

MARKETS | BY LIZ HOFFMAN AND TELIS DEMOS | SEPT 4, 2019

How U.S. Banks Took Over the World

A decade ago, they almost brought down the global financial system. Now they rule it.

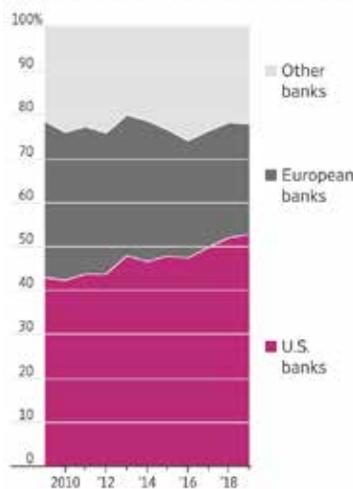


America's banks have rarely been so dominant in global finance. A decade after fueling the financial crisis, they are the top choice for companies looking to move or raise money and merge. PHOTO: PHOTO ILLUSTRATION BY EMIL LENDOF/THE WALL STREET JOURNAL; PHOTOS: ISTOCK

When two of Europe's corporate titans sat down to negotiate a merger this year, they called American banks.

Fiat Chrysler Automobiles hired Goldman Sachs Group Inc. as its lead adviser. France's Renault SA hired a boutique bank stacked with Goldman alumni. In a deal that would reshape Europe's auto industry, the continental banks that had sustained Fiat and Renault for more than a century were muscled aside by a pair of Wall Street deal makers.

Share of global investment-banking revenue

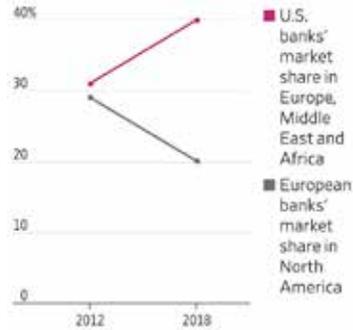


Note: 2019 data as of July 10
Source: Dealogic

A decade after fueling a crisis that nearly brought down the global financial system, America's banks are ruling it. They earned 62% of global investment-banking fees last year, up from 53% in 2011, according to Coalition, an industry data provider. Last year, U.S. banks took home \$7 of every \$10 in merger fees, \$6 of every \$10 in stock commissions, and \$6 of every \$10 paid to hold and move corporate cash.

Europe's banks are smaller, less profitable and beating a hasty retreat from

Investment-banking market share



Source: Morgan Stanley Research

Wall Street. Germany's Deutsche Bank AG is firing thousands of investment bankers. Switzerland's UBS Group AG abandoned its huge trading floor in Stamford, Conn., to refocus on its roots as a private bank.

Barclays is the lone holdout with an ambition to be a universal global

bank. Under Chief Executive Jes Staley, an American who rose to prominence at JPMorgan Chase & Co., the bank has resisted shareholder calls to go back to its roots serving British consumers and companies.

From their central perch in London and with close ties to developing countries, Europe's banks were primed to benefit as financial services went global. They charged onto Wall Street in the 1990s and pressed their advantage as U.S. banks limped out of the 2008 crisis.

Then, "they handed the whole system on a platter to the Americans," said Colm Kelleher, the Irish-born former Morgan Stanley executive.

Coming out of the crisis, U.S. banks quickly raised capital and shed risk, unpleasant tasks that Europeans put off. American businesses recovered quickly, and its consumers are eager to borrow and spend. A tax cut in 2018 boosted profits. Interest rates have risen.

Meanwhile in Europe, regional economies are sputtering and borrowing has slowed.

