
Open Letter to Our Clients

Customer Connectivity – What Do Customers Really Want?

In an effort to refine Stifel's distribution strategy, we recently solicited feedback from customers about their electronic preferences for delivery of our liquidity pool (pre-trade data) and how they are interacting with the street in an increasingly digital-based financial landscape.

Our outreach included inquiries about customers' order and execution management systems (OMS and EMS) and connectivity preferences. In all, we gathered more than 500 responses from institutions of all sizes and sophistication levels in Investment Grade, High Yield and Emerging Markets.

Bloomberg Rules

Not surprisingly, the majority of customers responded that Bloomberg messages in scapable format and Instant Bloomberg messages, albeit dated, were still the best way to receive our axes.

“The first axes we check are the best price and biggest size in QMGR”

Despite more than 140 survey respondents having some form of OMS, Bloomberg communication still appears to rule, even for customers using an OMS.

OMS Direct Connectivity Gaining Momentum

But when digging a bit deeper, it is evident that direct connectivity from sell-side OMS to buy side-OMS is clearly gaining significant momentum in the “race to aggregation,” especially among larger institutions.

“Aggregation in a single location...”

Most customers recognize the limitations of Bloomberg and are demanding aggregation of actionable, real dealer liquidity in a single location. In addition to identifying matching needs, aggregation in a single location facilitates analysis of dealer liquidity to help guide decisions versus customer holdings, as well as to identify market trends.

Despite the number of third-party providers of dealer liquidity, attitudes about effectiveness are wide-ranging with no real leader emerging at the moment. Accordingly, we believe that direct connectivity between OMS systems is the most likely and, more importantly, cost-effective outcome.

Electronic Trading and Best Ex

While many mid-to-smaller-tier customers were labeled as “old school,” our outreach showed that customers of all sizes recognized the need for best-execution and understand the rapid growth in electronic trading.

“We don't have the time to execute like we used to”

MarketAxess remains the clear leader as evidenced by their share of TRACE, but Tradeweb has been slowly gaining market share. Customers who mentioned Trumid cited it specifically for its anonymous protocol, notably around new-issue/gray market trading.

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Technology Headwinds Persist

The growing acceptance of technology was very apparent in our outreach, but so too were the headwinds that could hinder industrywide coalescence around emerging technologies. The competitive landscape has elicited “platform fatigue” among many clients who are tuning out the continuous stream of marketing and sales calls. Limited desktop real estate also has put a cap on the number of technologies some clients are willing to accept. And of course, the technological sophistication of users, or lack thereof, continues to be a hurdle.

In order for technology platforms to succeed, we believe that their value propositions must be clearly identified. Ultimately, their success will be dependent on the simultaneous buy-in of customers and dealers. Furthermore, OMS providers have a unique opportunity to enhance their product offering through the inclusion of dealer pre-trade data. Dealer liquidity pools in a single location will then set the stage for lower-cost, click-to-trade (or click-to-engage) directly with dealers.

“Aladdin...will take a direct feed of your liquidity pool”

As electronic and digital solutions continue to permeate the industry, Stifel will continue to partner with our clients so that together we can identify value propositions that work for everyone. With that in mind, we have outlined steps to continue moving in that direction.

Actionable Items

- Form three-way partnerships with OMS/EMS providers and customers for low-cost axe distribution. Customer participation is a key driver for success, and it is imperative that they demand all dealers send their liquidity pools to OMS and EMS providers.
- Remain prepared to actively participate in platforms that make sense to both customers and dealers.
- Continued regular dialog with customers about electronic attitudes and emerging trends.
- Axeom remains the hub of our distribution strategy and is ready to connect directly to customer’s OMS and EMS.
- Specific technology effort underway to increase our RUNZ distribution in scrapable format.

Stifel is committed to providing our customers the resources they need to attain success, and we encourage you to work with us so that we continue to meet those demands in an evolving marketplace.

Jon Walker

Managing Director, National Sales Manager - Fixed Income
212-203-1747 | walkerj@stifel.com

Scott Sparr

Director, Investment Grade Credit Trading
646-376-5302 | sparrs@stifel.com