Warwick Economics Society

Divisional Starter Packs – FICC & EQUITIES

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Fixed Income, Currencies & Commodities (FICC)

What is it?

Fixed income instruments are those that pay a fixed amount on certain scheduled dates, an example being: bonds – government bonds (rates) & corporate bonds (credit).

Currencies and Commodities as the name suggests are also financial instruments actively traded in investment banks. Commodities can be traded physically or synthetically (derivatives), as can currencies - commonly known as FX.

FICC is a collective term given to multiple financial instruments that are used for trading purposes. FICC comes under the 'Global Markets' or 'Sales and Trading' division of an investment bank.

Purpose of FICC instruments:

The purpose of FICC instruments differs depending on the type of client, with corporate clients typically using them for hedging and risk management, while institutional clients may also use them for investment and trading purposes

Corporate Clients:

For corporate clients, one key source of risk is foreign-exchange (FX) exposure. Multinational corporations (MNCs) operate across multiple countries and therefore generate revenues and incur expenses in different currencies, while their financial statements may be reported in a single currency, such as USD. For example, a US-based MNC may receive revenue in euros but ultimately need to convert those euros into USD, while also having future expenses denominated in euros.

If an MNC can forecast its future foreign-currency cash flows, it can estimate how much currency it will need to buy or sell in the future. However, the FX rate may move significantly between today and the date of the transaction, creating uncertainty over the USD value of those cash flows.

To manage this risk, the company can use an FX forward contract to lock in an exchange rate today for a transaction that will take place in the future. For example, if a US company knows it will receive €10 million in three months and wants to eliminate the risk of EUR/USD falling, it can enter into a forward contract to sell €10 million and buy USD at a predetermined exchange rate in three months.

The investment bank's FX desk within FICC can act as the counterparty to this transaction, taking the opposite position to the corporate client. The bank then manages the resulting FX exposure, typically by hedging it in the wider FX market. This allows the corporate client to obtain greater certainty over the future value of its cash flows and reduces its exposure to adverse movements in exchange rates.

Similar logic applies to companies exposed to commodity prices, which use derivatives to hedge against price fluctuations. For example, airlines are heavily exposed to the price of jet fuel, so they can enter oil or fuel derivatives to mitigate the risk of rising fuel costs. Similarly, mining companies may hedge their exposure to commodity prices, as their revenues are heavily dependent on the market price of the metals they produce. By hedging, companies can reduce uncertainty around future revenues or costs and protect their profit margins.

Similar logic applies to clients trading fixed-income instruments, who may use FICC products to hedge their exposure to movements in interest rates and bond prices. For example, an institutional investor holding a large portfolio of government bonds is exposed to the risk that interest rates rise, causing bond prices to fall. To mitigate this risk, the investor could use interest-rate derivatives, such as interest-rate swaps or futures, to hedge its exposure.

Alternatively, a corporate client may issue a fixed-rate bond to raise funding but want to reduce its exposure to fixed interest payments. It could enter into an interest-rate swap, exchanging its fixed-rate payments for floating-rate payments. This allows the company to manage its exposure depending on its expectations and desired risk profile.

The FICC desk facilitates these transactions by providing liquidity and taking the opposing side of the client's trade, before managing or hedging the resulting interest-rate exposure.

Institutional Clients:

Institutional clients, such as hedge funds, asset managers, pension funds and insurance companies, use FICC instruments for a broader range of purposes, including investment, portfolio management, hedging and taking positions based on market views. Unlike corporate clients, who primarily use FICC products to manage risks arising from their underlying business activities, institutional clients may deliberately take positions to profit from movements in financial markets.

For example, a hedge fund may believe that interest rates will fall. Rather than purchasing a large portfolio of bonds, it could use an interest-rate future or swap to take a position that benefits from falling rates. Derivatives can be particularly attractive because they provide **capital-efficient** exposure to financial markets and can allow investors to take large positions without purchasing the underlying asset outright.

However, institutional clients also use derivatives for hedging purposes. For example, an asset manager holding a large portfolio of government bonds is exposed to the risk that interest rates rise, causing bond prices to fall. Rather than selling the underlying bonds, the asset manager could use interest-rate futures or swaps to offset its interest-rate exposure. This allows the institution to adjust the risk of its portfolio without necessarily having to sell its underlying investments – this is known as an Asset Swap.

