

FIXED INCOME EXPERT NETWORK REPORT

Fixed income's H2 evolution **targets** **regs and tech**

04
BASEL III

08
BUSINESS
OUTLOOK

11
AI AND
AUTOMATION

valantic



acuti management
intelligence

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Intro

This edition of the valantic FSA Fixed Income Expert Network Report examines how fixed income market participants are navigating an evolving market environment shaped by regulatory change, shifting risk priorities and continued investment in technology.

The report explores the implications of Basel III Endgame implementation across the US, UK and EU, where differing regulatory approaches are expected to influence dealer balance sheet capacity and fixed income market making. It also examines firms' business outlook, including the key risks and challenges expected to shape the remainder of 2026.

Finally, the report looks at sentiment and how firms are investing in automation, artificial intelligence and transaction cost analysis as fixed income markets continue to evolve technologically. It also explores industry views on the rapid expansion of private credit and its potential implications for financial stability and public fixed income markets.

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 for and then complete an anonymous survey. This report is based on the findings of that survey.



A stylized, handwritten signature in black ink, consisting of a large 'A' followed by a smaller 'B' and a horizontal line.

Andy Browning

Head of Electronic
Trading, valantic FSA

SECTION 1

Basel III

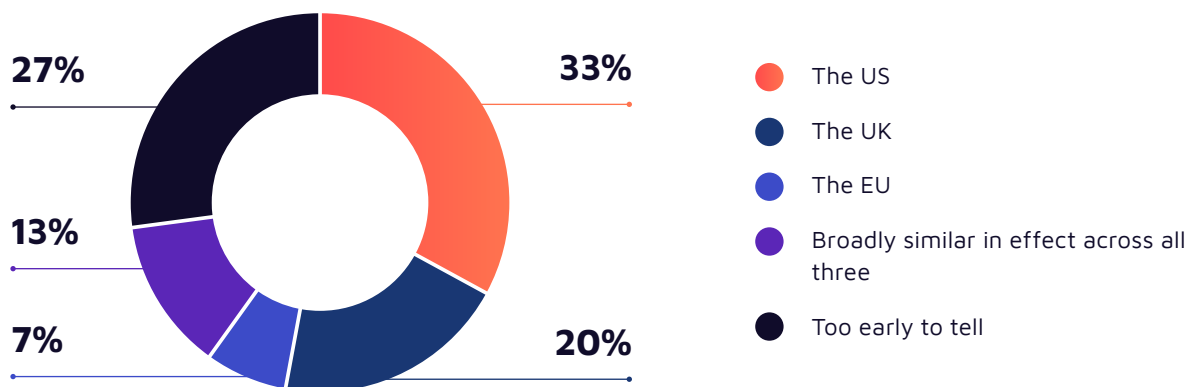
Basel III Endgame is the final phase of the post-financial crisis regulatory reforms designed to strengthen banks' capital requirements and improve the resilience of the global financial system.

In March 2026, US regulators proposed revisions to the framework that would simplify capital calculations, reduce duplication across the regime and introduce a separate approach for regional and smaller banks, with the aim of better aligning capital requirements with

underlying risks while supporting lending and market-making activity.

Differences in implementation are increasingly relevant for fixed income markets, where capital requirements influence dealer balance sheet capacity and market-making efficiency. A third of network members view the US approach as the most accommodative for dealer balance sheets and fixed income market-making, compared with 20% for the UK and just 7% for the EU.

THE EU, UK AND US HAVE ALL MOVED TO SOFTEN OR DELAY THE TRADING-BOOK IMPACT OF BASEL III REFORMS. WHICH APPROACH DO YOU REGARD AS **THE MOST ACCOMMODATIVE FOR DEALER BALANCE SHEETS AND FIXED INCOME MARKET-MAKING?**

