[Transcript: US investment banking expected to stay in the doldrums](https://www.ft.com/content/623537d1-aa1a-4f6e-9f88-b31c2d6a3e66)

## **1-Hour Lesson Plan: FT News Briefing – "EU Delays Tariffs, Wall Street Pain, Greece's Comeback"**

**Podcast Episode:** "The EU delays imposing tariffs on the US. Investment banking on Wall Street is still feeling the pain. Plus, it’s been 10 years since Greece’s economy was in dire straits." **Date:** Monday, July 14th (as per transcript context) **Overall Goal:** To understand key financial and economic concepts related to international trade, investment banking performance, and sovereign debt crises/economic recovery.

### **Part 1: International Trade & Tariffs (15 minutes)**

**A. EU-US Tariff Standoff (7 minutes)**

* **Podcast Context:** The EU is pausing plans to impose tariffs on US goods, hoping for a negotiated solution, after President Trump threatened new tariffs on the bloc.
* **Key Concepts:**
  + **Tariff:** A tax imposed by a government on imported (or exported) goods.
  + **Trade Agreement/Negotiated Solution:** A formal pact between countries to reduce or eliminate trade barriers (like tariffs) and set rules for trade.
  + **Retaliatory Tariffs:** Tariffs imposed by one country in response to tariffs imposed by another, often escalating trade disputes.
* **Notes:**
  + EU planned €21bn tariffs on US goods starting Tuesday.
  + Trump threatened 30% tariffs on EU starting August 1st.
  + EU's response: Delaying its own levies, prefers "negotiated solution."
* **Prompt for Understanding:**
  + *Why do countries use tariffs as a trade tool? What are they trying to achieve?*
    - Countries use tariffs primarily to **protect domestic industries** from foreign competition, **generate government revenue**, or **gain leverage in trade negotiations**. They aim to make imported goods more expensive, encouraging consumers to buy local products.
  + *In this specific scenario, what is the EU hoping to avoid by delaying its tariffs?*
    - The EU is hoping to avoid an **escalating trade war** with the US. By delaying, they aim to de-escalate tensions and signal a preference for a **negotiated trade agreement** rather than a cycle of retaliatory tariffs.

**B. Economic Impact of Tariffs (8 minutes)**

* **Key Question:** What are the economic consequences of tariffs, and why do they create uncertainty?
* **Notes:**
  + **Higher Prices:** Tariffs increase the cost of imported goods for domestic consumers and businesses.
  + **Reduced Trade Volume:** Higher costs can lead to less importing and exporting.
  + **Supply Chain Disruption:** Businesses may need to find new suppliers, leading to inefficiencies.
  + **Uncertainty for Businesses:** Companies face unpredictable costs and market access, making long-term planning difficult.
  + **Impact on Investor Sentiment:** Uncertainty and potential for reduced profitability can make investors cautious.
* **Prompt for Discussion:**
  + *Who ultimately pays the economic burden of a tariff? (Connect to previous discussions if applicable).*
    - Ultimately, the economic burden of a tariff is largely paid by **domestic consumers and businesses** in the importing country, through higher prices for goods. This connects to our prior discussion that tariff revenue, while federal income, is a cost borne by the domestic economy.
  + *How does the threat of tariffs (like Trump's) create "market volatility" and dampen business confidence, even before they are imposed?*
    - The *threat* of tariffs creates **uncertainty** about future costs, supply chains, and market access. This unpredictability makes businesses hesitant to invest or expand, leading to market volatility as investors react to potential negative impacts on corporate earnings and economic growth.

