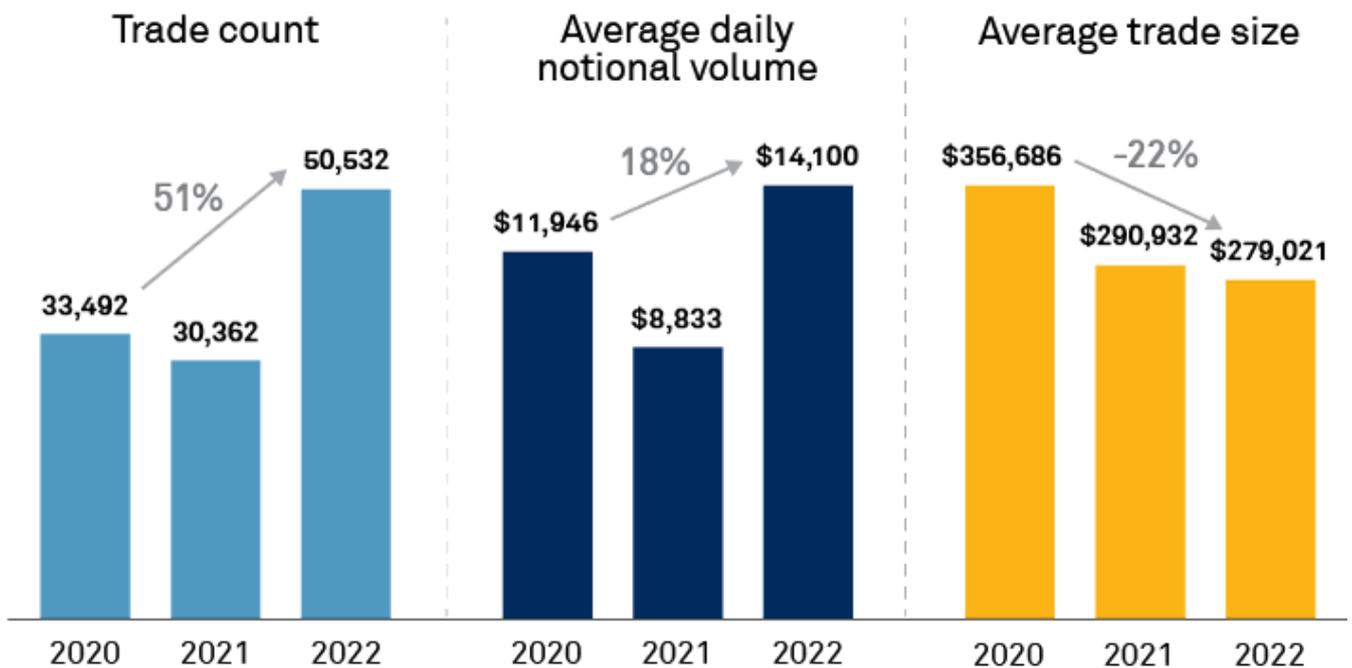


Trading Munis (Electronically?) is Cool Again

March 16, 2023

What started as panic selling from the Fed's extreme tightening in Q1 2022 turned into excited buying by retail investors in Q4, with tax-loss harvesting and tax-free (and low-risk) yields nearing 5% offering what many saw as the chance of a lifetime.

