



**FOR IMMEDIATE RELEASE:**

**Contact:**

Martin Rabkin, martinrabkinink  
+1 914-420-5739 / [mrabkin@martinrabkinink.com](mailto:mrabkin@martinrabkinink.com)  
Casey Sheets, TABB Group  
+1 646-747-3815 / [csheets@tabbgroup.com](mailto:csheets@tabbgroup.com)

## **TABB Group Forecasts Fundamental and Organic Market Structure Changes for U.S. OTC Fixed Income Markets in 2016**

**Second in Series of Annual Reports Tracks OTC Fixed Income Markets in Post-Financial Crisis World, Pinpointing Trends Developing across U.S. Fixed Income Ecosystem**

**NEW YORK & LONDON, January 18, 2016** – If 2015 was marked by adapting to a changed regulatory construct and adjusting to mandates in U.S. fixed income market areas, TABB Group in a new report says 2016 is shaping up as the year of fundamental and organic market structure changes.

The debate as to whether liquidity in over-the-counter (OTC) fixed income markets is waning is certain to be a hotly contested topic, as the effects of Basel III and other regulation changes combine with shareholder demand for returns on capital and alter business models. “But we see traditional principal-based risk model yielding in many corners to ‘riskless principle’ trading, also known as agency or brokered business,” explains Anthony Perrotta, a TABB partner, global head of research and consulting, who with fixed income analyst Colby Jenkins co-authored “U.S. Fixed Income Market: Industry Trends & Drivers 2015.”

This 22-page, 37-exhibit report examines trends developing across the fixed income ecosystem, illustrates changes underway in terms of the structural market components and dives into idiosyncrasies in the rates, credit and swaps markets.

Over the past eight years as the OTC fixed income markets expanded, says Jenkins, outstanding notional sizes of global debt markets have surged with the U.S. corporate bond and U.S. Treasury markets breaking annual records in notional outstanding, while the global swap market reinvents itself under Dodd-Frank and EMIR. Despite legislative and regulatory goals to reduce leverage and systemic risk, the structural imbalance created by expanding debt markets is beginning to impact market-making and liquidity provisioning, creating a new paradigm.

There are dealers, ill-equipped or lacking the incentive to warehouse inventory and utilize balance sheet to facilitate risk transfer, opting to get out of the game, while others move to an agency-like posture. Moreover, the remaining immediacy provided by fewer banks is ill-suited to serve the growing size of markets and a structural and technical balance is pervasive. Change is ahead, warns Perrotta. The dealing and investment communities need to collaborate with each other and service providers to drive a market structure that fits the new paradigm. “The time for denial of change is over. The future has become the present.”

A sampling of the report’s findings includes:

- Total U.S. Bond Notional Outstanding grew 19% since 2008, now nearly \$40 trillion

- Notional outstanding in U.S. interest rate derivatives (IRD) fell 25% since December 2014
- 45% of total U.S. IRD traded in 2015 was On-SEF, up from 35% in 2014.
- 2015 saw 12% decline in U.S. Treasury ADV vs. 2007
- Overall primary dealer inventory dropped 27% since early 2015
- Balance sheet capacity for 10 largest dealers declined 21% since 2007 for U.S. Corporate bonds and 48% for U.S. Treasury Securities.
- 55% of U.S. IRD trading was executed electronically in 2015 compared to just 25% in 2013
- 70% and 30% of U.S. high-yield and investment-grade corporate-bond trading, respectively, now driven by riskless-principal, order-driven business

The report can be downloaded by TABB's fixed-income clients and pre-qualified media at <https://research.tabbgroup.com/search/grid>. For more information or to purchase the report, contact [info@tabbgroup.com](mailto:info@tabbgroup.com).

**About TABB Group**

With offices in New York and London, [TABB Group](http://www.tabbgroup.com) is the international research and consulting firm focused exclusively on capital markets, based on the interview-based, "first-person knowledge" research methodology developed by Larry Tabb. For more information, visit [www.tabbgroup.com](http://www.tabbgroup.com).

# # #