The Evolving Fixed Income Landscape

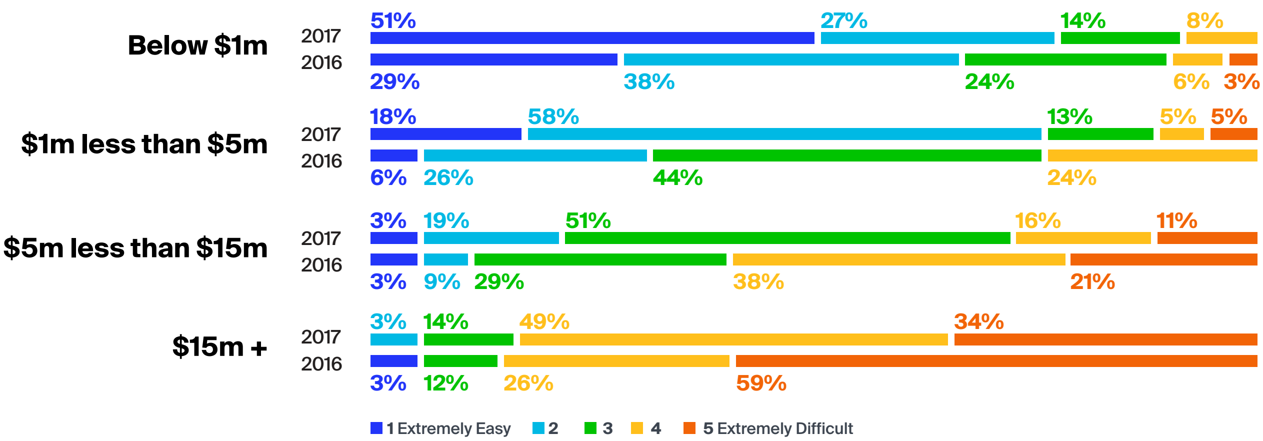
November 2018

Fixed income markets have undergone a seismic shift, with market structure, liquidity and product offerings all impacted post-credit crisis. Regulation has made it more challenging to transact, liquidity has reduced, and dealers have been forced to rethink their business models.

The Rise of Electronic Trading

Around twenty percent of investment grade corporate bond volume trades electronically, with orders under $1 million now rarely transacted over the phone. Electronic trading is taking hold with larger trades (up to $5 million in size) and high yield bonds that were historically less liquid.

Difficulty of Executing Corporate Bond Trades

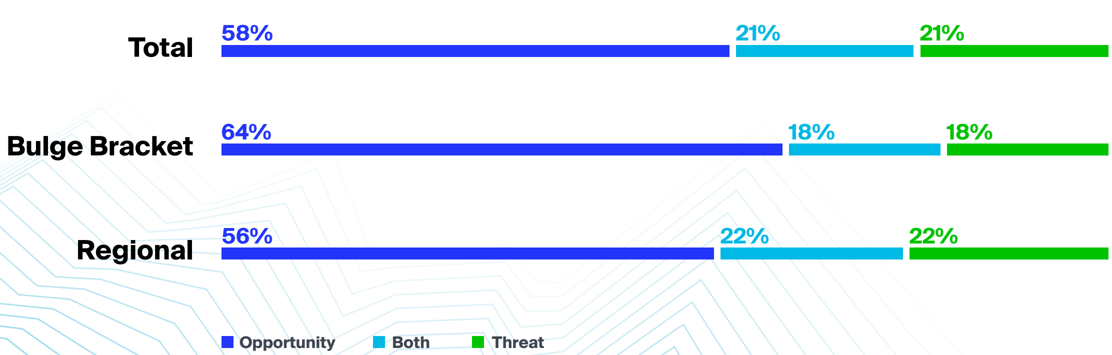


Source: Greenwich Associates, 2017 Market Structure and Trading Technology Study

Dealers are recognizing the opportunities that electronification presents, with less than 1 in 5 feeling threatened by the change (see chart below). Execution capabilities are paramount — according to Greenwich Associates' 2018 North American Fixed Income Study, nearly half of client volume is allocated based on execution quality — which makes the use of electronic tools and data a necessity.

Investors are excited about new sources of liquidity, including all-to-all trading, anonymous trading, ETFs and non-bank liquidity providers. And easier access to electronically traded and centrally cleared derivatives can enable portfolio managers to better fine-tune their risk.

Perception of the Growth of Electronic Trading*



Source: Greenwich Associates, 2017 Fixed-Income Dealers Study

*21% both

The increase in electronic trading has brought with it a far more robust dataset

Data: The Lifeblood of Markets

Electronic trading has brought a far more robust dataset, moving beyond the limited details provided by FINRA® TRACE®, enabling data to finally trump "gut feel" for making trade decisions.

Data growth has enabled investors to benchmark themselves more accurately, with customized real-time calculations. Continuously evaluated bond prices have given the buy side a boost, feeding more informed conversations with trading counterparties. And sophisticated analytics offer insight previously limited to the most experienced traders - by combing detailed trade data, portfolio preferences, and past counterparty interactions.

Bond ETFs Surge

The corporate bond market has been bolstered by the growing popularity of fixed income ETFs - growth made possible in large part by advancements in indexing. The ETF market has brought a new breed of liquidity providers to the corporate bond market - enabling them to make markets in corporate bonds using ETFs as a hedging tool.

The buy side is also increasingly hedging with fixed income ETFs, using them to manage uninvested cash or to gain quick, broad market exposure when bonds are not readily available at the right price.

And lastly, the create/redeem process that fuels the ETF market has paved the way for portfolio trading in corporate bonds, a dynamic previously stymied in a relatively illiquid marketplace.

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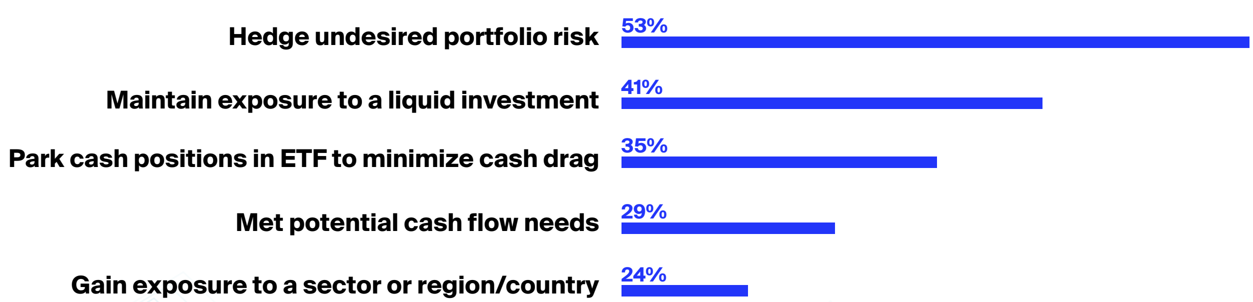
Purpose for which U.S. Investment Grade Investors Use ETFs



Source: Greenwich Associates, 2017 Fixed-Income Dealers Study

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