

Riding out the credit crunch

With markets at the mercy of rumour, companies need to build a reputation for transparency and disclosure

Febriile, jittery, frenzied or just plain irrational – all have been used to describe the world's financial markets in recent months. The gloomy pronouncements have come thick and fast – not just about the sweeping impact of the credit crisis on markets and companies, but about the globaleconomy.

Make no mistake, the crisis is real. In recent weeks Alan Greenspan, the legendary former chairman of America's Federal Reserve, has warned the current crisis in the US is likely to be the 'most wrenching' since the Second World War. Hedge fund superstar George Soros has said we are witnessing the end of a 60-year 'superboom'.

What started with problems in the US sub-prime mortgage market has led credit markets to virtually seize up and forced multibillion-dollar losses at some of the world's biggest banks.

It is one whopping hangover from the debt markets boom, but also a huge communications headache for financial public relations firms.

In City trading rooms, there is an adage: 'buy on rumour, sell on the fact'. Recently, everyone has been heeding the rumours and often ignoring the facts. Rumours in more stable times that would be dismissed as absurd have gained force. And with good reason – if an institution as big and important as American bank Bear Stearns can collapse almost overnight, it is no surprise traders and investors start playing a frenzied game of 'who's next'.

Who would have thought at the start of the liquidity crisis last August that Swiss bank UBS would be brought to its knees with losses of \$37bn linked to US mortgages?

Alan Schwartz, Bear Stearns' chief executive, has laid the blame for his bank's demise on traders who spread unfounded rumours. In short, Bear Stearns was brought down by a lack of confidence, not financial dire straits.

Part of the communications problem is that banks and other companies have been unable to draw a line under their financial horror stories. Investment banks sliced and diced debt into increas-



EMILIE FETOLA/SANDY

reasingly exotic vehicles. Until recently this was seen as a good thing, as risks were spread. Now it means no-one knows which bank or company is holding what toxic cocktail of assets. Worse, it is fiendishly difficult to value these investments. Instead of the 'kitchen sink' approach, banks have dripped out multibillion-dollar losses.

In this environment anything seems possible – perhaps the biggest challenge from a communications point of view. Rumours spread like wildfire. Every journalist knows they have to check them out and, though there will be many red herrings, some outlandish rumours will prove true. The collapses and corporate bloodletting of recent months has proved that.

British bank HBOS has been one of the most high-profile victims of near 'fantasy' speculation. In mid-March, HBOS shares dived almost 20 per cent in minutes after emails circulated in City trading rooms that the bank was facing a financial crisis. The HBOS debacle underlines just how difficult it

'In short, Bear Stearns was brought down by a lack of confidence, not financial dire straits'

is to cope with rampant speculation – markets are global and the initial vicious rumours started in the Far East. Meanwhile, companies are brutally punished for any scrap of bad news.

The burning issue is how far the financial crisis will spread to the wider economy? For much of Britain, the woes of the City can appear to be a world away and out of step with the relatively benign conditions in the 'real economy'. There is some evidence.

Manufacturing has been holding up well, with exports helped by the pound's weakness against the euro. Tour operator TUI's current trading is strong – odd, since any downturn usually hits holiday sales. Business services, from accounting to advertising, grew a decent seven per cent last year, while UK plc made record profits in the last quarter of 2007.

However, it would be naive not to see the rising pessimism. Many commentators argue it is only a matter of time before the wider economy is hit by a second wave of pain from the credit crisis.

Navigating through the gloom will be a major test. Unchecked speculation can have disastrous consequences. Companies and their advisers must act quickly and decisively to end conjecture. Those with a reputation for transparency and disclosure can ride the wave. If there is a lesson of the past few months, it is that confidence can be incredibly fragile. Just ask Bear Stearns.

Grant Ringshaw is a director at Citigate and ex-City editor of The Sunday Times