

European Fixed-Income Dealers Narrow Coverage Scope

2014 Greenwich Leaders: European Fixed Income

Q4 2014

The European fixed-income market continues its transformation as banks implement new and more focused strategies aimed at maximizing profitability in a new environment featuring steeper capital charges and other changes in regulation and market functioning.

Europe's biggest fixed-income dealers are putting in place strategies that direct new costly capital toward their best clients. The results: Intense competition for the business of a relatively small group of preferred customers, and the shedding of less profitable client relationships by many large dealers.

"European fixed-income dealers have said many times in the past that they do not want to be all things to all people," says Greenwich Associates consultant Andrew Awad. "This time it's true."

Some dealers with relatively limited balance sheets and scale of operations are opting to narrow their offerings and focus on products in which they have a competitive advantage. These changes are in turn opening up opportunities for local champions that are making new progress in their home markets.

This shift in dealer strategy is having dramatic effects on the market. Bank restructuring has caused unprecedented turnover in sales coverage, disrupting relationships between investors and their dealers. In particular, smaller funds and institutions are experiencing reductions in coverage intensity. Greenwich Associates research shows that quality ratings for individual dealers now vary widely among investors, a finding that provides clear evidence that dealers are following through on plans to narrow the scope of their coverage and client bases.

Clients that find themselves on the outside of dealers' preferred customer lists may eventually find themselves doing more of their fixed-income trading electronically. Dealers have been investing heavily in their electronic platforms and they clearly view e-trading as a way to service less profitable clients at a lower cost. In cases, e-trading can also provide dealers with growth opportunities: Some firms have gained market share over the past year by focusing on electronic trading of high yield and credit.

Longer term, electronic trading technology could bring a more fundamental change to market structure. "Since the cutback in dealer inventories and liquidity provision,

Greenwich Share Leaders — 2014



Overall European Fixed-Income Market Share

Dealer	Market Share	Statistical Rank
Barclays	11.9%	1
Deutsche Bank	9.7%	2
J.P. Morgan	8.9%	3T
Citi	8.6%	3T
HSBC	7.1%	5

European Fixed-Income Market Share — Credit

Dealer	Market Share	Statistical Rank
J.P. Morgan	12.9%	1
Barclays	11.8%	2
Deutsche Bank	10.2%	3T
Citi	9.8%	3T

European Fixed-Income Market Share — Rates

Dealer	Market Share	Statistical Rank
Barclays	12.3%	1
Deutsche Bank	9.5%	2
Citi	7.6%	3T
HSBC	7.6%	3T
J.P. Morgan	7.2%	3T

Note: Based on responses from 1,265 fixed-income investors. Credit includes investment-grade credit, high-yield credit, structured credit and asset-backed securities. Rates includes government bonds, agency securities, covered bonds and interest rate derivatives. Emerging markets fixed-income consists of external and local market debt, emerging markets foreign exchange, and local currency interest rate derivatives. Share leaders are based on top 5 overall and top 3 for rates and credit dealers including ties. Source: Greenwich Associates 2014 European Fixed-Income Investors Study

**European Fixed-Income Sales Quality****Dealer**

Barclays
J.P. Morgan

European Fixed-Income Research Quality**Dealer**

J.P. Morgan

European Fixed-Income Trading Quality**Dealer**

Citi

Overall European Fixed-Income Service Quality — Credit**Dealer**

J.P. Morgan

Overall European Fixed-Income Service Quality — Rates**Dealer**

Barclays

Note: Based on responses from 1,265 fixed-income investors. Leading dealers are displayed in alphabetical order.
Source: Greenwich Associates 2014 European Fixed-Income Investors Study

there are many competing initiatives aimed at creating alternative trading venues using an agency or all-to-all model,” says Greenwich Associates consultant Peter D’Amario. “But these are still developmental ventures, none of which has yet had a significant impact on the market. For the foreseeable future, investors will be reliant on dealers that as a group have become much less generous with their capital and much more selective about when and to whom they will provide liquidity.”

2014 Greenwich Share Leaders

As the strategies of major banks converge around competing for the most attractive clients, the competitive landscape among top tier dealers has begun to flatten. In market share terms, the gap between the top-ranked bank and fifth ranked dealers contracted significantly from 2013 to 2014. This occurred as some historically dominant dealers shed clients, leaving market share to be picked up by other top-tier dealers that are making a concerted effort to grow their franchises within the new profitability constraints.

In this fast-changing environment, Barclays continues to lead the European fixed-income market with a market share of 11.9% of institutional trading volume, followed by Deutsche Bank at 9.7%, J.P. Morgan and Citi, which are tied with market shares of 8.6-8.9%, and HSBC at 7.1%. These dealers are the 2014 Greenwich Share Leaders in European Fixed Income. Among dealers gaining ground over the past 12 months were Citi, which added market share in leveraged finance as part of longer term growth in Europe, HSBC which gained in rates and credit products and BNP Paribas, which picked up share in rates.

Barclays has a commanding lead in rates products with a market share of 12.3%, followed by Deutsche Bank at 9.5%, and the trio of Citi, HSBC and J.P. Morgan which are tied with market shares of 7.2-7.6%. These dealers are the 2014 Greenwich Share Leaders in European Fixed-Income Rates Products.

In credit products, J.P. Morgan leads with a 12.9% market share, followed by Barclays at 11.8%, Deutsche Bank at 10.2% and Citi at 9.8%. These dealers are the 2014 Greenwich Share Leaders in European Fixed-Income Rates Products.

Greenwich Quality Leaders

Greenwich Associates asked 1,265 fixed-income investors to rate the dealers they use for fixed-income trading in a series of service categories. Dealers that receive ratings topping those of competitors by a statistically significant margin are named Greenwich Quality Leaders. The 2014 Greenwich Quality Leaders in European Fixed Income are Barclays and J.P. Morgan. The 2014 Greenwich Quality Leaders in European Fixed-Income Rates Products is Barclays, and the 2014 Greenwich Quality Leaders in European Fixed-Income Rates Products is J.P. Morgan. In European Fixed-Income Sales the 2014 Greenwich Quality Leaders are Barclays and J.P. Morgan, while Citi claims that title in European Fixed-Income Trading and J.P. Morgan claims it European Fixed Income Research.

Consultants Andrew Awad, Woody Canaday, Peter D’Amario, and Frank Feenstra advise on the fixed-income markets across Europe and around the world.

Methodology

Between May and July 2014, Greenwich Associates conducted 1,265 interviews with senior fixed-income investment professionals at banks, fund managers/advisors, insurance companies, corporations, central banks, hedge funds and other institutions throughout Europe. Countries where interviews were conducted include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and selected interviews conducted in Central & Eastern Europe and the Middle East. Interview topics included service provider assessments, trading practices, market trend analysis, and investor compensation.

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