

# What do Space-X and Virtu have in common?

October 3, 2016

Over the last decade we've seen the talent pool for trading and space exploration become increasingly overlapped. Science-based PhDs can now either send a man to Mars or help make markets in US Government Bonds. But that's not actually the story here.



NASA's bread and butter is sending rockets into space. Bank trading desks similarly are the epicenter of bond trading. Greenwich Associates research shows that in 2016 58% of US Treasury trading by institutional investors was handled by the top five dealers. But the last few years have seen both NASA and the world's largest bond dealers start to outsource parts of those core functions. Whereas NASA has increasingly looked to SpaceX and other private sector companies to send rockets into space, JPMorgan, one of those top five bond dealers I just mentioned, tapped Virtu to supply its US Treasury trading infrastructure. If you had asked anyone in the know a decade ago if either of those events seemed realistic in the future, the answer would have been a resounding no.

But the more you think about it the more this and potential similar partnerships make sense. In this case, both realized that if they partnered with someone else that could do it better, they could focus on more critical parts of their missions. Now space exploration isn't my thing (unfortunately) so I'll leave NASA's decision alone, but the tie up between JPMorgan and Virtu is a bold one, and demonstrates the market's increasing willingness (and need) to start doing things differently.

When I first saw the headline about the tie up I was stunned. How could JPMorgan, one of the most successful banks in the post-crisis era, outsource anything to a firm that for years has worked to bolster its position as a new and improved source of liquidity? But after a few minutes it hit me - why should JPMorgan continue to build and maintain a trading infrastructure, when it can buy one for less that will perform better? Now to be fair, JPMorgan is only replacing technology for a slice of their bond business, but the gesture is notable none

the less.

Interestingly Virtu isn't a particularly big volume player in the Treasury market. They don't show up on Brokertec's top 10 list, and fixed income doesn't even get its own line in the profit section of their annual report (it is lumped together with options and "other securities"). But their reputation in other asset classes and as a technology innovator, not to mention their willingness to partner, closed the deal. I'm sure the integration will cause pain and cost money for JPMorgan in the short term, but in the long run the now barely profitable business of trading US Treasuries will be able to operate with a lower cost base and as such a higher margin, but without hurting performance.

From Virtu's perspective, and ultimately the perspective of all principle trading firms, the deal is even sweeter. Firms like GTS, KCG, Sun Trading and Virtu have spent years perfecting their ability to trade liquid instruments in a low risk, high profit way. These firms and others like them could certainly continue on as is making money from their bread and butter business - trading. But the last few years, capped off by the JPMorgan/Virtu deal, have shown us that some PTFs are smartly looking for new ways to capitalize on the assets they've built up over the past decade - their people, their technology and increasingly their brands.

When I first explored the world of principle trading firms in the late 2000s, back when it was political correct to call them high frequency traders, it was all cloak and dagger. Getting into offices required fingerprint scanners and we were only allowed to answer their questions, not ask any. In 2016 the mood is dramatically different. Speaking to the press, presenting at conferences, hiring sales people to interact with clients and selling what was in the past the secret sauce all on the table.

Virtu and JPMorgan are unique in their own rights, so we won't see another deal with the exact same look and feel. And many PTFs after careful consideration will continue to stick to their knitting, not seeing the new opportunities as worth the investment or risk. Nevertheless, we will see more partnerships between PTFs and the Street, some very close and some at arm's length, as banks increasingly need the trading efficiencies that PTFs have spent years working to perfect.

---

[www.greenwich.com](http://www.greenwich.com) | [ContactUs@greenwich.com](mailto:ContactUs@greenwich.com)

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

## About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit [www.crisil.com](http://www.crisil.com)

## Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research

participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.