### **Part 2: Wall Street Investment Banking vs. Trading (20 minutes)**

**A. The "Feast and Famine" on Wall Street (10 minutes)**

* **Podcast Context:** Analysts predict a 14th consecutive bad quarter for US investment banking, while trading flourishes.
* **Key Concepts:**
  + **Investment Banking (IB):** A division of a bank or financial institution that helps governments, corporations, and institutions raise capital and provides financial advisory services. Key activities include:
    - **Mergers & Acquisitions (M&A):** Advising companies on buying, selling, or merging with other companies.
    - **Equity Capital Markets (ECM):** Helping companies issue new stock (e.g., IPOs).
    - **Debt Capital Markets (DCM):** Helping companies issue bonds.
  + **Trading:** Activities where banks buy and sell financial instruments (stocks, bonds, currencies, derivatives) for their own account or on behalf of clients, aiming to profit from price movements or spreads.
  + **Volatile Financial Markets:** Markets characterized by rapid and unpredictable price changes.
* **Notes:**
  + Investment banking revenue expected to be less than 25% of Wall Street revenues for big US banks.
  + Trading has had a "spectacular run" for 4-5 years due to volatile markets.
  + IB has been "much patchier," especially over the last 3 years.
* **Prompt for Understanding:**
  + *What are the core differences between what Investment Banking does and what the Trading division does at a big bank?*
    - **Investment Banking** advises companies on raising capital (IPOs, bonds) and M&A. **Trading** involves buying/selling financial instruments for profit or clients, capitalizing on price movements. IB is advisory and deal-focused; Trading is market-driven and transactional.
  + *Why would "volatile financial markets" be lucrative for trading desks? (Hint: More price movement, more opportunities to buy/sell).*
    - Volatile markets mean **more price movement**. This creates **more opportunities** for trading desks to profit by buying low and selling high (or vice-versa) rapidly, as assets swing in value. They leverage this increased activity to generate higher revenues.

**B. Reasons for Underperformance & Outlook (10 minutes)**

* **Key Question:** Why is investment banking underperforming, and what's the overall outlook for banks?
* **Notes:**
  + **Reasons for IB Underperformance:**
    - **Lack of Confidence:** Boards need confidence about the economy to do M&A or IPOs. Uncertainty dampens activity.
    - **Higher Borrowing Costs:** Rising interest rates make it more expensive for companies to borrow money for deals.
    - **Tough Regulatory Environment (US):** Harder to get deal approval.
  + **Reasons for Trading Outperformance:**
    - **Market Volatility:** Rising interest rates, geopolitical conflicts (Ukraine, Middle East), Trump's return and policies (tariffs, trade) create enormous market volatility.
    - **Facilitation & Financing:** Big banks profit from facilitating and financing this increased trading activity.
  + **Overall Bank Outlook:**
    - "Don't need to cry for the banks" – still doing okay, profits "pretty elevated" relative to before.
    - Optimism for eventual IB recovery.
    - Hope for a "slightly lighter touch regulatory environment" under Trump administration.
* **Prompt for Discussion:**
  + *How do "rising interest rates" and "geopolitical conflicts" contribute to market volatility that benefits trading desks but hurts investment banking?*
    - Rising rates and geopolitical conflicts create **uncertainty and price swings**, which trading desks profit from by actively buying/selling. However, this uncertainty also makes companies hesitant to undertake long-term deals like M&A or IPOs, which are the core business of investment banking, thus hurting it.
  + *What does "lighter touch regulatory environment" mean for banks, and why would they be optimistic about it?*
    - It means **fewer or less stringent rules and oversight** from regulators. Banks are optimistic because it could reduce compliance costs, free up capital, and allow for more aggressive risk-taking and potentially higher profits, making their operations less constrained.

### **Part 3: Greece's Economic Comeback (20 minutes)**

**A. The 2015 Meltdown & Bailouts (10 minutes)**

* **Podcast Context:** Greece, once on the verge of exiting the euro, has made a significant economic comeback.
* **Key Concepts:**
  + **Economic Crisis:** A period of severe economic contraction, high unemployment, and financial instability.
  + **Sovereign Debt Crisis:** When a country struggles to pay its government debt.
  + **Bailout Programme:** Financial assistance provided by international lenders (e.g., IMF, EU, ECB) to a country facing a financial crisis, often with strict conditions (austerity measures, reforms).
  + **Euro Exit (Grexit):** The hypothetical scenario of Greece leaving the Eurozone (the common currency area).
* **Notes:**
  + Huge economic crisis since 2010.
  + Signed three international bailouts over eight years.
  + 2015: Radical left-populist government (Tsipras) rejected bailout, leading to country being "on the brink of exiting the euro," banks closed, "step before economic catastrophe."
  + Tsipras did a "somersault" and signed a third bailout, laying foundations for recovery.
* **Prompt for Understanding:**
  + *What are the immediate consequences of a country being "on the brink of exiting the euro" and facing a "financial meltdown"? (Think about banks closing, currency uncertainty).*
    - Immediate consequences include **bank closures** (to prevent a run on deposits), **severe currency uncertainty** (fear of a new, devalued national currency), **capital controls** (restricting money movement), and a **liquidity crisis** as financial markets freeze. This leads to a sharp economic contraction, widespread panic, and the inability of businesses and individuals to access funds, pushing the country to the brink of economic catastrophe.
  + *Why would a country reject a bailout program, and what are the risks of doing so?*
    - A country might reject a bailout program due to **austerity measures** imposed by lenders (e.g., spending cuts, tax hikes) which are often politically unpopular and can worsen a recession in the short term. They might also reject it due to **loss of sovereignty** concerns, as bailouts come with external conditions.
    - The **risks** of rejection are severe: immediate financial meltdown, bank collapses, exclusion from international financial markets, inability to pay public sector salaries or pensions, and potential default on national debt, leading to economic isolation and prolonged hardship.

