BondCliQ

Institutional Market Monitor

March 17th, 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 examine how trade size differentiates post-COVID-19 market activity.

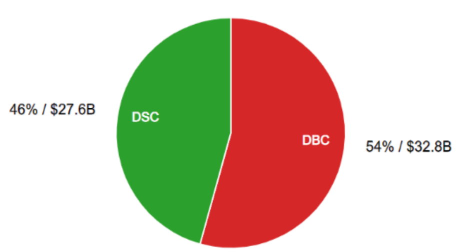
Two Markets in One

A consistent pattern in US corporate bond market transactional data is trading activity by size:

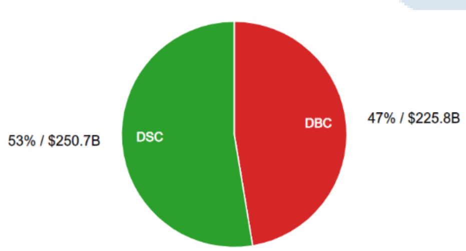
Market Size		Maturity						Credit Rating			Trade Size		
	Totals	0-3	3-5	5-7	7-10	10-15	15+	<=CC	CCC TO BB+	>=BBB-	<1MM	1MM-5MM	>5MM
Volume	36,844,170,340	23%	18%	18%	17%	2%	22%	0%	30%	69%	15%	54%	30%
Trades	59,641	37%	18%	16%	13%	2%	13%	0%	27%	73%	84%	14%	2%

While ~85% of all transactions are in sizes <$1MM, those trades only account for 15% of total trade volume in the market. Conversely, the relatively infrequent trading in sizes >=$1MM account for 85% of market volumes. It is not possible to discern how much of the <$1MM activity could be considered pure retail, but the trading environment shows stark differences in pricing and execution levels when compared to the institutional market.

Post COVID-19 (2/24 to 3/16), we see customer flows (the buying vs. selling activity) in corporate bonds going in opposite directions based on size:

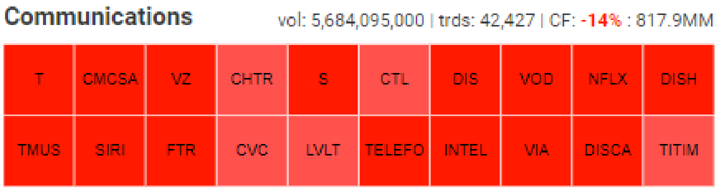


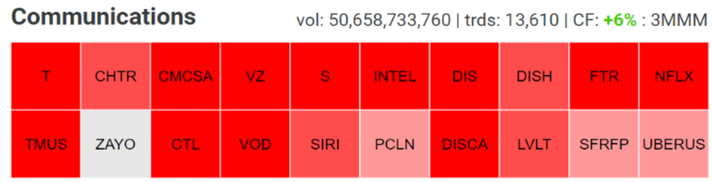
Aggregated <$1MM transaction activity shows significant selling activity. **Customers have been net-sellers of corporate bonds with sales volume exceeding purchase volume by $5.2bn (46% vs. 54%).**



In stark contrast, aggregated >=$1MM transaction activity shows significant buying activity. Over the same time period, **customers have been net-buyers of corporate bonds with purchase volume exceeding sales volume by ~$25bn (47% vs. 53%).**

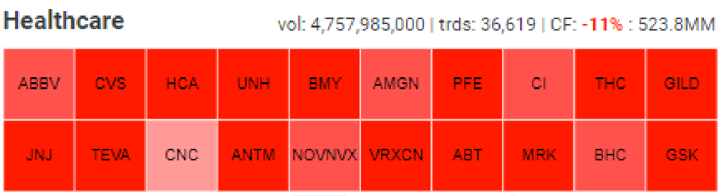
More granular examination of this trend on a sector level reveals even more pronounced differences in customer flow by size in certain areas of the market (<$1MM activity on the left):

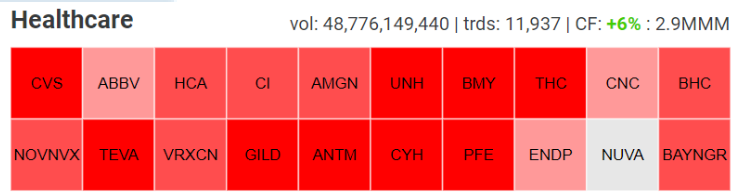




Retail to Institutional CF Difference: Communications Sector Post COVID-19 – SIGNIFICANT BASIS (20)

