

# Market Report: Why Investors Are Running Out Now

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GERMANY



**Fearing a stock market panic, Swiss authorities have been pushing for UBS to take over Credit Suisse. But investors are calm about everything else.**

By Angela Göpfert, tagesschau.de

In a dramatic rescue operation, UBS took over the badly hit Credit Suisse over the weekend. At the same time, the European Central Bank (ECB) and the central banks of the USA, Japan, Great Britain, Switzerland and Canada are taking concerted action to improve the supply of the financial sector with dollars.

## DAX temporarily below 15,000 points

But the markets simply do not want to swallow the tranquilizer pills that the central banks and the Swiss authorities are giving them. There is no sign of stabilization or even a relief rally on the European stock markets in the morning – on the contrary: the DAX rushes down after the start of trading on XETRA, even breaking through the 14,500 point mark and thus sending a sell signal from a technical perspective.

Massive downward movements on a Monday on the stock exchange are by no means uncommon. According to statistics, a “Black Friday”, i.e. heavy price losses on a Friday, is often followed by a “Panic Monday”. Heated and unsettled by the media reports, many private investors took to their heels at the beginning of the week.

## Swiss create new “banking monster”

But not only the statistics encourage the DAX sellers in their actions today. Too many questions remain

unanswered after the Credit Suisse emergency rescue. In fact, after the financial crisis 15 years ago, the Swiss government made a firm commitment that it would never again have to support an ailing bank with taxpayers' money.

Nevertheless, the emergency has now occurred – with devastating consequences: because while UBS and Credit Suisse were already “too big to fail” on their own, i.e. too systemically important to simply let them go bankrupt, it is the new Swiss “banking monster”, which was created over the weekend, anyway.

## **Bad memories of the financial crisis are awakened**

In addition, the bank bailout campaign at the weekend awakens bad memories among investors, since the financial community last experienced such a weekend during the Lehman crisis. It is the largest bank merger in 15 years.

Coordinated central bank actions are also a crisis signal for many market observers, since such actions were last seen during the Corona crisis and before that during the financial crisis. All of this sends the message to investors: It's serious, stay alert, the current crisis is not over yet.

## **Market psychology is crucial now**

One positive aspect, however – and this is a big advantage compared to 2008 – is that central banks and politicians are immediately available and ready to act. You now know that market psychology is also crucial to ensure that a banking crisis does not spread unchecked.

“The banking crisis is currently more in the minds of investors than a real danger,” emphasized the Swiss asset manager Mojmir Hlinka recently in an interview with tagesschau.de. “But panicked selling by investors has what it takes to plunge the market and ultimately companies and the economy into a real crisis.”

## **The fear of the domino effect**

The task now is to avoid a chain reaction on the markets. Because once investors start pointing their fingers at individual banks, they automatically become the next shaky candidates. Then the prices for the credit default swaps (CDS) rise and the bank gets into financial difficulties. The next dominoes would fall, as Blackrock boss Larry Fink recently predicted.

## **Bank shares under massive pressure before the market**

The early price losses at the two large listed German banks also show how much the confidence of investors in the banking industry has been shaken. Deutsche Bank shares fell by 3.6 percent, Commerzbank shares were even down by more than five percent. In the past week, shares in Deutsche Bank and Commerzbank have already plummeted by 12.5 and 19.5 percent respectively.

## **Strong price losses also in Japan**

Markets in Asia are unable to agree on a common direction on the morning after the Credit Suisse bailout and coordinated central bank action. Concerns about a recession and a possible global crisis in the banking sector weighed on demand for risky assets, particularly in Japan.

The leading index Nikkei, which comprises 225 stocks, ended trading with a minus of 1.4 percent to 26,946

points.

## Wall Street plummeting

Mixed guidelines are coming from Wall Street. Fear of a banking crisis had pulled the major US indices further down on Friday. The leading index Dow Jones Industrial closed 1.2 percent lower at 31,862 points. The market-wide S&P 500 lost 1.1 percent to 3917 points. The technology-heavy Nasdaq 100 fared better again, falling 0.5 percent to 12,520 points.

## Gold at times over 2000 dollars

The flight of investors to safe havens continued at the beginning of the week. Gold prices peaked at \$2009, marking a fresh 11-month high. The yellow precious metal had been massively sought after since the outbreak of the banking crisis. The euro is trending slightly downwards at 1.0666 dollars, the safe currency haven dollar remains sought after.

## Oil prices continue to plummet

On the other hand, risky investments such as oil are avoided. Oil prices continue their descent. A barrel (159 liters) of North Sea Brent is 1.2 percent cheaper at \$72.11, WTI oil costs 1.1 percent less at \$65.99.

## Rheinmetall in the DAX from today

Meanwhile, the armaments group and automotive supplier Rheinmetall has arrived in the first stock market league thanks to a significantly increased rating on the stock market. Since the beginning of Russia's war of aggression against Ukraine, the company's share price has increased by about one and a half times. As of today, Rheinmetall is listed in the DAX, pushing the dialysis specialist FMC into the MDAX.

With the armaments group Hensoldt, which is rising from the SDAX index of smaller stocks to the MDAX, another armaments group is moving more into the limelight. The technology company Jenoptik will also move up a league with him.