
FINANCIAL NEWS

Wall Street banks are as alive as ever

Roy C Smith

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Eight days after [Lehman Brothers](#) filed for bankruptcy, [The Wall Street Journal](#) noted that “the Wall Street we have known for decades has ceased to exist”. Gone, said the Journal, was the independent, lightly regulated, free-wheeling form of market capitalism that had thrived or failed according to the skill and fortune of their principals since the beginning of the American Republic.

But the death of Wall Street, to paraphrase Mark Twain, has been greatly exaggerated. Indeed, there has been more than a decade of incremental, evolutionary change in the industry – the old Wall Street that the Journal remembered has been gone for years.

Today the term “Wall Street” represents the vast global capital markets industry which, before the current crisis erupted, contained corporate and other securities with a market value of \$140 trillion. Even in 2008, a year of crisis, the markets processed \$7.5 trillion of new issues of corporate securities and \$1.8 trillion of mergers and acquisitions: each about the same volume as occurred in 2005, then a record year.

Wall Street is not so much an industry of firms as it is a loosely organised worldwide pool of capital that has emerged after a generation of financial deregulation, technological innovation and globalisation. Over the years, individual firms, even some of the mightiest, have come and gone but the marketplace has become institutional and it remains in place and continues to evolve.

Part of this evolution, over the past decade, has been the absorption or adaptation of independent freewheelers into multi-platform financial colossi. Most of the top 10 market leaders last year (see table) had balance sheets of more than a trillion dollars and leverage ratios above 25:1. These 10 market leaders together managed more than 85% of the world’s capital market transactions. The leaders had been a stable group for years, changing very little except when large mergers reordered the field. Last year the group of leaders included three US universal banks, two large investment banks, four European universal banks and a UK bank.

The know-how, clientele and most of the market-savvy employees of five firms that “ceased to exist” last year simply reappeared under different brands: two of the firms were transformed into units of their rescuing acquirers (Merrill Lynch and Bear Stearns), two were reregulated but otherwise unchanged ([Morgan Stanley](#) and Goldman Sachs), and one (Lehman Brothers) was carved up in bankruptcy and digested by two other firms, enabling one of them ([Barclays](#)) to join the top 10 for the first time.

But the crisis has been disruptive to Wall Street. Many firms have been greatly affected by the events of the past year, which soon triggered a global battle to prise market share from those weakened by the crisis. Already, based on data in late June, there have been some shifts in aggregated market shares for the origination of corporate finance transactions – the combination of syndicated bank loans, global debt and equity issues and merger and acquisition advisory assignments.

Moving up significantly were Morgan Stanley, Barclays and [HSBC](#); moving down significantly were [Bank of America Merrill Lynch](#) and [UBS](#). For the first half of this year, however, the combined market share of the top five firms increased to a record 56% from 50%, and for the top 10 to 87%, as the crisis shifted business to those more likely to remain competitive.

The interventions by governments over the past 18 months may only mean significant changes to market share further down the line. As necessary as these bailouts might have been, they caused a substantial distortion in the free markets they were trying to protect, something governments have been cautioned about since the time of [Adam Smith](#).

Restrictions on banks' activities surfaced that were not mentioned at the beginning. Some executives and employees with better opportunities elsewhere fled, while clients thought twice before granting mandates. The restrictions have also cheapened the share prices of those branded as losers relative to those that were not – Citigroup's common stock market capitalisation is now less than 10% of what it was a few years ago – creating a sharply two-tiered structure for the industry.

Those on the top tier have benefited from the subsidies, reporting higher earnings from trading and other activities as well as asset inflows. Some have also been able to redeem shares held by the Government, throwing off its shackles. Those on the bottom tier, however, struggle with their government masters to resolve their problems before the banks are sold or broken up. No one envies the small fry. In future, those able to avoid receiving government subsidies will try harder to do so.

In the meantime, a scramble is taking place as firms seek to build or retain market share. Risk is returning to trading markets and competition is once again hotting up for mandates. The battle to hire investment banking talent is back. This is pushing up compensation levels again across the industry, even while public outrage at Wall Street bonuses lingers. The talent is being redistributed within the market even as some of the old firms fade away. Wall Street is as alive as ever.

- The author is professor of finance, [NYU Stern](#) School of Business

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