

The stock market and economic and financial developments in Spain in 2015

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IN 2015, TENSION IN THE INTERNATIONAL FINANCIAL MARKETS INCREASED MODERATELY, RESULTING IN GREATER VOLATILITY IN SHARE PRICES AND CORPORATE PUBLIC DEBT. FACTORS SUCH AS THE RISING DISPARITY BETWEEN MONETARY POLICIES OF THE MAIN CENTRAL BANKS; THE WEAKNESS IN CERTAIN ECONOMIES; FALLING COMMODITY PRICES; GREECE'S TALKS WITH THE EURO AREA, ALL HELPED GENERATE UNCERTAINTY IN THE GLOBAL FINANCIAL INDUSTRY. HOWEVER, THE SYSTEM REMAINED HIGHLY LIQUID AND SHOWED IT HAD FAITH IN THE CENTRAL BANKS' POWERS AND MONETARY POLICIES TO BE ABLE TO GET THE ECONOMIES BACK ON TRACK.

The economic provisions of the international agencies were revised downwards on two occasions over the course of 2015. Growth forecasts for the Eurozone as a whole showed better figures than in previous years (+1.5% forecast for 2015) but were still far from brilliant.

The European Central Bank (ECB) maintained its leading role in the single currency area. While the benchmark interest rate remained at 0.05%, it ramped up the expansive tone of its monetary policy through various unconventional measures, in response to weak economic growth and the risk of deflation in the area. In turn, the Federal Bank stated on several occasions over the year that it intended to very gradually start raising benchmark interest rates in the US.

As a result of ECB intervention in the markets, the exceptional circumstances on the markets in terms of Eurozone debt are such that negative interest rates on public debt have become the norm.

Spain's macroeconomic figures are of particular note. With an estimated growth in GDP slightly over 3% in 2015, Spain has moved into a leading position in the group of large developed countries. However, there are still serious



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imbalances and threats to be addressed, such as the extremely high rate of unemployment, the public deficit or the growing level of public debt.

Stock markets and world indices

The IBEX 35, Spain's main index, ended 2015 with a decline of -7.15% accompanied by a spike in volatility. Taking dividends into account, the decline is reduced to -3.55%. From the lows of 2012 in the midst of the European sovereign debt crisis, the index has gained 60%.

The global aggregated indices ended the year at practically the same level as the start of 2015. In 2015, the European stock markets achieved mainly positive returns largely as a result of the ECB's expansive monetary policy. After several excellent years, the North American markets showed signs of the change in bias of the monetary policy and the global economic slowdown, with its indices closing the year with slightly negative yields.

By company size, 2015 has been a very good year for small listed companies and especially European ones whose benchmark index, the Stoxx Europe for small companies, is up 19.2%.

Trading and liquidity

In 2015, the Spanish Exchange confirmed a trend change that first emerged three years ago. The trading volume rose to €962bn with an 8.9% increase from 2014. This increase in trading has an impact on trading quality. In 2015, average liquidity by trading ranges on the IBEX 35 remained at an all-time low with an average value of 6 basis points, 1.3 points less than in 2012. As a result, the implicit cost of market trading fell for investors in Spanish securities who perform over 80% of their operations on the Spanish stock market trading platform. Yet again in 2016, Spanish stocks are top of the table in the rankings on Europe's leading stocks. Throughout 2015, in the ranking of trading in stocks in their market of origin belonging to the Eurostoxx 50 index, shares in Banco Santander, BBVA and Telefónica were ranked in first, second and third place, while shares in Iberdrola and Inditex were also in the top 25.

Investors

Spanish equity continued attracting national and international investors during 2015 and non-resident participation in the trading volume stands at 84%. At the end of 2014, foreign investors owned 43% of all listed Spanish shares and the provisional data for the first half of 2015 raised this holding to 44.1%.

SOCIMIs, real-estate investment trusts that are also listed (a legal entity that can be assimilable to REITs), have also been of significant note. Over the year, there were eight new incorporations, five SOCIMIs capital increases and two more of similar trusts that have raised nearly €3bn.

Capitalisation and listed companies

Overall capitalisation of listed companies in Spain stood at €0.975bn at year-end 2015, down 7.9% from the previous year. From the lows of 2012 and excluding companies domiciled abroad, Spanish listed companies have seen their market value increased by €340bn.

The good year for medium capitalisation companies on the IBEX Medium Cap index was reflected in their 15% rise in capitalisation over the course of the year.

At year-end 2015, there were 3,604 companies admitted to trading on all segments of the Spanish Exchange. This figure represents a year-on-year increase of over 150, mainly due to the increased number of SICAVs listed in the corresponding segment of Spain's alternative investment market, the Mercado Alternativo Bursátil (MAB), which already stands at 3,374. The presence of 11 SOCIMI (REITs) in their segment of the MAB is also worthy of note.

Results and dividends

After two years of strong recovery with just over 50% growth in net profit in both 2013 and 2014, this positive trend has continued in 2015, with 43% profit growth in the first half of the year. Spanish listed companies are becoming increasingly international and the contribution from international sales to their total turnover remains at the highest levels achieved in 2014, with close to 64%.

Shareholder remuneration remains the distinguishing feature of the Spanish Exchange, which stands out on the global stage with a 5.2% return on dividends at year-end 2015 according to data from MSCI (Morgan Stanley Capital International).