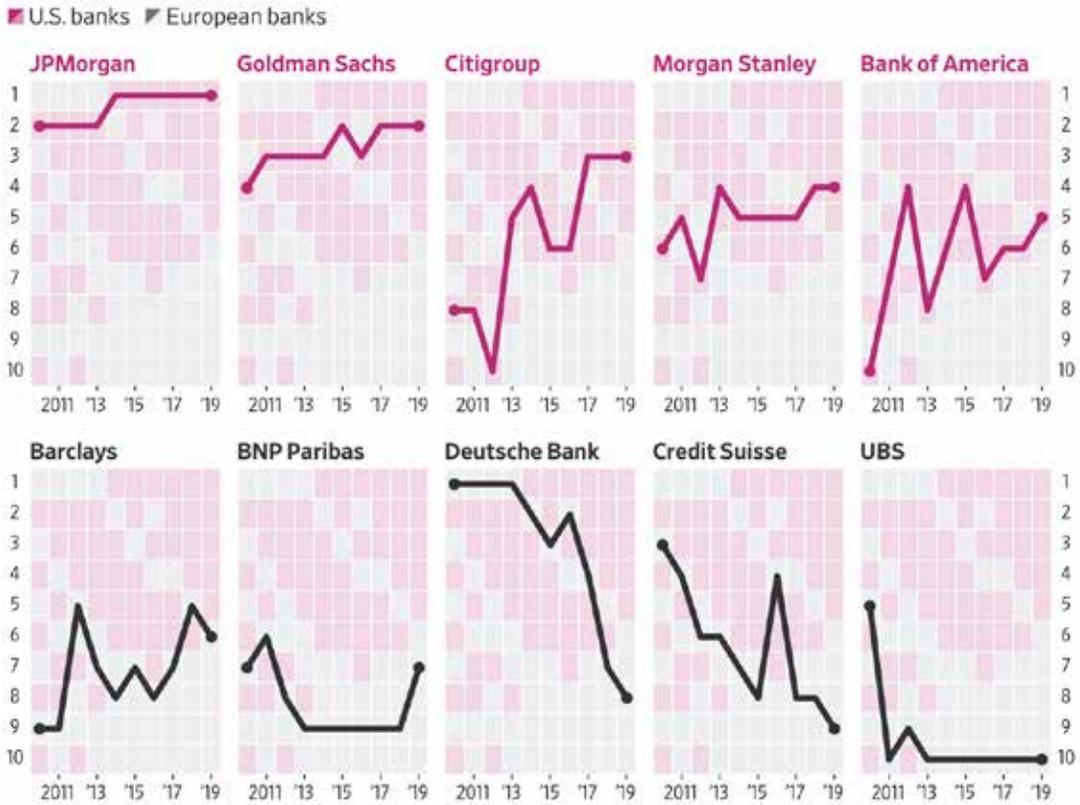
Central bankers have cut interest rates below zero, which leaves banks struggling to eke out a profit on loans. Banking policy in Europe remains fractured, with national and continental regulators pursuing often conflicting agendas.

"It is not our remit to promote national, or even European, champions," said Andrea Enria, the European Central Bank's top banking regulator.

Twenty-five years ago, European banks charged into the

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Top 10 banks in terms of investment-banking revenue in Europe, Middle East and Africa



Note: As of first half of 2019
Source: Dealogic

U.S. They bought storied firms like Donaldson, Lufkin & Jenrette and Wasserstein Perella and dangled big paydays for rainmakers. When Deutsche Bank announced a \$10 billion takeover of Bankers Trust in 1998, it promised at least \$400 million in bonuses to retain top bankers.



Henry Paulson is sworn in as Treasury secretary by Supreme Court Chief Justice John Roberts in 2006. Before he headed the Treasury, he ran Goldman Sachs.
PHOTO: JIM YOUNG/REUTERS

The challenges of merging a conservative European commercial lender and a U.S. derivatives shop gave

competitors pause. Goldman's CEO, Hank Paulson, shared his doubts with a hotel ballroom of his bankers: Deutsche Bank "just signed up for 10 years of pain," attendees remember him saying.

But in an era of cheap debt and light regulation, the land grab seemed to pay off. Deutsche Bank had a \$3 trillion balance sheet in 2007 and that year earned twice as much as Bank of America Corp. in securities-trading. Royal Bank of Scotland was briefly the largest bank in the world, wielding a balance sheet bigger than Britain's entire economy.

Even the financial crisis looked at first like an opportunity. When Barclays PLC bought Lehman Brothers in a fire sale, it got 10,000 of the firm's U.S. bankers and few of its bad debts. On Lehman's Times Square trading floor, the loudspeakers played "God Save The Queen." Deutsche Bank pounced on Wall Street's clients.

The high-water mark was in 2011, when global investment-banking fees were roughly split between European and U.S. firms.

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Share-price performance of U.S. banks since the end of 2007



The good times didn't last. A 2012 sovereign-debt crisis across the continent put new pressure on the region's biggest banks. Economic growth slowed across the continent. Central bankers turned interest rates negative in 2014. German media calls them "Strafzinsen," translating roughly to "penalty rates."

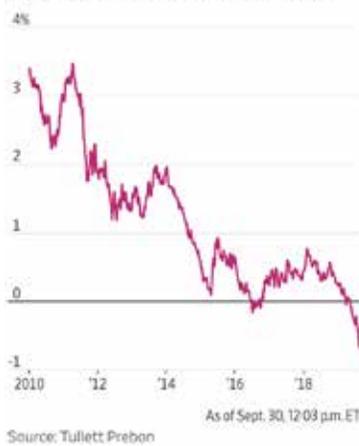
UBS slashed 10,000 jobs and cut big parts of its trading operation. Royal Bank of Scotland fired thousands of investment

bankers and sold its U.S. retail arm to focus on the U.K. Three-quarters of the Lehman bankers Barclays picked up in 2008 were gone within five years, according to Financial Industry Regulatory Authority records.