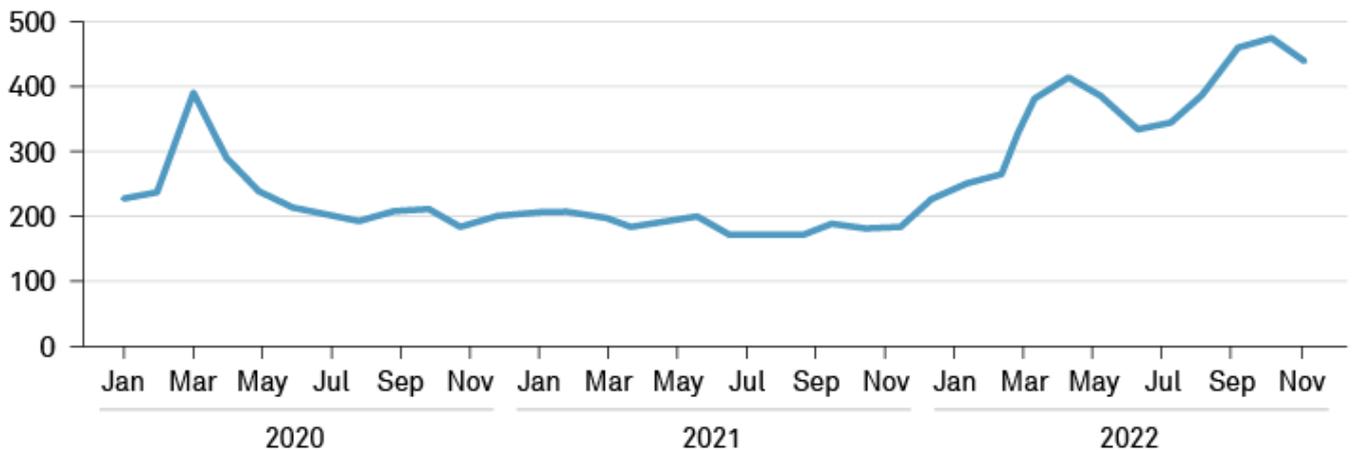
Municipal Bond Trading Activity



Source: Coalition Greenwich, SIFMA, MSRB

The coming months will tell us if Q4 2022 was, in fact, a good time to buy. Regardless, municipal bond trading in 2022 was a sight to behold. The average daily trade count in 2022 jumped to over 50,000—an amazing 51% increase from 2020. On a notional basis, trading volume was 18% higher in 2022 than in 2020, and a more impressive 60% higher year over year. This uneven growth in trade count and notional volume traded led to a decline in average trade size, down 22% from 2020, which equates to \$279,000 per trade.

Tradeweb—Municipal Bond Average Daily Notional Volume (\$ millions)



Source: Tradeweb

Electronic Trading Was Flat in 2022

The activity in munis largely reflects a similar trend [we observed in U.S. corporate bonds](#), where the average daily trade count soared and average trade sizes declined. But unlike the corporate bond market that saw e-trading surge in 2022, muni bond electronic trading as a percentage of the total has changed little. Coalition Greenwich estimates show that 14% of muni bond volume traded electronically in Q4 2022, up 3 percentage points from Q2.

On the positive side, this result shows that e-trading kept up with, and in some cases surpassed, the market's volume surge. Tradeweb, who we can use as a proxy for the muni e-market, saw their volumes jump 56% from 2020 to 2022, and an impressive 93% year-over-year. Nevertheless, the market overall continues to buck the electronic trading trend that has for the last decade taken over government and corporate bond markets.

Looking Ahead: Muni Market Electronification

Despite the slow progress, we remain convinced that more of the municipal bond market will trade electronically in the years ahead. The most tech-forward asset managers have already moved toward a world in which the majority of their trading is done on the screen. Further, automated market-making has existed in munis for years, and still presents spread-capture opportunities that are already drawing in new entrants. More liquid muni ETFs will only help that trend, just as credit ETFs did for corporate bonds.

It's also important to remember that market electronification isn't just about traditional electronic trading, but also increased automation of the trading and investing life cycle. Even if the final terms of a trade continue to be negotiated via chat or the phone, there is nothing keeping the pre- and post-trade workflows away from automation.

One million CUSIPs and very regional demand for municipal bonds certainly complicate the move to the

screen. But the last decade is littered with electronic trading growth and innovation that was once thought to be impossible. The next decade will be the same.

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Coalition Greenwich, which is a part of CRISIL Ltd, an S&P Global company. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Coalition Greenwich as on the date of the Document and Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data in this Document may reflect the views reported to Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES COALITION GREENWICH BELIEVES TO BE RELIABLE. COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Coalition Greenwich is a part of CRISIL Ltd, an S&P Global company. ©2024 CRISIL Ltd. All rights reserved.