WHITE PAPER

H1 2024 - Investment Banking and Global Markets Update

Strategic Crossroads Emerge as CIBs Return to Growth

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By Tim Jennison, Julian Hein, Quirin Stockinger, Amrit Shahani, Rishi Baveja and Sandeep Bahra

IB & Global Markets H1 2024 Update

Overall market summary

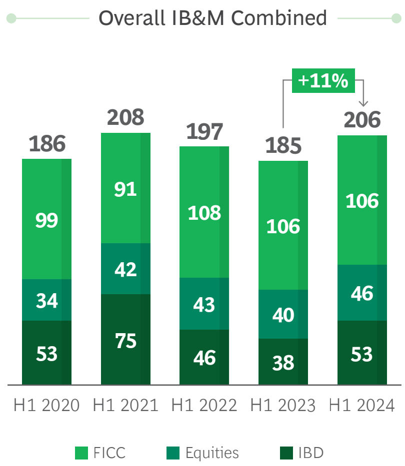
In the first half of 2024, the overall investment banking and global markets revenue pool amounted to $206 billion, representing an 11% year-on-year (YoY) increase. The growth was mostly driven by a 39% YoY increase in the origination and advisory (O&A) revenue pool from $38 billion to $53 billion, and a 15% YoY increase in the equities revenue pool (excluding equity capital markets (ECM)) from $40 billion to $46bn billion. Fixed Income, currencies and commodities (FICC) revenues remained flat YoY at $106 billion, after a mixed performance between products as spread product increases were offset by declines in macro products.

This report explores the reasons behind these YoY movements, and then delves into the emerging trends that are influencing strategic priorities for CIB executives. This edition discusses the resurgence of debt capital markets (DCM), and other factors which indicate continued outperformance in the coming years, as well as the strengths of the boutique and independent investment bank business models. We also conduct product deep dives on structured equity and private debt, given the heightened growth rates in these markets.

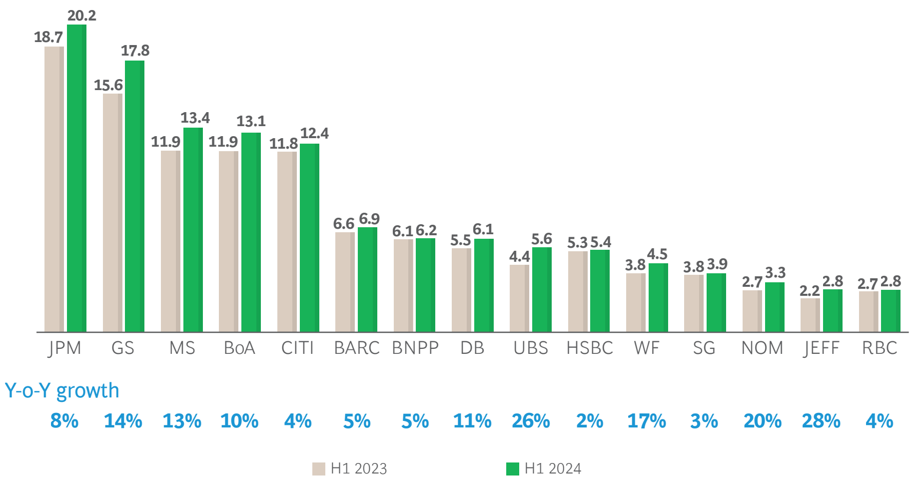
Moving into H2 2024, Expand and BCG analysis anticipates continued strong IB O&A revenues, more volatile and positive equities and FICC markets in the run-up to the elections in the United States, and some underperformance in US rates and non-linear rates[1] (within FICC).

Exhibit 1 - Overall market - IB & Markets revenue pool has increased 11% YoY

Total Industry IB&M revenue pool
In $B



Top 15 players | Y-o-Y development
In $B



Source: Company reports, Expand, BCG analysis.

Note: Across exhibits 1 to 4, UBS information for H1 2024 includes six months of data for UBS and six months for former Credit Suisse entities. Comparative year-to-date information for H1 2023 includes six months of data for UBS and one month (June 2023) for former Credit Suisse entities.

1. Non-linear rates include structured rates and rates options (mainly Vega/Gamma IR Options books and Exotics).

Origination and advisory

Large growth in DCM boosted the performance of corporate lending players. US IB pools outperformed APAC, prompting some banks to reassess their regional strategies.