**B. The Turnaround & Remaining Risks (10 minutes)**

* **Key Question:** How did Greece achieve its economic turnaround, and what challenges remain?
* **Notes:**
  + **Drivers of Recovery:**
    - Fiscal condition reforms (initial bailout).
    - Centre-right government (2019) implemented major reforms:
      * Digital transformation of public sector (sharp reduction in "red tape").
      * Progress in tackling tax evasion.
      * Cleaning up the banking sector.
    - Now "one of the fastest-growing economies in the Eurozone."
  + **Remaining Risks/Unfinished Business:**
    - **Low Investment:** Investment as a share of GDP is "still very low." Hard for foreign companies to invest.
    - **Economic Structure:** Economy based more on tourism, less on high-value production/innovation.
    - **Wages & Cost of Living:** Wages (especially private sector) have not grown much, while cost of living increased due to inflation.
    - **Poverty Risk:** More than a fourth of population at risk of poverty/social exclusion.
  + **Impact on EU:**
    - Eurozone was "completely unprepared" for Greece's crisis (no mechanisms, no permanent rescue fund).
    - Legacy: Underscored need for EU solidarity and building a "very big recovery fund."
    - Now better prepared (permanent rescue fund, system for winding up failed banks).
    - Still "not a complete union" (no sizeable budget or permanent fund to offset shocks).
* **Prompt for Discussion:**
  + *Which of Greece's reforms (e.g., digital transformation, tax evasion) do you think had the biggest economic impact, and why?*
    - **Tackling tax evasion** likely had the biggest immediate economic impact. It directly increased government revenue and improved fiscal health, crucial for exiting bailouts and restoring investor confidence, which are fundamental for economic stability and growth.
  + *Despite economic growth, why is a high "risk of poverty or social exclusion" a significant social and economic problem for Greece?*
    - It's a problem because **wages haven't kept pace with inflation and cost of living**, leaving many struggling. This creates social inequality, reduces domestic demand (hurting growth), and can lead to political instability despite overall GDP growth.
  + *How did the Greek crisis influence the development of the Eurozone's financial architecture? What are its remaining weaknesses?*
    - The Greek crisis highlighted the Eurozone's unpreparedness, leading to a **permanent rescue fund** and a system for **winding up failed banks**. Its remaining weakness is the **lack of a sizeable central budget or permanent fund** to effectively offset future economic shocks across the union.

### **Part 4: Q&A and Key Takeaways (5 minutes)**

* **Open Discussion:**
  + What was the most surprising economic or financial concept you learned or had clarified from this podcast?
    - The most surprising was how **market volatility, often seen as risky, can be highly lucrative for bank trading desks**, while simultaneously hurting investment banking due to increased uncertainty dampening deals.
  + How do the three main stories (EU tariffs, Wall Street, Greece) connect to broader themes of global economic interdependence, financial sector resilience, and the role of government policy?
    - They show **interdependence** (tariffs' global ripple), **resilience** (banks adapting, Greece's comeback), and **government policy's** crucial role in shaping trade, financial stability, and national recovery.
* **Consolidate Key Takeaways:**
  + **Trade Policy Impact:** Tariffs create economic uncertainty and can lead to complex negotiations and retaliatory cycles.
  + **Financial Sector Dynamics:** Volatility can be a boon for trading desks but a bane for investment banking, highlighting different business models within finance.
  + **Sovereign Debt & Recovery:** Economic crises can lead to significant reforms and strengthen regional financial mechanisms, but long-term challenges (e.g., investment, wages) may persist.
  + **Geopolitical Risk:** Continues to be a major driver of market volatility and business confidence.

This lesson plan should provide a solid framework for understanding the key financial and economic concepts from the podcast. Good luck!