

# The Changing Shape of Global Finance

Tuesday, May 1, 2012; 8:00 AM - 9:15 AM

## Moderator:

[Timothy O'Hara](#), Managing Director and Co-Head of Global Securities, Credit Suisse

## Speakers:

[Richard Baker](#), President and CEO, Managed Funds Association

[Evan Bayh](#), Senior Advisor, Apollo Global Management; former U.S. Senator

[Joshua Friedman](#), Co-Chairman and Co-CEO, Canyon Partners, LLC

[Bennett Goodman](#), Senior Founding Member, GSO Capital Partners

[Tom Joyce](#), Chairman and CEO, Knight Capital Group, Inc.

[Carey Lathrop](#), Managing Director and Head of Global Credit Markets, Citi



## **Timothy O'Hara's slides**

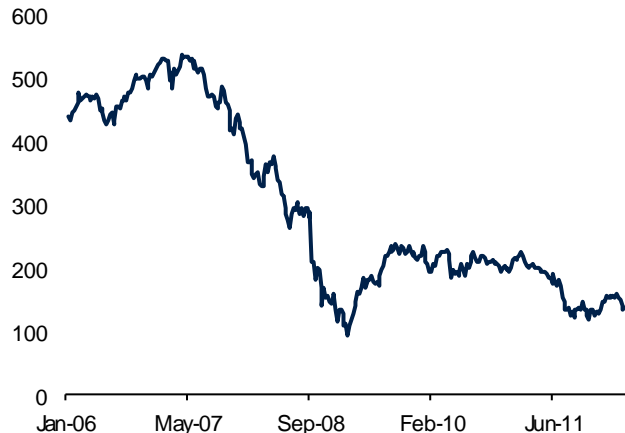
# The financial sector has yet to return to pre-crisis equity values despite government stimulus and regulations