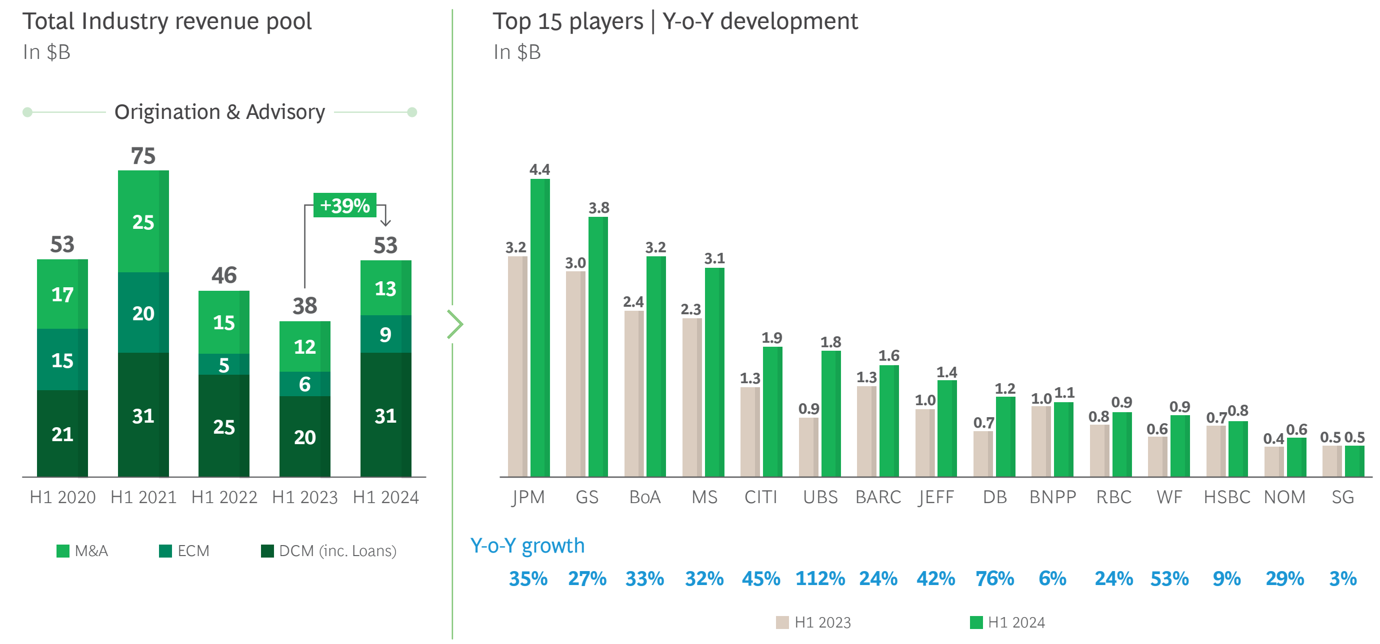
In the first half of 2024, the **origination and advisory** pool grew 39% YoY from $38 billion to $53 billion, marking a sharp return to growth after two consecutive years of H1 revenue pool declines. Based on the top 15 banks reported, large lending institutions have performed exceptionally well, primarily driven by DCM activity, which marginally outpaced ECM and heavily outperformed mergers and acquisitions (M&A) revenue growth.

Mergers and acquisitions presents a modest growth picture with a revenue pool increase of 9% YoY from $12 billion to $13 billion. According to BCG's recently launched proprietary M&A sentiment index®, a willingness to contemplate dealmaking has grown slowly but steadily during H1 2024, after revenues hit a five-year low in 2023. Despite some continuing dealmaker caution amid economic uncertainty in H1 2024, pipelines are building and an uptick is expected in H2 2024. Corporate M&A will lead this recovery, with sponsors following. More information on the M&A recovery can be found here.

The **equity capital markets** revenue pool increased by 51% YoY from $6 billion to $9 billion. The key factors in this increase were healthy corporate earnings, strong equity benchmark index performance, lower volatility than previous years, and converging valuation expectations between investors and issuers. When it comes to regions, China ECM activity declined sharply, losing share to the US in particular, as economic uncertainty continues to cast a shadow over the region.

The **debt capital markets** fee pool (including loans) grew by 54% YoY from $20 billion to $31 billion, making it the largest and best-performing product within IB divisions in H1 2024. Multiple tailwinds have supported issuance activity this year. Investors have shown greater risk appetite and demand for fixed income exposure as they seek the higher yields available in debt markets in anticipation of peaking interest rates. Meanwhile, many corporate issuers are facing maturity walls, leading to refinancing events, and spurring new issuance activity at more favorable terms than in H1 2023.

Exhibit 2 - Origination & Advisory revenue pool has increased 39% YoY



Source: Company reports, Expand, BCG analysis.

Equities

Tier II banks significantly outperformed the market in Q2 2024, largely driven by equity derivatives, whereas the top three players (unusually) started to lose market share.