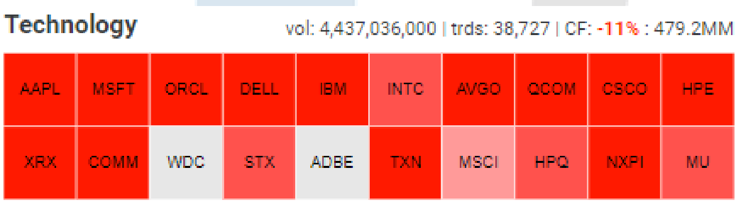
The retail (<$1MM) and institutional (>=$1MM) trading activity produced the same top five issuers by volume in the communications sector (T, CMCSA, VZ, S, CHTR). However, this sector saw the largest differentiation in customer flow by size with retail trading activity having a customer flow imbalance of -14% while the institutional market has a positive imbalance of +6%.

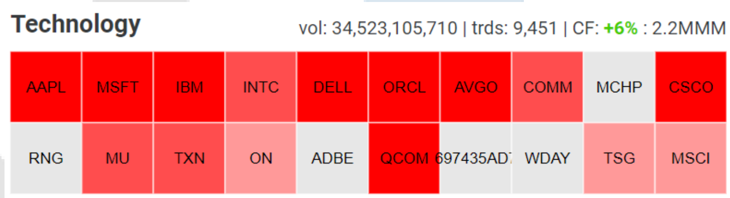




Retail to Institutional CF Difference: Healthcare Sector Post COVID-19 – SIGNIFICANT BASIS (17)

For healthcare, there is some slight differentiation in the top seven issuers by volume when comparing retail (<$1MM) and institutional (>=$1MM) trading activity. Like communications, the healthcare sector for retail trading had a double digit, negative customer flow imbalance of -11%, while the institutional market maintained a positive imbalance of +6%.





Retail to Institutional CF Difference: Technology Sector Post COVID-19 – SIGNIFICANT BASIS (17)

The technology sector is almost identical to the previous two examples. Both retail (<$1MM) and institutional (>=$1MM) trading activity during the post-COVID-19 period have the same issuers in their top six by volume. In technology bond, retail trading had a double digit, negative customer flow imbalance of -11%, while the institutional market maintained a positive imbalance of +6%.

The data above leads to some interesting questions about the mechanics of corporate bond trading. Clearly the fundamental value of a bond doesn't change based on the size of the transaction, so what is happening here? One theory is that during this period of pronounced volatility we are seeing investors rotate out of passive investment vehicles into actively managed funds. This would explain the selling imbalance in smaller trades because ETFs tend to generate small trades in their constituents while active bond funds tend to trade more in block sizes.

A Closer Look – Institutional Corporate Bond Market

The treatment of pure retail investors in the corporate bond market has been a key area of focus for years and the genesis behind the formation of TRACE. Unfortunately, the details in the current version of TRACE do not allow us to identify the activity of the pure retail investor, so we are left segmenting trading activity by trade size. The <$1MM market for corporate bond trading broad and includes a healthy amount of institutional buy-side participation combined with electronic trading platforms. It is well known that the execution prices for different trade sizes in the same bond are not uniform, but as our analysis indicates, customer flows are also an area of differentiation.

To provide a more granular look at the customer flow differences between <$1MM and >=$1MM transactions post-COVID-19, we have done the following:

- Aggregated the trading volume by sector from 2/24 to 3/16
- Compared the buy/sell imbalance by volume in retail (<$1MM) trades to institutional trades
- Calculated the imbalance difference by maturity range

Using this approach, we illustrate which maturity buckets have the most extreme customer flow differences between retail and institutional markets:

Sector	Total Volume	Basis between retail and institutional customer flow by maturity		
		0-5 years	5-15 years	>15 years
Financials	126,349,200	18	12	9
Energy	68,726,277	14	12	13
Healthcare	53,534,134	**20**	18	**24**
Consumer Stpls	31,752,237	**21**	16	**21**
Communications	56,339,076	15	13	**29**
Industrials	34,150,996	15	12	7
Consumer Disc	55,078,377	12	9	13
Technology	38,943,371	**23**	13	**27**
Utilities	19,951,624	7	5	**33**
Materials	21,073,590	8	13	14
Total	505,898,882	15	12	19

The pronounced differences in customer flow for the same group of bonds indicate that there is a persistent arbitrage opportunity between the <$1MM and >=$1MM markets. Realizing this opportunity requires the right tools to manage and interpret data in real-time and historically.

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