Why are stock markets still falling and how worried should we be?

S
tock markets globally have failed to be reassured by the emergency takeover of Credit Suisse and co-ordinated central bank action over the weekend as fears over a banking crisis remain at the fore.

The rescue deal for the troubled Swiss banking giant comes after a tumultuous past couple of weeks for banks, sparked by the collapse of Silicon Valley Bank (SVB) in the US.

As concerns ramp up that other lenders worldwide may start to be affected, how worried should we be?

– Why are markets down so heavily again?

Bank shares tumbled further after the UBS takeover of its crisis-stricken rival Credit Suisse on Sunday, dragging markets deep into the red as trading opened on Monday morning.

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Asian markets initially welcomed the deal, but anxiety soon bubbled to the surface as attentions turned to what happens next and the implications of the emergency takeover.

In particular, the focus has shifted on to high-risk bond holders in banks, after around 17 billion US dollars (£14 billion) of more risky Credit Suisse bonds were wiped out as part of the deal.

– What are the bonds are the heart of investor anxieties and why are they important?

Swiss regulator Finma demanded on Sunday that Credit Suisse's so-called additional tier one (AT1) bonds must be written down to zero under the deal.

These bonds are a type of bank debt designed to take losses during a crisis, but the move hammered home to investors just how high the risk is of these bonds being written off.

And it has led to signs that investors may be scrambling to exit their investments in these types of bonds across the sector.

– But how is this connected to SVB's collapse in the US?

Credit Suisse has had a number of issues over the years, which are well-known to investors, having incurred heavy losses and become embroiled in a string of fraud and misconduct scandals.

Its woes are not directly related to the issues at SVB and the regional lenders that are struggling in the US.

But it appears to have become a victim of the crisis of confidence in banks sparked off by the issues on the other side of the Atlantic.

After SVB collapsed, attention quickly focused on embattled Credit Suisse last week and its share price fell to its lowest level, prompting investors to sell shares in other banking stocks amid the panic.

Credit Suisse was handed a £45 billion emergency loan from the Swiss National Bank to shore up its balance sheet but this was not enough to quell concerns and the speed of its decline has rocked the banking sector.

Nerves were frayed further as another US regional lender, First Republic Bank, seemed unable to stem client deposit withdrawals – despite 11 large US banks joining forces to pump in 30 billion US dollars (£24.6 billion) of deposits into the firm as part of a show of confidence in the group.

First Republic's shares continued to plummet on Friday despite the cash injection and there are now worries over where the pain will emerge next in the banking sector.

As risk aversion grips the sector, the worry is that overall banks will become more cautious in their lending

– What are central banks doing?

Six central banks across the world, including the Bank of England and the US Federal Reserve, joined forces to help contain the spread of the crisis by boosting dollar flows into the financial system.

Under the co-ordinated action, seven-day maturity US dollar swap lines between the Fed and the other central banks are being increased from Monday from a weekly to a daily basis.

It is hoped the seven-day-a-week facility, which is due to run until at least the end of April, will boost market confidence over the health of other lenders.

The Bank of England and the US Federal Reserve are also in the spotlight this week ahead of interest rate announcements amid expectations they may look to temper any further hikes in light of the mounting market turmoil.

– What does all this mean for UK banks?

Banking shares in London have been hammered by the fears but Bank of England governor Andrew Bailey was quick on Sunday night to insist the financial system in the UK remains “safe and sound” and British banks are well capitalised.

But it is understood that the Bank has ordered lenders to disclose their exposure to global bond markets, which appear to be at the heart of many of the problems, particularly amid US banks.

– Where will the crisis of confidence in banks go from here?

While experts believe the mammoth capital cushions built up among banks will help avoid another full-blown crisis, there are worries about what it may mean for their appetite to lend.

Susannah Streeter at Hargreaves Lansdown said: “As risk aversion grips the sector, the worry is that overall banks will become more cautious in their lending, which could be another blow for already fragile housing markets in particular.

“Worries are rattling investors about what repercussions a potential lending squeeze will have on the global economy.”