Pre trade data: how do you capitalize infos to boost your portfolio performance in Fixed Income?

In the current economic landscape with people relying more and more in quantitative, efficient methods to make their life easier and spot cross asset/sector/market asymmetries, pre trade data are a key element in every investor's hand toolkit. They assist in several aspects such as tradability, liquidity, better transaction cost estimations and consequently performance. The questions one can ask are which part of the puzzle one's seeing – in other words if he's playing with the same rules as everyone else and also how he can make the most out of it outsmarting the competitors. Don't forget ladies and gentlemen: markets are a cat and mouse game.

Having said that, let's go deep into the first part. What part of the market do you see in the pre trade data as an investor on the fixed income territory? In a perfect world there will be a plethora of different trading venues, with real time streaming and full transparency. However, our OTC world is far from being perfect, regulator implies (different) legal frameworks in regard to post trade data – and consequently this affects pre trade also. Why is this happening?

Market confront the issue of non-existence of a Fixed Income consolidated tape (CT) when it comes to the EUR fragment. For the history of it, US have implemented the CT since 2002, whereas Eurozone, Switzerland and UK are still struggling. Estimations for the finalization of CT predict the end of 2025 – beginning 2026 but it is yet to be proved. To note that it was initially guestimated for Q1 2024 and was pushed over. This proves the complexity of data selection, harmonization, implementation and calculation throughout the different trading venues and legal frameworks in a multi-currency financial ecosystem. Key players such as buy side investors, sell side market makers, regulators, auditors and data providers are currently on ongoing discussions for both pre and post trade CT.

How the absence of a CT can affect our decision process though? It is not just only about the CT, but in a holistic point of view the more information one can get from pre trade data the easier the decision to be made – positive or negative. However, I would like to pinpoint that we are talking about the majority but not the totality of the Fixed Income segment. Reality has proven not all is black or white and we should not bypass opportunities due to missing pre-trade information (in one or various implemented criteria). But this is a topic to be analysed separately..

Going back to pre trade data analysis, let's assume we have overcome the puzzle of information when it comes to instrument selection – decision making. How do we optimize our portfolio with the information received ? It is important to mention that before analyzing every line picking there is the need to put a basic strategy in the equation. In other words, one should define the components that finds essential in terms of segment, percentage of allocation per segment, and going forward in details lines selection, amount of exposure per line, risk exposure and liquidation cost if needed (single or multi line liquidation). Other components such as frequency and percentage of portfolio reshuffle are to be taken into account as also as tolerance in market volatility and hedging strategy.

Pre trade data can help in this process in both first stage and later on on a monitoring level to help reshape the investment strategy and calibrate the model by adjusting when and if needed.

On the first stage, it means one can categorize the instrument, add it in his screener (as a potential candidate) and thus compare it to its competitors to take the final decision of investing (or not). He can analyze its liquidity & inventory to different key players and how this evolves through time. I believe that geographical reshuffle can affect instrument's volume allocation and consequently trading behavior. In other words, post trade data showing volume's dynamic evolution need to be considered and get combined with pre trade to see the big picture. Additionally, investor can monitor its progression through the historic spreads (aka its alpha compared to its benchmark for the same segment) as also as the bid offer spreads that can reflect its directional trading, liquidity lapse, sentimental reactions to news among others…

There are though some hidden skeletons in the closet when it comes to pre-trade data and the best way to use them. One of them I believe worths mentioning is the over fragmentation in classification. The more one analyses data trying to discover granular asymmetries to gain some bps of performance (or trying to avoid granular costs) the higher the probability to miss an opportunity to invest and/or underestimate the risks. An interesting element when it comes to risk calculation is the difficulty to price correlation coefficients for different variables in a risk matrix and their potential impact in portfolio performance. Another skeleton is the high cost for non-reliable data providing conclusions with non unique, low levels of confidence conclusions.

My general point of view is that higher and better transparence is a key element for healthier and more sustainable markets. Pre trade data is a must have towards this direction. We opt for better days to come with reliable, harmonized, and affordable data that can help all key participants in the investment field.

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