Equities revenue pools increased 15% YoY from $40 billion to $46 billion due to a resurgence in equity derivatives (EQD), particularly in Q2 2024, following a weaker first half of 2023. Within **equity derivatives**, flow EQD saw an increase due to higher client flows and a favorable trading environment. Structured equity derivatives also witnessed resilient performance, with increased issuance and higher revenues in QIS (quantitative investment strategies). Corporate equity derivatives (CED) gained traction due to higher ECM hedging and a few large deals.

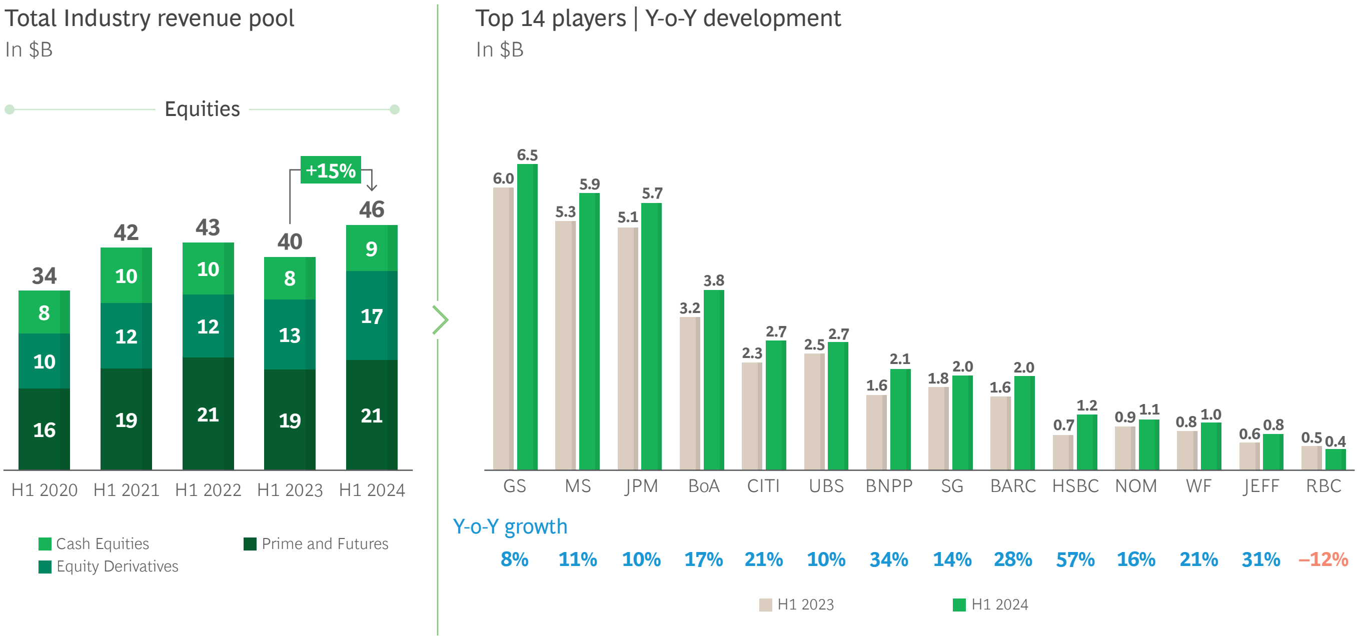
Cash equities saw a surge in volumes (up 18%[2]), together with an upturn in client activity across regions. High-touch cash revenues grew on the back of robust block trades and a rise in ECM issuances. We expect rotation from direct market access (DMA) to sponsored access to have a negative impact on the pool, amounting to $500 million, over the next three years.

Prime services experienced an uptick due to higher client balances, which rose as elevated equity levels reached all-time highs. On the other hand, in securities lending, specials activity boosted revenues in H1 2023, which then fell in H1 2024 as specials balances declined by 7%.[3] Delta one/synthetics revenues also improved, but to a lesser extent, with varying results across banks.

In H1 2024, VISA INC. (class B[4]) share gains made a significant contribution to the outperformance of some banks who held the shares. However, excluding these gains from VISA, equity revenue growth remained in the single digits.

In terms of regions, the US continues to outperform, followed by APAC which rebounded from the downturns of the first half of 2023. Regional players also gained momentum through building equities franchises, especially in prime services where the resulting pricing competition will lead to a squeeze on margins.

Exhibit 3 - Equities revenue pool has increased 15% YoY



Source: Company reports, Expand, BCG analysis.

2. World Federation of Exchanges.
3. S&P Global.
4. VISA Inc. class B shares are held by financial institutions, are not listed in public markets and have lower repayment priority versus class A shares in Bankruptcy event.

FICC

Mixed performance with a resurgence in Securitization, improvements in spread products and declines in Macro products.