## US – Dow Jones Financial Services Index



## Europe – Stoxx 600 Banks

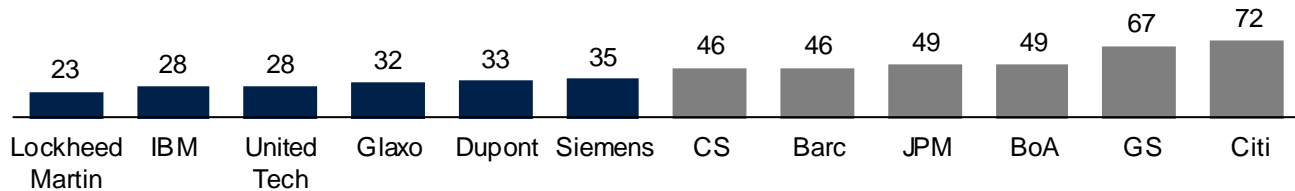


Source: Bloomberg, Credit Suisse

# Funding costs for Banks and Brokers were similar to those of the best industrials...



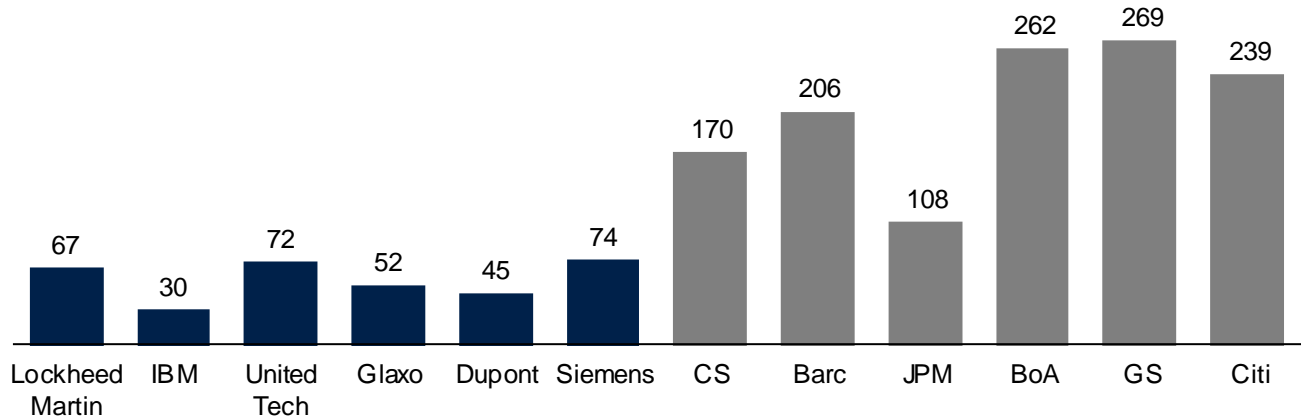
## CDS Spreads as of 1/1/2008



Source: Bloomberg, Credit Suisse

# But are now significantly higher

CDS Spreads as of 4/20/2012

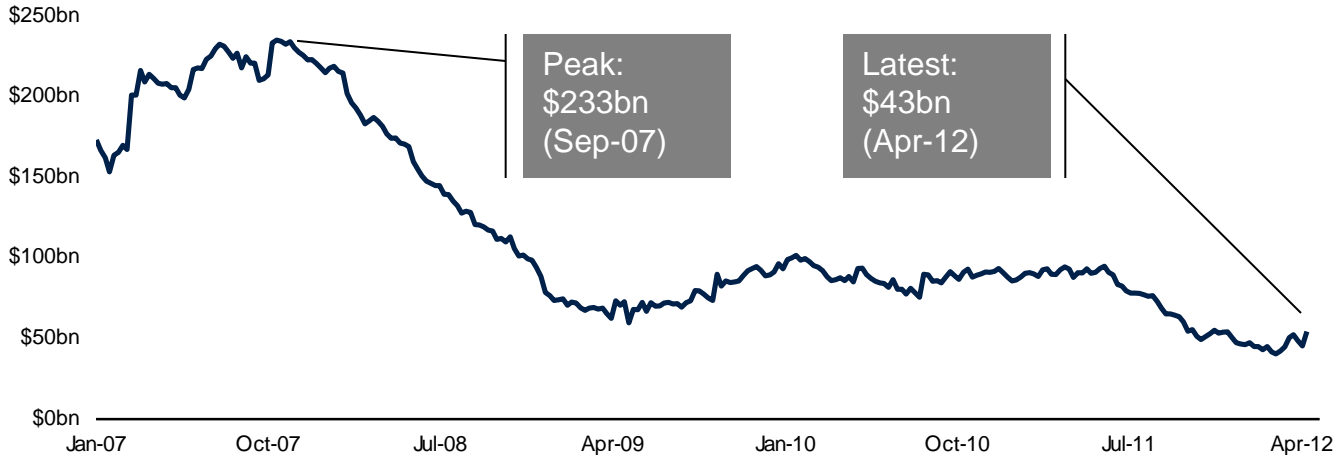


Source: Bloomberg, Credit Suisse

# Banks and Broker/Dealers have significantly reduced securities positions



## Aggregate Securities Positions of Primary Dealers

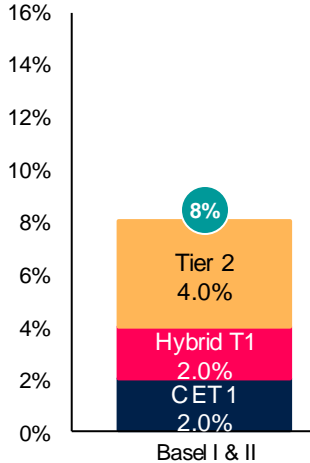


Source: Federal Reserve, Credit Suisse

# Challenges for Banks under Basel III



## Recalibrating to Basel III



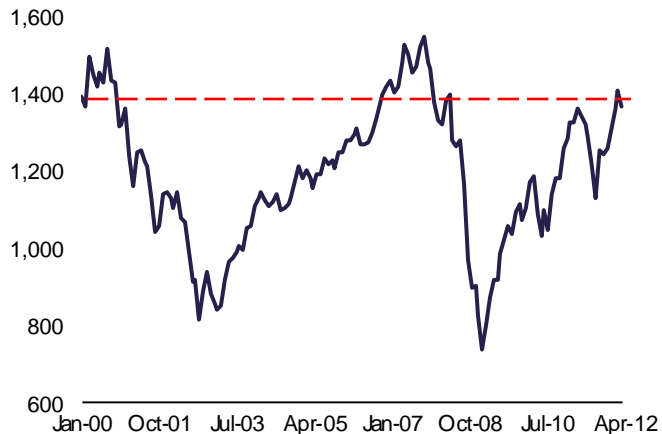
Source: The Quantitative Impact Study Group of the Basel Committee on Banking Supervision, Credit Suisse

# Traditional investment strategies not meeting return hurdles

## Yield on Moody's Aggregate Corporate Bond Index



## Value of S&P 500



Source: Moody's, Bloomberg, Credit Suisse

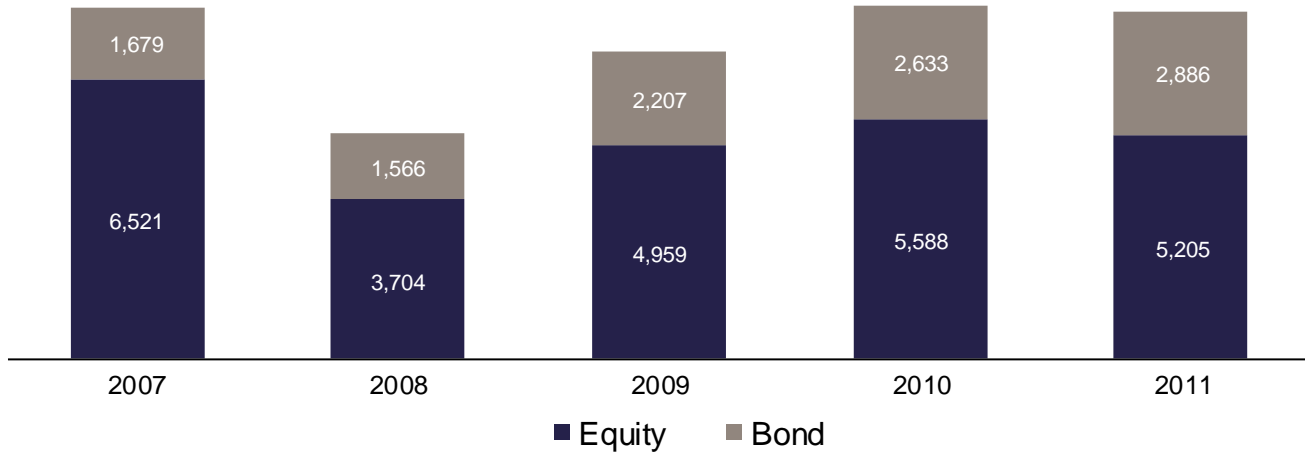


# AUM in many traditional long only strategies has not grown from 2007



## Assets Under Management of Long-only Equity and Bond Income Mutual Funds

(\$ in millions)

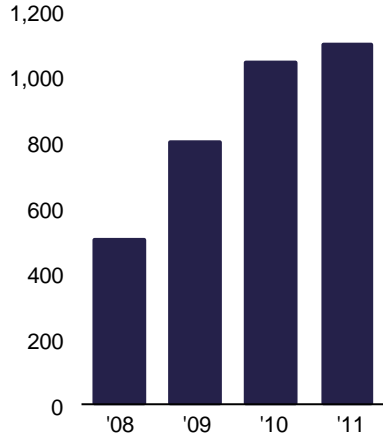


Source: ICI, Credit Suisse

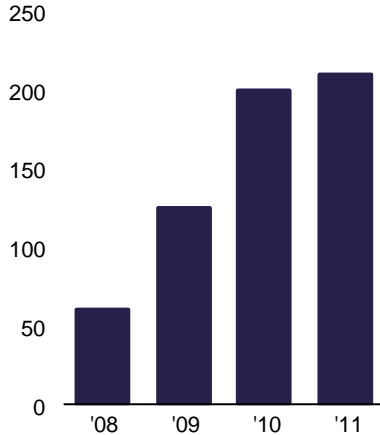
# In favor of ETFs or higher returning alternative investment strategies



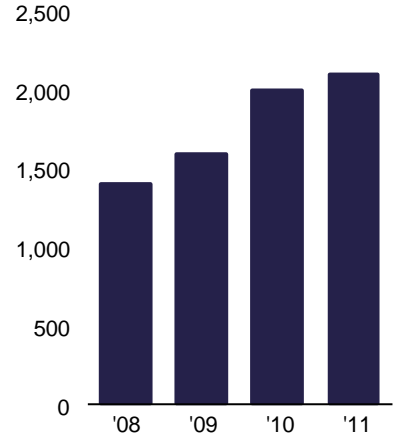
**ETF AUM**



**Alt. Mutual Fund AUM**



**Hedge Fund AUM**



Source: SIMFUND, Hedge Fund Research, Credit Suisse



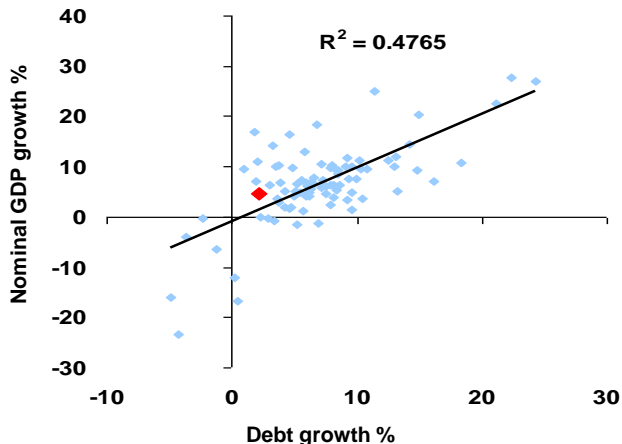
## Carey Lathrop's slides

# More borrowing = more growth

Over the last thirty years, growth has become steadily more growth-dependent

GDP has always been correlated with borrowing...

