Morgan Stanley

INVESTMENT MANAGEMENT

Global Equity Observer

Exchanges: the quiet infrastructure behind modern markets

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AUTHOR

RICHARD PERROTT
Managing Director

There was a time when exchanges were loud. Brokers shouted bids and offers across crowded trading floors, using hand signals to cut through the noise. Today, many of the world's major exchanges are almost silent, with physical trading largely replaced by more efficient electronic execution. Yet beneath that calm, modern exchanges process trillions of dollars of activity each day. They are no longer simply marketplaces but critical financial infrastructure and, in our view, an attractive niche of high quality, resilient global franchises.

A story of evolution

Over more than 500 years, exchanges have repeatedly adapted as financial markets have grown larger and more complex. They have evolved from physical to electronic trading, from regional venues to global networks, and from transaction-based businesses into diversified, interconnected infrastructure ecosystems.

Our holding Intercontinental Exchange (ICE) illustrates this evolution well. Founded in the wake of Enron's collapse, it initially focused on energy trading, accelerated by its acquisition of the International Petroleum Exchange (IPE). When the Global Financial Crisis exposed the opacity of credit default swaps, ICE expanded into clearing houses to help centralise and manage risk. Today, it operates six clearing houses globally and a network of 11 exchanges, including the New York Stock Exchange—a powerful brand in its own right.

More broadly, exchanges have steadily expanded beyond trading venues into data, clearing, settlement, custody and workflow infrastructure. Alongside this shift, revenue streams have become more balanced and increasingly recurring, and barriers to entry multi-faceted.

A high quality niche

Select modern exchanges exhibit many of the characteristics we seek: sustainably high returns on operating capital (in the case of leading futures exchange CME Group, more than 380%[1]), strong cash flow generation and

"Exchanges have evolved into critical market infrastructure, quietly processing trillions in daily activity while generating resilient, high-quality revenues from deeply embedded ecosystems."

[1] Source: Factset, 2026 ROOCE.

recurring revenues supported by their deeply embedded infrastructure role. They also benefit from transparent revenue drivers—such as contracts traded in CME's case—while remaining relatively capital light businesses. Barriers to entry are substantial. They include powerful network effects (in particular as the netting of positions by clearing houses reduces margin requirements), entrenched brands in listings and indices, contract exclusivity, and significant regulatory, technological and cybersecurity requirements.

Scale also matters; liquidity tends to attract liquidity. CME Group handles billions of futures and options contracts annually; ICE transacts half of the world's crude and refined oil futures trading; Deutsche Börse's Clearstream safeguards over 20 trillion of euros in assets; and London Stock Exchange Group's (LSEG) infrastructure and data systems sit inside the daily workflows of financial institutions.[2] Importantly, no exchange business is identical. These four players operate niche near-monopolies in distinct areas, so competition between them is relatively limited (outside equities at least). Their different exposures, end markets and strengths allow us to hold differentiated businesses alongside each other in our global and international portfolios.

Not too hot, not too cold

Exchanges possess an attractive element of asymmetry. They benefit from activity and, by extension, a reasonable degree of market volatility. The current U.S./Israeli conflict with Iran, for example, has contributed to increased energy and fixed income trading volumes. That said, exchanges generally favour Goldilocks environments, neither too hot or too cold—in effect neither too stressed nor too calm. Some volatility supports trading activity, but exchanges ultimately depend on markets functioning effectively. Importantly, exchanges have become more resilient over time through broader income streams, greater asset diversification and less dependence on any single market dynamic than historically.

AI disruption or acceleration?

Over the past year, many exchanges have been drawn into broader investor concerns that artificial intelligence (AI) could disrupt data and software ecosystems. In our assessment, disruption risk appears relatively limited for core infrastructure businesses such as listings, trading, clearing and settlement. Exchanges offer an essential liquidity network and are central to price discovery and risk transfer.

For operators with larger analytics or workflow businesses outside the core exchanges, disruption risk may be somewhat higher. However, much of the underlying data is proprietary—particularly pricing data generated from their own trading venues—and cannot easily be replicated by agents in real time. Exchanges may ultimately benefit by monetising that data more effectively.

There are also potential opportunities to harness. A significant proportion of trading activity is already quantitatively driven, and wider AI adoption across financial markets could increase demand for data, analytics and trading activity. New AI tools may also support the development of new trading, arbitrage and risk management strategies.

Partnership models are also beginning to emerge. LSEG has had a long-standing partnership with Microsoft, while CME and Deutsche Börse have partnered with Alphabet. Such collaborations may help displace fears that large language models (LLMs) are seeking to replace incumbents; instead, they may provide the exchanges with another distribution avenue—and opportunity to monetise their data. It remains early, but markets appear a little more willing to take these considerations into account and differentiate between businesses. In our view, understanding these nuances matters, as does backing management teams that are proactively adapting and monetising AI.

The next phase of market infrastructure

Leading exchanges have repeatedly adapted without losing relevance. New technologies continue to create opportunities: trading may become increasingly digitised in less liquid asset classes; fund distribution continues to modernise; and blockchain and tokenisation could enable faster transactions, modernise processes such as clearing and settlement as well as expand participation and access. Recent U.S. regulatory approval of perpetual futures, popular in digital currencies and an attractive method of trading for retail investors particularly, saw an immediate derating of some exchanges. This is a development we will monitor, though our current analysis points to a likely greater use case in retail markets and we would question its suitability in institutional markets, where we believe the moat remains durable.

As regulations and technologies evolve, we believe exchanges' strong network effects, combined with participants' regulatory, security and legal requirements, should protect their moats. The exchanges have already been taking steps to invest in innovation: for instance, exploring blockchain technology to help clients manage collateral more efficiently, while NYSE has announced a tokenised securities platform. This sits alongside deeper liquidity and ongoing

[2] Source: company reports, International Equity Team analysis. At the time of writing, ICE and CME Group are held in our global portfolios and Deutsche Börse and LSEG in our international portfolios.

growth in existing products and markets—for example, futures volumes continue to expand globally.

Throughout their history, successful exchanges have absorbed technological change rather than been displaced by it. As we look ahead, we believe new technologies are more likely to expand the ecosystems of leading exchanges than undermine them. Exchanges remain the essential plumbing of global financial markets, operating venues for market participants to transact, access liquidity and manage risk. Asset class trends may change, market participants may win or lose, and volatility may rise or fall, but the critical infrastructure enabling those transactions should continue to collect the tolls.

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