FICC revenue pools remained flat YoY at $106 billion. Normalization in **rates** and **foreign exchange** was caused by lower volatility and a decrease in corporate activity.[5] Spread products continued to outperform. **Securitized products** performed exceptionally strongly, and recovered from depressed levels in H1 2023 when many banks suffered trading markdowns across non-agencies and commercial mortgage-backed securities (CMBS). This development benefited US banks given their stronger franchises and scale in securitization.

Credit markets also enjoyed notable improvement in performance across both flow and structured products, helped by a more stable rate environment. Revenues in distressed and high-yield segments grew as client activity and market conditions improved.

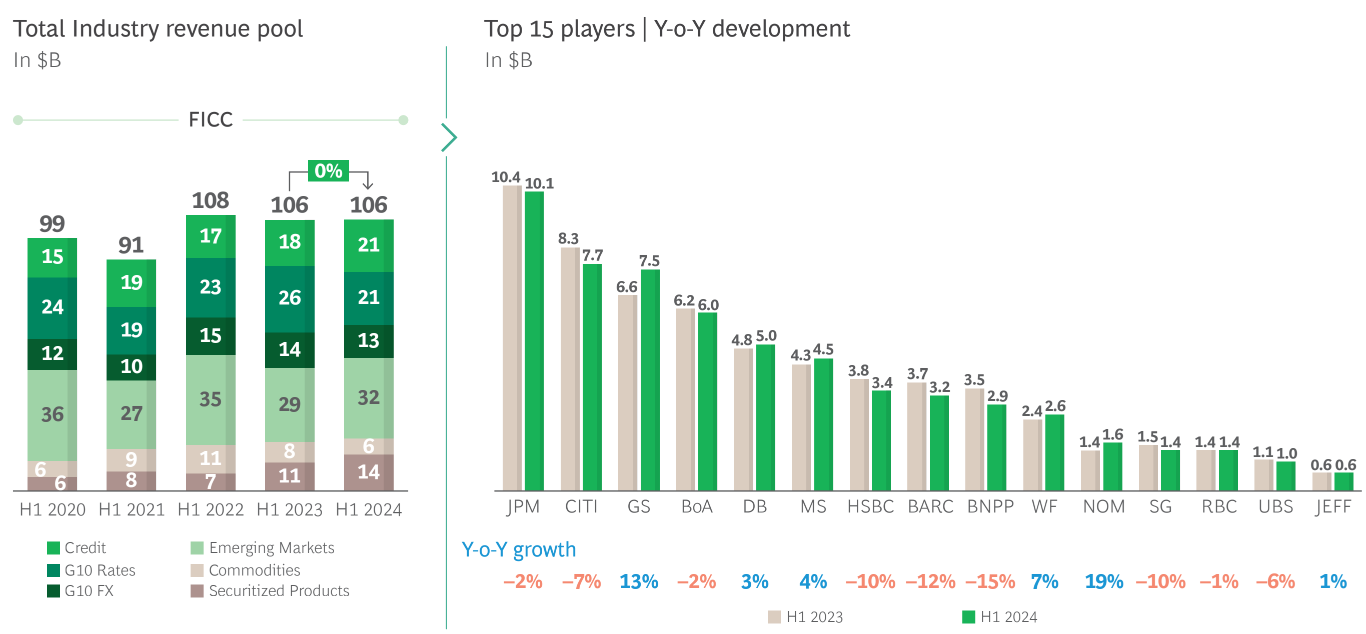
Emerging markets exhibited mixed results, with specific regions like Mexico and Indonesia presenting idiosyncratic opportunities due to localized volatility.

Within **G10 rates**, despite increases in US Treasury (UST)[6] volumes, Europe underperformed globally, especially in inflation and swaps. European government bond revenues also declined. Meanwhile, US non-linear rates[7] outperformed in H1 2024, although this trend has stabilized in the third quarter.

Issuance activity followed by spread tightening led to significant growth within municipal bonds (Muni) (~32% increase YoY)[6], UST (~15%)[6] and asset-backed securities (ABS) (~45%)[6].

Commodities saw revenue declines across products. Oil revenues fell due to lower client demand and fewer financing deals. Within metals, base and precious held up better than others.

Exhibit 4 - FICC revenue pool has remained flat YoY



Source: Company reports, Expand, BCG analysis.

5. Expand FX & Rates volumes survey.
6. SIFMA.
7. Non-Linear rates include structured rates and rates options (mainly Vega / Gamma IR Options books and Exotics).

