

Credit Suisse Update

October 3, 2022

Despite the recent concern about Credit Suisse and its financial health (much of it driven on social media), we note that there has been no fundamental change in the bank’s credit profile. CS’s capital and liquidity remain sound and three of its businesses — wealth management, asset management and domestic Swiss banking —are solid and doing well. That said, Credit Suisse has been struggling for some time with an under-performing investment bank, and past mishaps such as Archegos and Greensill, which have negatively impacted its capital, earnings and reputation.

New management, led by CEO Ulrich Koerner, is finalizing a strategy to address these challenges. This new strategy is likely, we think, to include a material common equity recap – the dilutive effects of which are potentially a key reason behind the recent drop in the bank’s stock price. This new strategy, to be released on 27 October (if not before) in conjunction with its 3Q22 earnings, could send a positive message. However, the stresses with which CS is wrestling are not trivial, and will take some time to get fixed. In addition, any restructuring will occupy already scarce management time, has the risk of less-than-premium results, and will result in upfront write-offs and restructuring charges.

Banks that are faced with substantial, ongoing stresses are inherently more vulnerable to market rumors (legitimate or otherwise), economic weaknesses and day-to-day difficulties. This implies that Credit Suisse will be in a more vulnerable and volatile state for some time.

Spectrum has been lowering its concentration in Credit Suisse since the Archegos/Greensill debacles in early 2021. We will continue to monitor that the new management team is making strategic progress.

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