

# BondCliQ

## Institutional Market Monitor

April 17<sup>th</sup>, 2020

### You must SEE the market to BEAT the market

In the institutional corporate bond market, being able to leverage data to quickly identify trends, dislocations and shifts in behavior can give you a major edge. **BondTiQ is the most powerful data visualization application that gives you that edge in corporate bonds.**

Using data sourced from BondTiQ we can illustrate the trends in institutional (>\$1MM) Alternative Trading System (ATS) activity since the start of 2020.

### ATS Edu

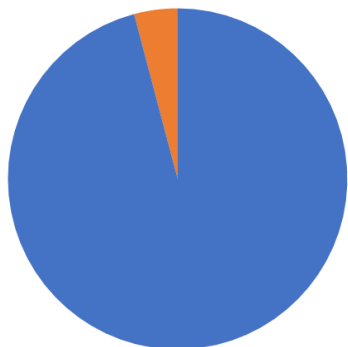
Several electronic trading platforms have reported increased volumes during the last six weeks of COVID-19 volatility. While it would be great to objectively examine the transaction data, there is a major limitation to TRACE information. FINRA identifies electronic trading platform activity with an "ATS" flag which indicates that the transaction occurred on an alternative trading system.

Unfortunately, **Request for Quote trading, the most dominant electronic trading protocol, is not included under the ATS label, so we have an incomplete picture of true eTrading activity.**

Alternative Trading Systems are broken into two categories. Streaming platforms like MTS, TMC and Knight Bondpoint have been in existence for almost 20 years. These systems employ a click-to-trade protocol that facilitates transactions in <\$1MM (retail) sizes. The second category of ATS platforms are matching systems, which have Trumid and Liquidnet for dealer-to-client trading (D2C) and VolumeMatch and CreditMatch for dealer-to-dealer (D2D) trades. These platforms employ session-based protocols that are designed to create larger >\$1MM (institutional) trading opportunities.

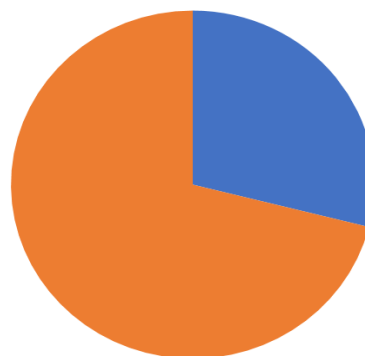
YTD 2020 ATS Trade Count

● Retail ATS Trade Count (96%) ● Institutional ATS Trade Count (4%)



YTD 2020 ATS Market Volume

● Retail ATS Market Share (29%) ● Institutional ATS Market Share (71%)



A quick examination of 2020 TRACE data through BondCliQ illustrates that <\$1MM trades dominate ATS trade count, but institutional ATS trades (>\$1MM) generate most overall volumes. Furthermore, according to 2020 transaction data, ~75% of ATS volumes are comprised of D2D trades.

# COVID-19 and Institutional ATS Trading

Market stress is great for testing the true utility of electronic trading platforms. Traders are generally set in their ways and stick to traditional methods of execution. However, when volatility sharply increases, traditional channels of liquidity may not be available, so traders are forced to try innovative solutions.

Prior to the COVID-19 pandemic, institutional ( $\geq \$1\text{MM}$ ) ATS market share was holding steady at around 5% to 8% of overall market volumes. In the second week of March, volatility sharply increased and institutional ATS market share dropped to 3% for the remainder of the month, albeit on higher absolute ADV.

## YTD 2020 Institutional ATS Market Share



This raises a key question: **How reliable are ATS platforms for institutional buy-side customer trading during times of stress?**

Getting to the answer requires a closer look at the composition of trading activity on the D2C ATS platforms. Using the BondTiQ application, we isolated institutional ATS trading activity for D2C (no IDB trades) for the entire month of March:

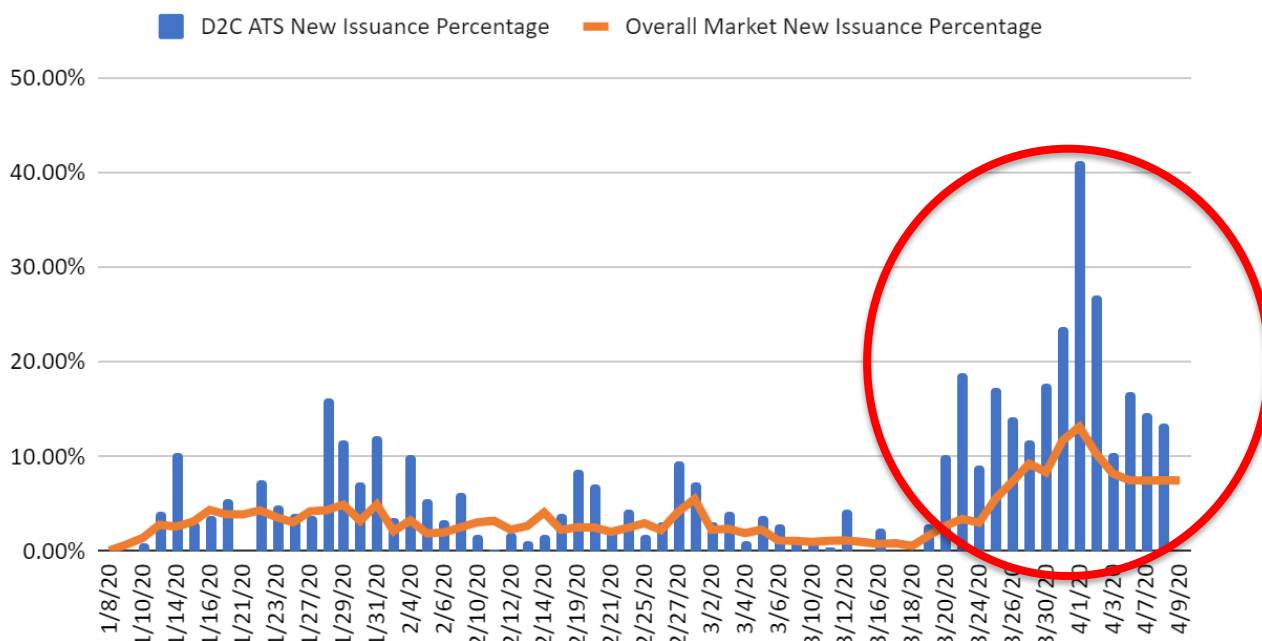
Market Size		Maturity						Credit Rating			Trade Size		
Totals		0-3	3-5	5-7	7-10	10-15	15+	$\leq \text{CC}$	CCC TO BB+	$\geq \text{BBB-}$	$<1\text{MM}$	1MM-5MM	$>5\text{MM}$
Volume	8,908,280,580	7%	8%	15%	24%	8%	38%	0%	28%	72%	0%	55%	45%
Trades	2,415	7%	9%	17%	26%	8%	33%	0%	36%	63%	0%	81%	19%

According to the data, D2C ATS institutional trading amounted to approximately 110 daily transactions and \$405MM in daily volume (average trade size = \$3.6MM).

## A Closer Look - Fifty Shades of “Grey”

The drop in institutional ATS market share occurred in parallel with a significant slow down in the primary market. From March 9<sup>th</sup> to March 20<sup>th</sup>, new issuance dried up and D2C institutional ATS volumes dropped sharply. Using BondCliQ's enriched TRACE data, we can chart the percentage of new issue activity that comprised overall D2C institutional ATS volume:

### Institutional D2C ATS Volume Primarily Driven by New Issuance



The CARES Act announcement pledged direct Fed support of the primary and secondary corporate bond market, so during the week of March 23<sup>rd</sup>, new issue returned with a bang:

*“U.S. companies raised a record \$109.1 billion through investment-grade bond sales this week, as corporate America hoarded cash following measures unveiled on Monday by the Federal Reserve to backstop the market for high-quality debt.” – [Reuters, March 27<sup>th</sup>, 2020](#)*

As the chart above shows, **the percentage of D2C institutional ATS volumes derived from new issue trading skyrocketed with a peak of 41% market share on April 1<sup>st</sup>.**

From the data, it appears that D2C institutional ATS trading gravitated to an area where price discovery and liquidity is normally in abundance, the new issue aftermarket. There is no denying that institutional ATS platforms can help increase trading efficiencies and reduced transaction costs for buy-side participants, however, the jury is still out on their impact on overall credit market liquidity.

Institutional D2C and client-to-client ATS trading has greater adoption in markets that have established centralized price transparency. The presence of a real-time, objective benchmark encourages broader participation by large asset managers because they can definitively prove best-execution on every ATS trade. **While new institutional ATS protocols are bound to be a part of the future corporate bond innovation landscape, they will be limited in their utility without improvement in overall price transparency.**

If you are interested in a free trial of BondTiQ, reach out to us at [info@bondcliq.com](mailto:info@bondcliq.com).