Debt Capital Markets (DCM) is poised for further outperformance

Multiple supply-side and demand-side tailwinds are supporting DCM issuance activity

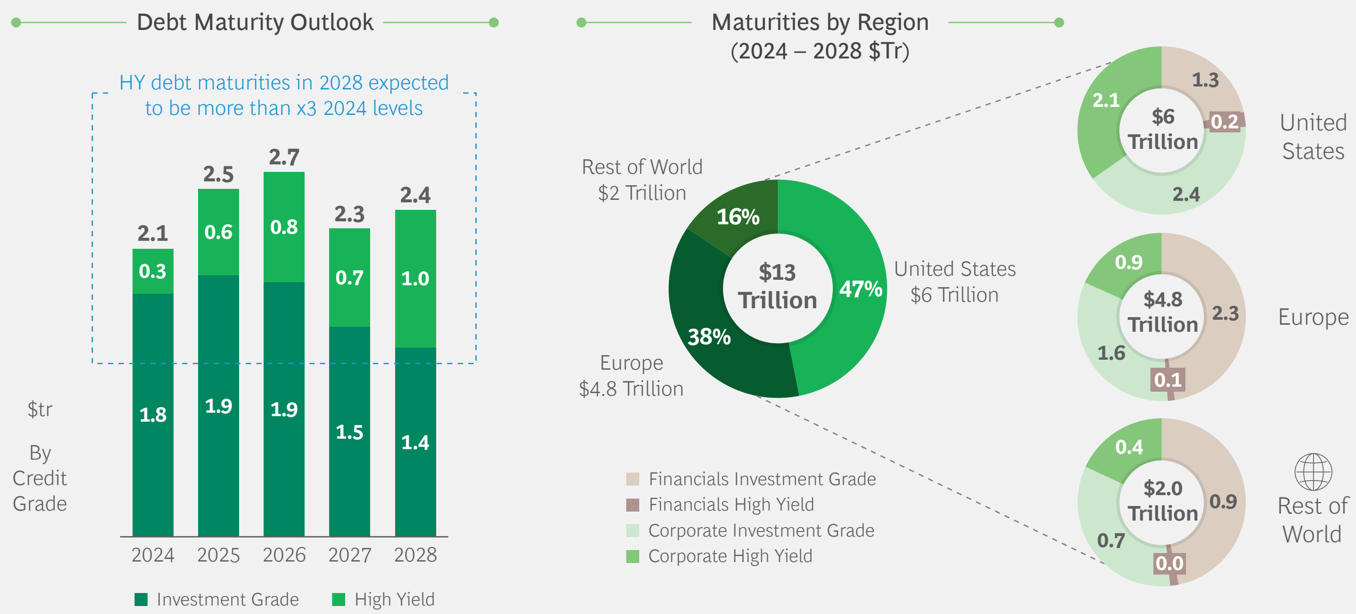
In 2023, high rates meant higher bond coupons, leading to fewer issuances. However, investor risk appetite has strengthened in 2024 as the rate environment has stabilized and inflationary pressures have eased.

Demand-side tailwinds: Investor demand has risen in 2024, resulting in favorable coupon rates for issuers in comparison with 2023. This has created good conditions for effective DCM issuance and increased order book over-subscription. Fixed-income market sentiment has adjusted, with participants preparing for anticipated rate cuts, hence locking in higher yielding instruments in their fixed-income portfolios.

Supply-side tailwinds: Issuers have rationalized their capital structures across rate hikes in 2022/2023. They are now able to carry higher costs of capital, and/or have been more decisive in accessing debt issuance windows in H1 2024.

Upcoming maturity walls: Waves of outstanding corporate debt issued in the cheap debt years of the COVID-19 pandemic stimulus are leading to a disproportionate volume of maturity events. This trend is likely to continue in the coming years as corporate treasurers explore refinancing options. High-yield debt maturities are expected to be three times higher in 2028 than in 2024 (see Exhibit).

Upcoming debt maturities from 2024 to 2028



Source: S&P Global Investor Factbook.

Implications for CIBs

The top 15 CIBs with substantial balance sheets and large corporate/commercial banking divisions have experienced the highest revenue gains YoY relative to peers.

CIB executives must keep abreast of upcoming maturity-driven refinancing events and stay close to corporate treasurer priorities. Remaining competitive on product offerings, sector expertise, pricing, covenants, risk management and loan negotiation cannot be taken for granted. Non-bank lenders, such as private debt funds, are posing an increasing threat to DCM /leveraged finance (LevFin) businesses. NBFIs may insert themselves into upcoming corporate refinancing discussions in the coming years and capture market share from CIBs.

Independent investment banking firms are gaining traction

But their inherent strengths and diversification efforts are leading to strategic crossroads

Independent investment banks and boutique advisory firms are responsible for a large proportion of investment banking revenue pools. Their business models are traditionally oriented toward M&A advisory, with minimal balance sheet and financing activities. The success of these business models relies on impartiality and the quality of tailored advice and niche expertise in specific sectors, client types, and/or event-driven situations (such as restructuring, fairness opinions, and takeover defences).