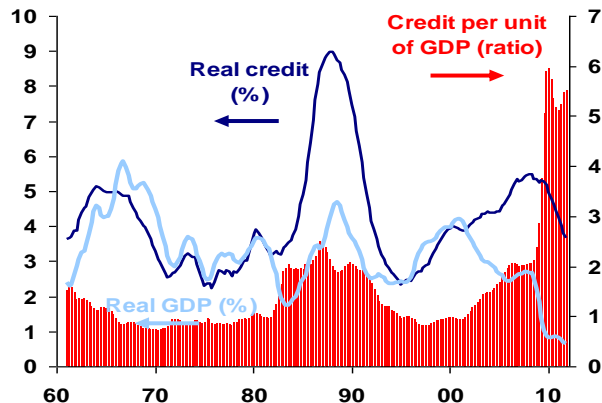
*US debt growth vs nominal GDP growth, 1916-2010*



Source: Federal Reserve, Haver Analytics, Historical Statistics of the United States.

...but if anything our dependence is increasing

*Credit growth per unit of GDP growth, rolling 5yr avg*



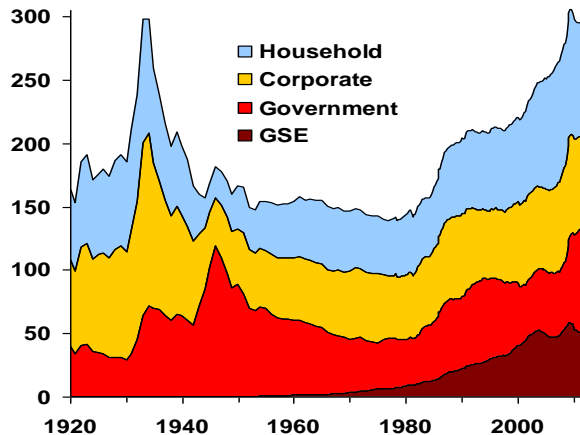
Source: Haver Analytics, Federal Reserve.

# More borrowing = more growth

Debt has now reached unsustainable levels. But deleveraging will have implications for growth too.

## That 1930s feeling

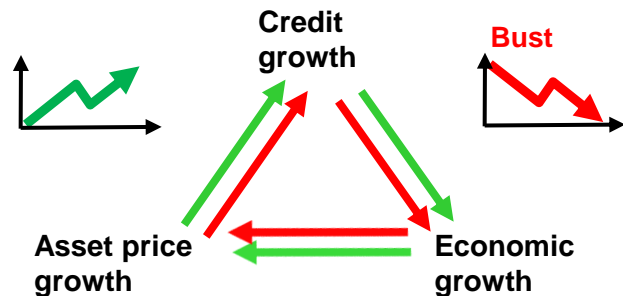
US debt/GDP across nonfinancial sectors (%)



Source: Federal Reserve, Haver Analytics, Historical Statistics of the United States.

## The growth triangle

Love triangle, or pyramid scheme?



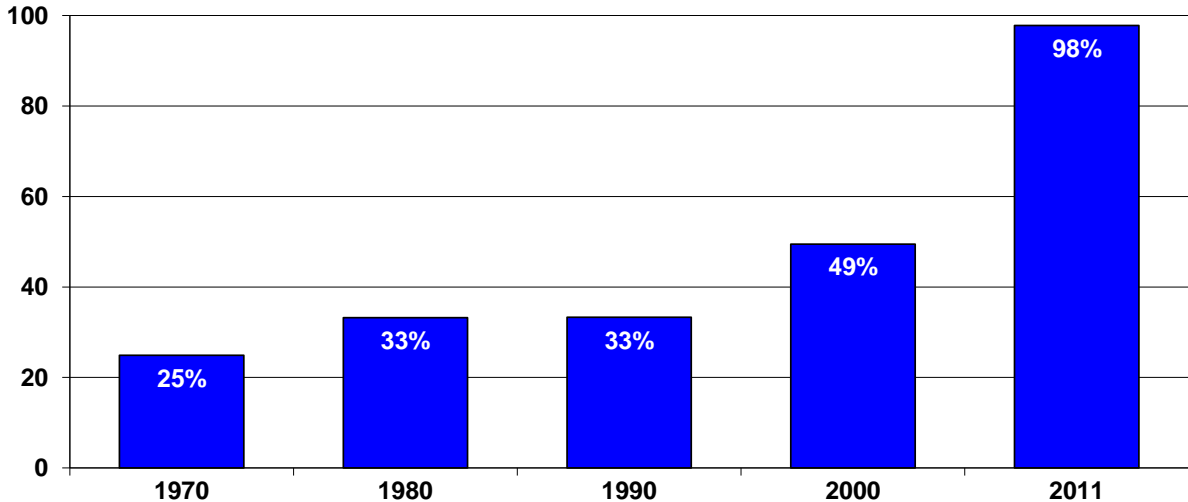
Source: Citi.



# Additional slides

# Growth of the biggest U.S. bank holding companies over 40 years

Percent Combined assets of the 50 biggest U.S. bank holding companies (% of U.S. GDP)



Sources: The Banker, Milken Institute.

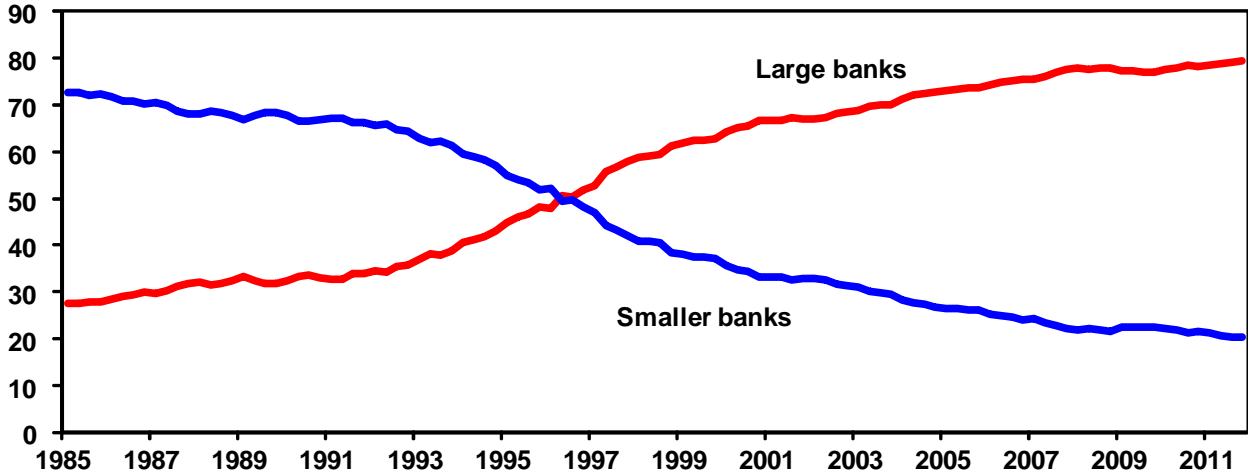
# Large banks become larger

*Share of assets of all U.S. depository institutions*



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Percent of total banking assets



Note: Large banks are banks with assets > \$10 billion.

