Weekly commentary by Professor Jeremy J. Siegel

JPM Does Not Call for More Bank Regs; Summer Slowdown not in Data So Far

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Today, stocks traded lower as a result of the news of the unexpected trading loss that JPMorgan (JPM) suffered. It is certainly an embarrassment for Jamie Dimon and JPMorgan, which prided itself as one of the leaders in risk management. But it should have very little consequence for other banks and the broader market since it did not signal any fall in the credit quality of widely held assets, which triggered the financial collapse of 2008.

It is not surprising that many have pointed to this event as support for the imposition of a "Volcker Rule" or other regulations on the banking industry. But such a conclusion is wholly unsupported. JPM has an equity market capitalization of $140 billion; a trading loss of $2 billion means almost nothing in terms of the viability of the firm. The fact that JPM dropped $15 billion in market value today is a result of a reassessment of the risk controls of the bank, not from the loss itself. Furthermore, as I have pointed out many times, the 2008 financial crisis began with the investment banks (Bear and Lehman) and insurance companies (AIG), not the commercial banks. At that time there were hundreds of billions of mortgage-related securities misrated AAA by the rating agencies that in were in fact junk bonds. Nothing of the sort exists today. Proprietary trading in the banking industry did not lead to the 2008 crisis and has never led to a financial crisis. The markets will appropriately punish those banks who don't watch their risk controls, as they are doing with JPM today. Further regulation is not called for.

Before the news of JPM's loss, Greece again dominated the headlines. The austerity-resisting parties are learning that if Germany withdraws their loans, there is not enough money coming into the government coffers to pay their bills even if they default on ECB lending. So spending must be cut. But the Greeks could also threaten to leave the Euro (they will never be forced out in my opinion) converting Greek bank deposits to "new drachma." If they do, there will be a run on all banks in southern Europe which would collapse the financial system without massive ECB intervention. So both sides hold interesting cards in this negotiating game.

The week's economic data were mostly comforting. Another good week for jobless claims, and producer inflation came in below expectations. Gasoline has dropped another 7 cents since last Friday and will drop more this week. So far the data I see do not suggest a repeat of the 2010 and 2011 summer downturns. Next week's retail sales and housing data will be important. If they hold firm, this will support equity prices.
