Archegos Share Dump - ‘Lehman Moment’ Fears

What is the issue?

- Archegos Capital Management, a private investment firm based in New York, resorted to a huge fire sale of stocks worth $20 billion.
- This had caused widespread fears in the global financial market, reminding of the ‘Lehman crisis.’

What is the sell-off all about?

- Archegos Capital Management is a private investment firm based in New York.
    - Archegos was founded by Bill Hwang.
    - He founded and ran Tiger Asia from 2001 to 2012, when he renamed it Archegos Capital and made it a family office.
    - Tiger Asia was a Hong Kong-based fund.
- Archegos Capital Management recently resorted to a huge fire sale of stocks worth $20 billion.
- The fund had large exposures to Viacom CBS and several Chinese technology stocks.
- It was hit hard after shares of Viacom CBS (US media group) began to tumble.
- The decline in stock prices prompted a *margin call* from one of Archegos’s prime brokers.
- This triggered similar demands for cash from other banks.
- Traders were braced for further block sell-offs in stocks associated with Archegos and other funds that could also be forced to unwind heavily leveraged positions.

What is a margin call?

- Typically, a margin call occurs when the value of an investor’s margin account falls below the broker’s required amount during a market correction or sell-off.
- The margin account contains securities bought with borrowed money.
- A margin call is usually an indicator that the securities held in the margin account has decreased in value.
- So, lenders demand that an investor deposit additional money or securities

into the account so that it is brought up to the minimum value.

- The investor must thus choose to either deposit more money in the account or sell some of the assets held in their account.
- If the investor fails to pay up the margin amount, the lender will resort to sale of assets lying in the investor's account.
- The huge margin call on Archegos was the major driver behind the recent steep sell-off and the subsequent hits to several global bank balance sheets.

What is the impact of the sale?

- The sale caused big drops in the share prices of companies linked to the investment firm.
- This has put markets on the edge about the scale of the possible fallout, raising fears of a possible "Lehman moment".
    - The 'Lehman crisis' is associated with the bankruptcy of the giant Lehman Brothers Holdings, a global financial services firm in the U.S.
    - This happened in September 2008.
    - This was the biggest ever bankruptcy, that triggered a wave of bailout measures from the Federal Reserve and the US Treasury to save the economic structure.
- In that case, the event would force multiple lenders - mainly Credit Suisse and Nomura - to suffer huge losses.
- The problems at Nomura and Credit Suisse is possibly related to being slower in offloading share blocks into the market compared with their peers.
- Nomura said that it faced a possible $2 billion loss due to transactions with a US client.
- Credit Suisse said a default on margin calls by a US-based fund could be "highly significant and material" to its first-quarter results.
- Credit Suisse is estimated to have lost between $3 bn and $4 bn.

Source: The Indian Express