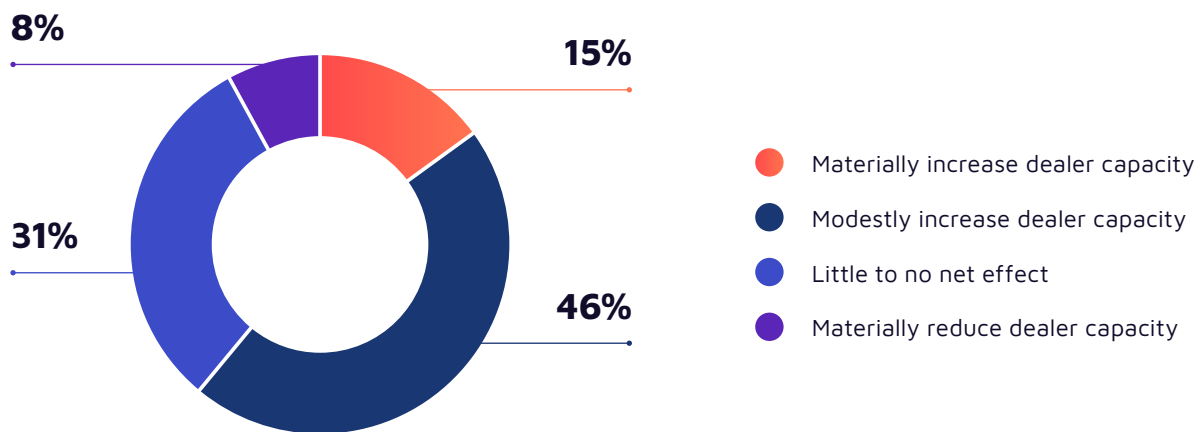


Expectations around dealer capacity reflect that optimism. A combined 61% of network members expect US authorities' March 2026 capital proposals to increase dealer capacity, with 46% expecting a modest increase and 15% a material increase.

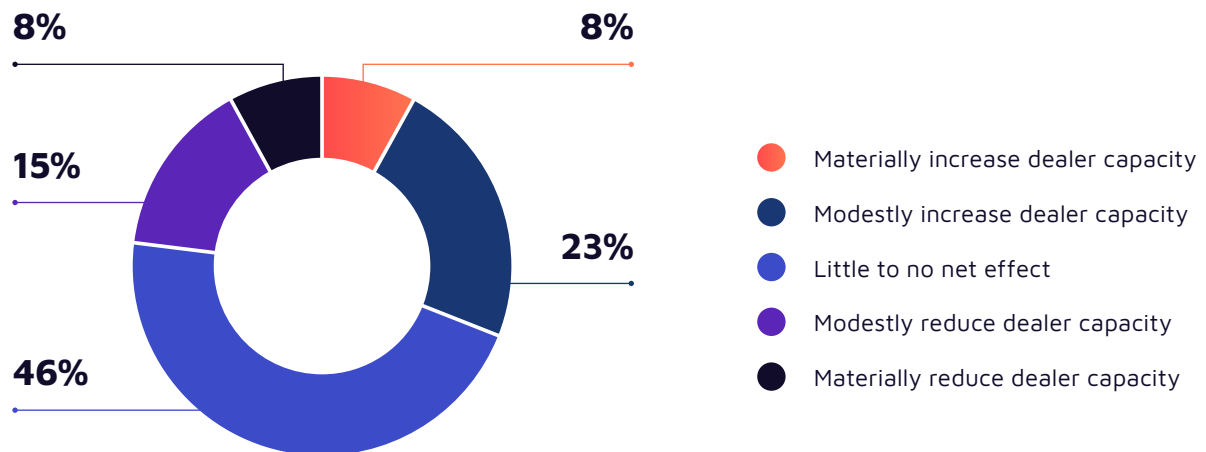
The outlook for the UK is less clear. Almost half expect UK Basel 3.1 implementation to have little or no net effect on dealer capacity. However, with implementation still evolving, the network remains cautious about how large those differences will ultimately prove to be.

That caution is reflected in firms' experience of dealer balance sheet capacity today. Almost three quarters of network members report that the balance sheet made available by dealers and liquidity providers in government bond markets has remained broadly unchanged over the past 12 months, while 29% have seen a significant increase. However, the impact of capital requirements remains most evident around quarter and year end reporting dates, when two fifths of firms say capital rules become a material or severe constraint on available liquidity. Among liquidity providers themselves, that proportion rises to 67%.

