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Spooked bondholders and a sanctions probe reignite banking fears in Europe

Article

The news: **Deutsche Bank** and **UBS** shares plummeted Friday morning on renewed concerns of a global banking crisis.

Credit default swaps spike: The price of Deutsche Bank shares was hit hard on Friday as **fears within the European banking sector flared again.**

- The price drop was fueled by a dramatic increase in the price of the bank's credit default swaps (CDS)—a form of insurance for the bank's bondholders— indicating that investors believed the bank was at higher risk of defaulting on its debt.
- The CDS price shot up nearly 55% to 220 basis points over the course of two days, reaching its highest level since 2018, per S&P Market Intelligence.
- **Deutsche Bank has seen its share price fall more than one-fifth in value in the month of March. Approximately $3 billion of its market value was wiped out in just one week.**

Investors are questioning the strength of Deutsche Bank, which faces problems similar to **Credit Suisse's**. Both banks have faced a slew of scandals, and reorganizations and multiple leadership changes at both have failed to set things straight.

Bad feeling about bonds: The European bond market is still reeling from the government-orchestrated takeover of Credit Suisse by UBS.

- In the deal, around $17 billion worth of tier one contingent convertible (AT1) bonds were wiped out, while equity holders received a payout.
- **Investors are still spooked about the situation**—the prices of CDS for multiple major European banks are shooting up as investors attempt to minimize their risk by hedging their exposure to the banks' debt.

Some fear Deutsche Bank could face the same outcome as Credit Suisse, though others believe the bank is well-capitalized. A report from independent research firm, Autonomous, stated outright, "**We have no concerns about Deutsche's viability or asset marks. To be crystal clear—Deutsche is NOT the next Credit Suisse."**

Integration pains in Switzerland: Authorities there are working toward a swift integration of Credit Suisse into UBS, with those near the deal hoping it can close within the next month. But it's facing some newfound hurdles.

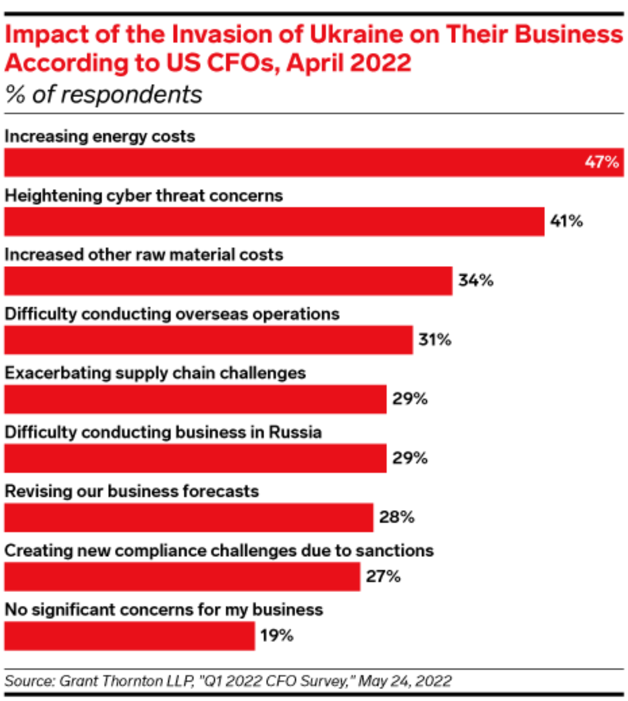
- UBS and Credit Suisse shares were down on Friday after a Bloomberg report broke stating that **both banks are part of a Department of Justice investigation** looking at banks that aided Russian oligarchs in evading Western sanctions.

- The investigation includes subpoenas made to the banks to identify employees who were in charge of vetting sanctioned clients. The Bloomberg report made it clear that the subpoenas were sent before the takeover of Credit Suisse.
- UBS is facing additional headwinds, as brokerage firm **Jefferies** downgraded the bank's stock from "buy" to "hold."

The bottom line: Though the banking turmoil feels far from over, the situation in Europe differs greatly from what's happening in the US.

- The collapse of **Silvergate Bank**, **SVB**, and **Signature Bank** was driven largely by weak balance sheets and customers vying to get their deposits out before the banks were deemed insolvent. These were classic examples of a bank run.
- In Europe, behemoth banks with long histories are now beginning to feel the effects of years of scandal and risk mismanagement. Investors are quickly losing faith in the banks' abilities to turn things around.

While it's difficult to define the turmoil as contagion, it might be more accurate to say that banks around the world are being called out for their poor risk management practices and now must pay the price.



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