

PARADIGM SHIFT AS MARKET MAKERS TAKE CENTRE-STAGE IN EUROPEAN LIQUIDITY PROVISION DURING COVID-19 PANDEMIC

- ***New research report reveals independent market making firms becoming trusted partners to European buy-side after stepping up to support institutional investors during pandemic***
- ***Surveyed asset managers appreciate market makers' continuous presence in the markets***
- ***Recognition accelerated by adoption of technology and screen-based electronic trading during lockdown***

The ability of independent market making firms to provide essential liquidity to Europe's pension funds and other asset managers during the Covid-19 financial crisis has accelerated their recognition as a vital part of the European capital markets eco-system.

A new research report surveying European buy-side participants reveals for the first time how market makers stepped up to help the asset managers when some of the traditional providers of risk capital partially withdrew from certain market segments in Europe in the early stages of the pandemic.

As asset managers – particularly small and mid-size funds -- were seeking additional sources of liquidity the independent market makers were able to step up. This was made easier as the increasing electrification of the markets enabled asset managers and market makers to engage whilst working from home.

Now, clear signs are this shift is becoming permanent as asset managers better appreciate what market making firms' offer as liquidity partners, including greater transparency and continuous presence in the markets.

These benefits mean investors can trade instantly and with certainty, enabling them to adjust their investment strategies and manage their risk.

The insights are published today in a new study called *Liquidity in the Time of Covid*. It is based on detailed interviews with 30 EU and UK-based Global Heads of Trading at asset management firms holding \$35.6 trillion collectively.

The study is written by independent financial services research group Redlap Consulting. It was commissioned by FIA EPTA, which represents Europe's leading market making firms, to drive greater understanding of what independent market making firms do, and their contribution to both financial markets and the wider economy

Key findings include:

- **91%** of respondents noted **improved access to automated and diverse sources of liquidity** during the March-April 2020 volatility period compared to the crisis of 2008.
- **77%** of respondents **increased their means of accessing liquidity electronically** and automated trading during the pandemic.
- **53%** of respondents took the opportunity to **diversify their means of who they trade with** to access to liquidity.
- **70%** of respondents are **engaging more with alternative liquidity providers**

Report author Rebecca Healey, founder of Redlap Consulting, said: *"Covid-19 continues to redefine the trading landscape as the pandemic lifted the veil on the role market-makers can play in liquidity formation.*

"Liquidity challenges in bond markets early in the pandemic created a vacuum forcing the buy-side, to find new trading partners and access points to liquidity – and market making firms stepped up to fill the void.

“Now as asset managers continue to partner more directly with these firms, they have been able to benefit from a wider, more diverse pool of counterparties in how and where they can execute investment strategies; while liquidity providers have the opportunity to re-position themselves and build new partnerships.”

One Head of Trading at a large global asset manager interviewed for the report said: *““We definitely engaged more with [electronic liquidity providers]; as [some sell-side firms] stepped back, they stepped up.”*

Piebe Teeboom, Secretary General of the FIA European Principal Traders Association, said: “The clear message from this report is that asset managers have developed a far more detailed and positive understanding of market makers and the liquidity provision they offer.

The pandemic and, in particular, the lockdowns accelerated a longer-term shift towards screen-based trading as people were forced to find new ways of working. This created a watershed moment as the buy-side engaged more with market making firms – and consequently became more appreciative of the benefits of better and more transparent prices, the constant liquidity provision and optionality the firms offer.

“That reappraisal and recognition – similar to a light-bulb moment – has now cemented the role of market making firms as mainstream actors in the capital markets ecosystem.”

Notes to Editors

Redlap Consulting conducted interviews with 30 Global Heads of Trading at asset managers with \$35.6 trillion (€30.36trn, £25.9trn) in assets. Of these 57% were based out of the UK, 43% in Europe. 40% of respondents were based at firms with more than \$500bn AUM, a third had assets up to \$100bn and 27% were between \$100and \$500bn.

To download a copy of the report please visit <https://wearemarketmakers.com/liquidity-in-the-time-of-covid-download-the-report/>

The FIA European Principal Traders Association (FIA EPTA) represents Europe’s leading Principal Trading Firms. Its 30 members are independent market makers and providers of liquidity and risk transfer for end-investors across Europe. It works constructively with policymakers, regulators and other market stakeholders to ensure efficient, resilient, high-quality financial markets. To find out more visit fia.org/epta

The report is the first of three being produced to mark FIA EPTA’s 10th anniversary which is being marked by a new campaign to drive greater understanding of what independent market making firms do, and their contribution to both financial markets and the wider economy. For more information about the #WeAreMarketMakers campaign please visit www.wearemarketmakers.com

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