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FIXED INCOME EXPERT NETWORK REPORT

Fixed income risks mount but performance remains strong

Research by

valantic

acuiti management intelligence

Contents

Intro

In the latest instalment of the valantic FSA Fixed Income Expert Network report we take a multi-angle view of the centre of fixed income markets – US Treasuries. We look at network members’ attitudes to the US debt stack and how they are adapting, as well as their views on other risks and challenges to the fixed income business so far this year.

We retain our focus on the US Treasury market in section three of the report, looking at the how the SEC’s mandate for cash and repo clearing will effect the ongoing electronification of the repo market.

Then, we turn to the growth of private credit and examine how it is interacting with the broader trend of fixed income electronification.

This report is based on a survey of the Acuiti and valantic FSA Fixed Income Expert Network, a group of senior fixed income executives across the buy and sell-side. Each quarter, members of the network suggest topics and questions and complete an anonymised survey. This report is based on the findings of that survey.

Andy Browning
Head of Electronic Trading, valantic FSA

SECTION 1

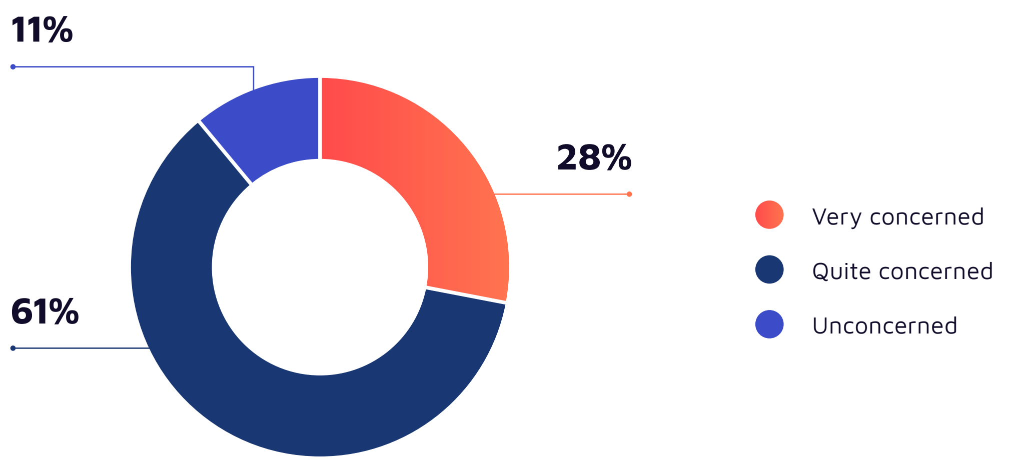
The US deficit

The US deficit has become an increasing concern among investors in recent months. The Trump administration's One Big Beautiful Bill Act has been projected to create an additional $3.4 trillion deficit over the 2025-2034 period.

The Act continues a bipartisan trend for deficit funding of federal programmes that has long been tolerated by investors. However, concerns about the sustainability of the US debt stack are now growing and being made more vocal by many market participants.

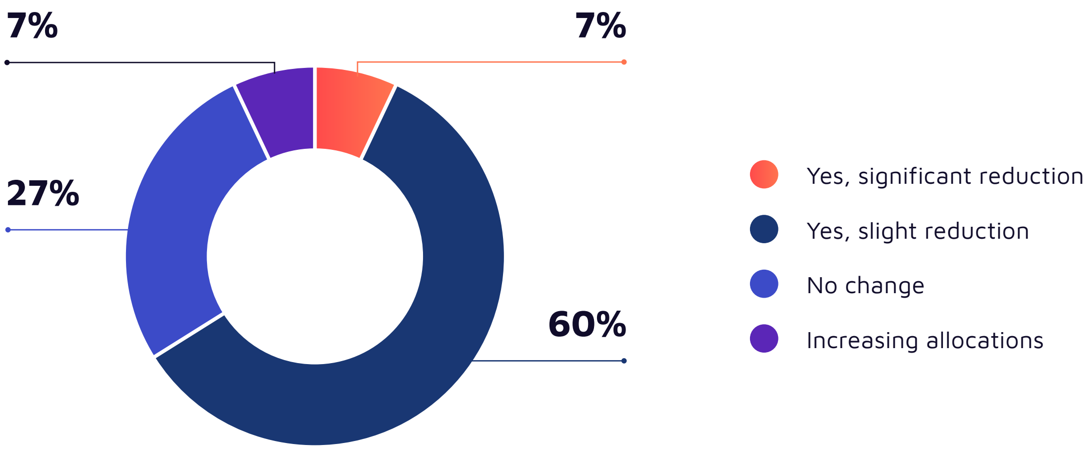
Most members of the Fixed Income Expert Network were concerned about the US deficit, with just under a third very concerned.