Financing and new liquidity: Increases and other transactions

In 2015, total new investment and financing flows channelled through the Spanish Exchange by means of new shares from capital increases, new admissions to trading and public sale or subscription offerings reached €41.6bn, up 15.3% from 2014. The Spanish market is once again one of the most prominent in Europe and across the world.

Capital increases have been especially significant, with over 156 operations up to November raising €29.7bn.

IPOs and takeover bids

The Spanish Exchange maintained a very notable position on the international IPOs market throughout 2015.

According to the Global IPO report from the consulting firm Ernst & Young, over the first nine months the Spanish Exchange was the top European exchange and the fifth worldwide in terms of public offerings. Over the course of 2015, the funds obtained through these initial and secondary public offerings came to €8.47bn, the second highest amount of the past 18 years after the €10.5bn recorded in 2007. Seven new companies have been admitted to trading on the Spanish Exchange and a further 17 have joined different segments of the MAB: Nine joined the Growth Companies segment and eight joined the SOCIMI segment. In total, there have been 24 incorporations, not counting the SICAV.

Growing financing alternatives: MAB and MARF

Although the financing conditions for smaller companies have improved significantly in 2014 and 2015, these companies continue to be extremely dependent on bank

loans, making them highly vulnerable during periods of credit clampdowns. A range of solutions have been proposed to remedy this situation, with the top solution being stock-market-based methods of alternative financing such as the MAB for Growth Companies or the Spanish Alternative Fixed-Income Market (MARF).

Following on from the previous year, the number of companies listed on the MAB for Growth Companies has continued to rise in 2015, reaching 34 companies at year-end, which is nine more than in 2014. Over these 11 months, new companies have turned to capital increases in a bid to secure new financial resources. In 2015, this strategy raised €70m which added to the €41m raised at the start with nine new incorporations, makes a total of €111m mobilised in this segment of the MAB.

The MARF has now been up and running for two years, successfully fulfilling its founding purpose: to contribute to the financing of Spanish companies as a new, alternative source of financing to bank loans. Since its creation, the MARF has exceeded €1.3bn in company issues and achieved an outstanding balance in excess of €1bn at year-end 2015.

ETFs and warrants

Of all the investment products traded on the Spanish Exchange in 2015, Exchange Traded Funds (ETFs) have been especially significant. In 2015, the trading volume of the 71 benchmark companies admitted to trading rose to €12.6bn, with growth of 28.3% focused largely around ETFs which replicate the IBEX 35. The 173,079 trades executed in 2015 represent growth of 50%.

Activity in the warrants and certificates market rose to €1.1bn, up 34% from 2014. In recent years, new types of warrants have entered the market that replicate novel investment techniques such as multi, discount, stay-high and stay-low warrants.

Public and corporate fixed income

Very low interest rates and market uncertainty caused volatility in global public and corporate debt markets to

spike. Bond prices on the global corporate fixed income markets also declined, triggering higher yields which, unlike public debt, had barely corrected at the end of the year.

In 2015, the Spanish corporate fixed income market, AIAF, continued in its process of adjustment and reduction of the outstanding balance of issues, which fell to slightly above €534bn, 38% less than at the close of 2012 but already on the road to stabilisation. Over the course of the year, trading on SENAF, the public debt trading platform operated by BME, rose to €109bn, 3% below the accumulated trading recorded for 2014. As for SEND, the platform for private investors, trading amounted to €307m, with year-on-year growth of 11.7%.

Futures and options

At €47.8m, the total number of contracts traded in 2015 on MEFF, the Spanish futures and options market, was down 15% but up 5% in terms of underlying nominal volume. The market's main product, the IBEX 35 Futures, was up for the fourth year in a row, while the volume of options and futures on individual shares declined.

Central counterparty for interest rate derivatives

In December 2015, a new BME Clearing segment was launched that provides central counterparty services for interest rate derivatives known as IRSs and which also includes products such as Swaps, OIS and FRAs.

Legislation

Within the field of national legislation, the star initiative was the approval of the Business Finance Promotion Act (*Ley de Fomento de la Financiación Empresarial*). One of

the objectives of this Act is to lay down the regulatory bases required to promote the use of alternatives to the bank route, such as capital markets, direct corporate financing and other non-bank financing alternatives.

The Act amends Law 24/1988, of July 28 on Securities Markets, in order to promote the movement of companies from a multilateral trading facility to a regulated market, which will help MAB companies to move onto the Exchange and vice versa. In terms of European securities markets, following the approval in July 2014 of Directive 2014/65/EU on markets in financial instruments, known as MIFID II, and Regulation 600/2014 or MIFIR, the European Securities Market Authority (ESMA) published on September 28, 2015 a set of 28 technical standards on regulation and implementation, which implement various provisions of MIFID II and MIFIR.

2015 also saw the launch of a project to create a Capital Markets Union. On September 30, 2015, the European Commission published the "Action Plan on Building a Capital Markets Union". This document acknowledges the fragmented and underdeveloped state of European capital markets and proposes the adoption of 33 measures to remedy this situation. These measures are designed to encourage a greater degree of financial integration, facilitate access to financing for European companies in different stages of growth, broaden the range of investments available to investors and improve the stability of the European financial system.

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