Independent IBs are diversifying their product mix: As Exhibit below shows, the fee mix by product for independent IBs has shifted from M&A fees toward capital markets activities in H1 2024 when compared with H1 2023. The comparative YoY deviation is highest for Independent IBs versus the total market and other peers. Some independent IBs are approaching a strategic crossroads and find themselves in a conundrum about whether to move toward full-suite archetypes, embrace partnership models to negate the limitations of small balance sheets, or double down on advisory services.

Independent IB's increasingly competing with bulge brackets for deals

1H23 vs 1H24 YoY Footprint (% fee pool)	Total Market	Tier I Global Bulge Bracket	Tier II Universal Banks	Independent Investment Banking Firms	Boutique Advisory only
Sample Size	96 Banks	5 Banks	60 Banks	20 Banks	11 Banks
Region[1] (Americas / Non-Americas)	61% / 39%	70% / 30%	50% / 50%	71% / 29%%	86% / 14%
Sponsor Involvement[2] (Non-Sponsor / Sponsors)	80% / 20%	80% / 20%	85% / 15%	62% / 38%	72% / 32%
Deal size[3] (<$1B / >$1B)	61% / 39%	52% / 48%	65% / 35%	72% / 28%	64% / 36%
Product[4] (M&A / Cap Mkts)	32% / 68%	35% / 65%	16% / 84%	63% / 37%	100%
Corp vs FIG[5] (Corporate / FIG)	63% / 37%	64% / 36%	62% / 38%	59% / 41%	65% / 35%

Mkt. share (% fee pool)	Total Market 1H23	Total Market 1H24	Total Market Trend	Tier I 1H23	Tier I 1H24	Tier I Trend	Tier II 1H23	Tier II 1H24	Tier II Trend	Independent IBs 1H23	Independent IBs 1H24	Independent IBs Trend	Boutique 1H23	Boutique 1H24	Boutique Trend
				Gained share in 1H24			Lost share in 1H24			Gained share in1H24					
M&A	100%	100%	=	38%	41%	↑	26%	23%	↓	19%	19%	→	17%	16%	↓
ECM	100%	100%	=	43%	49%	↑	45%	37%	↓	11%	12%	↑	n/a		
DCM	100%	100%	=	28%	29%	↑	71%	69%	↓	1%	2%	↑	n/a		
LevFin	100%	100%	=	38%	40%	↑	56%	51%	↓	6%	8%	↑	n/a		

Source: Refinitiv as of July 2024, Expand, BCG analysis

Note: Archetype definitions (Tier I, Tier II, Independent IBs, Boutique Advisory only) are per Exhibit 5 of our FY 2023 version of this report.

[1]Based on Refinitiv Deal Nation Region.

[2]Accounts for sponsor involvement on both buy-side and sell-side for M&A and includes sponsors activity from capital markets issuance.

[3]Based on Refinitiv deal amount.

[4]Cap Mkts includes ECM, DCM, LevFin fees.

[5]Fees from deals where a financial institution was involved (as issuer/borrower for ECM, DCM, LevFin or Target and/or Acquirer for M&A).

GenAI adoption may be faster due to nimble operations and less regulation: Boutique advisors and independent IBs enjoy an inherent speed advantage over other types of firm when it comes to adopting GenAI. Given that most are private companies and non-bank financial institutions, internal decision making can be more streamlined while regulatory hurdles are less burdensome. Furthermore, the advisory nature of their businesses means fewer complex systems and less legacy tech architecture, making GenAI adoption a simpler task than for full-suite banks.

Tactical considerations for Tier I and Tier II Banks: Some cyclical and secular tailwinds are supporting the strategic framework of independent IB firms. Their attempts at product diversification into capital markets have been bolstered by the resurgence of DCM revenue pools. Tier II banks with cost and capital adequacy pressures are particularly vulnerable to losing market share and may enjoy improved CIB economics by moving further toward sector, product, and client segment specialisms and hence becoming more like boutique firms. Tier I banks could also consider how they should best serve small, mid-cap client types, given the downward trend in deal size in recent years.

Product spotlight 1 - Changing landscape of structured equity derivatives

Resurgence in exotics: Structured equity derivatives revenues in H1 2024 improved due to higher issuance, especially in the US, coupled with a recovery in Asia from the challenging H1 2023. The surge was also spurred by a wave of products that expired and rolled over into new products. In addition, single stock structured products have been outperforming index products (especially Tech, AI, and Magnificent Seven stocks). There is higher demand in the US for autocallables, which are becoming increasingly popular among institutional investors. The demand has been more for hedging and less driven by the search for yield.

Client and regional dynamics: This institutional drive has led to much lower margins than in retail (a similar situation existed in 2021). We have seen a shift from retail to institutional plus, while growing automation and increased competition has also led to a squeeze on margins. Intensifying competition has added a layer of complexity, forcing sell-side equity franchises to stay agile and innovative in their approach. Europe and Asia were historically the largest markets. However, in 2021, the dynamics changed, and we have witnessed a regional shift in which the US has become the largest market. Indeed, the US market enjoyed exponential growth during that year, and has since continued to grow.