HOW CONCERNED ARE YOU BY THE US DEFICIT?



These concerns are already leading to action, with network sentiment overall bearish on Treasuries. Two thirds of network members said they were reducing their allocations to Treasuries, although the majority were only slightly trimming back their holdings.

ARE YOU REDUCING YOUR ALLOCATION TO US TREASURIES AS A RESULT OF THOSE CONCERNS?



For those reducing their Treasury exposures, the most common alternative they were shifting to was Bunds. Some said that they were more focused on allocating to other safe haven assets outside fixed income, such as gold.

While reductions in Treasury holdings have been measured so far, any scepticism over what has long been recognised as the world's safest and most liquid asset class is notable.

As China and other BRICS members make more explicit attempts to forge economic and security partnerships, we will continue to monitor if supply of new safe haven assets emerges in different, or even new, currencies.

SECTION 2

The fixed income risk profile in 2025

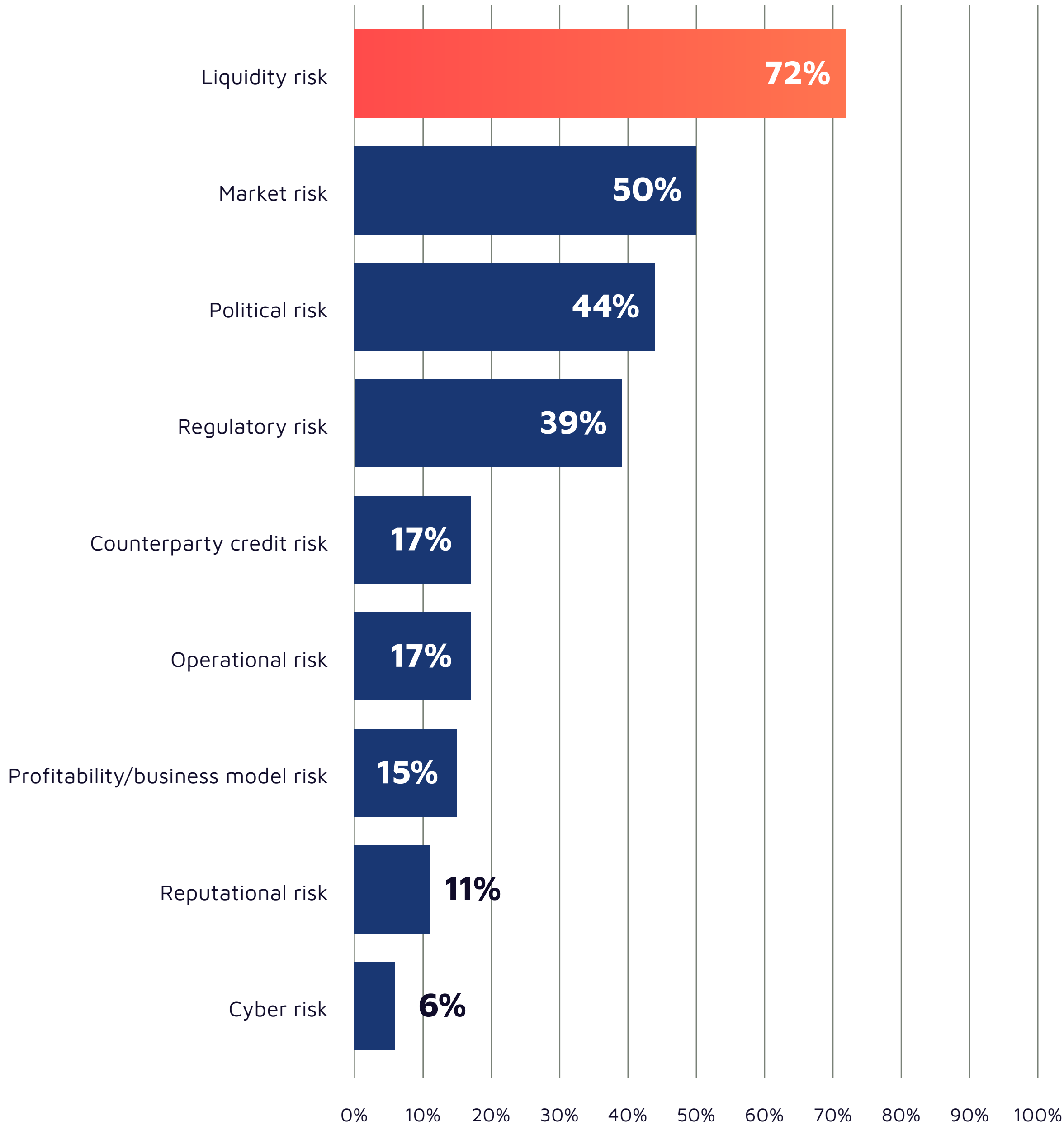
The volatility that hit US Treasuries in April is still the most dramatic in fixed income markets so far this year. However, sell-offs have hit government bond markets since, including in September, with concerns about inflation, government debt and monetary policy directions all still swirling.

