Bond Market’s Data Flood Spurs New Era of Billion-Dollar Trades

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By Matthew Leising

(Bloomberg) -- When AllianceBernstein Holding LP buys or sells a corporate bond, it looks at an astronomical amount of data. Literally.

The quantity of information captured each day at the asset manager’s fixed-income unit has tripled in the last two years to 92 terabytes -- or 92 trillion bytes. That includes active inventory, trade data, 4 million messages and direct price feeds. By comparison, scientists using the Hubble telescope to understand the origins of the universe suck in 10 terabytes a year.

“It is a huge quantum leap,” James Switzer, global head of fixed-income trading at AllianceBernstein, said in an interview. “This stuff is coming fast and furious.”

The once-sleepy world of bond trading has morphed into a jet-fueled data cruncher, remaking the $6.84 trillion U.S. corporate-debt market. Advances in cloud computing and data storage made it easier to sift huge amounts of information just as pressure on fees have spurred buy-side firms to try something new.

Those forces are sparking the beginnings of many long-awaited changes to the market, such as standardized pricing, automated trading and billion-dollar portfolio trades. That’s challenging the view that the buying and selling of bonds would avoid the sweeping developments that have transformed equities.

“We have a real change in the market,” said Scott Eaton, chief executive officer of Algomi Ltd., a software provider that aggregates bond prices and offers analytics and execution services.

AllianceBernstein created a trading system called Alfa -- Automated Liquidity Filtering & Analytics -- in 2017, then sold it to Algomi with an eye toward marketing it. The largest money managers on Wall Street have signed on, including Pacific Investment Management Co., Vanguard Group Inc., Invesco Ltd. and T. Rowe Price Group Inc. AllianceBernstein still uses the system, leasing it back from Algomi.

The technological leaps have helped encourage a shift to automated trading, which had been hindered in the past by the lack of a common price for a given security.

“What we’re starting to see is the industry coalesce around some of these pricing protocols,” said Josh Barrickman, who oversees the bond indexing team at Vanguard. “That’s a big hurdle to me, to get the corporate bond market to look like the equities market. And we’re making a lot of progress there.”

Confidence in automation is so high that AllianceBernstein will soon have a separate desk staffed by coders, not traders, Switzer said. And at BlackRock Inc., which manages around $6 trillion, automation is central to plans for growth.

“If we were to grow to $10 trillion, it’s not going to be

by hiring more people with phones," Dan Veiner, BlackRock's global head of fixed-income trading, said in June. "We need the platforms to solve our problems."
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Amy Hong, global head of market structure strategy at Goldman Sachs Group Inc., said new technology allows for "seamless and expedient pricing." She said it's led to a "major shift in how our clients are thinking."
Mining data can lead to deals where none could be found previously. Hong described a process in which an investment manager comes to a broker-dealer not with a specific bond in mind, but rather with a list of characteristics that allows a wider set of securities to be considered.
Perhaps the biggest change in the past two years is what's known as portfolio trading. It's a tactic for selling large blocks of corporate bonds at once that is used by firms including Goldman Sachs. Asset managers present a list of 100 or 200 bonds to a broker dealer, and are able to get a single price for the whole lot. For example, the list could be for 100 bonds at $5 million each to buy.
The sizes made possible by portfolio trading would've been inconceivable just a few years ago, and can run into the hundreds of millions or even billions of dollars. "Portfolio trading was zero percent two years ago and now it's 25% of our notional trading in high yield," Switzer said.
To be sure, cost pressure is a motivation for the bond market's makeover. Asset managers are cutting expenses as investors flock to passive strategies and, as Eaton said, many firms suffer "the grinding tighter" of their fee bases. A study by Deloitte Consulting and Aon Plc found that expenses have outpaced or matched revenue growth at buy-side firms over the last four to five years, adding pressure to cut costs.
For Switzer and AllianceBernstein, the influx of information has been a boon. Switzer said data aggregators like Alfa allow the firm to complete far more trades than it did five years ago.
"It's helping us in real time to know when something is happening in a bond we care about," Switzer said. "It's a race, and we're just trying to stay ahead."

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