ON BALANCE, HOW DO YOU EXPECT US AUTHORITIES' MARCH 2026 PROPOSALS FOR REGULATORY CAPITAL RULES TO AFFECT US DEALERS' CAPACITY TO INTERMEDIATE IN FIXED INCOME, GIVEN THAT THEY ARE **EXPECTED TO REDUCE AGGREGATE CAPITAL REQUIREMENTS FOR LARGE BANKS?**



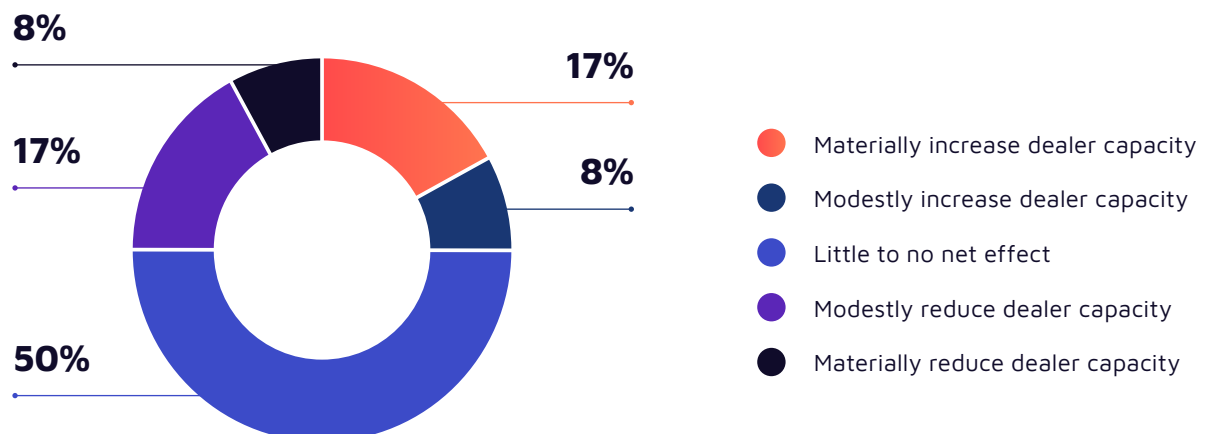
ON BALANCE, HOW DO YOU EXPECT UK IMPLEMENTATION OF BASEL 3.1 FINAL RULES TO AFFECT **BANKS' FIXED INCOME MARKET-MAKING AND DEALER CAPACITY?**



The EU's implementation of the Capital Requirements Regulation III (CRR3) introduces the Basel III reforms, including the Fundamental Review of the Trading Book (FRTB). The approach aims to balance regulatory consistency with concerns around market competitiveness and dealer capacity.

However, the network expects the EU's current approach to implementing CRR3 to have a relatively limited impact on dealer capacity. Half of respondents believe it will have little to no net effect on banks' ability to make markets in fixed income.

ON BALANCE, HOW DO YOU EXPECT THE EU'S CURRENT APPROACH TO IMPLEMENTING CRR3 (USING TARGETED, TIME LIMITED AMENDMENTS TO FRTB IMPLEMENTATION) TO AFFECT **BANKS' FIXED INCOME MARKET-MAKING AND DEALER CAPACITY?**

