Crisil
Coalition
Greenwich

Volatility Bites

February 11, 2018

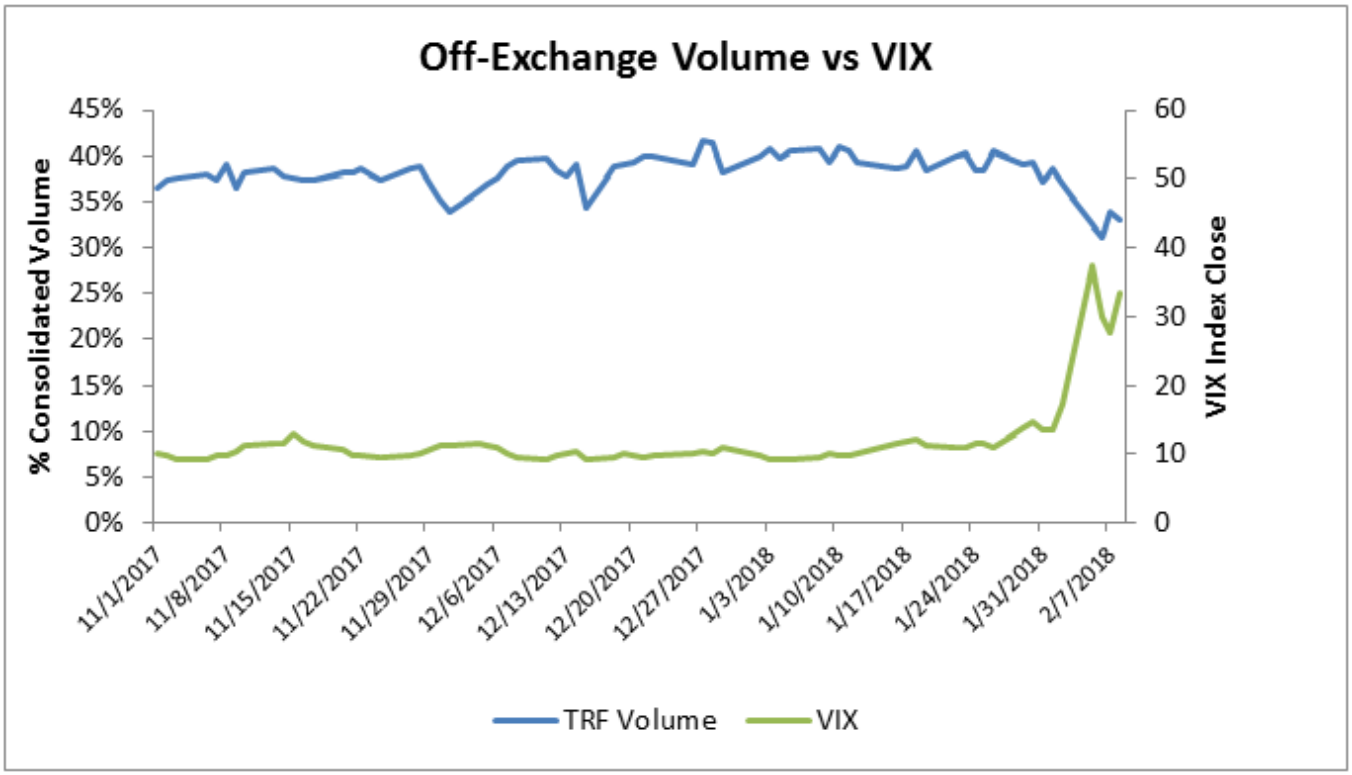
Just one week ago we published new research (The Electronic Trading Landscape in 2018) discussing how the low volume, low volatility trading environment was impacting business models and trading preferences in the US equity market.

Then just a few days later, volatility emerged from hibernation with the market plunging and rising like a rollercoaster, with price swings as large as 7%. Therein lies the beauty of financial markets; you can never be complacent as things can and often do turn on a dime.

Having averaged about 6.5bn shares per day in 2017, US equity market volume had begun creeping up in January (on the back of continued strong market performance) averaging about 7.2bn shares per day. For the last week share volume has hovered around 10.9bn shares per day - an over 50% increase. Volatility followed suit, also shooting up dramtically. While I believe that what we are currently experiencing is a temporary deviation from the low volatility / low volume environment we've become accustomed to, it will clearly have a big impact on how people trade.

We noted in last week's report that liquidity sourcing algorithms are by far the most popular choice of buy side traders. These algorithms trade passively by participating in a number of different dark pools. Liquidity seeking algos were most certainly not the most popular choice last week. In a high volatility environment, passive trading is a bad choice as your orders will be picked off as the market swings up and down.

In fact, this shift away from passive dark pool trading can already be seen in the public data.



Trades executed in dark pools and other non-exchange venues are printed to something called the Trade Reporting Facility (TRF). By looking at the public data on reported TRF volume, we can better understand to what extent buy side traders are using dark pools. Having hovered around 40% for most of 2018, the percentage of off-exchange trading dropped sharply to about 21% just as volatility spiked.

The data confirms that traders have in fact pulled back from utilizing dark pools in the last week. Of course, that doesn't mean dark pools are losing business; with the sharp increase in volume it just means they are getting a smaller slice of a bigger pie. On the flip side, exchanges taking a greater share of consolidated volume indicates an increase in lit volume. This suggests increased usage of aggressive order types such as implementation shortfall and smart order routing strategies, which trade against immediately executable, displayed orders.

While the last week has likely been a hair-raising experience for many investors, it has also provided a nice boost in business for many trading firms. It seems unlikely that that the activity of the last week represents a transition to a new volatility regime, but I could be wrong. The market is always full of surprises.

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

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., a company of S&P Global. ©2026 Crisil Ltd. All rights reserved.