Source: Federal Deposit Insurance Corporation.

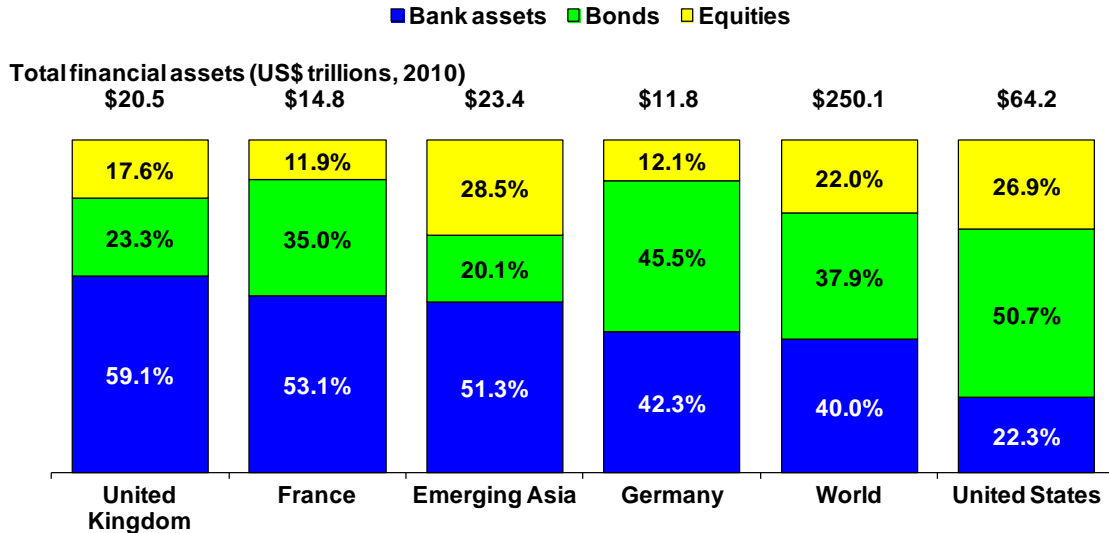


# Importance of banks, stock and bond markets



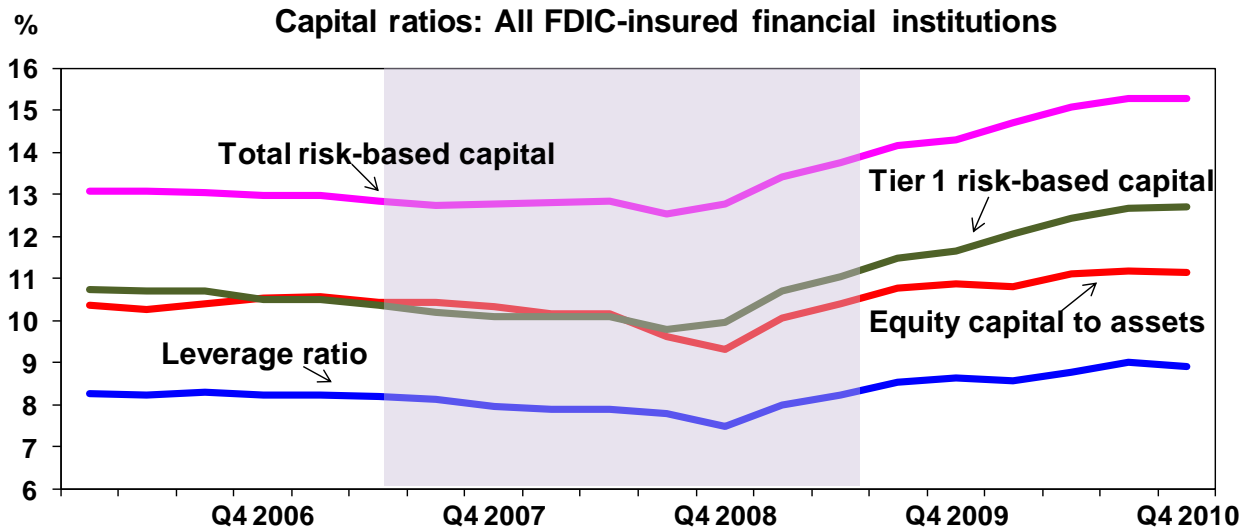
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## *Selected countries and country groups*



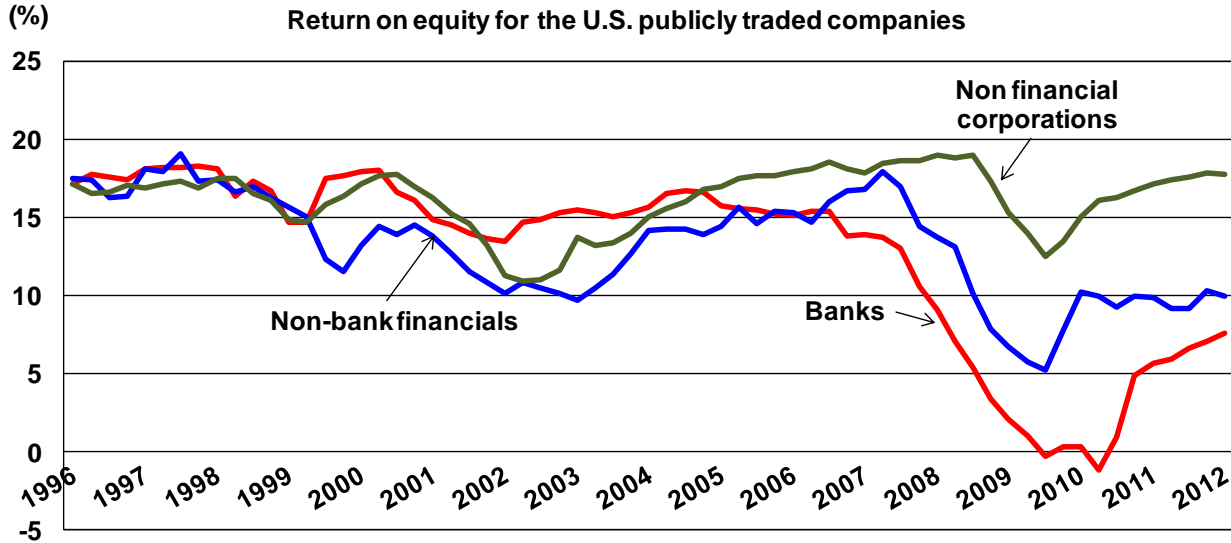
Source: IMF Global Financial Stability Report.

