Credit Suisse is at the center of market turmoil, with rumors that the bank is on the verge of failing.

Investors have rushed to sell the Zurich-based bank’s stock as it prepares to unveil a
costly restructuring plan later this month, raising concerns about its financial health.

The possibility of the bank failing has prompted comparisons to the 2008 collapse of the United States investment bank Lehman Brothers, which triggered the worst economic crisis since the Great Depression. However, economists warn against drawing such parallels because of the significant differences between then and now.

Why is Credit Suisse getting a lot of attention?

While Credit Suisse’s stock price has been falling for months, fears have grown since CEO Ulrich Körner sent a memo to employees last week reassuring them about the bank’s future.

In the memo, Körner warned against equating the bank’s “day-to-day stock price” with its “strong capital base and liquidity position,” and insisted that the upcoming restructuring would ensure the lender’s “long-term, sustainable future.”
Körner also criticized the media for making “many factually incorrect statements” about the 166-year-old financial institution. Rather than calming investors, the memo heightened concerns about the bank’s future.

A number of investors with large followings, including Lark Davis and Graham Stephan, posted comparisons to Lehman Brothers on social media, which quickly went viral.

Credit Suisse shares fell as much as 11.5 percent on Monday, reaching a record low of $3.64. At the same time, credit default swaps, a type of investment that acts as insurance against a company defaulting, reached new highs.

Credit Suisse, one of Europe’s largest banks, has been in trouble for some time. In recent years, the lender has been embroiled in a slew of scandals that have harmed its reputation and balance sheet.
The controversies include hiring private detectives to spy on employees in Hong Kong, laundering money for a criminal organization in Bulgaria, and facilitating corrupt loans in Mozambique, for which the bank agreed to pay $475 million in fines.

The bank also suffered billions of dollars in losses as a result of the collapse of hedge fund Archegos and financial services firm Greensill in 2021.

In the midst of the turmoil, the lender has lost nearly 60% of its market value this year alone.

“Credit Suisse has a poor track record that includes Archegos and Greensill – so there isn’t a lot of confidence,” said Campbell R Harvey, a professor at Duke University’s Fuqua School of Business.
“There has been CEO turnover. Furthermore, the CEO’s internal letter to employees did not reassure – explaining what is going on to employees is a bad sign.”

Credit Suisse plans to shrink its investment bank to focus more on wealth management under the restructuring announced following Körner’s appointment in July.

Analysts estimate that Credit Suisse will need to raise $4-6 billion to complete the restructuring, which could be difficult given that investors see the bank as an increasingly risky bet.

Could Credit Suisse cause a crash akin to that of Lehman Brothers?

Economic analysts believe that is unlikely.

To begin with, despite Credit Suisse’s woes, the lender has ample capital to absorb any losses.

According to a recent JPMorgan Chase analysis, the bank’s total assets were 727 billion Swiss francs ($732.7 billion) at the end of the second quarter, with approximately one-fifth held in cash.

Citibank analysts dismissed comparisons to 2008 on Monday, noting that Credit Suisse’s liquidity coverage ratio — the portion of cash and other assets that can be quickly accessed in a crisis — was 191 percent, among the “best in class.”
“This does not appear to be a Lehman Brothers situation. Their first-tier ratio is 13.5 percent “Harvey was referring to the portion of capital comprised of core assets, which regulators regard as a key indicator of financial strength.

Since Lehman Brothers went bankrupt, the global financial environment has also changed dramatically. Banks are more tightly regulated than they were in 2008, and they have more capital to manage risk.

“Big banks are far better capitalized than they were in 2008, and my own view of Lehman has always been that a big part of the problem when Lehman failed stemmed from everyone expecting Lehman to be bailed out,” David Skeel, a professor of corporate law at the University of Pennsylvania Law School, told Al Jazeera.

“When Bear Stearns stumbled in March 2008, US regulators signaled that they would not allow a large bank to fail, but then surprised the markets by allowing Lehman to fail. I believe the Credit Suisse situation will have no repercussions, owing to generally high levels of capital and the very different circumstances of 2008.”

According to Holger Schmieding, chief economist at Hamburg-based Berenberg Bank, while he could not comment on Credit Suisse’s health, a crisis similar to 2008 was extremely unlikely.
“The risk of a Lehman-style event is close to zero because regulators and central banks are far better equipped to nip any such problem in the bud,” Schmieding told Al Jazeera.

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A words from Pratibha: "We have made progress and we hope to have good news to announce very soon."