

EXECUTIVE SUMMARY

Financial markets have been resilient since the April 2026 *Global Financial Stability Report*, but financial stability risks are elevated. Markets have found support from strong corporate earnings and solid economic growth, as high investments in firms related to artificial intelligence (AI) have helped offset a possible drag from geopolitical tensions and policy uncertainty. On balance, financial conditions remain accommodative.

At the same time, this report highlights three salient risks that could be near-term catalysts for a sharp tightening of financial conditions and market turmoil, selected based on the likelihood of their triggering shocks and the severity of their potential market impact.

First, although core firms in the AI ecosystem have been profitable so far—easing pressure on AI-related equity valuations—weaker or less durable investment and profitability in AI could trigger a correction in AI-related asset prices, exacerbated by rising leverage, concentrated exposures, and circular financing arrangements. Jurisdictions with financial markets sensitive to global AI developments, as well as those with substantial holdings of AI assets, are likely to be more exposed to negative wealth effects or sharp market corrections.

Second, resurgent inflation or fiscal concerns could trigger a sharp rise in sovereign bond yields and spark broader market turmoil given the foundational importance of sovereign bonds. High public debt and rollover risks remain unresolved, increasing the chances that a rise in yields could occur in a disorderly manner, despite stable bond market liquidity and the recent unwinding of some leveraged trades.

Third, cyber threats constitute a growing systemic risk as financial services become more digital and interconnected. For their part, frontier AI models are emerging as both powerful enablers of cyberattacks and critical defensive tools.

These risks by themselves do not necessarily threaten financial stability, but they could become a systemic risk—impairments to key financial intermediation and credit provision, with serious negative economic effects—if they are amplified by financial vulnerabilities. This report provides updated assessments on key vulnerabilities and presents new analyses of emerging ones.

Strong core balance sheets across banks and households have aided the resilience of financial markets. A global stress test confirms that banks would remain broadly resilient under an adverse scenario featuring an energy price shock, higher inflation and bond yields, and an AI-led market correction. However, such a scenario would also reveal a significant share of vulnerable banks. Households' debt burdens have declined across countries in recent years, while their net worth has increased, making them less likely to be a source of systemic risk. That said, a correction in housing or equity prices could curb household consumption and disproportionately impact lower-income households.

In emerging market economies, policy buffers have eroded in some cases, while the greater reliance of frontier economies on opaque alternative financing could weaken debt transparency and hinder future market access.

Several other vulnerabilities that could amplify risks have worsened. Insurance and pension funds have grown their holdings of illiquid assets, increasing liquidity mismatch risks and the likelihood of forced asset sales during market stress. Higher borrower leverage and growing contingent liquidity risks faced by private direct lending funds could sharply curtail credit when financial conditions tighten, a test the sector has not yet faced. Among nonbank financial intermediaries (NBFIs), although the growing hedge fund sector tends to support market functioning in normal times, its use of leverage and pursuit of crowded trades could amplify market stress, with spillovers to prime brokers and broader financial markets (Chapter 2). Finally, although tokenized assets remain small and could offer efficiency gains in several areas, they can create new channels for the buildup of leverage and mismatches in liquidity and maturity, in addition to elevating risks related to technology and infrastructure (Chapter 3).

Policy priorities, particularly in the context of limited room for macroeconomic policy support, should focus on resilience, transparency, and preparedness. Authorities should contain leverage in AI-related exposures where excessive, put public debt on a sustainable path, and strengthen bond market infrastructure and liquidity

backstops. Clear communications on monetary policy and preserving central bank independence can help anchor inflation expectations and further mitigate the risk of a sharp rise in bond yields. Cyber resilience should focus on the continuity of critical services, with enhanced cyber capacity, incident reporting, third-party oversight, and resilience testing. Supervisors should preserve bank

capital and liquidity buffers, monitor NBFI interconnections, and improve surveillance of institutional investors and private credit. Emerging and frontier market authorities should rebuild fiscal and external buffers, maintain a coherent policy mix, and strengthen disclosure of alternative financing arrangements.