# Banks hold more capital



Source: Federal Deposit Insurance Corporation.

# Return on equity in banking was worse than other sectors



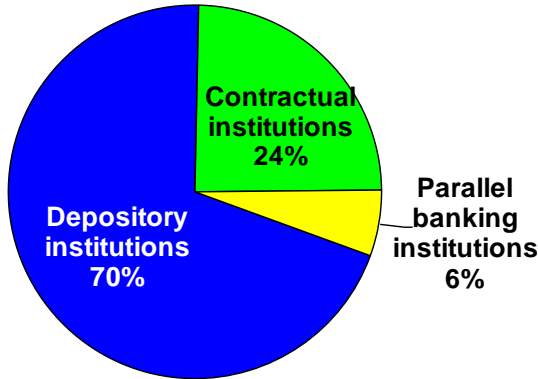
Source: Bloomberg.

# Growing importance of the U.S. parallel banking system



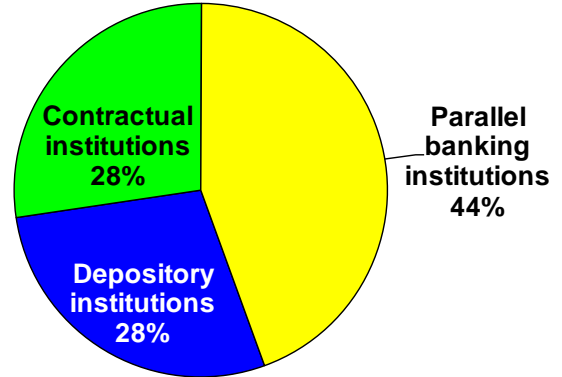
1945

Total financial assets: US\$0.24 trillion

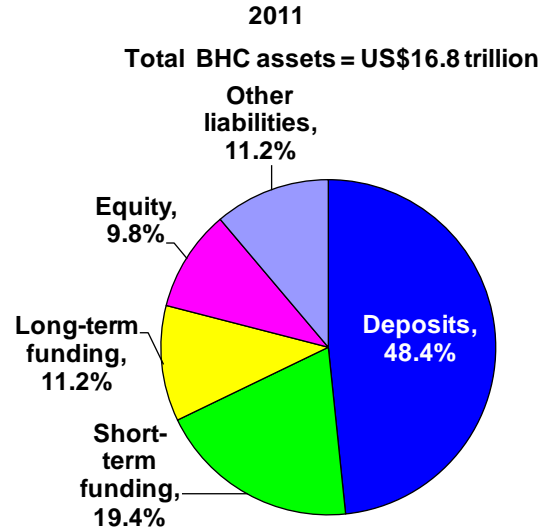
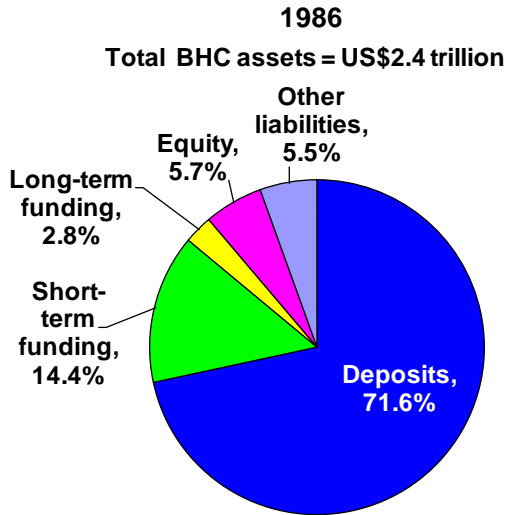


2011

Total financial assets: US\$63 trillion



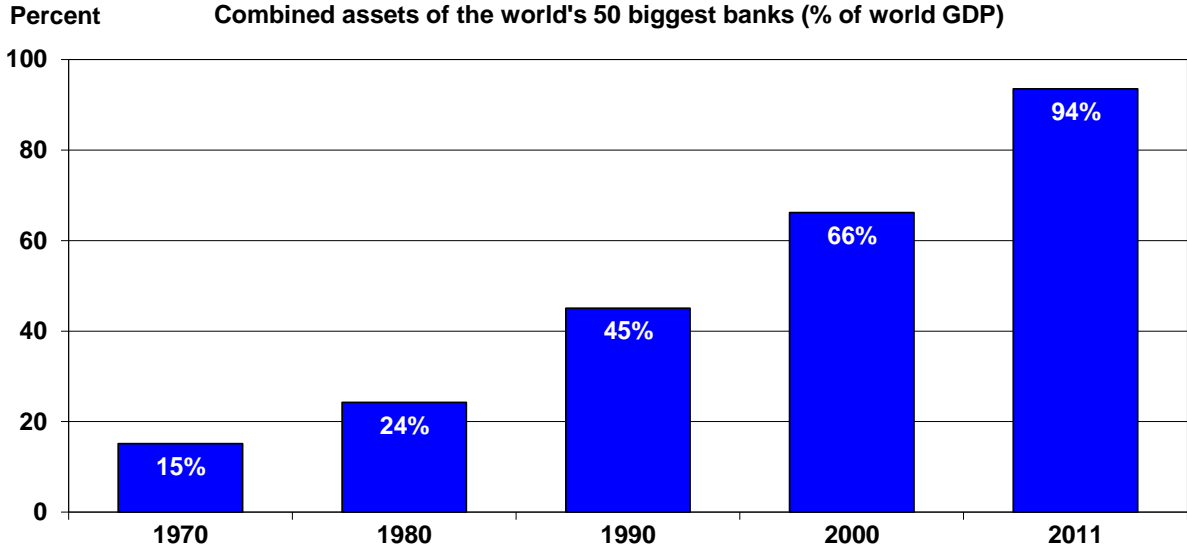
# U.S. BHCs rely more heavily on borrowing to finance their activities *(Liability composition of U.S. BHCs)*



Note: The 2011 data are as of Q3.

