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2011 Greenwich Leaders: Global Fixed Income

In Changing Market, Two Dealers Maintain Top-Tier Status

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The share of global fixed-income trading volume executed by the world's top three dealers shrank from 2010 to 2011. While some of the decline in aggregate market share among these leading firms can be attributed to changes in institutional trading practices and increased competition from other financial service firms in North America, Europe and Asia, the results of Greenwich Associates 2011 Global Fixed-Income research leave little doubt that some of the biggest dealers in these markets are voluntarily ceding share in response to new capital reserve requirements that reduce profit margins in core fixed-income business.

The 2011 results reveal Barclays Capital and Deutsche Bank as the leaders in global fixed-income market share. The composition of the market was unchanged from 2010, although market-share pickups by Barclays Capital elevated the firm from a tie for second place last year with J.P. Morgan to a tie for the top spot in 2011 with Deutsche Bank.

In aggregate, however, these three dealers lost market share in 2011. From 2009–2010, Barclays Capital, Deutsche Bank and J.P. Morgan together captured 32.9% of global fixed-income market share. In 2010–2011 that share declined to 31.4%. Meanwhile, the number four and five global dealers, Citi and Goldman Sachs, respectively, posted relatively stable market share results for the period.

"Market share lost by the world's leading fixed-income dealers was redistributed among a broad group of competitors. Among the firms winning market share from 2010 to 2011 were Morgan Stanley, BNP Paribas, UBS, HSBC, and Nomura," says Greenwich Associates consultant Tim Sangston.

Several factors contributed to this "flattening" of the global fixed-income market:

1. **Unwinding Concentration**
   After witnessing the balance-sheet troubles experienced by large financial service firms during the global market crisis, many institutions shifted fixed-income trading business to the dealers they perceived as being the strongest financially and posing the lowest levels of counterparty risk. This shift helped increase the market shares of certain leading firms at the expense of competitors with greater exposure to the mortgage/credit crisis or weaker balance sheets. Perhaps the biggest beneficiary of this shift was J.P. Morgan — often cited as one of the few "winners" of the crisis period.

Greenwich Leaders

The tables below provide the complete list of the 2011 Greenwich Leaders in Overall Global Fixed Income. Every year, Greenwich Associates names leaders in both market share and quality in Asia (ex-Japan), Canada, Europe, Japan, and the United States. Greenwich Share Leaders are awarded on an overall basis and in the major fixed-income product categories. Greenwich Quality Leaders are firms that have distinguished themselves by receiving quality ratings from institutional clients that exceed those awarded to competitors by a statistically significant margin. The Greenwich Leaders in Overall Global Fixed Income are based on an analysis of aggregated research results from all fixed-income markets covered in Greenwich Associates annual research programs.

Greenwich Share and Quality Leaders — 2011

Overall Global Fixed-Income Market Share

Dealer	Market Share
Barclays Capital	10.9%
Deutsche Bank	10.8%
J.P. Morgan	9.7%
Citi	8.5%
Goldman Sachs	7.6%
Morgan Stanley	7.4%

Overall Global Fixed-Income Service Quality

Dealer
Barclays Capital
J.P. Morgan

Note: Based on interviews with 3,882 institutions. Share leaders are based on top 5 dealers including ties. Quality leaders cited in alphabetical order including ties.
Source: 2011 Fixed-Income Investors Studies for North America, Asia and Europe

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Global fixed-income markets stabilized in the months following the crisis and had returned to something close to a sense of normalcy by the middle of 2010. (Interviews for the Greenwich Associates annual study were conducted in the first and second quarters of 2011 in the United States and in the third quarter of 2011 in Europe and Asia. As conditions improved, concerns about counterparty risk faded and institutions started reverting back to pre-crisis behaviors in selecting dealers for fixed-income trades, reducing the concentration of their fixed-income trading business and diversifying their trading relationships. The natural result of this process was a shift in market share from the world's biggest fixed-income dealers to a much broader group of global competitors.

2. **Sell-Side Investment and Improvement**
   The demise of the structured products business during the market crisis and the subsequent sharp reduction in proprietary trading eliminated two significant sources of revenues and profits for global financial service companies. To help replace this lucrative business, many firms made heavy investments to build out their platforms and capabilities in client-focused fixed-income product lines — especially in high volume and non-capital intensive rates products. These investments yielded some dramatic increases in both the reach and quality of many fixed-income franchises. As a result, institutions looking to diversify their trading business have found an expanded list of high-quality sell-side options from which to choose.

3. **Regulatory Impact**
   Finally, the impact of new capital reserve requirements in Europe and the United States has begun to affect the strategies pursued by the world's major financial service firms in fixed income. Increased costs of capital are reducing profit margins, and those eroding margins are prompting dealers to reassess their approaches and levels of commitment to certain fixed-income businesses and product lines.

To date, the most high-profile examples of global firms altering their strategies have been the decisions by UBS and Credit Suisse to reduce risk-weighted assets devoted to fixed income. "It's no coincidence that the first two banks to publicly announce strategies for fixed income that are less capital intensive were banks domiciled in the country that imposed the world's most stringent capital requirements," says Greenwich Associates consultant Andrew Awad.

Although the Swiss banks have been the most forthright in discussing their revised approaches to the fixed-income business, other banks have been more quietly adjusting their own strategies. Some of the world's biggest fixed-income dealers have abandoned strategies based on amassing market share in favor of more targeted, profit-focused approaches. "Dealers are becoming much more judicious in their allocation of capital and resources," says Greenwich Associates consultant Frank Feenstra. "In simpler terms, some of the central players in global fixed income are intentionally ceding customers and market share that they view as insufficiently profitable under the new capital requirements."

Crisis Ahead?

Virtually all the changes now unfolding in the fixed-income market structure and competitive landscape can be traced back to the global market crisis. With the European sovereign debt situation threatening to explode at any moment into another full-blown crisis for financial markets, it's possible that 2012 could bring changes even more dramatic than those experienced in 2011.

How would a new crisis affect the competitive dynamics of the global fixed-income market? In one respect, large fixed-income dealers might be better prepared to maintain their competitive positions than they were last time around. Although the broad trend during the credit crisis was for institutional fixed-income trading business to flow to the biggest and most well-capitalized financial service firms, a number of smaller firms took advantage of market-wide breakdowns in liquidity to capture market share. Firms like Jefferies & Co. in the United States and other regional dealers around the world stepped in to fill the void created by the forced pullback of some major global dealers with agency trading capabilities. Smaller competitors will likely find fewer opportunities to win business on an agency basis the next time around. The reason: After living through a period in which they were prevented from accessing their firms' sizable balance sheets, salespeople and traders at Bulge Bracket firms retrained themselves to compete in the agency business. "This experience, combined with big market shares and trading flows, make it much easier for Bulge Bracket firms to cross trades when necessary," says Greenwich Associates consultant James Borger, "which will make their market share much less vulnerable to agency-based competitors."

At a more general level, however, the "flattening" of global fixed-income markets observed over the past 12–24 months could be reversed and erased quickly in the event of a new market downturn. During the past crisis, institutions demonstrated that they will rapidly shift fixed-income business away from dealers seen as posing significant levels of counterparty risk. In such an environment, institutions will once again look to concentrate their trading business with the market's most solid counterparties and banks with the strongest balance sheets and lowest exposure to the crisis will once again emerge the winners.

Consultants Andrew Awad, James Borger, Woody Canaday, Peter D'Amario, Frank Feenstra, John Feng, Brian Jones, Peter Kane, Tim Sangston, Abhi Shroff, 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 May and July 2011, Greenwich Associates conducted 1,121 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.

Canada

Between February and March 2011, Greenwich Associates conducted in-person interviews with 102 institutional fixed-income investors in Canada.

Europe

Between May and July 2011, Greenwich Associates conducted 1,132 interviews with senior fixed-income investment professionals at banks, fund managers/advisors, insurance companies, corporations, central banks, hedge funds and other institutions throughout Europe and the Middle East. Countries where interviews were conducted include Austria, Belgium, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Israel, Italy, Jordan, Latvia, Lithuania, Luxembourg, Malta, Monaco, the Netherlands, Norway, Oman, Poland, Portugal, Qatar, Romania, the Russian Federation, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Tunisia, Turkey, the United Arab Emirates, and the United Kingdom.

Japan

Between May and July 2011, Greenwich Associates conducted 328 interviews with senior investment professionals in Japan investing in domestic fixed income and 138 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.

United States

Between February and April 2011, Greenwich Associates conducted 1,022 interviews with institutional investors active in fixed income in the United States.

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