Meanwhile, U.S. banks were quietly encroaching on European rivals' territory. In 2009, JPMorgan completed an acquisition of Cazenove, the U.K. investment bank. Every year since 2014, JPMorgan has generated more investment-banking revenue across Europe than anyone else, according to Dealogic. (The London-listed owner of Peppa Pig, a British cartoon character, hired JPMorgan Cazenove to advise on its sale in August to U.S. toy giant Hasbro Inc.)

As U.S. banks got stronger and their European rivals weakened, client loyalties began to change.

Germany 10-year government bond yield



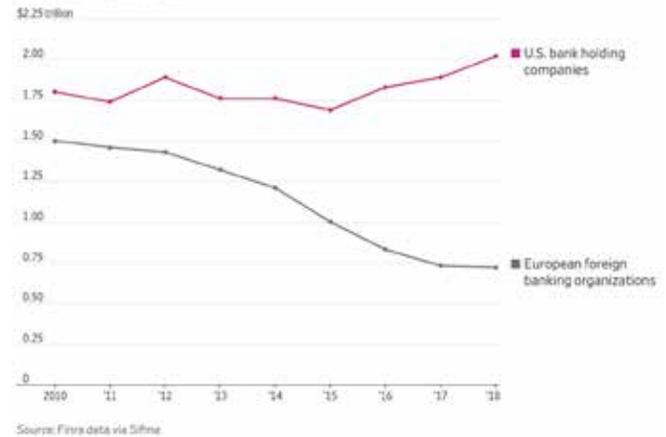
Today's companies are increasingly global. They make more of their money in the U.S. and have swapped a shareholder register stacked with old-line European families and trusts for the likes of BlackRock Inc. and other U.S. investment giants, where Wall Street banks are better connected. The percentage of U.K. companies' stock owned by foreigners rose from 16% in 1994 to 53% in

2016, according to government statistics.

Fiat, the Italian car maker that pursued a tie-up with France's Renault this year, makes two-thirds of its money in the U.S., where it owns Chrysler. Its shots are called by John Elkann, the New York-born scion of the family that founded Fiat in 1899.

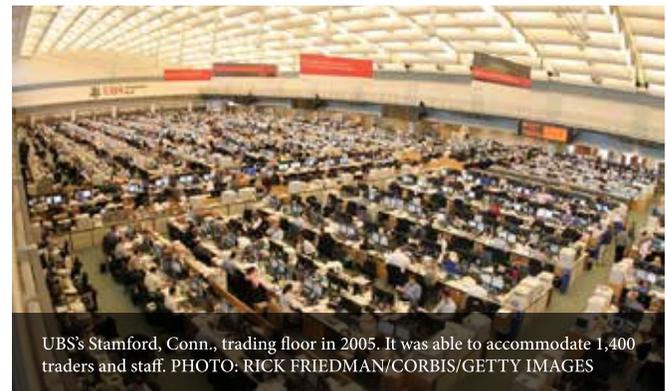
One of Mr. Elkann's closest advisers is a Goldman Sachs banker who for the past 15 years has organized a yearly gathering of European billionaire business owners, according to people who have attended. They swap stories, share advice and, more often than not, hire Goldman for deals.

Large broker-dealer assets



Globalization has cost the Europeans not just on headline-grabbing mergers, but in the everyday business of managing money for clients. Deliveroo, a food-delivery startup based in the U.K., sought to ramp up in Europe and the Middle East. Instead of hiring local banks in each market, it consolidated its money flows with Citigroup, which has local licenses in 98 countries and a global digital platform.

JPMorgan has made a big push to expand transaction banking for European clients. In 2010 it established a new unit of



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global bankers to pitch day-to-day transaction services to big companies, and later took over dozens of European transaction relationships from RBS.

Most recently JPMorgan said it is extending its commercial banking business globally, targeting hundreds of midsize businesses across Europe. It has sought to take on a more local flavoring, doing things like sponsoring math-and-science programs for students in France, Germany and Italy.

Last year, Citigroup and JPMorgan were two of the three biggest providers of day-to-day transaction banking globally, along with Britain's HSBC Holdings PLC, according to Coalition. U.S. banks accounted for 57% of the global transaction-banking revenue pool among the biggest banks in that business, versus 22% for Europeans, Coalition said.