

European Fixed Income: Market Structure Seeks New Foundation

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Executive Summary:

European banks are feeling the impact of regulations, finding it difficult to compete in fixed income with capital-constrained balance sheets. As a result, better-capitalized U.S. banks — and to a lesser degree new entrants — are taking fixed-income market share.

With inventory both spread out among more dealers and more concentrated in buy-side hands, institutional investors are increasing their number of counterparties in search of liquidity. Electronic trading can help liquidity, but growth of online trading volume remains tepid due to the nature of fixed-income markets. New solutions utilizing current technology and an all-to-all structure could help create a new market normal.

Methodology:

Between May and July 2013, Greenwich Associates conducted online and telephone interviews with 1,269 senior fixed-income investment professionals at banks, fund managers/advisors, insurance companies, corporations, central banks, hedge funds, and other institutions throughout Europe. Interview topics included service provider assessments, trading practices, market trend analysis, and investor compensation.

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