The End Of Wall Street As We Know It?

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This is the way old Wall Street ends: with a whimper. Ask the man in the street if banking and bankers have changed since the credit crisis and you'll certainly get the answer: no. You can blame JPMorgan Chase chief executive Jamie Dimon's genetic inability to sound contrite, and the $6bn blow-up in his bank's trading operation, for that. And the Libor scandal. And revelations about how the industry is lobbying to water down reforms. And – the list goes on.

Stephen Foley / The Independent / The Interview People

But ask the man on Wall Street if banking has changed, and you'll get a different answer. In the period immediately after the bailouts of 2008, some dared hope for a swift return to the high-octane trading, bumper bonuses and cascading profits of the pre-crisis era. What has happened instead is a multi-year squeeze on their activity that is shrinking Wall Street banks, cutting headcount and bonuses, and gutting the returns that shareholders used to enjoy.

And after another set of lacklustre quarterly results from the major banks over the past week, including revenue declines almost across the board, there is absolutely no sign of the squeeze ending.

Piece by little piece, Wall Street banks are cutting themselves down to size, and most promised more job losses and belt-tightening to come in the next few months. The question is whether the cuts go far enough for shareholders. In the boom years until 2007, there was so much money rolling in that employees could feast at the bonus trough and still leave more than enough in profits to satisfy investors. Now the bankers and their shareholders are turning on each other.

Goldman Sachs, normally the powerhouse of the industry, faced hostile questioning after reporting another decline in quarterly profit – down 12 per cent to $927m for the three months to the end of June – and a collapse in the company's return on equity, which is an important measure of how profitable the company is relative to its size. A 9 per cent cut in the amount of money set aside to pay salaries and bonuses was not enough to assuage some investors, and an analyst from one asset management firm demanded that the reduction in profitability should be met by a swift and savage reduction in the amount of money Goldman pays its staff.

David Viniar, Goldman's chief financial officer, said that resetting compensation with a one-off pay cut would simply send all the bank's best people to rival firms, but that "competition for talent" argument has less force in a shrinking industry and Mr Viniar was on the back foot this week. "While we are trying to pare down and perform as well as we can in this difficult environment, these aren't returns that are acceptable to us or to our shareholders, and we know that," he said.

And so, to the cuts.

Goldman promised savings worth another $500m annually, on top of the $1.4bn in cuts it has achieved so far by axeing 3,200 jobs in the past year. Deutsche Bank is finalising a plan to cut 1,000 investment banking jobs. Credit Suisse, which is under pressure from its Swiss regulator to improve profitability and shore up its balance sheet, upped its cost-savings target by 50 per cent earlier this week. UBS and Citigroup are also cutting hundreds of jobs.

And Morgan Stanley yesterday sketched an even direr outlook for its staff, telling the world it expected to cut a further 7 per cent of its workforce, or 4,100 posts, by year's end. The pool of money set aside for pay and bonuses so far this year, $3.53bn, is down 15 per cent on last year.

Morgan Stanley is in arguably the worst position of all the Wall Street banks, partly as a result of nervousness about its credit rating. While the rating agencies have become increasingly negative about the creditworthiness of all the big banks, Morgan Stanley was under threat of a bigger-than-average downgrade for most of the last quarter, which caused its trading partners to take a more cautious approach to dealing with it. As a result, bond trading revenues in particular collapsed (by 60 per cent) and overall the company reported a 24 per cent decline in second-quarter revenue. Its investment banking arm, which advises companies on raising money in the equity and debt markets, did itself no favours by botching the flotation of Facebook in May.

Most of the headwinds buffetting Morgan Stanley, though, are common to the industry as a whole. Revenues were down 9 per cent at Goldman, 10 per cent at Citigroup and 17 per cent at JPMorgan Chase in the second quarter.

In the short term, these headwinds include all the obvious reasons to be fearful about the trajectory of the global economy, from eurozone dangers to China's slowdown to the looming "fiscal cliff" of tax rises and spending cuts in the US. "All these things are weighing on markets, creating uncertainty, and before we get through it there is also the heated presidential election in the US," said Marty Mosby, an analyst at Guggenheim Securities. "Investors and businesses will want to see the lay of the land before making big decisions, but my hope is that after six months this could start to rectify itself."

But there are also long-term structural changes to Wall Street. Regulators have demanded an end to a lot of high-risk practices, such as trading derivatives directly between banks instead of transparently through clearing houses, and are close to banning proprietary trading, which is gambling with banks' own money.

Goldman… On Top Of The $1.4bn In Cuts It Has Achieved So Far By Axeing 3,200 Jobs In The Past Year. Deutsche Bank Is Finalising A Plan To Cut 1,000 Investment Banking Jobs.

New international rules require banks to bulk up their capital cushion against potential future losses, crimping their ability to make outsize bets and go after new business in the way that juiced profits in the good years.

Investors, too, have simply pulled away from many high-risk products, and there will be no return to the days when trillions of dollars of sub-prime mortgages were sliced and diced for sale as lucrative structured products such as collateralised debt obligations.

Things are so bad that Goldman Sachs has even quietly set up a commercial banking arm, doing what half a decade ago would have seemed like mundane and barely worthwhile lending and other financial services for companies, but which now compares favourably to the potential returns from other areas of its business.

That is not the way of old Wall Street.