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Asset Management

Credit Suisse 1Q21 Loss — But Core Operations, Capital Remain Sound

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Credit Suisse, one of Switzerland's two major banks, announced last week that it had substantial risk exposures to highly-levered Archegos Capital Management, a hedge fund. This is on top of Credit Suisse's recently disclosed exposures to troubled Greensill Capital, which is involved in supply chain financing. Today, Credit Suisse announced that it will be taking a CHF4.4 billion ($4.7billion) 1Q21 write-down of its Archegos exposure, resulting in a pretax loss of CHF900 million ($960 million) for the quarter. Though the bulk of Credit Suisse's Archegos exposures have now been sold or written down, more write-downs of the bank's Archegos exposures could occur in 2Q21 as things get fully unwound. In addition, the bank will be reducing – but not eliminating – its common stock dividend, suspending common stock buybacks and eliminating many executive bonuses. Furthermore, the head of Credit Suisse's investment bank, and its chief risk officer, will leave the bank, along with some other senior officials. Credit Suisse expects its 1Q21 CET1 ratio to be at least 12% — comfortably above its 10% minimum. There has been no mention of halting payments on the bank's AT1 securities, which is positive.

Spectrum notes that, on a core basis, Credit Suisse says that its investment banking business had a "very strong performance" in 1Q21, with an "increase in the year-on-year profits in all three" of its key wealth management businesses, as well as in asset management. Net new assets were also positive in 1Q21 in wealth management and asset management, and in the bank's Swiss corporate and institutional business. Spectrum continues to note the resilient franchises Credit Suisse holds in global wealth and asset management, and in Swiss retail and corporate banking – franchises that will provide ongoing support for the bank's creditworthiness. That said, these risk management failures are not only expensive, and disruptive to the progress of the bank's core operations, but also call into question Credit Suisse's risk management appetite and skills, which makes one worry about other shoes that could drop. In addition, litigation expenses, regulatory fines and other potential outcomes from the bank's Greensill exposures are yet to be determined. Spectrum notes that in the beginning of May Credit Suisse will have a new chairman, Antonio Horta-Osorio, who is the former CEO of Lloyds Bank in the UK. Spectrum would expect Mr. Horta-Osorio to take assertive actions regarding risk issues at the bank, and possibly instigate further management and strategic changes – a plus for Credit Suisse's ESG ('G' standing for Governance) position.

Spectrum believes that Credit Suisse will be successful in strengthening its risk management and generating sound core earnings.

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