QIS - A success story: QIS (quantitative investment strategies) is the only product experiencing consistent growth over the years. Demand is still growing, with banks continuing to expand their offerings as institutional clients seek more diversified strategies. Volatility risk premium strategies, fixed index annuities (FIAs), and risk recycling have been driving bank revenues in the last five years.

Since the pandemic, we have seen a recalibration of banks' equity derivatives models, with more focus on automation and a balanced approach between risk and client expansion.

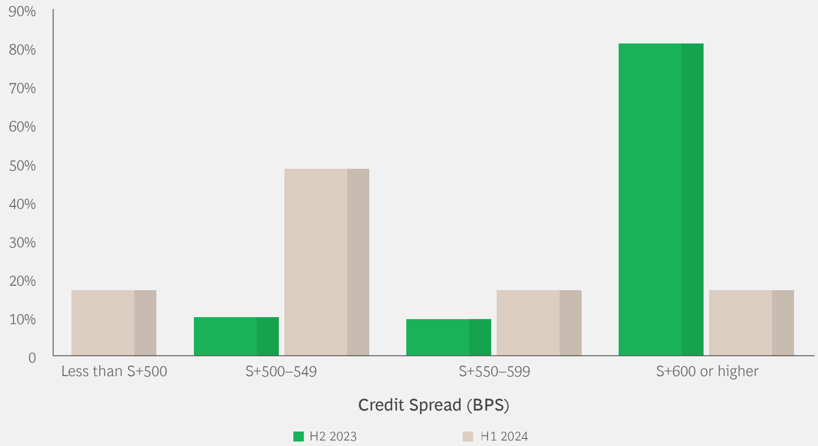
Source: Expand, industry expert interviews, BCG analysis.

Product spotlight 2 - Private debt coverage is formalizing in CIBs

In 2023, market participants became accustomed to private debt's dominance over leveraged finance, as banks appeared to retreat from syndicated lending amid the acute regional banking crisis in H1 2023. However, in H1 2024, the market has shifted again.

H1 2024 has witnessed a surge in financing from broadly syndicated loan markets. **Private debt (PD) providers have had to be creative to defend their territory** from an onslaught of refinancings in Q1 2024. The most notable tactic is giving up spreads. Private debt loans have traditionally been pricier than broadly syndicated loans. While this remains true, **spreads are much tighter on private debt loans in H1 2024 than during similar periods in recent years.**

Distribution of spreads: sponsor backed direct lending (new issues)



Formal private debt coverage groups are emerging in banks as they begin figuring out how best to cover PD clients. However, IB coverage headcount has fallen over the last 24 months across the top 15 banks due to cost reduction drives.

Implications for CIBs: Banks that notably outperformed in private debt in H1 2024 have been those with good product origination capabilities and sponsor relationships, or those with large portfolios of underlying mid-market loans coupled with joint ventures and partnerships or club deal structures. Growth in asset-based private debt is also becoming apparent, with the deepest bank fees available in financing, warehousing, and hedging activities. CIBs should position their originate-to-distribute and structured credit capabilities to capture emerging asset-based demand.

Source: Pitchbook LCD, Expand, industry expert interviews, BCG analysis.

Outlook and strategic implications for CIBs

In H2 2024, Expand and BCG analysis expect heightened volatility in FICC and equity markets driven by the run-up to the US elections in November and by macroeconomic developments that support rate cuts. In FICC, some underperformance is expected in non-linear rates products.

Overall, this heightened volatility should trigger more intermediation revenues for CIBs, but lower rates and tighter spreads should compress margins on net interest income (NII) businesses such as prime services and financing. In the past, election years have resulted in post-election equity rallies as uncertainty is removed from the market.

IB origination and advisory deal activity is expected to remain high. Upcoming debt maturities and refinancing events should continue to bolster DCM pools. Meanwhile, ECM will increasingly support IPO activity, and M&A pipelines will continue to build.

As the real economy recovers from inflation and adjusts to the new interest rate environment, CIB portfolios must remain synchronized with the secular dynamics emerging in IB and global markets to ensure the maximum possible market share capture of growing pools. Private markets, and the competitive strengths of boutiques and NBFIs, should occupy considerable boardroom attention as new CIB archetypes seek to outperform peers.

About the Authors

Tim Jennison is a Managing Director and Partner and is the global lead for the Capital Markets and Investment Banking (CIB) Practice at BCG. You can reach him at Jennison.Tim@bcg.com.

Julian Hein is a Partner in the Capital Markets and Investment Banking (CIB) Practice at BCG. You can reach him at Hein.Julian@bcg.com.