It should be noted that fixed income concerns so far have focused on government debt, with credit spreads tightening significantly. Some French corporate bonds have even traded inside their government's curve recently. However, awareness of risk is still high across the board.

Many of the broader risks gaining most attention in fixed income markets aligned with concerns about the Treasury market. The main risk that network members identified was liquidity risk, with market risk and political risk also ranked highly. The risk of political interference in rates markets, most notably in the US, marks a significant change in the consensus that has governed these markets for decades.

Meanwhile, the tremors that hit the Treasury market during Covid-19 and the April tariff announcements could well repeat in the future, with liquidity drying up in the world's largest asset class and causing knock-on effects across markets.

AS OF TODAY, WHAT ARE THE TOP RISKS THAT YOU ARE MOST CONCERNED ABOUT TODAY WITH REGARDS TO YOUR FIXED INCOME BUSINESS?



Looking back on 2025, the biggest challenges faced by network members centred on costs.

The rising cost of salaries and finding skilled staff were both ranked as notable challenges.

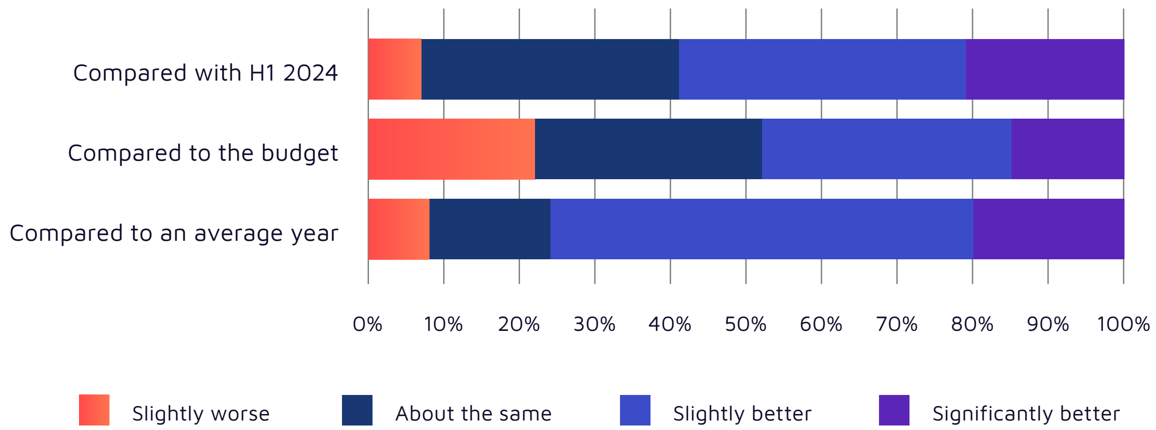
TOP 10 CHALLENGES IN FIXED INCOME

1. Finding skilled staff
2. Rising cost of salaries
3. Volatility in the market
4. Budget restraints within firm
5. Higher costs from electronic venues
6. Cost and complexity of regulation
7. Difficulty in accessing new markets
8. Client risk appetite
9. Poor liquidity
10. Internal risk appetite

Despite those challenges, most network members said that they had had done better than an average year. However, a much smaller proportion said that they outperformed budget.

This was a similar trend when comparing performance to last year, with the highest proportion of network members saying that performance had been about the same.

IN TERMS OF PROFITABILITY, HOW STRONG A YEAR WAS THE PERFORMANCE OF YOUR FIXED INCOME BUSINESS IN THE FIRST HALF OF 2025 COMPARED TO H1 2024, WHAT YOU EXPECTED AT THE BEGINNING OF THE YEAR (BUDGET) AND AN AVERAGE YEAR?



SECTION 3

Cleared Repo

Another key theme in the US Treasury market is the SEC's incoming mandate for clearing of cash and repo Treasury transactions. Implementation of this reform was delayed by 12 months in February, meaning the cash mandate will kick in in December 2026 and the repo mandate in June 2027.

This has taken the urgency out of the compliance race somewhat, but questions that arose in the run-up to the initial deadlines are still unanswered for many. One of these is the extraterritorial impact of the rules on, for example, non-US firms that participate in the Treasury market. Forty four percent of network members, who came from Europe or APAC, were still unsure as to whether the mandate applied to them or not.

Among those network members who knew they were covered, their firms were either ready to go or in the process of installing infrastructure to be ready for the mandate.

Introduction of the mandate is also likely to hasten electronification of repo trading, a trend that was already well underway beforehand.

Banks, asset managers, hedge funds, pension funds, insurance companies, sovereign wealth funds, money market funds and security lenders have all onboarded onto electronic repo trading platforms in recent years. The clearing mandate is expected to add a new tailwind to adoption.

The attraction of these platforms is tied to efficiency, as well as the support they can give to reporting requirements, which was flagged as a critical challenge by some network members. This comes alongside demand for greater integration with other markets. Given the high overlap between repo and securities lending, due to the high use of government bonds in both markets, more securities lenders are onboarding onto repo platforms to lend government bonds to repo desks.

Govvies based securities lending and interest rate derivatives were both cited as products that network members would most like to see offered on cleared repo electronic platforms. Highlighting the demand for physical alongside synthetic funding options, TRS was also rated highly.

SECTION 4

Private Credit

The continued growth in popularity of private credit has led more buy-side firms to include it as part of their strategy.

As private credit grows and firms that have cut their teeth in public markets get involved, so questions of electronification have arisen. Those network members who were allocating to private credit said that they were exploring full or partial automation in pricing or hedging mostly.

Automated pricing capabilities are still far from fully formed in public credit markets, so private credit's journey towards this objective is likely to be a long one. However, there are signs of a move to using algorithms for pricing and risk functions, in addition to automation of credit processes.

Any progress on this front is likely to be cautious though. Attempts by trading firms to introduce public market practice in private credit have typically not found much traction. As a challenge in itself, private credit investor resistance was cited by network members as a barrier to electronification of the space.

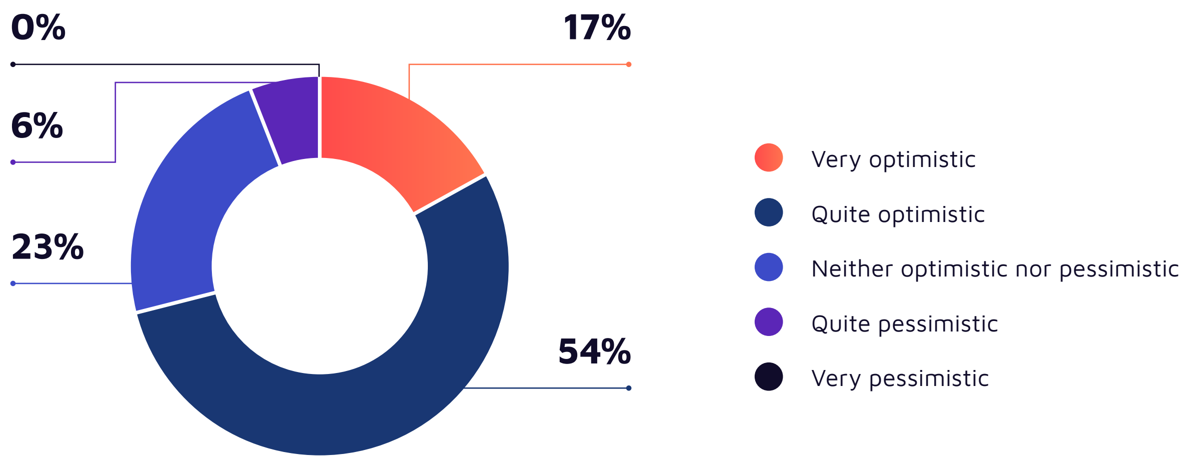
Much more commonly cited was lack of standardisation of documentation, insufficient liquidity and lack of centralised trading venues. There have been recent moves to bring private credit trading onto venues. However, given that lack of standardisation and illiquidity have been near intrinsic features of private credit, these challenges will likely take longer to overcome.

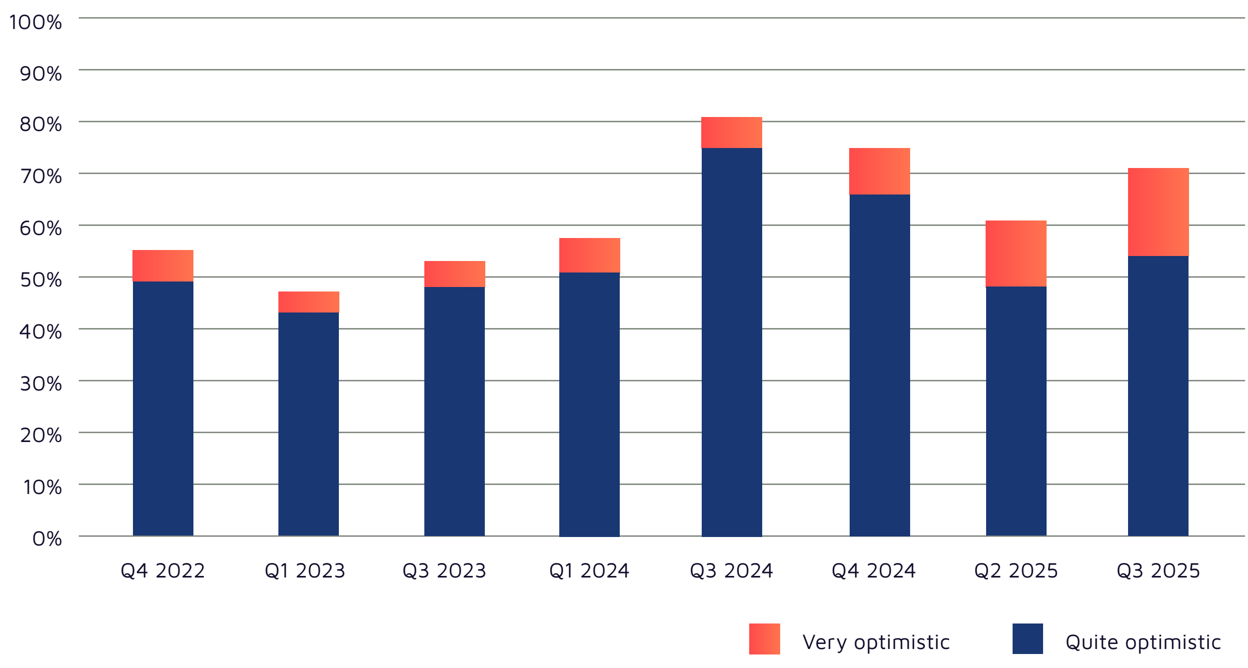
SECTION 5

Sentiment index

Sentiment picked up across the network in this report, with an overall optimism score of 71%. This is the highest level of overall optimism in the last 12 months, in part reflecting growing expectations of US interest rate cuts.

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





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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.

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