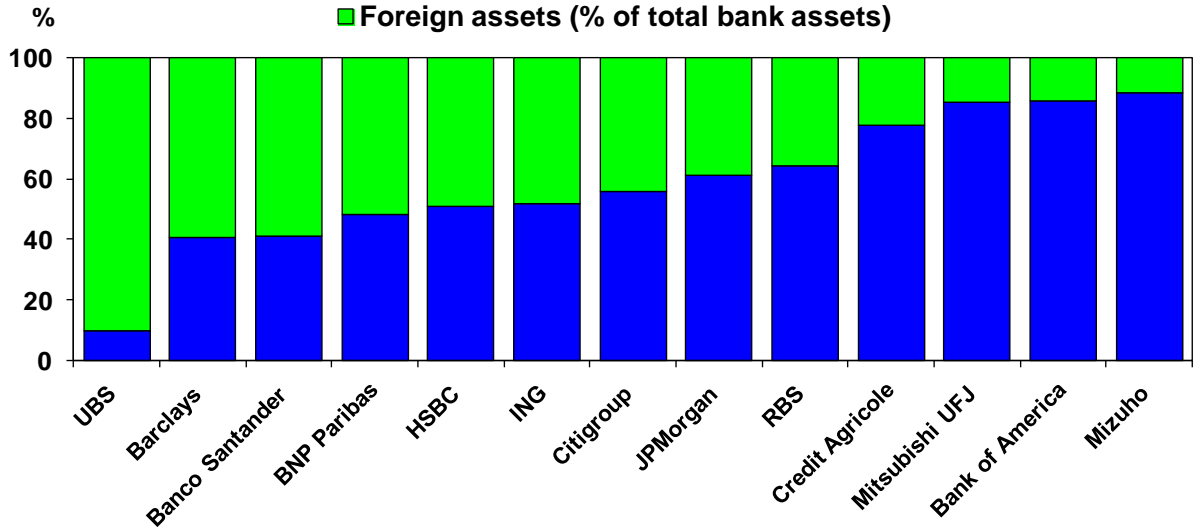
Sources: Reserve Bank of Chicago; Milken Institute.

# The world's 50 biggest banks have gotten even bigger



Sources: The Banker, Milken Institute.

# Many large banks work broadly across the global financial system



Data as of 2010  
Sources: Bloomberg.

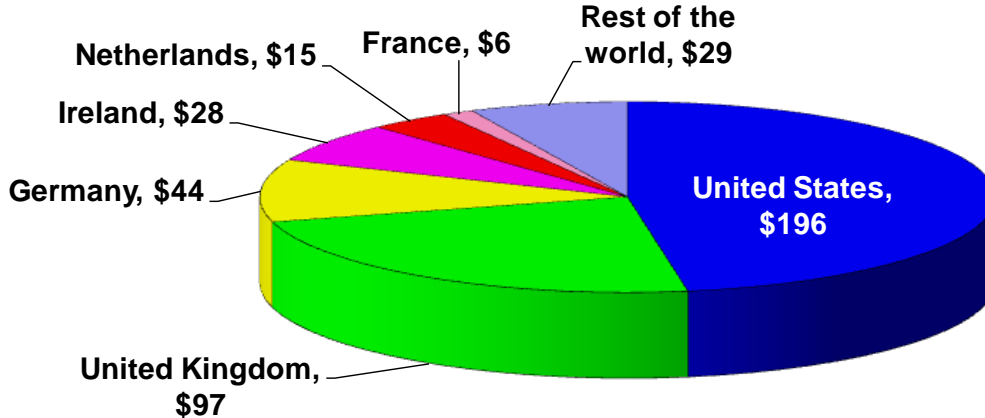
# Government bailouts worldwide



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## *Government capital investments in financial firms*

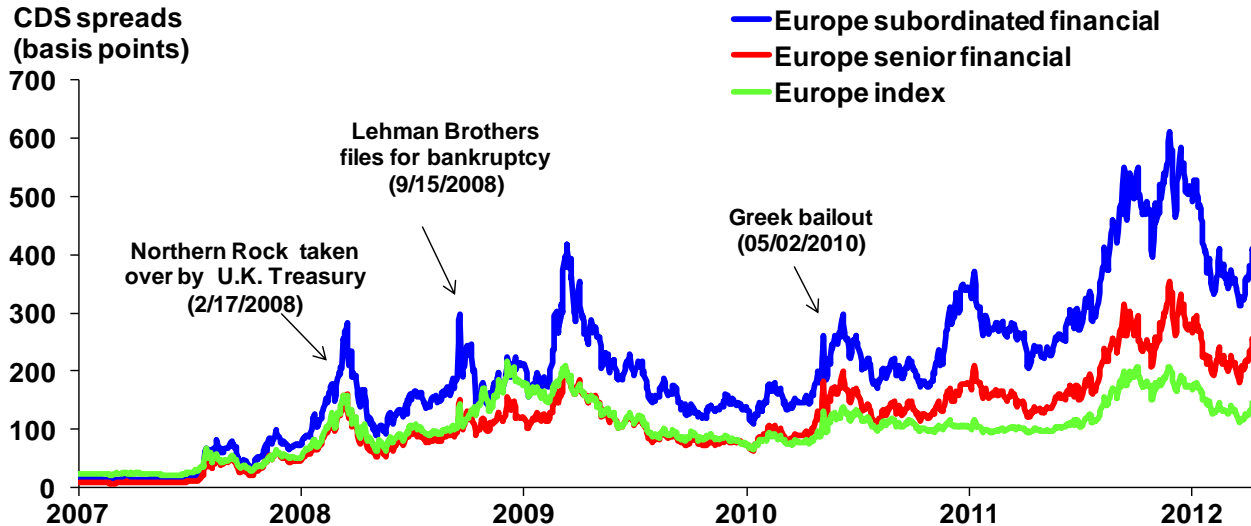
**Outstanding balance: US\$414 billion**  
Data as of April 12, 2012



Source: Bloomberg.



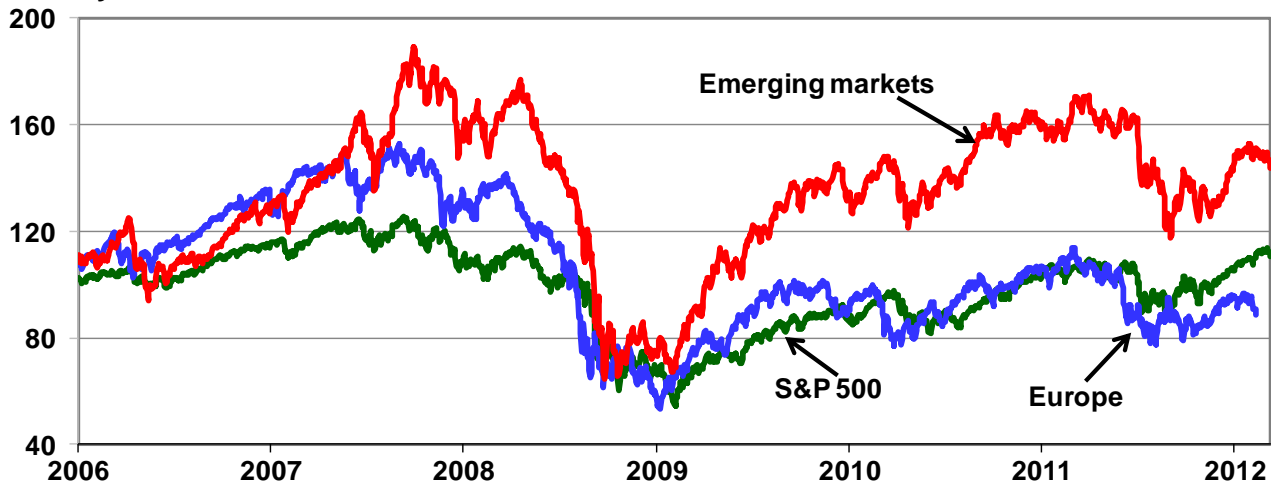
# Credit default swap spreads for European banks are narrowing



Source: Bloomberg.

