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2013 Greenwich Leaders: Global Fixed Income

Q4 2013

The restructuring of the global fixed-income business will continue in 2014 as banks around the world experiment to find the right size and commitment levels to keep them both viable and profitable. Amid these sweeping changes, Deutsche Bank has secured the top spot among global dealers in fixed-income trading market share, and Barclays has emerged as the leader in overall quality of service in fixed income.

Decisions by banks about their business models and strategies have shaken up fixed-income markets around the world. Some significant players essentially have exited specific products and geographic markets. Nearly all dealers have rationalized the capital and resources allocated to fixed-income businesses in the face of new capital requirements imposed under Basel III. At the same time, individual banks have sought to capitalize on the opportunities created by the pull-backs among some of the world's largest fixed-income dealers.

Fixed Income's 'Goldilocks' Moment

Banks now face the significant challenge of implementing their post-Basel III strategies. In doing so, dealers find themselves walking a dangerously thin wire as they search for the "sweet spot" in terms of size, resources commitment and profitability. "In any highly liquid or 'flow' business, maintaining a certain minimum scale is critical," says Greenwich Associates consultant James Borger. "If you're too small you won't be able to support the technology platform you need to compete, and you won't see enough customer flows to be considered viable in the market."

Also, many institutional investors have traditionally directed their harder-to-execute and (for banks) more profitable trades to dealers that step up and provide liquidity in flow rates and credit products. The dealers that are able to continue to devote capital and other resources in flow products to their biggest clients should have an advantage in competing for higher-margin trades. And of course, as dealers shrink their franchises, they must do so without sacrificing economies of scale and scope that help boost profitability across products. "It's a Goldilocks moment. Dealers don't want to be too big and they can't be too small. They need to get it just right," says Greenwich Associates consultant Andrew Awad.

Over the past 12 months, the net effect of these changes has been a modest reduction in the combined market share of the world's biggest fixed-income dealers. As the largest dealers adjusted to the realities of the post-Basel III environment, the aggregate market share of the world's top three dealers dipped to 28.4% in 2013 from 29.3% in 2012. "This slight contraction is probably an early indicator of a more general shift," says Greenwich Associates consultant Frank Feenstra. "The narrowing of focus by the biggest dealers will free up market share that will be captured by banks looking to expand their presence. The result will be a narrowing of the divide between the traditional 'Bulge Bracket' and the rest of the market, and a decrease in concentration in some products and geographic markets."

In Europe, retrenchment by some of the largest global banks has created new opportunities for national players

Greenwich Share and Quality Leaders — 2013

Overall Global Fixed-Income Market Share

Dealer	Market Share	Statistical Rank
Deutsche Bank	10.0%	1
Barclays	9.2%	2T
J.P.Morgan	9.2%	2T
Citi	8.9%	4

Overall Global Fixed-Income Service Quality

Dealer
Barclays

Note: Based on interviews with 4,000 institutional fixed-income investors.
Source: 2013 Fixed-Income Investors Studies for North America, Asia and Europe

that are picking up market share in their home markets, and for bigger banks like BNP Paribas and HSBC, which are expanding their customer bases. A similar trend can be seen in the United States, where strategy shifts on the part of traditional top fixed-income leaders have helped firms like Wells Fargo, Nomura Securities, Jefferies, and RBC Capital Markets gain customers. In Asia, the decision by some global banks to pass on the booming, but expensive-to-service local currency bond business has created opportunities not only for the western banks that choose to pursue the business, but also for large national players such as ICICI Securities, ICBC and Axis Bank.

Global Share and Quality Leaders

In 2013, Deutsche Bank led the market with a 10.0% market share in global institutional fixed-income trading. Barclays and J.P. Morgan tied for the second spot with market shares of 9.2%, followed by Citi at 8.9%. These firms are the 2013 Greenwich Share Leaders in Global Fixed Income. The 2013 Greenwich Quality Leader in Global Fixed Income is Barclays. In 2013, Greenwich Associates interviewed 4,000 institutional fixed-income investors around the world. They were asked to name the dealers they use for specific fixed-income products and to rate those dealers in a series of service categories.

Impact on Investors

Recent industry changes have not been favorable for investors. To the contrary, institutional investors report reduced liquidity in major products in markets around the world. These liquidity declines mean one thing: It's getting harder to complete trades — especially for smaller institutions that fall outside dealers' new target segments. Complicating the situation is the wide-spread phenomenon of "juniorization" of sell-side staff. In the past, institutional investors could rely on the ideas and advice of veteran sales people who often had decades of experience. In the wake of dealer cost cuts and lower pay, headcount turnover has disrupted many of those relationships, and the replacement sales contacts are often young professionals not too far removed from university. Institutions might feel the effects of these shifts even more acutely in the coming year, when they will be forced to comply with a host of new regulations and changes to market structure. As Greenwich Associates consultant Woody Canaday concludes, "Most institutional investors this year will be looking for guidance about questions like: 'How will derivatives reform affect me?', 'Should I be trading through one SEF or multiple SEFs?' and 'What is an SEF aggregator?'"

Consultants Andrew Awad, James Borger, Woody Canaday, Peter D'Amario, Frank Feenstra, John Feng, Brian Jones, Peter Kane, Tim Sangston, Abhi Shroff, David Stryker, Taeko Sumiyoshi, and Tomio Sumiyoshi advise on the institutional fixed-income markets.

Methodology

Interview topics included service provider assessments, trading practices, market trend analysis, and investor compensation.

Asia (ex-Japan)

Between June and July 2013, Greenwich Associates conducted 899 interviews with fixed-income investment professionals at domestic and foreign banks, private banks, investment managers, insurance companies, hedge funds, corporations, central banks, and other institutions throughout Asia (ex-Japan).Countries and regions where interviews were conducted include Australia/New Zealand, China/Hong Kong/Macau, India, Indonesia, Malaysia, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan, and Thailand.

North America

Between February and March 2013, Greenwich Associates conducted in-person interviews with 149 institutional fixed-income investors in Canada, 223 in Latin America and 1,027 in the United States.

Europe

Between May and July 2013, Greenwich Associates conducted 1,269 interviews with senior fixed-income investment professionals at banks, fund managers/advisors, insurance companies, corporations, central banks, hedge funds and other institutions throughout Europe. Countries where interviews were conducted include Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Luxembourg, Malta, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and select interviews conducted in Central & Eastern Europe and the Middle East.

Japan

Between May and July 2013, Greenwich Associates conducted 318 interviews with senior investment professionals in Japan investing in domestic fixed income and 155 interviews with senior investment professionals in Japan investing in international fixed income. Interviews were conducted with banks (regional banks, shinkin banks, agricultural banks, trust banks, and others), investment companies and insurance companies.

The findings reported in this document reflect solely the views reported to Greenwich Associates by the research participants. They do not represent opinions or endorsements by Greenwich Associates or its staff. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Greenwich Associates compiles the data received, conducts statistical analysis and reviews for presentation purposes in order to produce the final results.

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