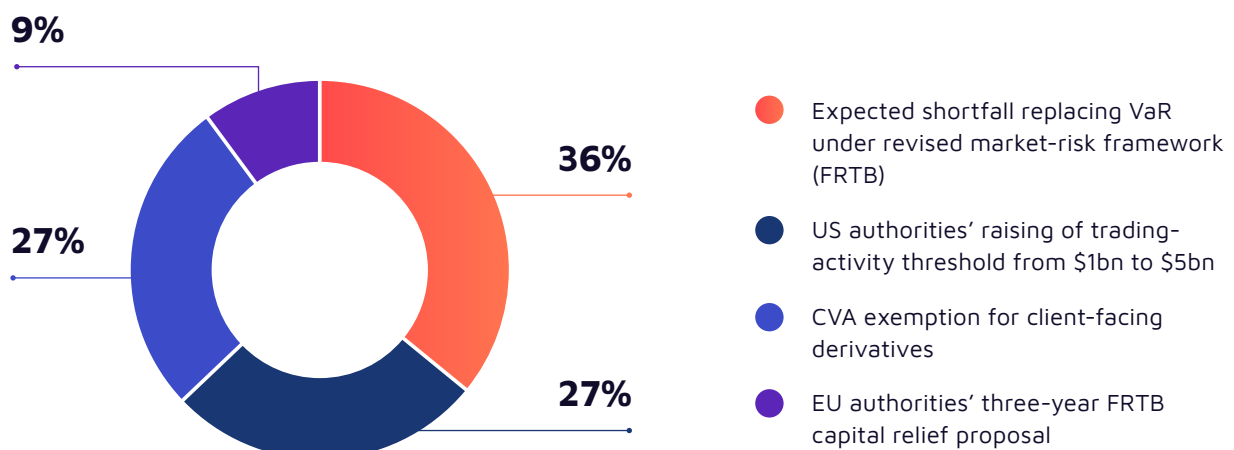


Among the individual reforms, expected shortfall replacing Value-at-Risk (VaR) under FRTB was viewed as the most consequential for fixed income trading and treasury intermediation, cited by 36% of network members.

Replacing VaR with expected shortfall represents a fundamental change to the way market risk is measured, with implications for trading

book capital requirements, balance sheet allocation and dealer intermediation across fixed income markets. This matters for fixed income trading because expected shortfall measures the average severity of tail losses, not just whether a threshold was breached and fixed income risk factors are prone to sharp, severe dislocations that this method captures more fully than VaR did.

WHICH SPECIFIC ELEMENTS OF THE RECENT CAPITAL REFORMS DO YOU CONSIDER MOST CONSEQUENTIAL FOR **FIXED INCOME TRADING AND TREASURY INTERMEDIATION**?



SECTION 2

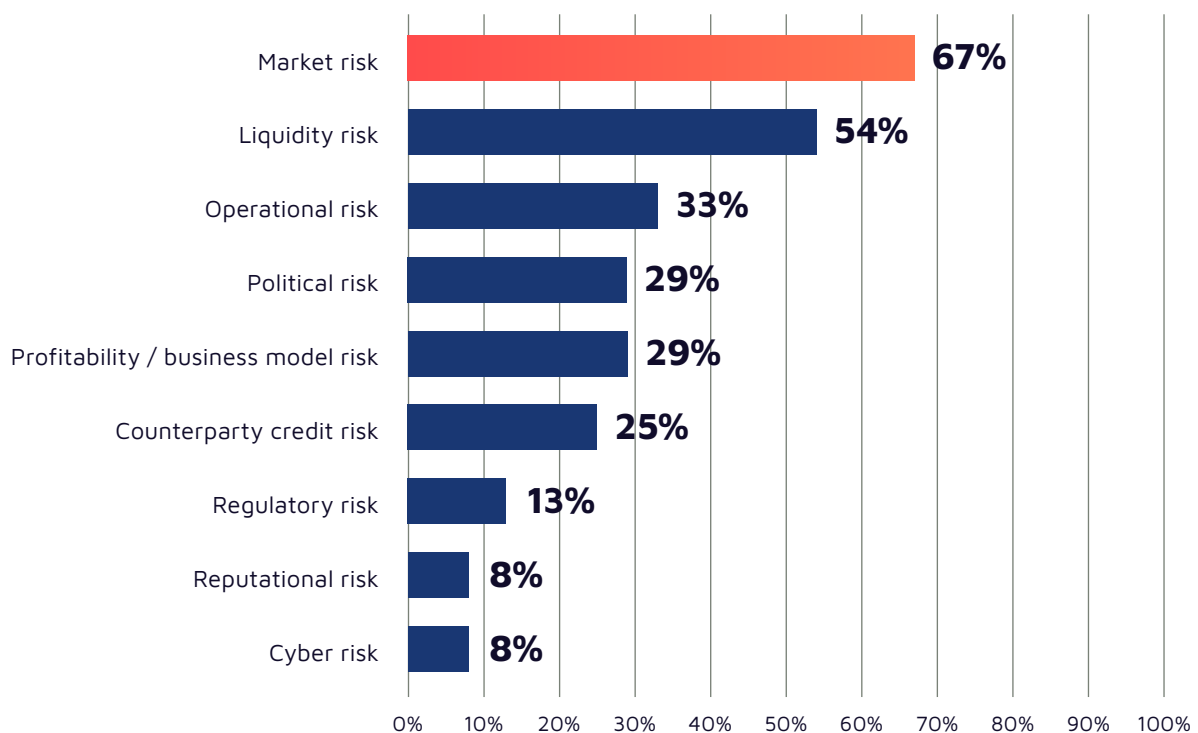
Business Outlook

Market risk is currently the biggest concern for firms in the network, cited by 67% of members, followed by liquidity risk at 54%. This is particularly pronounced among European firms, 80% of whom cite market risk as a top concern. This reflects growing uncertainty over the inflation outlook and the path of interest rates, with firms

increasingly focused on the potential for higher volatility across bond markets.