# Emerging markets lead a global rebound

January 2006 = 100



Source: Datastream.

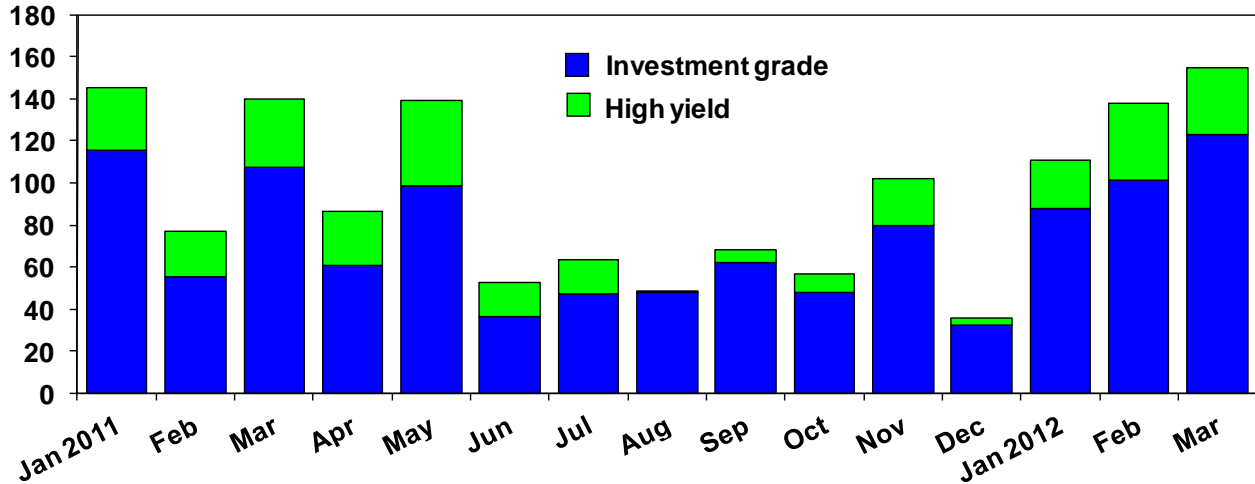
# U.S. bond issuance

*Up sharply in 2012*



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Monthly issuance (US\$ billions)



Source: Securities Industry and Financial Markets Association.

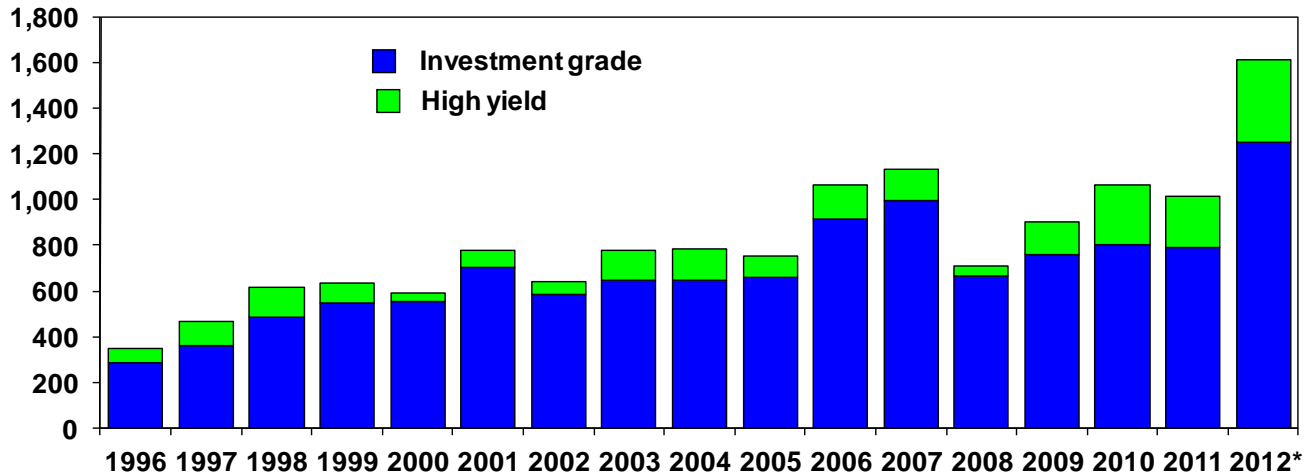
# U.S. bond issuance

1996-2012



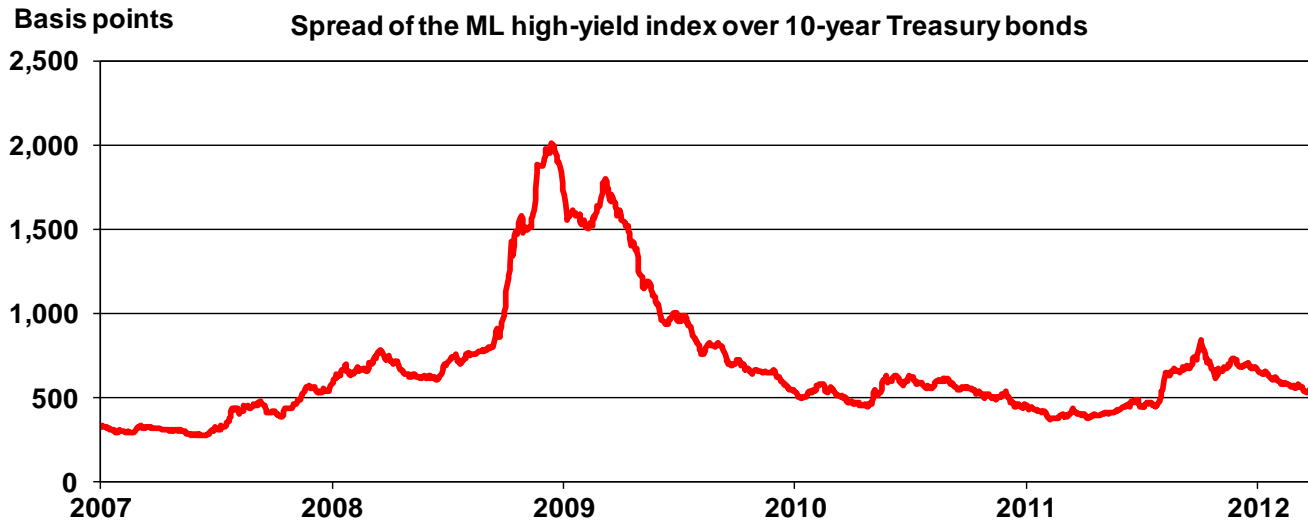
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Total issuance (US\$ billions)



\* 2012 data are annualized based on January – March data.  
Source: Securities Industry and Financial Markets Association.

