What a rate hike means for market structure

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Central bank policy shouldn't really be part of the market structure story. Market structure is about regulatory change, technology innovation and market reactions to the evolving competitive landscape. But in 2015, central bank policy impacts pretty much everything and everyone in some way, shape or form.

As such, we started to think about what impact the eventual rate rise in the US would have on market structure. My first inclination was to list off a number of things that could be impacted: the profitability of equity broker/dealers, corporate bond electronic trading and every capital markets business that does well when volumes rise. But the more we thought about it the more we realized there would be only one major market structure change that would arise from rising rates: investors will want and - more importantly - need to interact with their sell side dealers how they used to pre-crisis.

I'm not suggesting things will go back to the way they were before 2008. Electronic trading will continue its organic growth, the cost of capital will continue to climb and derivatives clearing is here to stay. However, the pendulum that has swung so far away from the traditional buy side/sell side relationship over the past few years will make its way slowly but surely back in the other direction. The mere fact that the Bank of England, BIS and others are examining liquidity concerns created by banks' unwilling and/or inability to commit capital as they once did is a sign that we've reached an inflection point.

Electronic trading will pick up some of the slack as markets start to move again, and non-traditional players will become a bigger part of the story, but the comfort the sell side provides to investors in times of transition will once again become sought after helping the market to remember that we do need these big banks (and their balance sheets) after all.

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