Global finance

Stock Performance Analysis This paper discusses the stock performance of the Lloyds Banking Group between 15th May, and 15th July, covering a total period of 2 months. Lloyds banking group is one of the largest financial institutions in the United Kingdom and operates through subsidiaries across the world. The company is listed on both the LSE (London Stock Exchange) as well as the NYSE (New York Stock Exchange). The performance of Lloyds stock is perceived by investors as an important indicator of the direction of the financial markets within the UK as well as Europe and thus is the subject of widespread coverage. The stock price of Lloyds Banking Group (UK: LLOY) has dropped by as much as ? 10 per share over the past 2 months. Ignoring the minor increase in the stock price during the first week of July, this decline has been gradual over this period. The share price has dropped consistently during recent months due to a number of reasons that will be elaborated below. These trends also fall in line with some of the observations made during the beginning of the sample period based on macroeconomic trends in the UK and Europe in general (Desai, 2011). Based on information on other players in the banking sector, Adams (2011) says that most banks have been performing below their book values due to the longstanding negative sentiment in the financial markets over the stability of these banks. At a time when the world is just starting to recover from the 2008 global financial crisis, investors are reluctant to place their money on this sector, especially in favor of the bigger banks (Brown, 2010). Thus, a major factor inhibiting the growth of the share price is the current sentiment over liquidity concerns and debt quality within banks. Thus, the current stock scenario reflects the short term outlook of the investors. Apart from these factors, it was also noted earlier that the banks understood this prevailing trend and were looking at ways to improve investor confidence. Obersteiner (2011) says that part of this strategy stems from an effort by the UKFI (UK Financial Investments Ltd.) to reduce some of its stake in the bank, which is likely to generate a positive perception. According to Lynn (2011), many analysts from leading investment banks like UBS and the Royal Bank of Scotland have given a strong ‘ buy’ rating to the bank over the medium and long term. Another major reason for the lackluster performance is the ongoing debt crisis in Greece wherein governments of major European nations are making efforts to save the Greek government from default. Although the Lloyds group has not had any write-downs, it has nevertheless had to suffer from the overall sentiment (Desai, 2011). Thus, it is expected that this trend will continue until the Greek economy returns to normalcy. Investor confidence may also rebound if the stimulus package offered by Germany and France succeeds in helping Greece repay its debt obligations and if the latter manages to stick to its proposed fiscal policy (Brown, 2010). Thus, it may be some time before the current trend improves in the markets. Investors with a long-term horizon are however recommended to invest in the bank given its consistent and healthy financial ratios and historical stability as a major player in the banking sector. References 1. Adams, P., 2011. Debt Fears strike Bank shares. Investors Chronicle. 2. Lynn, M., 2011. Bust: Greece, the Euro and the Sovereign Debt Crisis. Bloomberg. 3. Desai, P., 2011. From Financial Crisis to Global Recovery. Columbia University Press. 4. Brown, B., 2010. The Decline and Fall of Banking. London: Troubador Publishing. 5. Obersteiner, T., 2011. The Crisis Approach - From Guarantee Schemes to Asset Relief Measures and Restructuring Plans: EU State Aid Policy and Banking Institutes during the Financial Crisis. Berlin: GRIN Verlag.