Institutional clients can also use FICC instruments to express relative-value views. For example, a hedge fund may believe that German government bonds are expensive relative to French government bonds. It could short German government bond futures while taking a long position in French bonds, seeking to profit if the relative pricing between the two markets changes. In this case, the institution is not simply betting on whether bond prices rise or fall, but on the relative performance of two assets.

Therefore, while corporate clients generally use FICC instruments to hedge risks created by their underlying commercial activities, institutional clients can use them to create, modify or hedge market exposure.

The investment bank's FICC desks facilitate these transactions by providing liquidity, acting as a counterparty where appropriate, and managing the market risk created by client activity.

Companies: Goldman Sachs, JPMorgan, BNP Paribas, Deutsche Bank, Citi, Bank of America, Citi, Standard Chartered, TD securities, Wells Fargo

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Purpose of Equity instruments:

The purpose of equity products differs depending on the type of client. Corporate clients primarily interact with equity markets for financing, capital raising and managing exposures arising from their corporate activities, while institutional clients are major participants in equity markets for investment, portfolio management, hedging and expressing views on individual companies or broader markets.

Corporate Clients:

Corporate clients can access equity markets primarily through equity issuance and corporate actions. For example, a company looking to raise capital can issue new shares through an IPO or secondary offering, allowing it to raise funds without taking on additional debt. Investment banks facilitate these transactions by helping determine the appropriate pricing, marketing the shares to investors and providing liquidity in the secondary market.

Companies may also have equity-related exposures that they want to manage. For example, a company whose employee compensation includes significant stock-based awards may use equity derivatives to manage its exposure to movements in its own share price. Similarly, companies involved in mergers and acquisitions (M&A) may use equity derivatives to hedge their exposure to movements in the target or acquiring company's share price during a transaction.

Institutional Clients:

Institutional clients, including asset managers, hedge funds, pension funds and insurance companies, are major participants in equity markets. They use equities to generate investment returns, construct portfolios, manage risk and express views on individual companies, sectors or broader equity markets.

For example, an asset manager may believe that a particular company's shares are undervalued and purchase the stock, expecting its price to increase. Conversely, a hedge fund that believes a company's shares are overvalued may short-sell the stock, allowing it to profit if the share price falls. Institutional investors can therefore take both long and short positions to express their views on equity markets.

Institutional clients also use equity derivatives to efficiently create or modify their exposure. For example, an investor wanting exposure to the performance of the S&P 500 could use an equity index future or a total return swap (TRS) rather than purchasing every constituent of the index individually. Similarly, an investor holding a large equity portfolio could use index futures or options to hedge against a broad decline in equity markets without having to sell the underlying shares.

Institutional clients can also engage in event-driven trading, where they take positions based on anticipated corporate events such as M&A announcements, earnings releases, index rebalances or share buybacks. For example, a fund may anticipate that a company's inclusion in a major equity index will create additional demand for its shares and take a position before the index rebalancing occurs.

Therefore, while corporate clients primarily interact with equity markets for capital raising and managing corporate-related equity exposures, institutional clients use equities and equity derivatives to invest, express market views, construct portfolios and manage risk. Investment banks' equity desks facilitate this activity by providing liquidity, executing trades and offering products such as cash equities, equity derivatives and financing solutions.

Companies: Goldman Sachs, JPMorgan, BNP Paribas, Deutsche Bank, Citi, Bank of America, Citi, Standard Chartered, TD Securities, Deutsche Bank (FICC only), Wells Fargo

Day to day tasks:

Across FICC& & Equities roles, day-to-day work varies by product (equities,rates, FX, credit, commodities), desk and whether you are in sales or trading, but common tasks include:

FICC:

- **Macro & market analysis** — monitoring rates, FX, commodities, credit spreads, economic data and central-bank policy.
- **Trade idea generation** — developing macro, relative-value and cross-market trade ideas.
- **Pricing & execution** — pricing instruments, executing client trades and managing liquidity.
- **Client coverage** — understanding institutional clients' hedging/investment needs and providing relevant market views.
- **Risk & position management** — monitoring positions, exposures, sensitivities and P&L.
- **Economic & central-bank research** — assessing inflation, growth, monetary policy and geopolitical developments.
- **Relative-value analysis** — comparing instruments across maturities, curves, markets or issuers.
- **Client market commentary** — producing morning notes, trade ideas and market updates.

