MSCI Index Explainers: Financial Ecosystems

Transcript

What are financial markets and who is involved?

In a financial market, entities seeking capital (buyers) meet investors (suppliers), and capital is exchanged for potential investment returns. Over time, markets have evolved into an intricate ecosystem of public and private institutions that offer diverse financial products.

To help understand these complex relationships, you can imagine the financial ecosystem as a rainforest. As you move higher towards the canopy, the more sunlight and exposure you receive. So, too, in a financial ecosystem.

At the top is the equity market, where publicly traded company shares are bought and sold, and asset managers simplify investing. Share prices are public and visible. Most investors invest in the equity market with the help of asset managers, brokers or wealth managers. In this market, asset managers will use indexes in passive vehicles to help them track the market or as a performance benchmark for active strategies.

Moving down, we find the fixed income market, with similar players. Asset managers offer expertise for both passive and active strategies, and wealth managers will assist individual investors to access this market. However, fixed income securities don’t always trade on exchanges, occasionally making the market more opaque.

Further down, we find the alternative markets layer, where we can find hedge funds and private capital firms that use more complex investment strategies and tend cater to larger institutional investors. While maybe less visible to most investors, hedge funds and private capital firms play an important role in ensuring the whole ecosystem functions effectively.

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