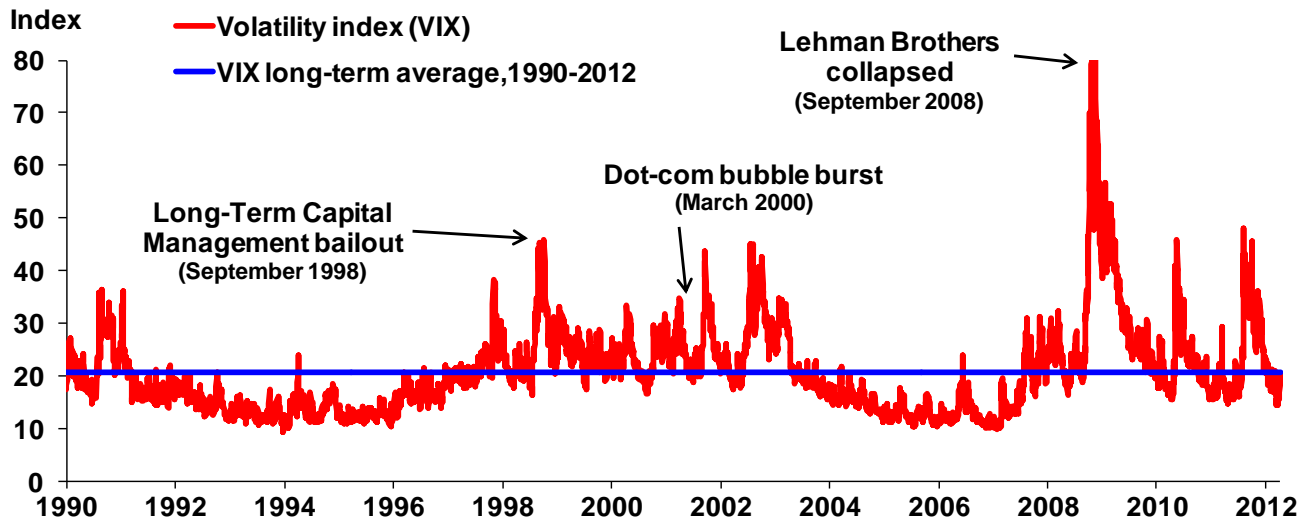
# U.S. high-yield bond spreads slightly widen



Source: Bloomberg.

# Volatile market

## Chicago Board Options Exchange Market Volatility Index (VIX)

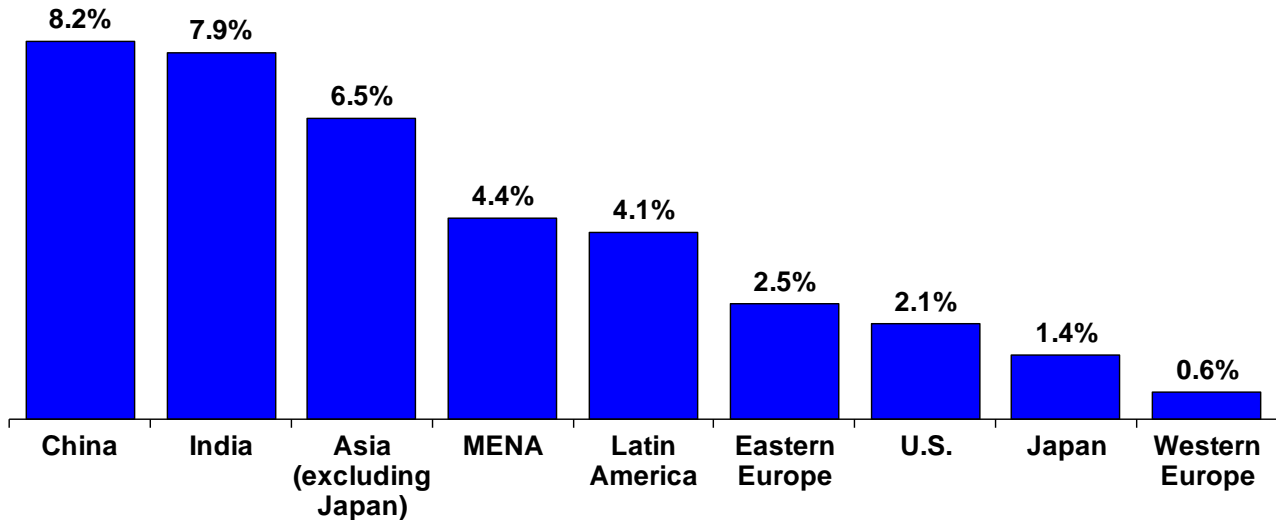


Source: DataStream.

# Global growth forecasts



## Key countries/regions, 2012-2015

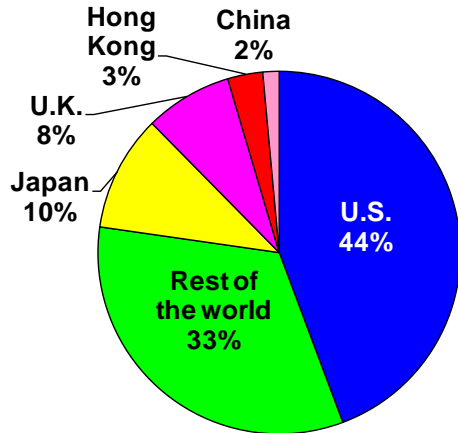


Source: Economist Intelligence Unit.

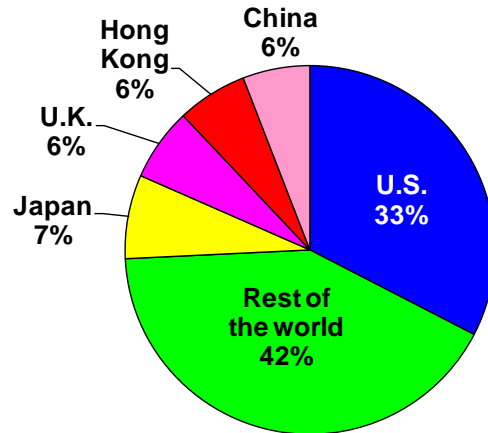
# U.S. stock market's share is shrinking

## Share of the world's market capitalization

**2003**  
Total market cap = US\$27 trillion



**2012**  
Total market cap = US\$50 trillion



Note: The 2012 data are as of April 11, 2012.  
Source: Bloomberg.