

Access to Liquidity a Top Concern Among U.S. Fixed-Income Investors

2015 Greenwich Leaders: U.S. Fixed Income

Q3 2015

Dramatic changes to the U.S. fixed-income market have left many investors worried about their ability to access liquidity. These concerns—combined with changes in the business strategies of some of the leading banks, expanded counterparty lists and willingness to trade more electronically—could free up market share in trading in coming years and significantly alter the competitive landscape of fixed-income dealers.

With new capital rules making the economics of fixed income less favorable for banks, dealers have cut back on the amount of capital allocated to the business. The most high-profile aspect of this move has been a reduction in dealer bond inventories, which have become much more expensive to maintain. At the same time, banks have become increasingly selective about when and to whom they will allocate capital to support trades.

These changes have caused a substantial decrease in market liquidity that has made it much more difficult for clients to execute large trades. The problem is most acute for smaller market participants, some of whom have been converted to low-touch service as clients by dealers who deem them as not having sufficient profit potential. Banks also have reduced fixed-income costs through more traditional cost-cutting measures. From the

buy side's perspective, this process has disrupted relationships, with high levels of turnover and the "juniorization" of key sales and trading roles.

The by-product of these changes, which are still unfolding as banks implement and execute their revised fixed-income strategies, is a growing number of buy-side institutions concerned about their ability to source essential liquidity and consistent sell-side coverage. "These concerns could open up opportunities for smaller players with a more narrow product focus," says Greenwich Associates consultant Jim Borger.

Greenwich Share Leaders

The list of Greenwich Associates 2015 Share and Quality Leaders is led by Goldman Sachs, which has a market share in overall U.S. fixed-income trading of 13.0%, followed by Deutsche Bank and Citi, which are tied with market shares of 12.0%.

A look at the Greenwich Leaders in specific fixed-income products reveals the sharp differences that have emerged in dealers' strategic priorities. For example, Goldman Sachs' and Deutsche Bank's focus on rates products has propelled those firms into a tie at the top and are the 2015 Greenwich Share Leaders in that product category with market shares of 13.7% to 13.9%.

Greenwich Share Leaders — 2015



Overall U.S. Fixed-Income Market Share

Dealer	Market Share	Rank
Goldman Sachs	13.0%	1
Deutsche Bank	12.0%	2T
Citi	12.0%	2T

U.S. Fixed-Income Market Share — Securitized

Dealer	Market Share	Rank
Credit Suisse	15.3%	1

U.S. Fixed-Income Market Share — Municipal Bonds and Derivatives

Dealer	Market Share	Rank
Citi	18.6%	1
Bank of America Merrill Lynch	15.9%	2

U.S. Fixed-Income Market Share — Rates

Dealer	Market Share	Rank
Goldman Sachs	13.9%	1T
Deutsche Bank	13.7%	1T

U.S. Fixed-Income Market Share — Credit

Dealer	Market Share	Rank
Citi	14.4%	1T
J.P. Morgan	13.9%	1T
Bank of America Merrill Lynch	13.3%	1T

Note: Based on interviews with 1,063 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: CLOs, investment-grade credit, high-yield credit, distressed debt, leveraged loans, and structured credit. Securitized: consumer asset-backed securities, CMO and mortgage derivatives, commercial mortgage-backed securities, and non-agency RMBs.

Source: Greenwich Associates 2015 North American Fixed-Income Investors Study



Overall U.S. Fixed-Income Sales Quality

Dealer

Bank of America Merrill Lynch
Citi
J.P. Morgan

Overall U.S. Fixed-Income Research Quality

Dealer

J.P. Morgan

Note: Based on 1,063 institutions active in U.S. fixed income. Leading dealers are displayed in alphabetical order.
Source: Greenwich Associates 2015 North American Fixed-Income Investors Study

Overall U.S. Fixed-Income Trading Quality

Dealer

Bank of America Merrill Lynch
Citi

The picture changes in credit products, where the list of 2015 Greenwich Share Leaders is composed of Citi, J.P. Morgan and Bank of America Merrill Lynch, which are tied with market shares of 13.3% to 14.4%. Credit Suisse's focus on securitized products has helped the firm secure the No. 1 spot by building a 15.3% market share, putting it well ahead of any other dealer.

The 2015 Greenwich Share Leaders in U.S. Municipal Bonds and Derivatives are Citi, with a market share of 18.6%, and Bank of America Merrill Lynch with a market share of 15.9%.

"Churn in client relationships is also creating opportunity for firms that aren't Greenwich Share Leaders," says Greenwich Associates consultant David Stryker. "At the top of that list is Wells Fargo, which has built significant momentum in terms of market share."

Greenwich Quality Leaders

At a time when many investors are experiencing turnover and "juniorization" in their sell-side coverage and having increasing trouble finding liquidity and completing trades, dealers that deliver high-quality service have the opportunity to stand out and win business.

Greenwich Associates asked the 1,063 investors participating in its 2015 U.S. Fixed-Income Investors Study to name the dealers they used 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.

The 2015 Greenwich Quality Leaders in U.S. Fixed-Income Sales are Bank of America Merrill Lynch, Citi and J.P. Morgan, and this year's Greenwich Quality Leader in U.S. Fixed-Income Research is J.P. Morgan. In

U.S. Fixed-Income Trading, the 2015 Greenwich Quality Leaders are Bank of America Merrill Lynch and Citi.

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

Methodology

Between February and April 2015, Greenwich Associates conducted 1,063 interviews with institutional 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.

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