Electronification is set to grow in MBS markets

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Executive Summary:



The U.S. mortgage-backed securities (MBS) market is one of the largest and most liquid in the world. At the end of Q3 2024, $1.1 trillion MBS securities were issued—a 12.5% increase year over year. To put that figure in perspective relative to other fixed-income markets, $1.6 trillion in U.S. corporate bonds and $3.5 trillion in U.S. Treasury securities were also issued over the same period. MBS accounts for roughly 13% of all U.S. bond issuance.

From a trading vantage point, MBS products represent almost a quarter of the average daily volume of U.S. fixed-income trading. Although some products within the asset class are notoriously illiquid, and trading mechanisms are in need of modernization, tides are changing as investment professionals and traders alike embrace more electronification. This is particularly true in the trading of certain over-the-counter (OTC) mortgage products, such as specified pools, commercial mortgage-backed securities (CMBS), collateralized mortgage obligations (CMOs), asset-backed securities (ABS), and other areas where risk transfer has historically happened over the phone or via chat.

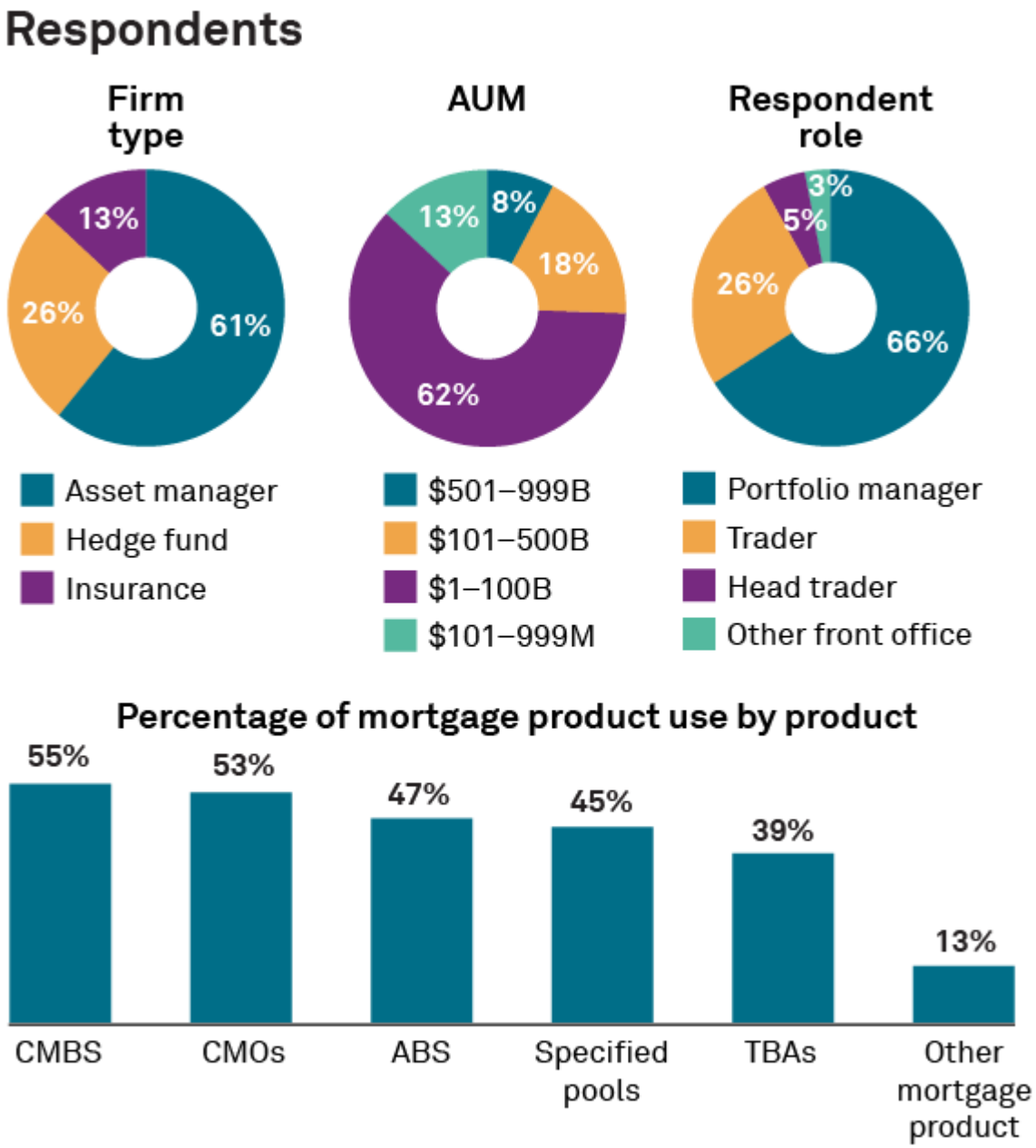
Fixed-income electronic trading has been evolving in dribs and drabs. For instance, only one-third of investment-grade corporates were traded electronically in 2020 versus about half today. We expect a jump in MBS electronification in the next few years motivated by similar forces—efficiency, enhanced transparency and evolving TRACE reporting requirements. Further, trading venues are improving their offerings to enable portfolio managers (PMs) and traders to create more streamlined workflows and electronify the trading process. These catalysts, coupled with buy-side demand for electronic liquidity and new liquidity providers—both bank and nonbank—ensure future progress.

Methodology:

Between September and November 2024, Crisil Coalition Greenwich interviewed a total of 39 U.S. buy-side mortgage market participants to better understand the drivers of decision-making tied to the electronification of MBS markets. The majority of responses came from professionals working at asset management firms, with

experts hailing from hedge funds and insurers making up the balance. Data and insights from Tradeweb, a multidealer platform, were also analyzed to better understand market liquidity and participation.

Assets under management (AUM) varied across participants. Looking across firm types, the distribution of roles was tilted toward portfolio managers, with traders and heads of trading accounting for about one-third of participation.



Note: Based on 39 respondents. Numbers may not total 100% due to rounding.
Source: Coalition Greenwich 2024 Mortgage Electronic Trading Study

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