Quirin Stockinger is a Project Leader in the Capital Markets and Investment Banking (CIB) Practice at BCG. You can reach him at Stockinger.Quirin@bcg.com.

Amrit Shahani is a Managing Director at BCG Expand. You can reach him at Amrit.Shahani@expandresearch.com.

Rishi Baveja is a Senior Principal at BCG Expand. You can reach him at Rishi.Baveja@expandresearch.com.

Sandeep Bahra is a Lead Knowledge Analyst in the Capital Markets and Investment Banking (CIB) Practice at BCG. You can reach him at Bahra.Sandeep@bcg.com.

For Further Contact

If you would like to discuss this report, please contact the authors.

Acknowledgments

Tanisha Asarpota is a Knowledge Analyst in the Capital Markets and Investment Banking (CIB) Practice at BCG. You can reach her at Asarpota.Tanisha@bcg.com.

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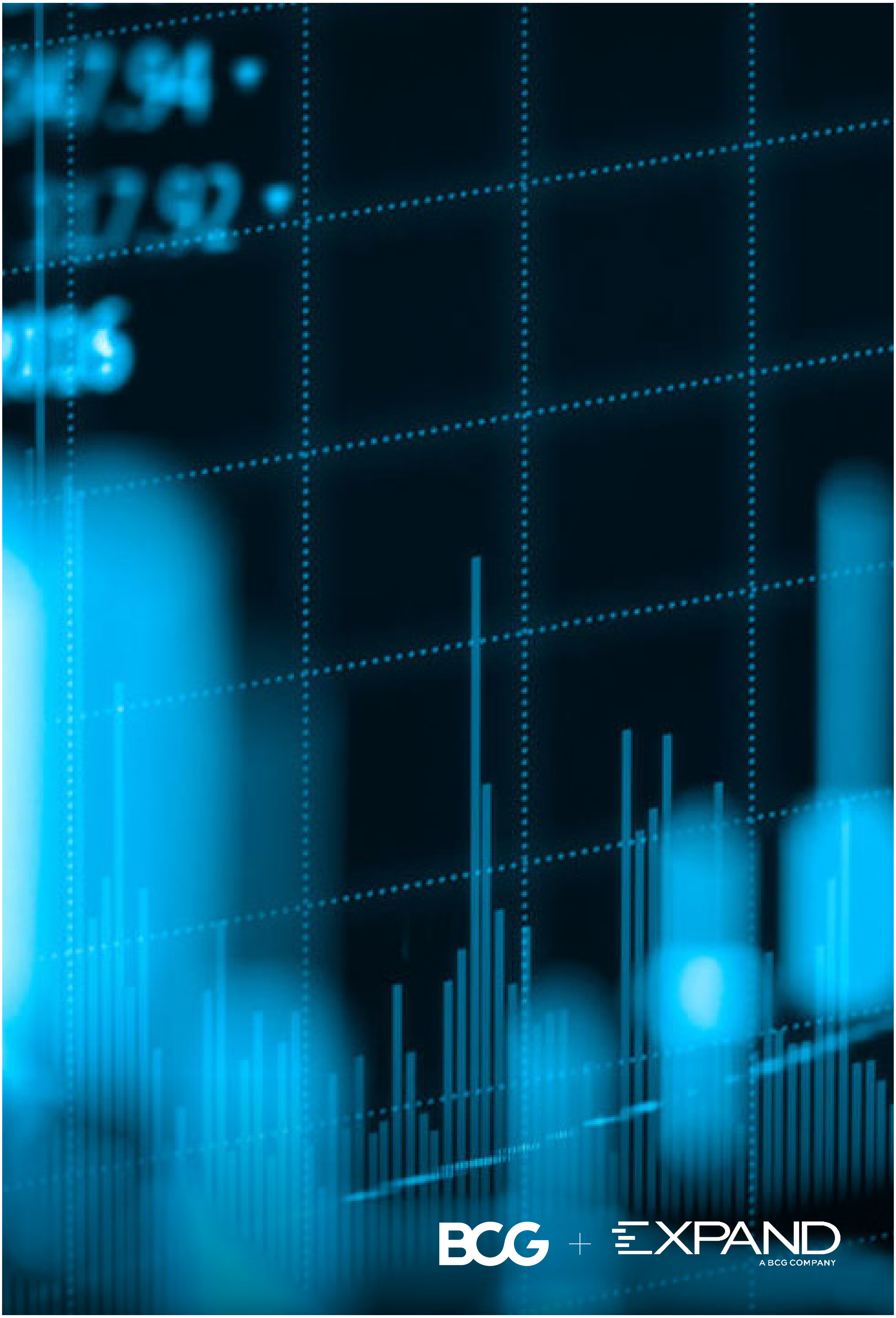
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