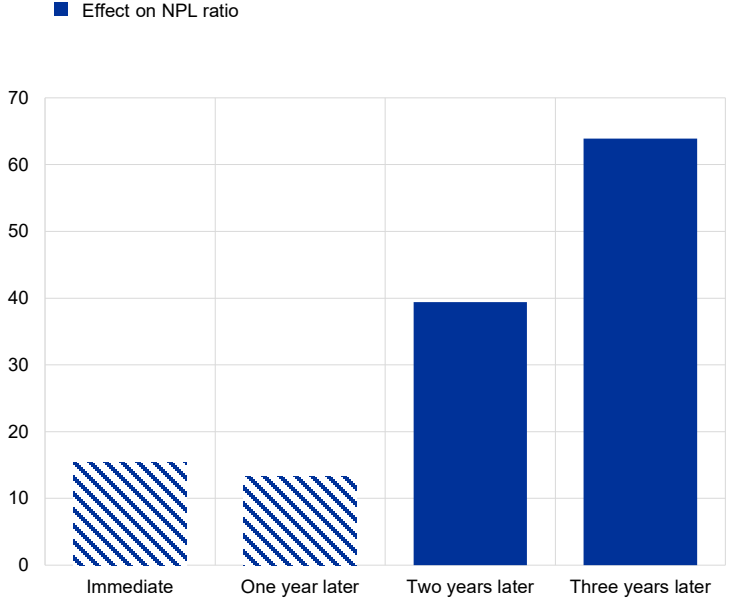


Sources: ECB (AnaCredit, supervisory data) and ECB calculations.

Notes: Based on all banks. Vulnerable sectors are defined as the most energy-dependent sectors, exhibiting high sensitivity to upstream energy supply disruptions.

Cumulative impact of an exogenous oil supply shock on euro area bank NPL ratios

(basis points after a 1 standard deviation adverse oil supply shock)



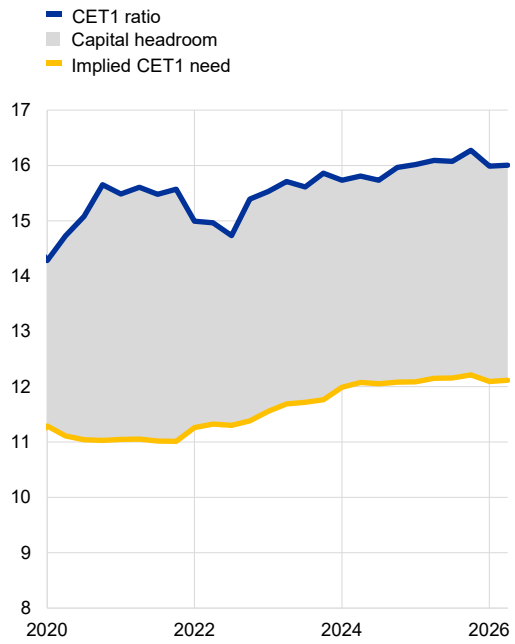
Sources: Moody's, ECB, Bloomberg Finance L.P., Gazzani et al. (2024) and ECB calculations.

Notes: Results from panel local projections using identified shocks and an unbalanced quarterly panel of 130 banks domiciled in the euro area, from Q1 2007 to Q1 2026. Solid bars are statistically significant at 5% threshold, with Newey-West standard errors.

Macroprudential policy issues

Euro area banks' aggregate CET1 capital ratio and headroom

(Q1 2020-Q2 2026, percentages of risk-weighted assets)



Source: ECB (supervisory data) and ECB calculations.

Note: Capital headroom is the difference between the implied CET1 capital need and banks' actual CET1 ratios.

For banks:

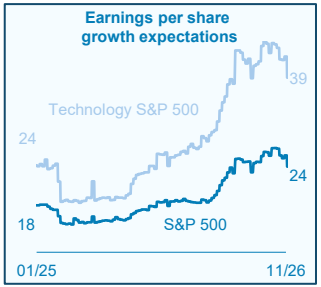
- Banks appear well-positioned to absorb adverse shocks
- Preserving bank resilience remains a key priority:
  - releasable capital buffers to be kept
  - …and borrower-based measures maintained
- Key to enhancing EU banks' competitiveness:
  - progress on savings and investments union and completion of banking union
  - reducing regulatory and supervisory complexity without compromising bank resilience

For non-banks:

- Persistent liquidity and leverage vulnerabilities in the NBFI ecosystem
- Appropriately calibrated measures needed to address these vulnerabilities, including risks from concentration and crowded positioning
- Better data and cross-border information sharing essential for assessing and addressing risks (e.g. on offshore hedge funds)

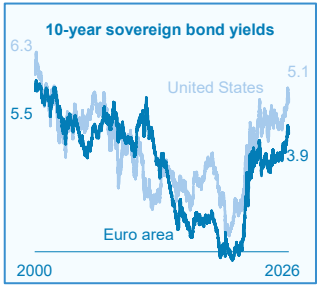
Risks from AI valuations, fiscal imbalances and geoeconomic tensions cloud the financial stability outlook

1 Valuations rely on ambitious earnings expectations for AI firms, leaving markets exposed to the risk of an abrupt repricing in a highly uncertain geoeconomic environment with rising AI-powered cyber threats



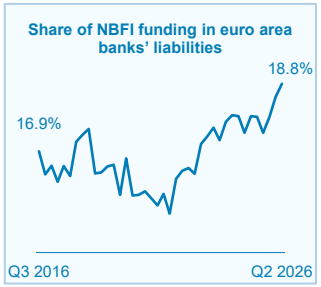
- Vulnerabilities are building as the scale of AI infrastructure spending outpaces what firms can fund from internal sources.
- A large portion of the funding gap is being closed in debt markets, with a growing share of issuance in euro increasing euro area investors' direct exposure.
- A possible further reassessment of the AI narrative and associated earnings expectations poses the risk of a sharp shift in market sentiment.
- Ambitious earnings expectations and extreme market concentration in US technology and AI-related firms heighten the risk of abrupt market repricing.
- AI expands the scope and speed of cyberattacks in an uncertain geoeconomic landscape, with concentrated third-party reliance posing potential systemic risks.

2 A challenging fiscal outlook in some major advanced economies could test investor confidence and lead to a further repricing of sovereign risk



- Fiscal imbalances in major advanced economies could lead to a global repricing of sovereign risk.
- Higher issuance needs and rising funding costs could further strain sovereigns with structurally high debt and deficits.
- Fiscal capacity to cushion the impact of the Middle East war on households and firms might be limited by stretched public finances in some countries.
- Cyclical headwinds, together with the risk of fiscal slippage and structural challenges such as ageing, may complicate the path towards fiscal consolidation.
- The growing presence of more procyclical investors such as hedge funds, along with the broader use of leveraged trading strategies, could amplify risks.

3 Uncertainties from AI, geopolitics and sovereigns expose banks and non-banks to market, credit and funding risks which could be amplified by interconnection across sectors



- Escalating geoeconomic tensions could affect growth, inflation and interest rates, increasing credit risk for exposures to trade- and energy-sensitive industries.
- A market repricing as result of a shift in the AI narrative or a further rise in sovereign yields may trigger sudden valuation losses on bank and non-bank portfolios.
- Structural liquidity and leverage fragilities in some non-bank entities, and bank exposures to leveraged non-banks, may exacerbate the risk of financial contagion.
- Strong linkages could cause any stress in the NBFI sector to spill over to euro area banks, especially via funding.
- The ability of banks to absorb future shocks is supported by robust earnings momentum coupled with ample capital and liquidity buffers.

Background information

www.ecb.europa.eu ©

Financial Stability Review – analytical material for the November 2026 issue

Special Feature A	–	Financial stability implications of AI adoption in the financial industry and the real economy
Special Feature B	–	Decoding the cyber-AI nexus
Special Feature C	–	Financial stability risks from large IPOs, equity issuance and passive investing
Chapter 1 – Box 1	–	Diverging developments in euro area residential real estate markets: risks and policy considerations
Chapter 2 – Box 2	–	Unwinding of corporate spread compression: implications for euro area market repricing
Chapter 2 – Box 3	–	The debt financing of AI and its implications for financial stability
Chapter 2 – Box 4	–	Big tech's growing presence in the euro bond market: implications for investors
Chapter 3 – Box 5	–	The effects of oil supply shocks on corporate resilience, bank asset quality and lending
Chapter 3 – Box 6	–	Bank reliance on credit protection providers via synthetic risk transfers
Chapter 4 – Box 7	–	The footprint of hedge funds in euro area sovereign bond markets via repo markets

www.ecb.europa.eu ©