Strategic Shifts by Banks Impact Liquidity, Service Quality

2016 Greenwich Leaders: U.S. Fixed Income

Q3 2016

U.S. fixed-income markets remain in a transitional period between the now long-defunct pre-crisis model and whatever comes next.

Greenwich Associates asked 1,302 investors at the 502 institutions participating in its 2016 U.S. Fixed-Income Study to name the dealers they use in a range of fixed-income products and to estimate the amount of trading business allocated to each dealer. Investors were also asked to rate the quality of these dealers in a series of product and service categories. Dealers that received quality ratings topping those of competitors by a statistically significant margin were named Greenwich Quality Leaders℠.

Citi is the 2016 Greenwich Quality Leader in Overall U.S. Fixed-Income Service as well as in U.S. Fixed-Income Sales Quality and Trading Quality. J.P. Morgan is the 2016 Greenwich Quality Leader in U.S. Fixed-Income Research.

Greenwich Quality Leaders — 2016

GREENWICH ASSOCIATES
Greenwich Quality Leader 2016

Overall U.S. Fixed-Income Service Quality

Dealer
Citi

Overall U.S. Fixed-Income Sales Quality

Dealer
Citi

Overall U.S. Fixed-Income Research Quality

Dealer
J.P. Morgan

Overall U.S. Fixed-Income Trading Quality

Dealer
Citi

U.S. Fixed-Income Quality—Rates*

Dealer
Citi
Goldman Sachs
J.P. Morgan

U.S. Fixed-Income Quality—Credit**

Dealer
Bank of America Merrill Lynch
Citi

U.S. Fixed-Income Quality—Securitized***

Dealer
J.P. Morgan

U.S. Fixed-Income Quality—Municipals

Dealer
Citi

U.S. Fixed-Income Quality—Emerging Markets

Dealer
Bank of America Merrill Lynch

Note: *Including pass-throughs. Previous version of this report cited Goldman Sachs. Corrected to note a statistical tie among three dealers. **Including CLOs. ***Excluding pass-throughs. Based on 998 institutions active in U.S. fixed income. Leading dealers are displayed in alphabetical order.
Source: Greenwich Associates 2016 North American Fixed-Income Investors Study

The Greenwich Associates list of 2016 Share Leaders in U.S. Fixed Income is composed of familiar names, with Goldman Sachs and Citi tied at the top in terms of market share across all products, followed by J.P. Morgan in third place and then a tie for fourth between Bank of America Merrill Lynch and Barclays. These firms are the 2016 Greenwich Share Leaders℠ in Overall U.S. Fixed Income.

However, the period of transition in fixed income persists as banks continue to adjust their strategies to accommodate regulations put in place since the global financial crisis.

Regulatory Impacts

The primary effect of these new rules has been the sharp reduction in the inventories used by fixed-income dealers to provide liquidity. In step with that contraction, dealers that once fought for trading market share across fixed income are now carefully picking their spots in terms of both the products in which they compete and the clients they will service. These changes have caused swings in the competitive landscape in secondary trading, with some dealers ceding market share and others gaining.

Greenwich Share Leaders — 2016

GREENWICH ASSOCIATES
Greenwich Share Leader 2016

Overall U.S. Fixed-Income Market Share

Dealer	Statistical Rank
Goldman Sachs	1T
Citi	1T
J.P. Morgan	3
Bank of America Merrill Lynch	4T
Barclays	4T

U.S. Fixed-Income Market Share—Securitized

Dealer	Statistical Rank
Credit Suisse	1
Bank of America Merrill Lynch	2
Morgan Stanley	3T
J.P. Morgan	3T

U.S. Fixed-Income Market Share—Municipals

Dealer	Statistical Rank
Citi	1
Bank of America Merrill Lynch	2T
Morgan Stanley	2T

U.S. Fixed-Income Market Share—Rates

Dealer	Statistical Rank
Goldman Sachs	1
Citi	2
J.P. Morgan	3

U.S. Fixed-Income Market Share—Credit

Dealer	Statistical Rank
Citi	1T
J.P. Morgan	1T
Bank of America Merrill Lynch	3

U.S. Fixed-Income Market Share—Emerging Markets

Dealer	Statistical Rank
Citi	1
Bank of America Merrill Lynch	2
J.P. Morgan	3

Note: Based on interviews with 994 institutions active in U.S. fixed income. Product categories are defined as follows: Rates: government bonds, interest-rate derivatives, agency securities, and MBS pass-throughs. Credit: investment-grade credit, high-yield credit, distressed debt, leveraged loans, CLOs, and structured credit. Securitized: consumer asset-backed securities, agency/ARMs, CMO and mortgage derivatives, CMBS, and non-agency RMBS. Municipals: tax-exempt bonds, taxable bonds and derivatives.
Source: Greenwich Associates 2016 North American Fixed-Income Investors Study

For clients, strategic shifts on the part of dealers have dramatically cut back on available liquidity. Ninety percent of U.S. investment-grade and high-yield credit investors and two-thirds of U.S. Treasury investors say a lack of liquidity is having an impact their ability to trade or implement their investment strategies.

Some Investors have also complained about a deterioration of service quality from certain dealers. While part of this is ascribed to reduced capital and fewer people on sell-side desks, some is attributed to numerous banks' decisions to reduce or even eliminate resources devoted to clients deemed too small or not sufficiently profitable.

New Strategies Around Liquidity

Institutions feeling the impact of these changes have been forced to come up with new strategies to obtain needed liquidity. Many institutions are doing more of their business with the remaining dealers that offer one-stop shopping. This trend has indeed led to a long-term increase in aggregate market share for the U.S. market's top three dealers, which over the 12 months covered in the 2016 Greenwich Associates study captured 38% of overall trading volume (compared to 33% in 2013).

While investors are doing what they can to remain important clients to these larger banks, they are also seeking out additional dealers in selected products to diversify their sources of liquidity. Among the competitors moving up the ranks of buy siders' counterparties lists are firms that demonstrate a commitment as liquidity providers, as well as up-and-coming firms that have hired top-name talent from the thinning ranks of bulge-bracket fixed-income departments.

Included in the group of dealers establishing new trading relationships are Jefferies, Nomura, RBC Capital Markets, and Wells Fargo. "Clients are interacting a lot more with these banks, and they're grateful to have additional sources of liquidity. Plus, a lot of the people at these banks are folks they've known for a long time from their tenures at other shops," says Greenwich Associates Managing Director James Borger.

Greenwich Associates Managing Director Frank Feenstra notes that given the changes still unfolding in the market, it is too soon to tell exactly what the competitive landscape will look like in the months and years ahead. He concludes: "As institutional trading volume shifts among dealers and new market entrants, Greenwich Associates estimates that over $1 trillion in notional trading volume is up for grabs."

Consultants Frank Feenstra, Woody Canaday, Andy Awad, James Borger, and David Stryker advise on fixed-income markets in the United States.

METHODOLOGY

Between February and May 2016, Greenwich Associates conducted 1,302 interviews across 502 institutions with investors active in fixed income in the United States. Interview topics included trading and research activities and preferences, product and dealer use, service provider evaluations, market trend analysis, and investor compensation.

GREENWICH ASSOCIATES

greenwich.com | ContactUs@greenwich.com | Ph +1 203.625.5038