FIXED INCOME EXPERT NETWORK REPORT

Fixed income set for volatile 2025

Research by

valantic

acuiti management intelligence

Contents

Intro

The only certainty is uncertainty for fixed income markets as 2025 looks set to be another highly volatile year. The new administration in the US, combined with continued questions over the pace of rate cuts in Europe and the impact of trade disruption in Asia are all contributing to a highly uncertain outlook for rates and the direction of bond yields.

This brings benefits to many in the market, particularly the sell-side, for whom higher volatility means higher volumes and an increased need to hedge and reposition from their clients. Among the buy-side, however, volatility can bring more challenges than benefits.

One thing that is certain is that current market conditions are driving the need for firms to automate their workflow, both to achieve greater execution efficiency and to increase capacity in anticipation of higher volumes in the market.

These trends build on the existing drive towards greater volumes of electronic trading in fixed income, a trend that valantic FSA is working with clients across the global market to accommodate.

These are uncertain times, both for fixed income and the wider global economy. However, investments today will stand firms in good stead for both the market of 2025 and for years to come.

This report is based on a survey of the valantic FSA Fixed Income Expert Network, a group of senior executives from asset managers, tier 1 and 2 banks and smaller sell-side firms such as brokers and regional banks.

**Joachim Lauterbach**
CEO, valantic FSA

Andy Browning
Head of Electronic Trading, valantic FSA

Managing volatility in 2025

Various factors, ranging from the election of Donald Trump to a second non-consecutive term to uncertainty over the pace of interest rate cuts in Europe, are set to contribute to market uncertainty in 2025. As a result, members of the network expect 2025 to be a volatile year for fixed income markets. Over half of the network predict significantly higher volatility in 2025, presenting both opportunities and challenges to firms in the network. Market movements drive volumes, which benefits the sell-side. However, for the buy-side, particularly asset managers, sharp market moves can negatively impact performance.

HOW VOLATILE DO YOU EXPECT 2025 TO BE COMPARED TO AN AVERAGE YEAR?

3%
0%
10%
56%
31%

- Significantly higher
- Moderately higher
- About the same
- Moderately lower
- Significantly lower
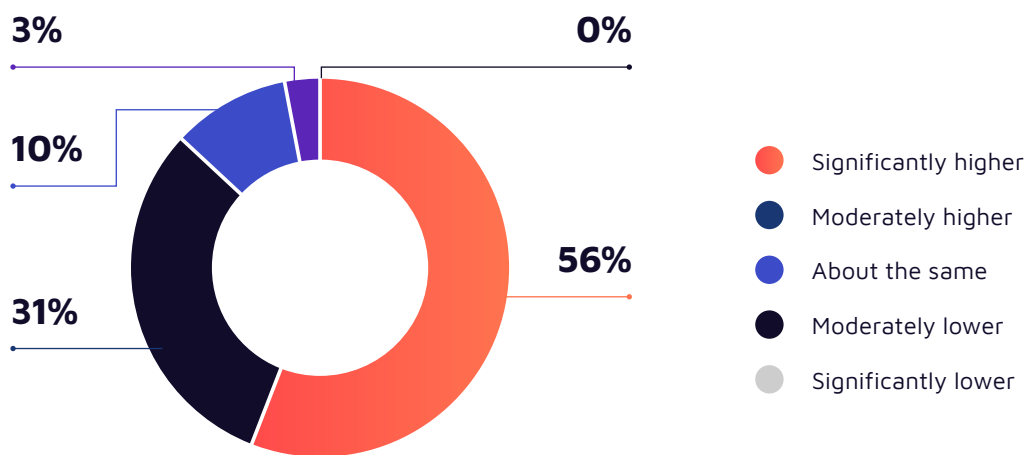
Managing volatility also requires investment and changes to how firms approach the market. Over 80% of the network were planning on making changes to risk management in 2025 in anticipation of the expected volatility. The most common changes were an increase in hedging activity, a shift to higher-quality credit and increasing the use of derivatives. When it came to liquidity risk emanating from higher volatility, around half of firms in the network were planning to make changes to mitigate the risk, with most planning to reduce exposure to more illiquid securities.

Firms are also turning to technology investment to mitigate risk in 2025. Overall, a third of the network are planning to invest in new risk management technologies over the next 12 months – a trend particularly evident among tier 2 and 3 banks.
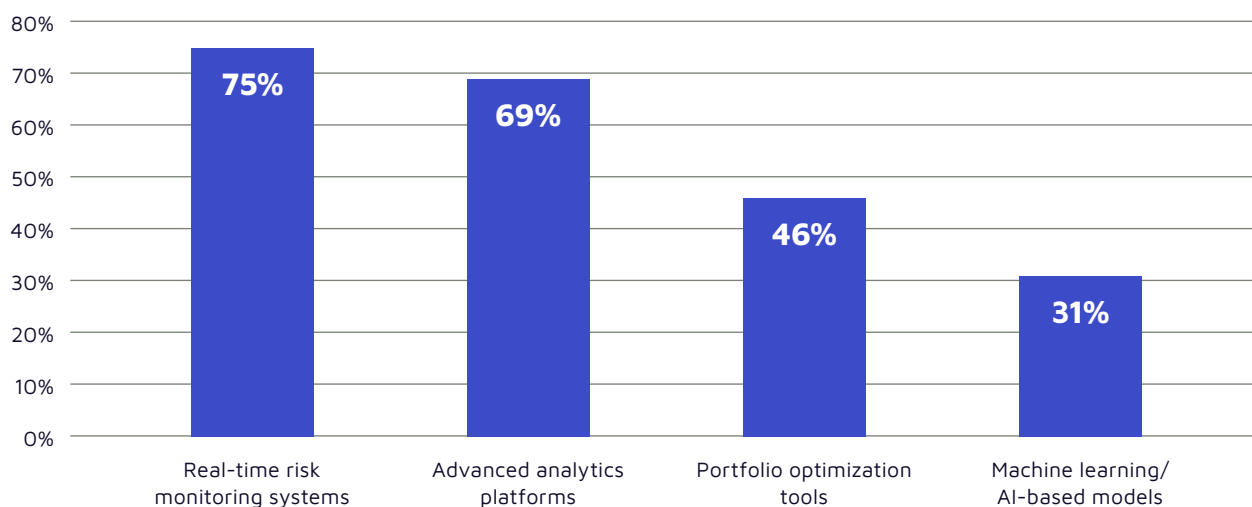
ARE YOU PLANNING TO INVEST IN NEW RISK MANAGEMENT TECHNOLOGIES IN THE NEXT 12 MONTHS?

27%

33%

40%

- Yes
- Not decided
- No
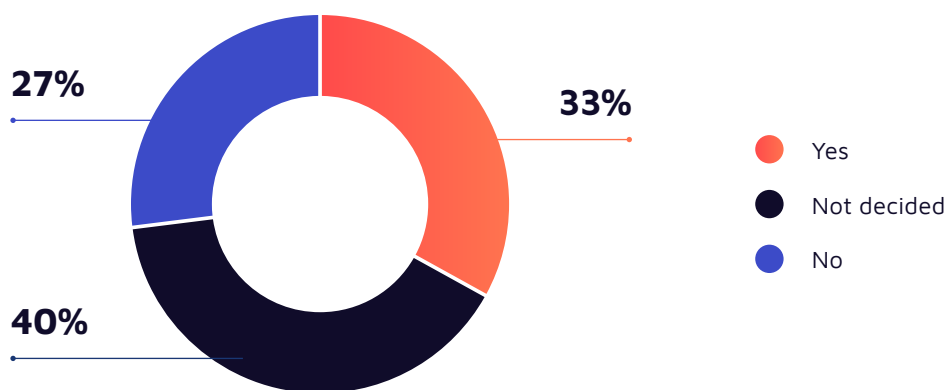
Much of this investment will be targeted at gaining a more holistic view of risk with three-quarters of respondents looking to enhance real-time risk monitoring systems and a similar percentage making greater use of advanced analytics.

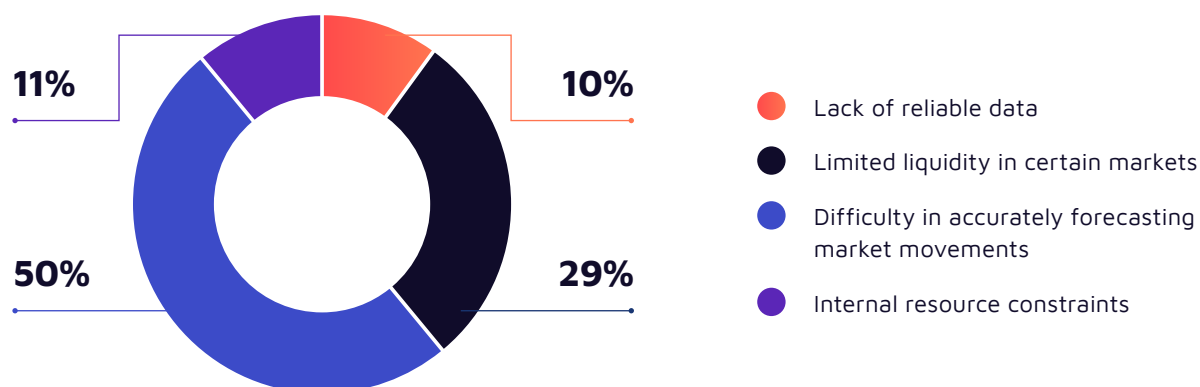## WHAT TOOLS ARE YOU USING TO ENHANCE RISK MANAGEMENT IN VOLATILE MARKETS?

	75%	69%	46%	31%
	Real-time risk monitoring systems	Advanced analytics platforms	Portfolio optimization tools	Machine learning/ AI-based models

This investment in data reflects the challenges that firms face in managing risk in volatile markets. Half of the network said their biggest challenge was accurately forecasting market movements to inform their risk management strategies.
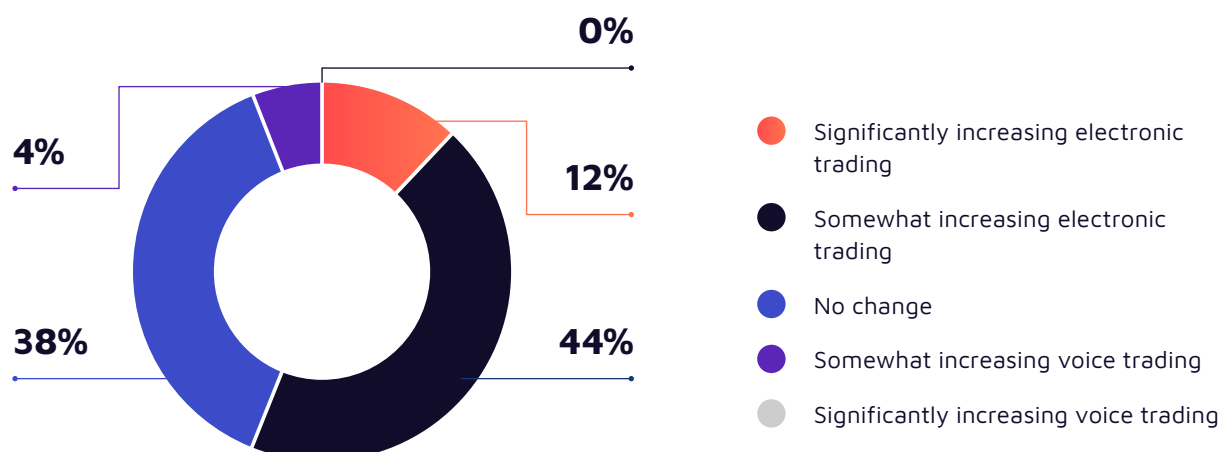
WHAT IS THE BIGGEST CHALLENGE YOU FACE IN MANAGING RISK IN VOLATILE MARKETS?

11%
10%
50%
29%

- Lack of reliable data
- Limited liquidity in certain markets
- Difficulty in accurately forecasting market movements
- Internal resource constraints

Another challenge reported was limited liquidity during market volatility, which needs to be factored into models to accurately reflect market risk. To counter this liquidity risk, firms are expanding their electronic trading capabilities.

Overall, 66% of the network were planning to increase their volume of electronic trading to mitigate volatility compared with just 4% that were planning the same for voice trading.

ARE YOU PLANNING TO CHANGE YOUR ELECTRONIC TRADING APPROACHES TO MITIGATE VOLATILITY?

0%
4%
12%
38%
44%

- Significantly increasing electronic trading
- Somewhat increasing electronic trading
- No change
- Somewhat increasing voice trading
- Significantly increasing voice trading

Investing in electronic trading increases firms' access to liquidity, enabling them to aggregate quotes from a wider range of dealers and liquidity providers. This higher level of access to liquidity also tends to result in tighter bid-ask spreads and quicker execution, reducing the likelihood of extreme price movements even when market volatility rises. Investment in electronic trading also allows greater use of algorithms to execute trades which can be used to minimise market impact and slippage, a factor that becomes particularly important during volatile markets.

Interestingly, the volatility of 2025 looks set to be focused on the larger markets, with the network predicting there would be the most volatility in US and European rates, reflecting the impact of the new administration in the US (see section 3 for more). Ultimately, 2025 looks set to be a year in which there is significant opportunity for firms to profit from market moves and one in which higher volatility in fixed income will drive a greater need for firms to hedge their risk and exposures.

Investing in automation

In line with the investment in liquidity and risk management in anticipation of a busy year for fixed income markets, another key trend for 2025 in fixed income markets is the continuing investment in automation. Overall, 83% of the network were planning on investing in automation in 2025 with just under a third planning a significant investment. There were some differences across the company types, however, with the larger tier 1 and 2 banks more likely to be investing in automation than both the buy-side and smaller sell-side firms.

ARE YOU PLANNING ON INVESTING IN AUTOMATION IN 2025?

17%

29%

54%

- ● Significant investment
- ● Slight investment
- ● No
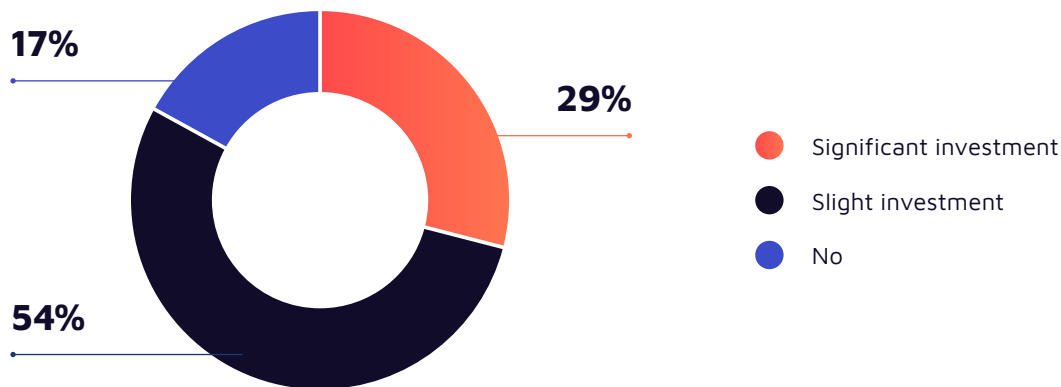
Firms within the network are increasingly deploying automation tools, such as automated pricing, RFQ streaming and negotiation, to streamline front-office trading activities and enhance execu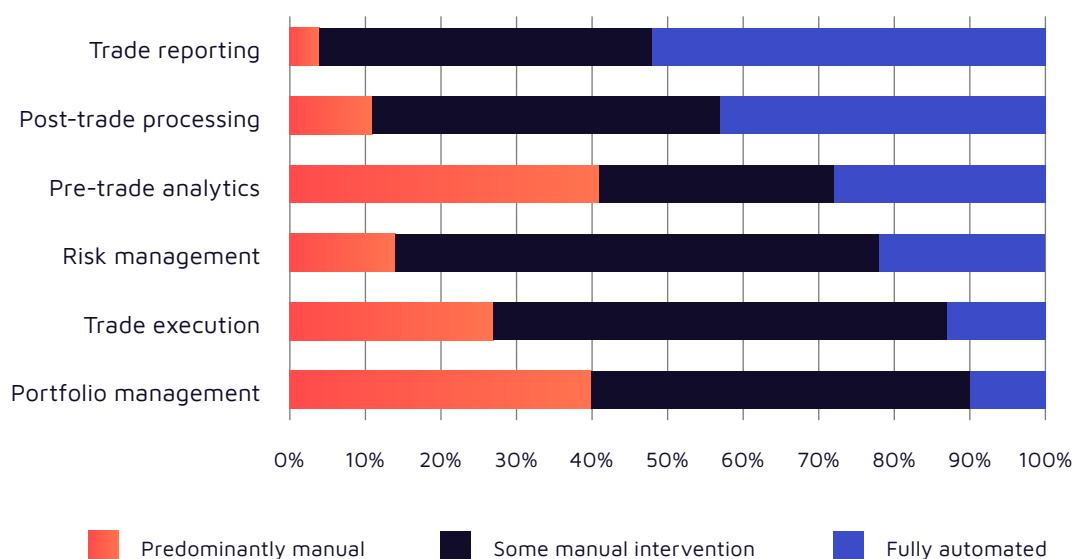tion. Beyond the front office, many buy-side and sell-side institutions are automating middle- and back-office workflows, including areas such as front-to-back trade processing and trade confirmation and matching, to improve efficiency, reduce errors and optimise compliance.

Automation initiatives also reflect a growing focus on data-driven insights and predictive analytics. Machine-learning algorithms can comb through large sets of market and economic data, identifying patterns and trading opportunities that might otherwise go unnoticed. These insights help portfolio managers make more informed decisions about credit risk, duration, and yield-curve positioning.

HOW AUTOMATED ARE YOUR WORKFLOWS IN THE FOLLOWING AREAS?

Legend: Predominantly manual | Some manual intervention | Fully automated

Categories (top to bottom): Trade reporting, Post-trade processing, Pre-trade analytics, Risk management, Trade execution, Portfolio management

X-axis: 0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

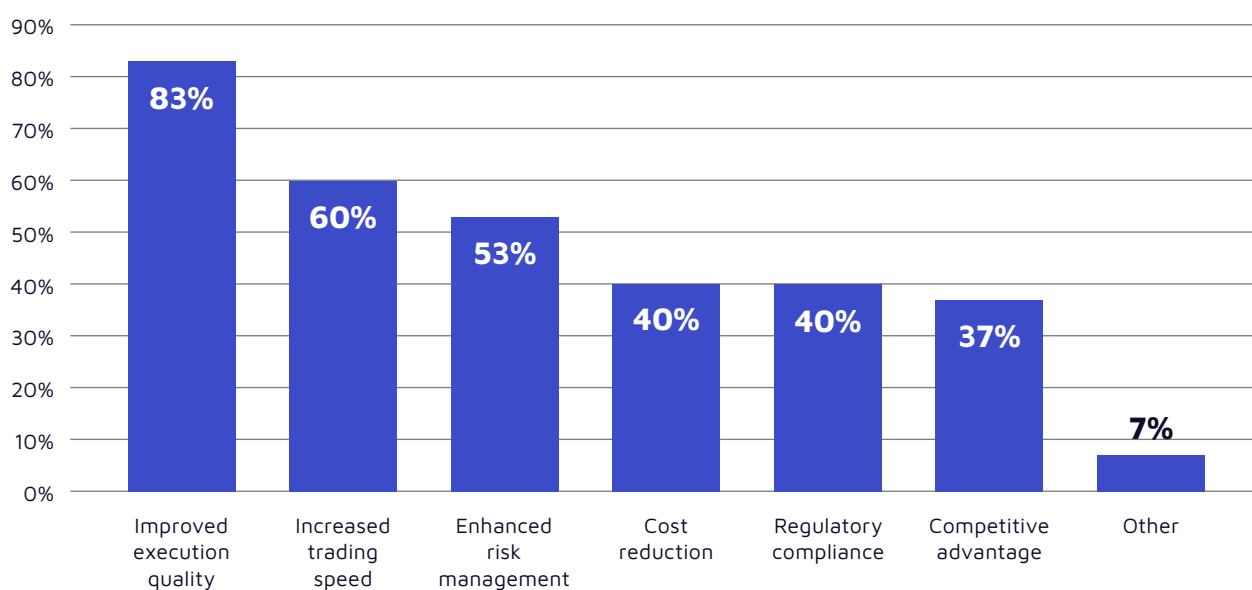Considering automation, there was significant difference across functions. While firms have largely succeeded in automating large volume processes such as post-trade processing and trade reporting, other areas, including pre-trade analytics, remain predominantly manual.

As firms shift to greater volumes of electronic trading, the need for greater levels of automation in trading functions will increase. This is reflected in the motivations that firms have when investing in workflow automation. Improved execution quality and increased trading speed were the top drivers for firms in the network.

WHAT ARE THE PRIMARY DRIVERS FOR WORKFLOW AUTOMATION IN YOUR FIXED INCOME TRADING OPERATIONS?

Select top 3

| Driver	Percentage
Improved execution quality	83%
Increased trading speed	60%
Enhanced risk management	53%
Cost reduction	40%
Regulatory compliance	40%
Competitive advantage	37%
Other	7%

However, while automation brings significant benefits, there are also challenges that firms face. One top issue is the cost of implementation. While automation brings many benefits in terms of cost reduction in the long term, it requires upfront investment both in terms of time and costs, with the complexities of having to unwind or augment legacy systems.

WHAT ARE THE BIGGEST CHALLENGES YOU FACE IN AUTOMATING FIXED INCOME TRADING WORKFLOWS?
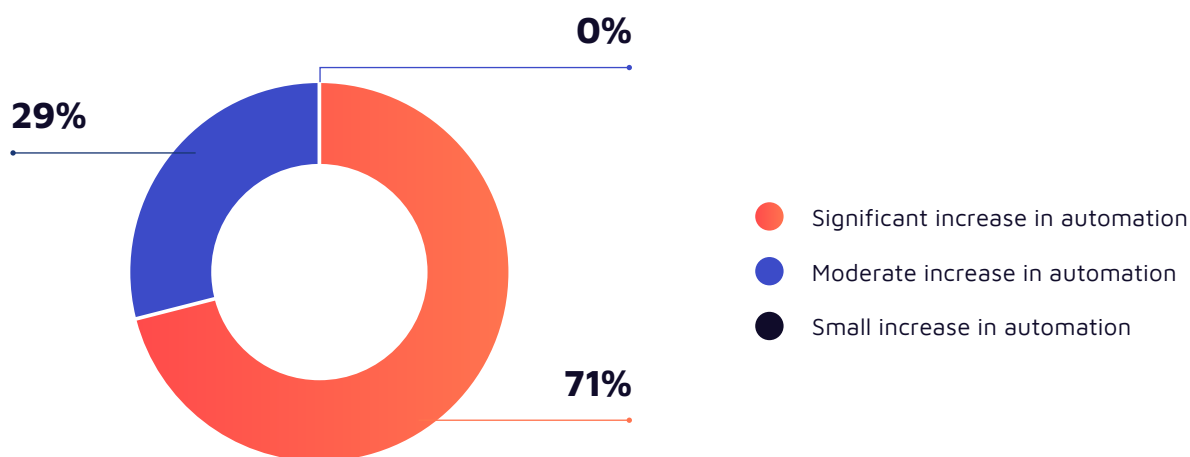
Select top 3
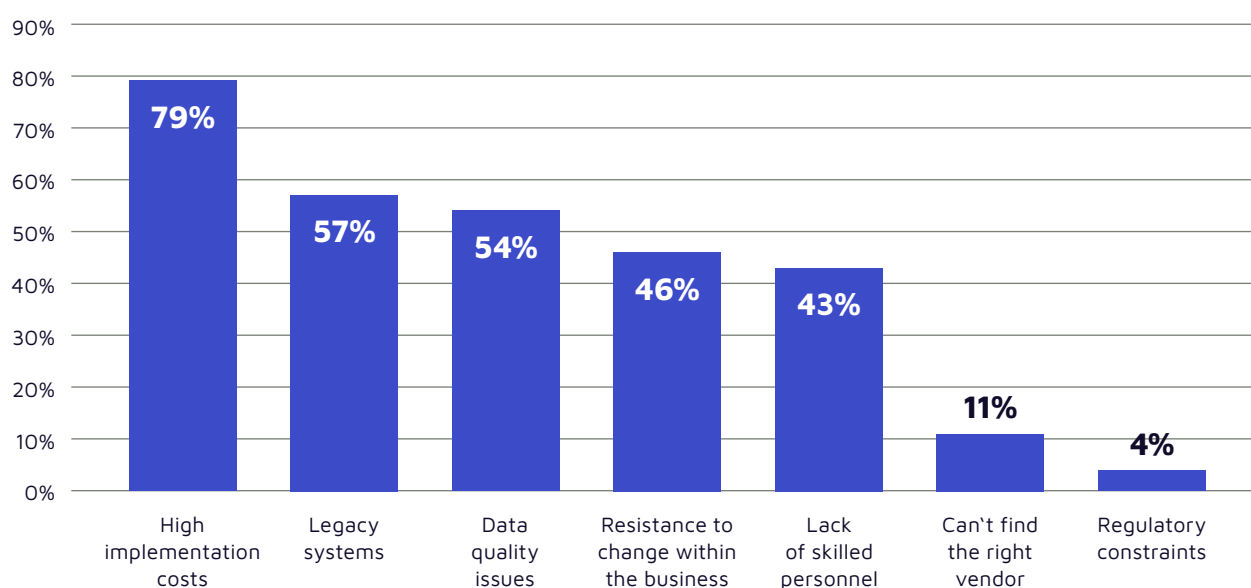
Some firms have overcome this with multi-year implementation programmes addressing diffe-rent parts of the trade lifecycle over a period of years. This both spreads the cost and reduces the operational risk of implementation – however, it also extends the time until the benefits start to filter through to the bottom line.

Other issues that firms reported were the res-traints of legacy systems and data quality issues. Data harmonisation is essential to effective auto-mation, but data can be stored and processed across multiple different systems, especially at larger institutions with more complex operational structures. Having a function-wide data strategy is key for an optimum return on investment.

A resistance to change within the business was a particular issue for the sell-side, where desks and functions have been built in silos with individual P&Ls and powerbases. Meanwhile, the buy-side typically reported difficulties in finding the right staff to implement the transformation programme.

HOW DO YOU EXPECT AUTOMATION IN YOUR FIXED INCOME BUSINESS TO CHANGE OVER THE NEXT 5 YEARS?

0%

29%

71%

- ● Significant increase in automation
- ● Moderate increase in automation
- ● Small increase in automation

Overall, almost three-quarters of the network anticipated a significant increase in automation within their fixed income business over the next five years.

Trump 2.0

The election of President Trump to a second term in November and his inauguration in January is set to have an impact across all sectors – and fixed income is no exception.

The new administration's initial policies suggest a major break with established norms across a wide range of areas, from global trade to domestic fiscal policy.

Members of the network are taking a cautious approach to the impact of President Trump's second term. However, on balance the network views it as positive for their fixed income business.

WHAT IMPACT DO YOU THINK THAT TRUMP'S SECOND TERM WILL HAVE ON YOUR FIXED INCOME BUSINESS PERFORMANCE?

0%

7%

20%

27%

47%

- ● Very positive
- ● Positive
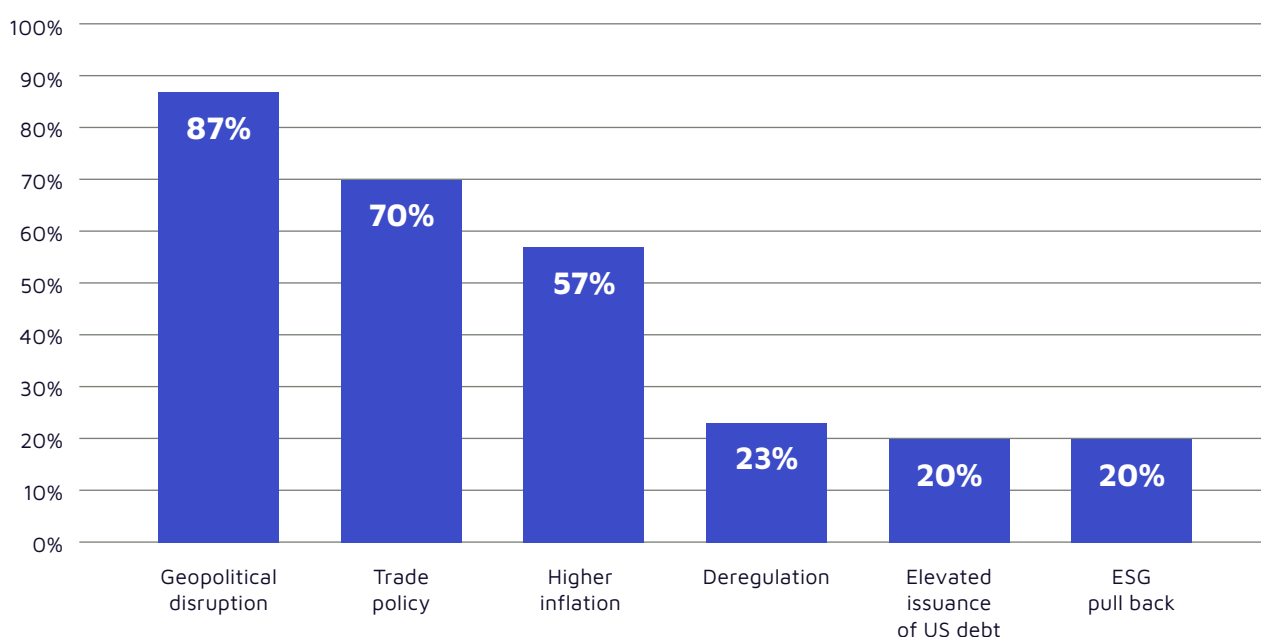- ● Neutral
- ● Negative
- ● Very negative
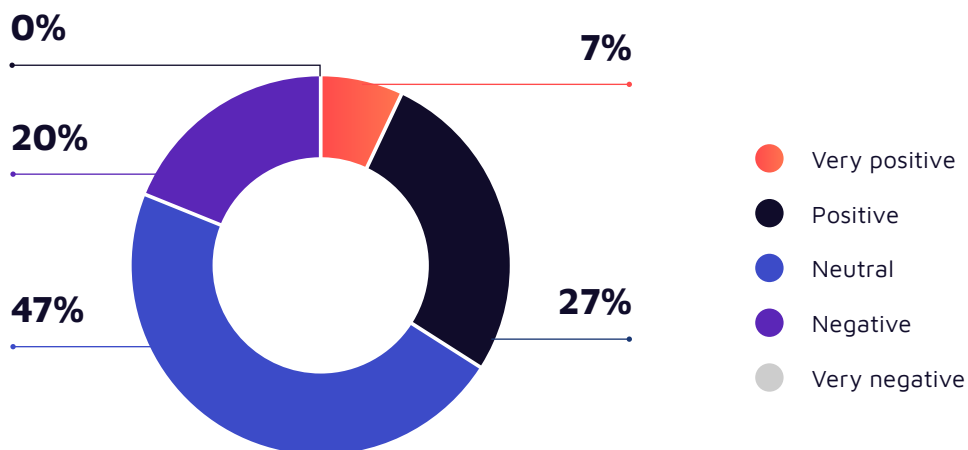
Geopolitical disruption was said to be the area in which the biggest impact will be felt, with trade policy also being a significant factor in how firms approach the market as tariffs are likely to knock local economies and impact fixed income markets.

## WHAT ASPECTS OF TRUMP 2.0 DO YOU THINK WILL HAVE THE BIGGEST IMPACT ON YOUR FIXED INCOME BUSINESS?

Select top 3

Category	Percentage
Geopolitical disruption	87%
Trade policy	70%
Higher inflation	57%
Deregulation	23%
Elevated issuance of US debt	20%
ESG pull back	20%

Deregulation was expected to have a big impact on revenues and business performance by the sell-side while the buy-side in the network were more likely to predict an impact from a pullback in ESG.

TRUMP HAS CALLED FOR RATE-SETTING POWERS TO FALL UNDER THE EXECUTIVE, RATHER THAN BE SET INDEPENDENTLY BY THE FED. WHAT IMPACT ON YOUR FIXED INCOME BUSINESS WOULD THIS HAVE?

8%

17%

75%

- Mainly positive
- Mainly negative
- No impact
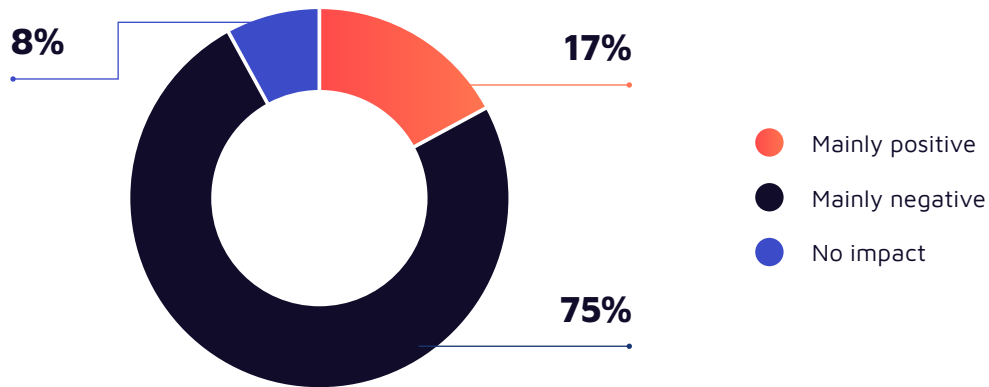
President Trump is known to be an advocate of lower rates and in his first term he put significant pressure on the Federal Reserve to bring down interest rates – a strategy that has continued in his second term when in March he urged the Fed to "do the right thing" by reducing rates.

He could go even further this term. In the run up to the recent election, he advocated for greater executive power over rate setting. For three-quarters of the network this was seen as a negative step.

COULD TRUMP'S EFFORTS TO DEREGULATE AFFECT FIXED INCOME LIQUIDITY AND MARKET TRANSPARENCY?

36%

45%

19%

- Yes, positively
- Yes, negatively
- Would have little to no effect
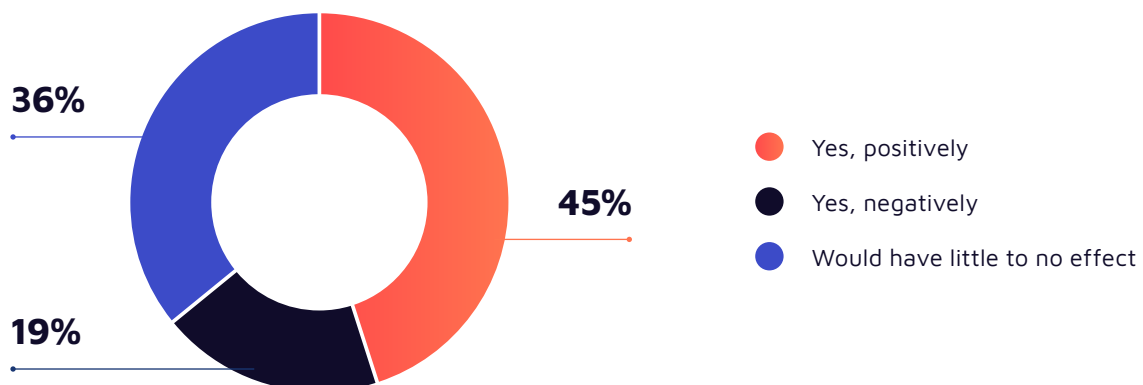
Firms were more welcoming of President Trump's plans to deregulate financial markets in the US. This was seen as positive by almost half of the network, particularly banks based in the US.
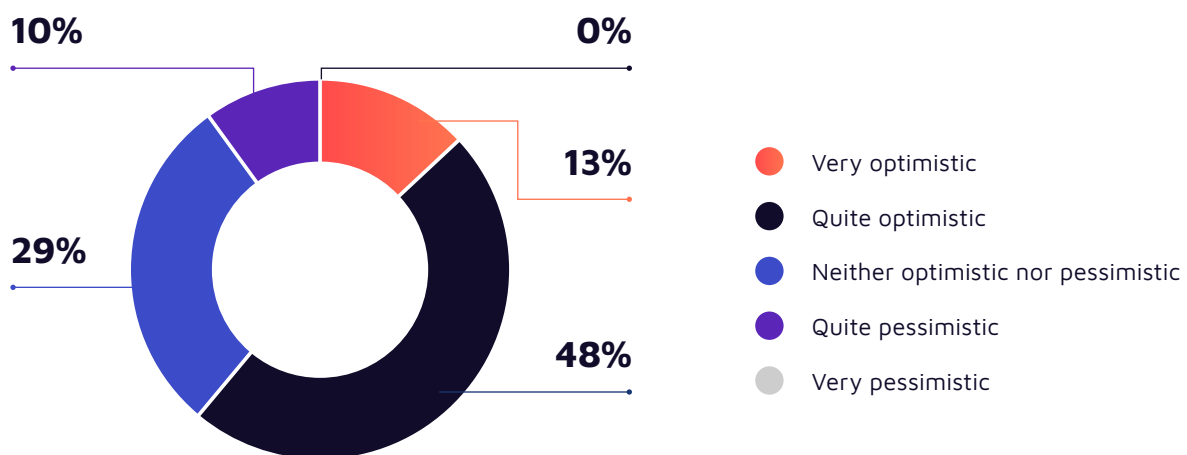
However, for most of the network deregulation was predicted to have little or negative impact on liquidity and market transparency.
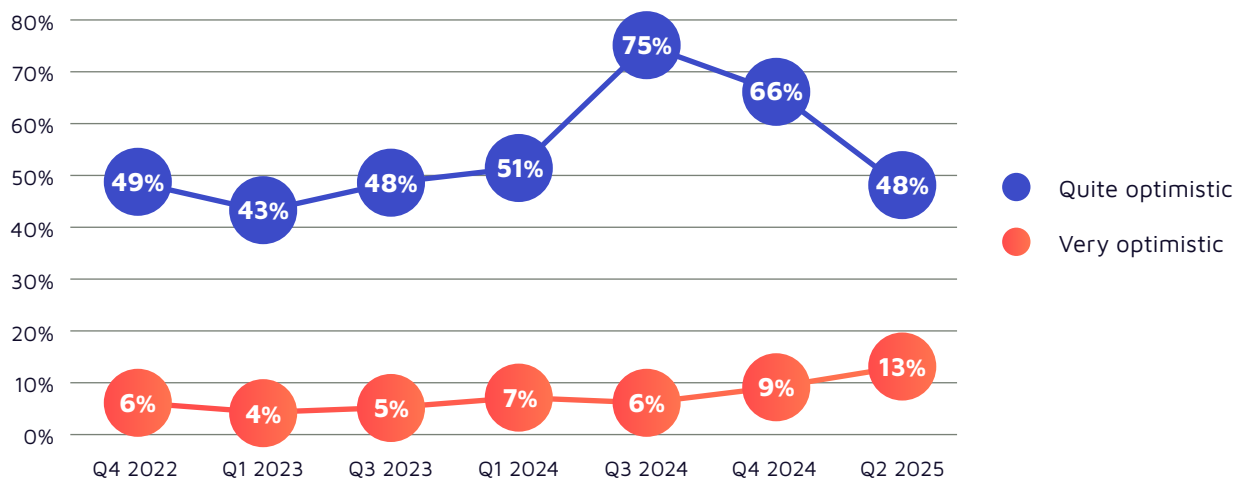
Sentiment

Sentiment across the Fixed Income Expert Network dropped this quarter as firms look ahead to a challenging but volatile three months for the market. Overall, 61% of the network were optimistic about the coming three months. However, 10% were pessimistic. Optimism was driven by the sell-side, who were significantly more optimistic than the buy-side executives in the network.

HOW OPTIMISTIC ARE YOU ABOUT THE PERFORMANCE OF YOUR BUSINESS OVER THE NEXT THREE MONTHS?

- 10%
- 0%
- 13%
- 29%
- 48%

- ● Very optimistic
- ● Quite optimistic
- ● Neither optimistic nor pessimistic
- ● Quite pessimistic
- ○ Very pessimistic

THE VALANTIC FSA FIXED INCOME SENTIMENT INDEX

	Q4 2022	Q1 2023	Q3 2023	Q1 2024	Q3 2024	Q4 2024	Q2 2025
Quite optimistic	49%	43%	48%	51%	75%	66%	48%
Very optimistic	6%	4%	5%	7%	6%	9%	13%

valantic

About us

valantic FSA automates the trading and transaction workflows at more than 100 firms in the Financial Services industry.

Our mission is to digitize, augment and evolve the value streams within our clients. This delivers new levels of efficiency, insight, and agility so that our clients can position themselves for maximum impact today and in the future.

Our deep industry expertise is used to assemble these systems from a broad range of proven components and next-generation technologies.

valantic FSA

Smarter automation driving the financial industry.

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