SPECTRUM
Asset Management

Credit Suisse

Coincidence, Not Contagion

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Credit Suisse, the large wealth management-focused Swiss bank, has come under further pressure in recent days. The failures of Silicon Valley Bank and Signature Bank in the USA have rattled the global banking sector, despite extraordinary and powerful actions by the Federal Deposit Insurance Corporation (FDIC) to cover all deposits at these two banks, and the creation of the Bank Term Funding Program (BTFP) by the Federal Reserve which will provide generous, term funding to banks' high quality securities portfolios, thereby creating hundreds of billions of dollars of instant liquidity for US banks.

In addition, and without connection to the challenges at Silicon Valley Bank other than timing, Credit Suisse was delayed in publishing its 2022 annual report due to material weaknesses in internal controls, which generated questions from the US Securities and Exchange Commission (SEC). While these accounting-related revisions appear to be relatively minor, they are yet another example of control challenges that Credit Suisse has been wrestling with for some time. The coincidental timing of this accounting problem during such a stressful time in the global financial markets was particularly unfortunate. Furthermore, Credit Suisse's 2022 annual report noted that deposits have dropped significantly since YE21, and around half of YE22 deposits were demand/sight deposits. Credit Suisse CEO Ulrich Koerner said at a recent conference that net asset outflows have slowed significantly so far in 2023, but have not yet reversed. Plus, the chairman of the Saudi National Bank, a leading shareholder in Credit Suisse, recently said that it will not be making further equity investments in the bank.

That said, Credit Suisse's high quality liquid assets are at robust levels, supported by deleveraging, and YE22 CET1 capital levels were a solid 14.1%. The bank completed its CHF4 billion equity recap last year, the sale of its securitized products group is well underway, and costs are being cut. These are positive progress points.

Spectrum does not see a direct contagion link between Credit Suisse and bank stresses in the USA, though the tone and timing are not helpful. We are also encouraged by Credit Suisse's healthy capital and liquidity levels, and its success in managing deposit withdrawals. While the bank's continued control challenges are disappointing, recent accounting matters appear to be legacy clean-ups. In addition, Credit Suisse remains a major global wealth manager, and clear leader in domestic Swiss retail and commercial banking. While Spectrum remains concerned about the outflow of net assets and deposits, the continuation of control challenges, and the challenging market tone, we also recognize the progress that has been made, and that more robust success will take time to achieve.

The challenge today for Credit Suisse is one of confidence, and whether the market will provide Credit Suisse an opportunity to regain that confidence.

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