

Economy module

The financial sector is a section of the economy made up of firms and institutions that provide financial services to commercial and retail customers. This sector comprises a broad range of industries including banks, investment companies, insurance companies, and real estate firms

Understanding the Financial Sector

A large portion of this sector generates revenue from mortgages and loans, which gain value as interest rates drop. The health of the economy depends, in large part, on the strength of its financial sector. The stronger it is, the healthier the economy. A weak financial sector typically means the economy is weakening.

Many people equate the financial sector with Wall Street and the exchanges that operate on it. But there's much more to it than that. The financial sector is one of the most important parts of many developed economies. It is made up of brokers, financial institutions, and money markets—all of which provide the services needed to help keep Main Street functioning every day.

In order for an economy to remain stable, it needs to have a healthy financial sector. This sector advances loans for businesses so they can expand, grants mortgages to homeowners, and issues insurance policies to protect people, companies, and their assets. It also helps build up savings for retirement and employs millions of people.

The financial sector generates a good portion of its revenue from loans and mortgages. These gain value in an environment where interest rates drop. When rates are low, the economic conditions open up the doors for more capital projects and investment. When this happens, the financial sector benefits, meaning more economic growth.

Financial Sector Makeup

As mentioned above, the financial sector is made up of many different industries ranging from banks, investment houses, insurance companies, real estate brokers, consumer finance companies, mortgage lenders, and real estate investment trusts (REITs).

The financial sector is one of the largest portions of the S&P 500. The largest companies within the financial sector are some of the most recognizable banking institutions in the world, including the following: