GREENWICH ASSOCIATES

2014 Greenwich Leaders: U.S. Fixed Income

Q3 2014

Fixed-income dealers who thought that market conditions couldn't get any worse this year have been proven wrong. Over the past 12 months, cyclical and secular developments have made fixed-income markets more challenging than ever for both dealers and investors.

Two main factors have contributed to the tough year: low rates and new regulations. Low rates and a lack of volatility have kept fixed-income trading volumes distressingly low — holding down banks' trading revenues. This pressure was exacerbated by the fact that a number of dealers had positioned themselves for an expected rate increase and found themselves on the wrong side of the market as rates declined.

Meanwhile, new regulations have dramatically increased the costs of doing business for dealers. Tougher capital requirements have made balance sheet the biggest issue, limiting how much inventory dealers can carry and how much liquidity they are able to provide. New regulations have also sharply increased compliance costs as banks have been forced to hire hundreds of compliance officers and upgrade IT systems.

"The bottom line for fixed-income dealers: revenues are down and costs are up," says Greenwich Associates consultant Frank Feenstra.

Amid these conditions, the banks faring best are those with the largest product platforms, along with smaller, niche players, while mid-sized dealers with a large scale infrastructure but lower revenues than the top dealers may feel they are getting squeezed. Over the past 12 months, institutional trading volume has become more heavily concentrated with the biggest Bulge Bracket dealers. Five of the six biggest U.S. fixed-income dealers saw an increase in market share over the last year, and the collective market share held by the top 5 sell-side firms increased to 57% from 53% a year ago. "We're seeing a greater concentration of share among the top banks as buy-side customers try to stay as relevant as possible with the big banks," says Greenwich Associates consultant James Borger. "But we are also seeing investors seek out liquidity by adding more dealers to their list of counterparties, especially as a few banks have reduced their commitment to the space." In fact, buy-siders on average are using roughly 10 dealers on a significant basis, up from eight in 2010. At the other end of the spectrum, smaller dealers like RBC, Nomura and Wells Fargo, which have smaller platforms and therefore lower overall costs, have been adding meaningful numbers of new customers. "Across the market, these smaller firms are among the few actually expanding their platforms and hiring people," says Greenwich Associates consultant James Borger.

Greenwich Share Leaders — 2014

GREENWICH ASSOCIATES Greenwich Share Leader 2014

Overall U.S. Fixed-Income Market Share

Dealer	Market Share	Rank
Goldman Sachs	12.1%	1T
Deutsche Bank	11.7%	1T
Citi	11.5%	1T
J.P. Morgan	11.4%	1T
Barclays	10.3%	5

U.S. Fixed-Income Market Share — Securitized[1]

Dealer	Market Share	Rank
Credit Suisse	13.1%	1T
Bank of America Merrill Lynch	12.2%	1T

U.S. Fixed-Income Market Share — Municipal Bonds and Derivatives[2]

Dealer	Market Share	Rank
Citi	19.2%	1
Bank of America Merrill Lynch	15.2%	2

U.S. Fixed-Income Market Share — Rates

Dealer	Market Share	Rank
Goldman Sachs	12.7%	1T
Deutsche Bank	12.5%	1T
Citi	11.2%	3T
J.P. Morgan	10.9%	3T

U.S. Fixed-Income Market Share — Credit

Dealer	Market Share	Rank
J.P. Morgan	14.3%	1T
Bank of America Merrill Lynch	13.7%	1T
Citi	12.5%	3

Note: Based on interviews with 1,067 institutions active in U.S. fixed income. Leaders are based on top 5 dealers including ties on an overall basis and on top 3 dealers including ties on a product basis. [1]Results did not yield enough statistical differentiation to determine a top 3 dealer, only a top dealer including ties is shown. Product categories are defined as follows: Rates: government bonds, interest rate derivatives, agency securities and MBS pass-throughs. Credit: CLOs, investment-grade credit, high-yield credit, distressed debt, leveraged loans, and structured credit. Securitized: consumer asset-backed securities, CMO and mortgage derivatives, commercial mortgage-backed securities, and non-agency RMBs. [2]Results did not yield enough statistical differentiation to determine a top 3 dealer, only the top 2 dealers are shown.
Source: Greenwich Associates 2014 North American Fixed-Income Investors Study

Overall U.S. Fixed-Income Sales Quality
Dealer
Bank of America Merrill Lynch
Citi
J.P. Morgan

Overall U.S. Fixed-Income Trading Quality
Dealer
Bank of America Merrill Lynch
Citi

Overall U.S. Fixed-Income Research Quality
Dealer
J.P. Morgan

Note: Based on 1,067 institutions active in U.S. fixed income. Leading dealers are displayed in alphabetical order.
Source: Greenwich Associates 2014 North American Fixed-Income Investors Study

Greenwich Share Leaders

Four global banks are essentially deadlocked atop the U.S. fixed-income market for overall market share, which is driven by volumes in government bonds, interest rate derivatives and MBS pass-throughs. Goldman Sachs, Deutsche Bank, Citi, and J.P. Morgan all captured market shares between 12.1% and 11.4% in institutional trading volume over the past 12 months, leaving them in a statistical tie for the leading spot in the U.S. market. Barclays rounds out the top 5 with a market share of 10.3%. These firms are the 2014 Greenwich Share Leaders in Overall U.S. Fixed-Income.

J.P. Morgan and Bank of America Merrill Lynch are tied for the market lead in credit products with market shares of 14.3% and 13.7%, followed by Citi at 12.5%. These firms are the 2014 Greenwich Share Leaders in U.S. Fixed-Income Credit. In rates products, the 2014 Greenwich Share Leaders are Goldman Sachs and Deutsche Bank, tied for the top spot with market shares of 12.7% and 12.5%, followed by Citi and J.P. Morgan. In securitized products, Credit Suisse and Bank of America Merrill Lynch are the 2014 Greenwich Share Leaders. Citi and Bank of America Merrill Lynch are the 2014 Greenwich Share Leaders in U.S. Fixed-Income Municipal Bonds and Derivatives.

Greenwich Quality Leaders

The 2014 Greenwich Quality Leaders in Overall U.S. Fixed-Income Sales are Bank of America Merrill Lynch, Citi and J.P. Morgan. The 2014 Greenwich Quality Leaders in Overall U.S. Fixed-Income Trading are Bank of America Merrill Lynch and Citi; J.P. Morgan is the 2014 Greenwich Quality Leader in Overall U.S. Fixed-Income Research.

Consultants Frank Feenstra, Woody Canaday, Andy Awad, James Borger, Brian Jones, and David Stryker advise on fixed-income markets in the United States.

Methodology

Between February and April 2014, Greenwich Associates conducted 1,067 interviews with institutional investors active in fixed income in the United States. Interview topics included trading and research activities and preferences, product and dealer use, service provider evaluations, market trend analysis, and investor compensation.

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.

GREENWICH ASSOCIATES

6 High Ridge Park Stamford CT 06905 USA

Tel: +1 203.625.5038/+1 800.704.1027 Fax: +1 203.625.5126 email: ContactUs@greenwich.com www.greenwich.com