U.S. Corporate Bonds: Investors Need Dealers, Dealers Need Incentives

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Executive Summary:

Corporate bond investors receive an outsized portion of liquidity from the sell side and will continue to do so going forward.

Electronic trading has created pathways to new sources of liquidity, and dealer balance sheet limitations have reduced the liquidity dealers can provide.

However, investors continue to recognize the important role dealers play in the bond market. As such, e-trading shouldn't aim to replace dealers, but instead, incentivize them to increase their participation in the market.

Methodology:

In May of 2015, Greenwich Associates interviewed 13 of the 20 largest corporate bond dealers in the U.S., according to Greenwich Associates Quality Share Leaders data. Also interviewed during the same time period were 112 U.S.-based corporate bond investors. Interview topics included trading platform usage, incentives for trading on particulars venues, and opportunities for and threats to corporate bond-dealing businesses.

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