Fixed Income: Solving the Liquidity Drought

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According to Liquidnet CEO Seth Merrin the corporate bond market is “a disaster waiting to happen”. A disaster? Maybe. But certainly it is a market waiting for better ways to match buyers and sellers. That is exactly what Liquidnet was thinking when they bought Vega-Chi (not to mention what the founders of several other fixed income startups and incumbents have been thinking over the last few years as well). To that end, Liquidnet hosted a panel last week that I was lucky enough to be a part of discussing the corporate bond market, its present state and its possible future.

For anyone paying attention, my views on the corporate bond market are pretty clear. It is different this time, but the move towards more electronic trading of US corporate bonds is going to be a slow one. Not because solutions don’t exist, but because the structure of the bond market is not terribly suited to executing round-lot trades over traditional e-trading platforms. And for odd-lots, the incumbents have e-trading pretty locked up leaving investors with little incentive to look elsewhere for a new platform. So any new solution hoping to succeed needs to solve the old problem of corporate bond liquidity with a solution built for the new world. The rest of my thoughts from the panel are summarized in this short interview:

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