

Corporate Bond Dealers Focus on Trade Automation

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Executive Summary:



The U.S. corporate bond market has gone electronic over the past decade and now is moving onto phase 2—automation. Led by the largest global dealers and nonbank market makers, an increasing number of client orders are now executed with little or no human intervention. While this approach to liquidity provision is currently dominated by the largest and most sophisticated firms, third-party technology providers are increasingly able to offer highly customizable auto-quoting and auto-execution (auto-ex) solutions that allow dealers with fewer technological resources to step into the fray.

The push toward automation is twofold. First, institutional investors are increasingly expecting near-instant liquidity when trading corporate bonds, with over 40% of the total notional volume of investment-grade (IG) bonds now traded electronically. The only way for dealers to meet this need is to price and quote bonds faster than a human could do via point-and-click.

Second, while bond market volumes continue to rise, the market's newfound transparency is making it much harder for dealers to capture the profit margins they once did on each trade. That means the same number of traders or fewer are handling an ever-increasing influx of client orders. Automation is the only way those traders can handle more clients and more orders while still maintaining the same level of service they always have.

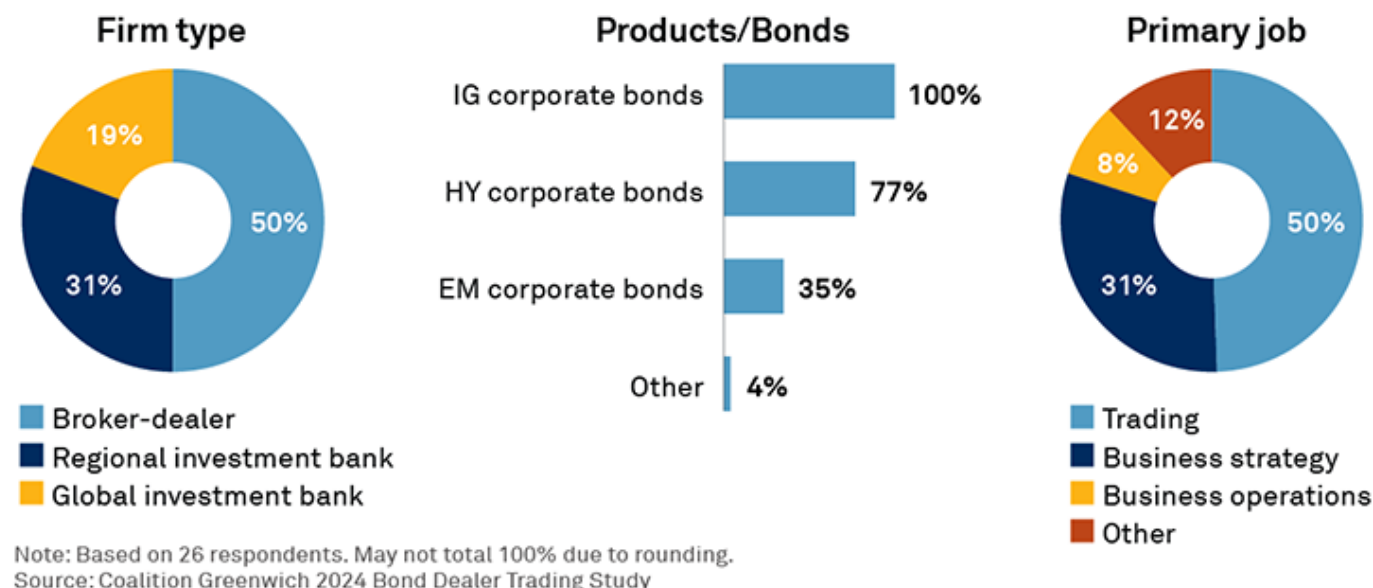
This report is based on interviews with 26 U.S. corporate bond dealers, including top-tier global banks, nonbank market makers, middle market banks, and independent broker-dealers. This cross section of the market blends the leading edge with more traditional trading desks to present a picture of the sell side's progress toward automation and where the opportunities lie going forward.

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Methodology:

This study is based on interviews with 26 U.S. corporate bond dealers in 2Q 2024. Respondents include some of the largest bank and nonbank corporate bond dealers in the world. The electronic interviews examined the use of auto-execution functionality at each participant for trading investment-grade, high-yield and emerging market corporate bonds in the U.S.

Respondents



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