The Technology to Succeed in Fixed-Income Trading

October 3, 2017

Executive Summary:

Technological prowess is increasingly defining the winners and losers in the fixed-income business. Those global and regional dealers that have seen their market share grow over the past 10 years are largely those that have invested heavily in technology—allowing them to manage the market and service their customer better than their peers. Nonbank liquidity providers, which have also become a major force in fixed-income trading despite their small size relative to their bank peers, have done so largely due to superior technology.

Further, the lingering low-rate and low-volatility environment has hurt dealer profit margins, as volume remains depressed while the profitability per trade is shrinking. Although individual dealers have little control over the total market volume, picking up a greater share of the available client revenue pool and also reducing their cost per trade via technology is increasingly necessary.

As such, while building trust with clients is still a critical part of the fixed-income business, investing in technology that increases distribution while reducing costs is required. Whereas real-time pricing and automatic hedging were, until recently, only available to those with big technology teams and budgets to build them in-house, third-party providers are now paving the way for a longer list of fixed-income dealers to up their game—and profitability. Nothing can completely replace trust, human intuition, scale, and balance sheet, but moving forward without technology is no longer necessary or even feasible.

Methodology:

In Q3 2016 and Q2 2017, Greenwich Associates interviewed 173 fixed-income investors, in addition to top-tier broker-dealers and liquidity providers, to better understand the role of technology in the dealer/client relationship in the United States. Conversations examined how the buy-side/sell-side relationship is evolving, the technology currently used by sell-side trading desks and expectations for the future.

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