A Gentle Reminder – Lehman was NOT a Moment

Everyone seems to be talking about the Lehman Moment again this week. While there is a debate around whether Evergrande is a Lehman Moment or not, that misses the crux of the problem (Lehman never was a "moment" at least by any standard definition of "moment"). The Lehman bankruptcy was an important event (maybe even a seminal event) during the Great Financial Crisis, but it was not a "moment". I cannot understand why the nation has embraced this concept of the Lehman Moment taking into account all the important events that occurred during the Financial Crisis (and leading up to it). Maybe because it has the beauty of pinning the blame on a now non-existent Wall Street firm? It is always nice to have a scapegoat, a single moment in time, or a person that you can blame, especially when that person or entity isn't well regarded. Lehman seems to fit the bill well, much better than blaming it on individuals taking out NINJA loans (No Income No Job Application). Maybe we don't want to blame any other number of actors that failed before or after Lehman for their mistakes because they hit too close to home (i.e., maybe we as a nation would have to shoulder more blame). Maybe too many of the surviving actors don't want to be associated with their part in the crisis, so they too like to pin it on Lehman. It is probably too difficult to go back in time and argue that some policies from D.C. may have contributed to the problem (worth thinking about in an era where D.C. seems to "know" what we need better than we do). There are a lot of reasons why the Lehman Moment has caught on, but I just don't think they are accurate. I never saw one single report explaining why Lehman going bankrupt or not would have affected the price of homes in Las Vegas.

I believe that had Lehman been "saved", the problems we faced would still have come to fruition, but we just would have taken a more circuitous route. In other words, **an inexorable chain of events had been started before Lehman and would have continued regardless of saving Lehman or not.**

Show Me the Moment

Fighting the Lehman Moment is a re-occurring theme for me ([Forbes]) and is a cause I want to focus on again, because I think relying on the Lehman Moment as a crutch leads to bad decision making.

Lehman filed over the weekend of September 12th to 15th, 2008. The S&P 500, trading with extreme volatility (which was the "norm" at the time), dropped from 1,251 that Friday to 1,192 that Monday after the filing. For anyone in the credit market, few will forget the weekend trading session of CDS contingent on Lehman's default, and if I remember correctly, they waited until after midnight Sunday, making all that contingent trading a waste of time, other than as a precursor of how bad (or not bad) the market would react to a Lehman default.

I would hardly consider a 3% drop a "moment". By the end of that week, the S&P 500 closed higher at 1,255. Again, **when I think of an identifiable moment to pin the financial crisis on, I don't see that moment leading to higher stock prices a week later!** Even 2 weeks after the filing, September 26th, the stock market was at 1,213, above where it had closed the day after the filing and was just down 3% from before the filing. Two weeks for a 3% move is a "moment"?

Going further back in time, the S&P 500 closed at 1,214 on July 15th, which was lower than where the market closed one week after the filing and basically the same level as where it closed two weeks after. From July 15th to September 26th, the S&P 500 was unchanged, despite a Lehman filing and two weeks of trading post filing.

The wisdom of the markets apparently completely missed, for two full weeks, that Lehman was a moment!

Hindsight is 20/20

I will concede that maybe, after time passed, markets realized how important Lehman was and hence, going back in time, can tie the Lehman filing to the horrors of the market that followed better than they could at the time. Sure, some settlement issues were brought to light, but things like the CDS auction went relatively smoothly, as did other events that were touted as likely to "break" the market at the time.

I think the importance of Lehman grew over time as we understood more, but finding an unlikeable scapegoat (which wasn't around to defend itself) played as much or more of a role in creating this Lehman narrative.

So, we can debate the Lehman moment, or more importantly, figure out if **Evergrande is a piece (a rather large piece) in a puzzle leading to an inexorable change in China and the global economy?**

Bottom Line

I think Evergrande will accelerate the Recentralization and Delinking that has already started in China. The Communist Party is reasserting its control over China to anyone and everyone. With their treatment of Jack Ma and others, they seem to be taking the Russian proverb "The tallest blade of grass is the first to be cut by the scythe" to heart. China, with a billion people to feed and keep mollified (if not happy), will have its hands full dealing with an economic slowdown and a middle class hurt by a property bust. China will likely take steps to "fix" that since it is necessary for the survival of the CCP. I highly suspect that their solutions will hasten them along the path of recentralizing control within the party and delinking from global influences detrimental to their goals.

Evergrande is not a moment, but for me, it is a confirmation that we should expect China to impact the global economy (and thus markets) negatively for the near-term and medium-term at least. Companies need to have a sense of urgency in assessing and updating their China plans.

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