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Social media put a scare into another bank's investors after a risky investment soured

Article

The news: Last week, the share price for the private Swiss bank **Julius Baer** declined sharply **due to the amplification on social media of concerns about the bank's significant exposure**

to a troubled client.

- This incident highlights the growing influence of social media on investor sentiment and its role in rapidly disseminating and magnifying financial news.

What happened? Julius Baer's share price dropped steeply after it disclosed exposure of 606 million Swiss Francs ($692.7 million) in loans to **Signa**, an Austrian real estate group.

- Around the same time as the announcement, Signa filed for insolvency.
- The funds lent to Signa represented around 18% of Julius Baer's CET1 capital, raising concerns about its risk management strategies—especially in this challenging economic environment and in light of higher debt financing costs paid out by highly leveraged companies.
- Social media amplified concerns about Julius Baer's exposure to the troubled client, which also may have been exacerbated by the bank's cryptic responses to questions at the Financial Times' Global Banking Summit.

Social media's role in the March banking crisis: This isn't the first time we've seen social media influencing investor sentiment.

- Prior to **Silicon Valley Bank's** collapse, a surge in investor tweets mentioning the bank's stock ticker preceded rapid stock price drops and a trading halt.
- According to economists who studied the crisis, **the US financial institutions (FIs) with the highest number of tweets in January and February experienced two times the decline in stock prices.**
- Depositors that withdrew their funds also relied on private communication channels like text messages and chat apps.

Looking forward: This trend is likely to continue due to Gen Z's heavier reliance on social media for financial advice than other generations.

- When members of Gen Z were asked about the research methods they use on social media, viewing and reading influencer content (50.0%) was second only to bank content (56.3%).
- Although bank content is Gen Zers' most frequently used research tool on social media, it's not the most trusted. This suggests consumers might see bank content as a safe, regulated information source—but that they're nevertheless skeptical of banks' messaging.

- This means that while it’s important for FIs to dedicate resources to their social media presence, they will be racing against influencers to reach their customers first.

Key takeaways: Social media wasn’t the sole cause for the drop in value of Julius Baer’s shares—its investment strategy was. However, social media helped speed up spreading the word about the bank’s exposure.

- The bank is attempting to assuage investors’ concerns by reminding them that even if Signa were written off as a total loss, the bank would still be above the required 14% capital threshold.
- However, its risk tolerance needs further review, because its reserves can’t withstand another major exposure like this.