

BondCliQ

Institutional Market Monitor

March 12th, 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 BondTiQ we can illustrate the real story around corporate bond liquidity post-COVID-19.

Corporate Bond Volume Doesn't Mean Corporate Bond Liquidity

A bird's eye view of transaction data in the US corporate bond market indicates an increase in trading activity since the start of the COVID-19 market panic in the US (2/24/20). The ADV of the 35 trading days before 2/24 (pre-COVID-19) was \$35bn. **Post COVID-19 (2/24 to 3/11), corporate bond market ADV is ~\$55bn, a 53% in daily transaction volume.** Given these numbers, it would be natural to assume that liquidity is abundant, however, a closer look at detailed transaction data tells a different story.

Financials

vol: 150,056,217,620 | trds: 262,089 | CF: +4% : 3.7MMM

JPM	BAC	C	WFC	GS	MS	HSBC	BNP	BACR	GE
AXP	CS	USB	PNC	MET	COF	DB	BANBRA	RY	UBS

Liquidity Profile: Financial Sector Post COVID-19 – **SIGNIFICANT INCREASE IN CONCENTRATION**

The BondTiQ image above illustrates the top 20 Financial issuers by transaction volume since 2/24. Overall, customers have been net-buyers of financial bonds, with purchase volume exceeding selling volume by \$3.7bn. Post COVID-19, **ADV has increased by 35% (\$9.9bn to \$13.3bn), but the volume was generated by 25% fewer CUSIPs (7687 to 5650).** The number of CUSIPs needed to generate 40% of overall volumes was reduced from 374 CUSIPs pre-COVID-19, to 296 CUSIPs post-COVID-19. **The increased volume in Financials is the direct result of more trading in fewer bonds, indicating greater concentration and reduced CUSIP breadth.**

Energy

vol: 82,255,182,840 | trds: 111,082 | CF: +3% : 1.6MMM

PEMEX	PETBRA	OXY	ETP	EPD	RDSALN	XOM	KMI	BPLN	EQT
RIG	AR	EQM	CHK	WLL	ECOPET	RRC	CQP	WPX	MPLX

Liquidity Profile: Energy Sector Post COVID-19 – MODERATE INCREASE IN CONCENTRATION

The BondTiQ image above illustrates the top 20 issuers by transaction volume in Energy since 2/24. Overall, customers have been net-buyers of energy bonds, with purchase volume exceeding selling volume by \$1.6bn. Post COVID-19, **ADV has increased by 52% (\$4.9bn to \$7.5bn), but the volume was generated by 11% fewer CUSIPs (1813 to 1610)**. Like the Financial sector, activity in the most active portion of the Energy sector showed material contraction in the number of CUSIPs needed to generate 40% of overall volumes. Pre-COVID-19, 104 CUSIPs generated 40% of volume, post-COVID-19, only 76 CUSIPs were needed to generate the same 40% of overall volumes. **The increased volume in Energy is the direct result of more trading in fewer bonds, indicating greater concentration.**

Consumer Staples

vol: 37,181,181,720 | trds: 53,680 | CF: +5% : 1.4MMM

KHC	ABIBB	WMT	MO	PEP	BATSLN	ACI	JBSSBZ	KR	CAG
PM	POST	STZ	CVS	TGT	KO	TAP	CPB	KDP	WBA

Liquidity Profile: Consumer Staples Post COVID-19 – SLIGHT INCREASE IN CONCENTRATION

The BondTiQ image above illustrates the top 20 issuers by transaction volume in Consumer Staples since 2/24. Overall, customers have been net-buyers of consumer staple bonds, with purchase volume exceeding selling volume by \$1.4bn. Post COVID-19, **ADV has increased by 103% (\$2.49bn to \$5.04bn), but the volume was generated by 11% fewer CUSIPs (1079 to 960)**. The most active portion of Consumer Staples showed the largest drop in the number of CUSIPs than any other sector. The number of CUSIPs needed to generate 40% of overall volumes Pre-COVID-19 was 42 CUSIPs. Post-COVID-19, only 11 CUSIPs were needed to generate 40% of overall trading volume in the Consumer Staples sector. **The increased volume in Consumer Staples is the direct result of more trading in fewer bonds, indicating greater concentration and dramatically reduced breadth.**

A Closer Look – Institutional Financial Market

In summary, the extra \$20bn in ADV in US corporate bond market trading volumes is not necessarily an indication of plentiful liquidity. There are ~40,000 CUSIPs in the corporate bond market and under normal conditions, concentration has always been a defining feature of trading activity, but it's worth looking at magnitude of this concentration in times of market stress. To provide a more granular look at the mechanics of corporate bond trading pre and post-COVID-19, we have done the following:

- Segmented the trading volume into quintiles (1/5)
- Measured the change in CUSIP count pre-COVID-19 vs. post-COVID-10 per quintile
- Measured the change in trading volume count pre-COVID-19 vs. post-COVID-10 per quintile

Using this approach, we illustrate the number of "most active" bonds (CUSIPs in quintiles 1&2) relative to less active bonds (CUSIPs in quintiles 3 to 5):

Sector	Quintile 1		Quintile 2		Quintile 3		Quintile 4		Quintile 5		Total	
	%Chg in CUSIPs	%Chg in Vol										
Consumer Discretionary	4%	70%	-21%	67%	-19%	72%	-16%	69%	-8%	70%	-10%	69%
Consumer Staples	-70%	76%	-75%	122%	-37%	110%	-20%	102%	-4%	102%	-11%	103%
Energy	-33%	50%	-25%	53%	-23%	53%	-20%	51%	-7%	52%	-11%	52%
Financials	-27%	35%	-18%	35%	-17%	35%	-17%	36%	-26%	35%	-25%	35%
Health Care	-21%	66%	-21%	66%	-11%	68%	-13%	67%	-7%	67%	-9%	67%
Industrials	-6%	45%	-16%	49%	-19%	47%	-20%	47%	-7%	47%	-9%	47%
Materials	-8%	44%	-17%	39%	-23%	39%	-15%	42%	-13%	41%	-14%	41%
TMT	7%	60%	-14%	58%	-11%	60%	-11%	61%	-6%	60%	-7%	60%
Utilities	-35%	23%	-28%	25%	-27%	24%	-26%	24%	-8%	24%	-14%	24%
Total	-19%	51%	-22%	54%	-19%	54%	-17%	53%	-16%	53%	-17%	53%

In the increased trading volumes of the weeks post the COVID-19 crisis, only two areas of the US corporate bond market, Quintile #1 Consumer Discretionary and Quintile #1 TMT, experienced an increase in the breadth of CUSIPs trading in the US corporate bond market, , All other areas of the market contracted in terms of the number of bonds trading. This shows why **it is critical to look beyond macro numbers and drill down when examining the US corporate bond market. In order to do this, one needs better tools to manage and interpret data, which in turn will differentiate your performance as an institutional market professional.**

If you are interested in a free trial of BondTiQ, reach out to us at info@bondcliq.com.