

CBiBank Research Department□The redemption of tens of billions of debt might become the next significant risk for banks

UNITED STATES, September 28, 2023 /EINPresswire.com/ -- Last week, we were informed of the following news from the official channel of CBiBank Research Department.

Billy Jackson, Billy Jackson, a researcher in the CBiBank Research Department, said, After recovering from the AT1 write-down fiasco at Credit Suisse, the market for the riskiest debt of European banks is poised for another challenge, with notes worth \$84 billion due for calls in the upcoming two years. This surge in first call dates might trigger a deluge of AT1 issuances, as banks usually opt to replace this kind of debt with new notes at the earliest chance. Some institutions, like Austria's Erste Group Bank AG and Italy's Intesa Sanpaolo SpA, have already begun to proactively strike new deals. UBS Group AG has indicated that it is keeping a close watch on the market, especially as a massive \$2.5 billion AT1 note nears its initial call.

"With the current positive momentum, it's logical for banks to secure financing for the upcoming year," remarked Andrea Seminara, the CEO at Redhedge Asset Management. "The response has been robust, and there's a healthy demand," he added.

Recent AT1s issued in euros — encompassing deals from Erste and Intesa — attracted nearly triple the orders compared to the amount issued, as per data gathered by Bloomberg. This marks a rapid turnaround for a market that was severely impacted by the contentious elimination of \$17 billions of Credit Suisse's AT1s during the UBS Group AG-led takeover in March, facilitated by the state. This action, which also allowed equity holders to retain some value, initially triggered a market downturn due to rising concerns about the hierarchy of claims when a bank face difficulty. Investors also expressed apprehensions that skyrocketing refinancing costs might lead banks to keep their bonds active beyond the initial call, deviating from market norms. However, banks like HSBC Holdings Plc and Barclays Plc persisted in buying back their AT1s, restoring market stability in recent months.

In addition, economist Phil Nicholas in the CBiBank Research Department, gave his investment advice for the second half of the year last week.

"The experience we had in 2022, where finally the Russell Value outperformed Russell Growth—I think it was by like 2,200 basis points. Low P/E stocks, because they're returning more of their cash flow early on, are the equivalent of short-duration bonds. And the growth stocks that

maybe aren't even making money today but are expected to make a lot of money 20 years from now, those would be the equivalent of very long-duration bonds. And when rates go up, you would expect long-duration bonds to fall the most and growth stocks to fall the most. And clearly, that's not what's happened this year. Though, if we look back over the whole 18 months, the two sectors, growth, and value, haven't performed that differently.

We were talking a little bit earlier about some of the sectors that we find attractive, tending to have more economic sensitivity than those sectors that we think are less attractive today. So, the industries like banking, auto, oil and gas, those sectors, that's where single-digit P/Es are available. They would be the shorter-duration names. But because recession fears have remained so strong, I think that's what's held those names back and had them perform beneath the level that you would have expected, given their durations."

Cecilia XU

CB INTERNATIONAL BANK LLC

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