

Deutsche's decline may be much more than indication of ...

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Deutsche Bank is currently shedding 18,000 of its staff, most of whom have been involved in its financial trading activities. That is about one in five of its total employees.

It could be argued that this is simply the sign of a bank that is continuing to fail, and that description may be appropriate for Deutsche. I do, however, wonder if there is something more to this. Suppose that Deutsche is in fact the tip of an iceberg and what is actually happening is that financial trading is ceasing to make money not just for Deutsche, but almost anyone?

The evidence for this is quite strong. Just look at pension markets. As I know from quite regular discussions with those engaged in this sector, the move from managed to index tracking funds is now persistent and becoming a dominant trend. This is rational, firstly because the costs of managing tracker funds are much lower than those for managed funds. Tracker funds do also, secondly, rather embarrassingly for those who think that they can outwit markets tend to produce better results overall, with most managed funds persistently underperforming the market. There is, however, a third rational element to this, albeit that it is much more broadly based.

Suppose that this third possibility is that there is little or no money to be made from financial trading anymore? Robotic, formula-driven trading has not just reduced costs. It has improved short term performance to the point humans cannot emulate. And, more importantly, without there being disruptive patterns of trading, the chance to make significant sums from the exercise of judgement has almost been eliminated within non-hedge fund trading, and maybe from much of the latter as well.

My point is that, firstly, whatever is happening in the real world (and vast amounts is) little appears to ruffle the financial markets, which keep trending to a mean that appears largely unmoved by events. Or rather, it's unmoved because it is only interest rates that really much impact the markets given the investment formulas in use, and interest rate changes are just too few, and too predictable, to create significant valuation changes now. Whether appropriate or not (and I would consider not) nothing

else carries anything like sufficient weighting to change values. And in that case the opportunity to profit, most especially from human judgment, has been eliminated from this sector. The 18,000 job losses at Deutsche follow from that.

What I really suspect is that right across the market the feeling that where Deutsche is going now is where others will follow soon is very likely. If Deutsche cannot make money from trading it cannot be alone in being pressurised. But what does that mean? Is the era of the so-called investment bank coming to an end? Is wheeler-dealing over simply because markets, dulled to the point of indifference by consistent interest rates that mean any return is all too readily benchmarked to a rate that is too easily predictable to permit uncertainty within the existing market paradigm, have ceased to have anything to really trade that cannot be machine resolved?

My suspicion is that the answer to that is 'yes'. These markets are, if not dead, then they're at least moving that way. The formula of steady inflows of funds from pensions and elsewhere, persistently low interest rates that few expect will alter much when compared to historical precedent, and corporations intent in managing returns via share buy-backs in particular so that market expectations are met, means that wheeler-dealing may indeed be nearly done now.

We should not mourn. Such activity has always been pure rent seeking, extracting a reward for a few from exploitation of the many who depend on markets but have little idea how they really work. The decline in City employment may be good for economies around the world.

But there is a problem. And that is that the question has to be asked as to what happens when the formulas fail? If it is a formula that is driving the near-record value markets now, with their apparent disconnect from the very obvious risks that the real world faces, what happens when those real world risks do finally intrude? Whether it be trade wars, real war, climate crisis or another cause, the trend to the mean will be disrupted when it is seen that the mean is wrong and that the short term biased formula in use has failed to appraise the long term risk that the market really faces. Who then re-determines what real value is? And how is that exercise in judgement undertaken when there is no one left to express it?

I have no answer. All I am suggesting is that what appears to be happening now is the short term demise of a market that will have longer term consequences when it becomes apparent that AI is doing nothing more than maintaining the status quo, even when it is obvious that no such thing really exists. My suspicion is that that transition to what comes next may simply be more painful as a result. Wait for a bumpy ride.