**Subsector overview**

Sector definition

An investment bank (IB) is a [financial intermediary](http://www.investopedia.com/terms/f/financialintermediary.asp) that performs a variety of services. Investment banks specialize in large and complex financial transactions such as [underwriting](http://www.investopedia.com/terms/u/underwriting.asp), acting as an intermediary between a securities issuer and the investing public, facilitating [mergers](http://www.investopedia.com/terms/m/merger.asp) and other corporate [reorganizations](http://www.investopedia.com/terms/r/reorganization.asp), and acting as a broker and/or [financial adviser](http://www.investopedia.com/terms/f/financial-adviser.asp) for institutional clients.(Investopedia)

Porter 5 Force analysis

Supplier power is low because human labor is the major supplier of this industry. This will have a long term negative impact on the industry by reducing its value. This is so because it limits the ability of technological advancements and innovations to take place in the industry by reducing the human labor, and normally in the long run this technological advancements and innovations usually save firms a lot of money. Although, human labor is a very easy factor to overcome as there are always people in the market that can be hired, and so the investment banks wouldn’t have to spend a lot of time trying to overcome this issue.

Threat of substitutes is low because of the limited number of substitutes which means that customers cannot easily switch to other products or services of similar price and still receive the same benefits. The less likelihood that a customer would switch from an investment banking industry to another product or service affects the investment banking industry positively.

Bargaining power of customers is low. This is so because buyers usually require like a differentiated product that has to be specially customized to meet their specific needs. This makes it less likely for buyers to switch to other producers that have difficulty meeting their demands. Also, buyers in this industry have limited information availability which puts them at disadvantage when negotiating with sellers. Also, buyers are not highly sensitive to prices in this industry, rather they are more focused on the product as the product is very important to them. This makes it possible for buyers to still buy the product even if there are increases in prices. Finally, due to the large customers in the investment industry, no one customer can have bargaining leverage, and this limited bargaining leverage helps investment banks.

The threat from existing competitors is moderate. This is so because of the following reasons. Firstly, the investment banking industry is a large industry which means that it is possible for all the firms in that industry to grow without having to steal market shares for each other. Also, in the investment banking industry, there are relatively few competitors which means that fewer firms are competing for the same customers and resources, and this is a benefit to the industry. Also, the government policies and regulations limit competition in the investment bank industry and this adds as a benefit to the industry. Though, it is hard to exit from this industry which means that weak firms cannot easily leave the industry, and when this happens, the competition would be forced to remain. Also, there are lots of big investment banks in the industry, and their large size enables them to be able to compete efficiently and effectively well with each other.

The threat of new entrants is low because of the following reasons. Firstly it is expensive to build a strong distribution network that will enable you to be able to move goods around effectively and ensure that the product gets to the end user. The expense of building this strong distribution network can deter others from entering the market. Secondly, there is a large capital required to be able to compete in the market and this means that competitors have to spend a large amount of money. Strong brand names are also very important in the industry and it could be difficult and expensive to build a strong brand name. Also, customers are loyal to existing brands as they would prefer the products that they normally purchase, and so it could be difficult for new entrants to get customers to switch to them. This high switching cost deter new entrants from entering the market. There is also a high learning curve needed in order to enter the market, as the competitors would have to spend time and money studying the market before they can effectively compete. In general, all of these make the entry barriers high, therefore keeping the threat of new entrants low.

**Trends in the industry**

Some of the trends in the industry includes declining earnings, and possible stricter regulations.

Declining earnings

In the first quarter of 2016, there have been declining revenues in the investment banking industry. Global investment banking revenues in the quarter declined 36% year over year to $12.8 billion and marked the lowest quarterly total since 1Q 2009. Globally investment banks at present are facing revenue pressure as issues pertaining to market turmoil, low interest rates, volatility in commodity prices and slowdown of emerging markets continue to affect business and client activity levels as well as market volumes. A major reason for this declining revenue was due to the volatility of the market at the beginning of the year and investors were nervous in taking huge risks. The effect of this is that many investment banks have put a brake on the decade-long expansion, with some cutting jobs and shutting down offices.

Stricter regulations

With people like Bernie Sanders as the next head of state, there is a huge possibility that the investment bank industry could face much stricter regulations that could have a negative impact on the industry. Regulations could be enforced that will not allow investment banks to grow and they have been doing since after the financial crisis of 2009. This regulations could slow down growth in the investment bank industry which could potentially result to falling revenues and stock prices.

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| Earning trends | 2012 | 2013 | 2014 | 2015 | 2016 |
|  | -8.75 | 9.54 | 39.82 | 59.11 | 42.47 |

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| --- | --- | --- | --- | --- | --- |
| Stock Prices | 2012 | 2013 | 2014 | 2015 | 2016 |
| S&P | 298.41 | 325.75 | 450.50 | 493.95 | 466.33 |