Bank shares bounce back as crisis fears ease

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ank shares have staged a bounce back as fears over a global banking crisis began to subside, but markets are expected to remain volatile ahead of central bank interest rate decisions.

London-listed lending giants Barclays, NatWest and Lloyds were all trading higher following further hefty falls on Monday after the rescue takeover of Credit Suisse by UBS over the weekend.

It comes after a punishing past couple of weeks for the financial sector amid mounting worries over a systemic crisis in the global banking sector sparked off by the collapse of Silicon Valley Bank and a number of regional US bank lenders.

The wider FTSE 100 Index was around 1.4% higher in early session trading on Tuesday, up 101.7 points at 7505.5, as it tracked gains on Wall Street overnight and a positive session in Asia, where China's Hang Seng Index lifted 1.4%.

Markets took a breather from fretting about banking contagion overnight

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Among financial stocks leading the rebound were Barclays, up 5%, NatWest ahead 5%, Lloyds 4% higher and HSBC 2% stronger.

London's top tier finished Monday 0.9% higher in a rollercoaster session that saw it drop to its lowest since November last year at one stage, before trading jitters settled and it bounced back to positive territory.

Steve Clayton, head of equity funds at Hargreaves Lansdown, said: "Markets took a breather from fretting about banking contagion overnight.

"Wall Street saw modest rallies across leading industrial, financial and technology sectors as investors dissected the detail of the rescue of Credit Suisse by longstanding rival, UBS."

He added: "Initially sceptical of the deal, the market's mood changed over the course of yesterday, with UBS shares ending higher after a sharp initial fall.

"There was no respite for First Republic Bank though, with the Californian lender's stock almost halving last night. First Republic is seen as vulnerable to the same losses on longer-term bond values and liquidity squeeze that brought Silicon Valley Bank down."

But markets are hoping that First Republic's issues are more localised, especially in view of assurances from central banks, with the Bank of England insisting on Monday that the UK system is "safe and sound".

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Traders are expecting more turbulence to come, however, with the US Federal Reserve deciding on interest rates on Wednesday, followed by the Bank of England and the Swiss National Bank on Thursday.

The flurry of US rate rises is seen as being behind the woes suffered by US regional bank lenders.

Michael Hewson, chief market analyst at CMC Markets, said: “With the Federal Reserve rate meeting due to start later today, markets have become increasingly divided as to what the FOMC may well do when it comes to interest rates tomorrow, with opinions split between another 25bps hike, a pause, and a 25bps rate cut.

“Assuming recent gains hold, and we get no further surprises, then the odds still favour a 25bps rate rise, otherwise, the Fed runs the risk that it sends the message it is more concerned about financial stability than it is about its fight against inflation.

“A rate cut would send an even worse message that the Fed sees something the market doesn’t and could spook already jittery markets even further.”

He added: “Sentiment is likely to remain fragile over the next few days until we see the outcome of tomorrow’s Fed meeting.”