Equities:

- **Company & stock analysis** — analysing financial statements, earnings, business models and company-specific developments.
- **Equity valuation** — using multiples, DCFs, comparable companies and other valuation approaches.
- **Stock idea generation** — identifying long/short opportunities based on fundamentals, catalysts, valuation and positioning.
- **Sector research** — following competitive dynamics, industry trends and company developments.
- **Corporate actions** — analysing M&A, IPOs, buybacks, dividends, rights issues and index rebalances.
- **Client coverage** — understanding investors' interests and communicating relevant stocks, themes and ideas.
- **Trade execution** — executing orders while considering liquidity, market impact and client requirements.
- **Earnings analysis** — preparing for earnings releases, comparing results with expectations and assessing changes to the investment case.

Required skills:

- **Financial & Market Analysis** — analysing companies, financial data and market developments to understand investment opportunities, risks and potential catalysts.
- **Quantitative & Numerical Skills** — working confidently with financial data, spreadsheets and analytical tools to assess market movements, valuations, returns and risk.
- **Trade Idea Generation** — combining fundamental, macroeconomic, technical and market analysis to identify potential investment or trading opportunities.
- **Product & Market Knowledge** — developing a strong understanding of relevant asset classes, financial products, market structure and the factors that drive prices.
- **Research & Analytical Skills** — conducting thorough research, synthesising information from multiple sources and applying it to form well-supported views.
- **Commercial & Client Awareness** — understanding institutional clients' objectives and translating market views or analysis into relevant ideas and solutions.
- **Communication & Presentation Skills** — communicating complex financial and market information clearly through written materials, presentations and client discussions.
- **Attention to Detail** — maintaining accuracy when analysing data, building models, preparing research and executing transactions, particularly under time pressure.
- **Resilience & Adaptability** — managing multiple priorities and responding effectively to changing market conditions and fast-moving information.

Specific interview advice:

The most important advice for any role in FICC or Equities is having strong market awareness**.** Keep up to date with current market news and developments through sources such as the FT, The Economist, Reuters and Bloomberg, and be able to explain why key events are moving markets. **The University of Warwick Economics Department provides free subscriptions to both the FT and The Economist, so make good use of them.**

You should also be able to discuss a recent market development or trade idea in depth — not just what happened, but *why* it happened, which asset classes or stocks were affected, and what the potential implications are.

Finally, have a strong grasp of the relevant technicals**.** This could include understanding financial statements and valuation for Equities, as well as concepts such as yield curves, interest rates, FX, credit spreads, commodities, derivatives and risk for FICC. You should also be comfortable discussing how a trade is constructed, what drives its P&L and the key risks involved.

Career progression:

Intern (Off-cycle or Summer Intern):
Gain exposure to markets through market monitoring, research, trade ideas, client work and supporting the wider desk.

Analyst:
Support Sales and Trading teams with market analysis, trade execution, client materials, research and monitoring positions or client activity.

Associate:
Take greater ownership of client relationships, trading activity or research coverage, while developing deeper product and market expertise.

Vice President:
Manage key client relationships or take greater responsibility for trading/research activity, generate ideas and coordinate with other desks and teams to deliver solutions to clients.

Director:
Lead significant client relationships or specialised areas of a desk, provide market views and trade ideas, and mentor junior team members.

Managing Director:
Lead major client relationships and/or a significant desk or business area, set strategic priorities and drive the firm's market and client franchise.

Common exit opportunities include skills that have been built up throughout a career in **FICC or Equities**.

Here are some examples:

- **Asset management / portfolio management**
- **Hedge funds**
- **Proprietary trading / systematic trading**
- **Private equity / investment roles**
- **Corporate treasury**
- **Investment research**
- **Risk management**
- **FinTech / financial markets roles**
- **Corporate strategy / finance**