Liquidity risk remains a persistent concern, however, as firms continue to contend with fragmented market liquidity and the challenge of executing larger trades during periods of stress.

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

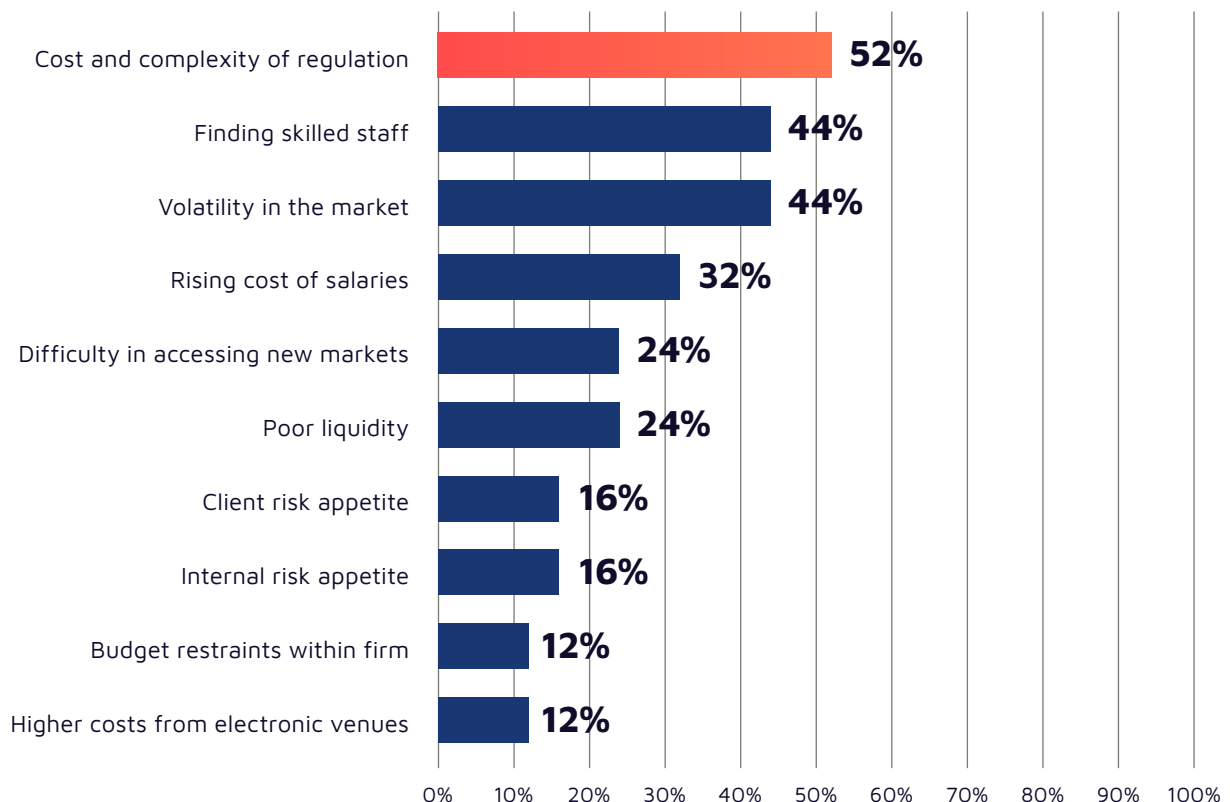


Beyond immediate business risks, firms also anticipate a challenging operating environment for the remainder of 2026.

Cost and complexity of regulation was cited by just over half of the network as the biggest

challenge firms expect to face for the rest of 2026. Resourcing is also a growing issue. Finding skilled staff was cited by over 40% of network members as a challenge, while almost a third pointed to rising salary costs. Firms also commonly flagged volatility in the market.

WHAT DO YOU SEE AS THE TOP 3 CHALLENGES IN **FIXED INCOME** FOR THE REST OF 2026?



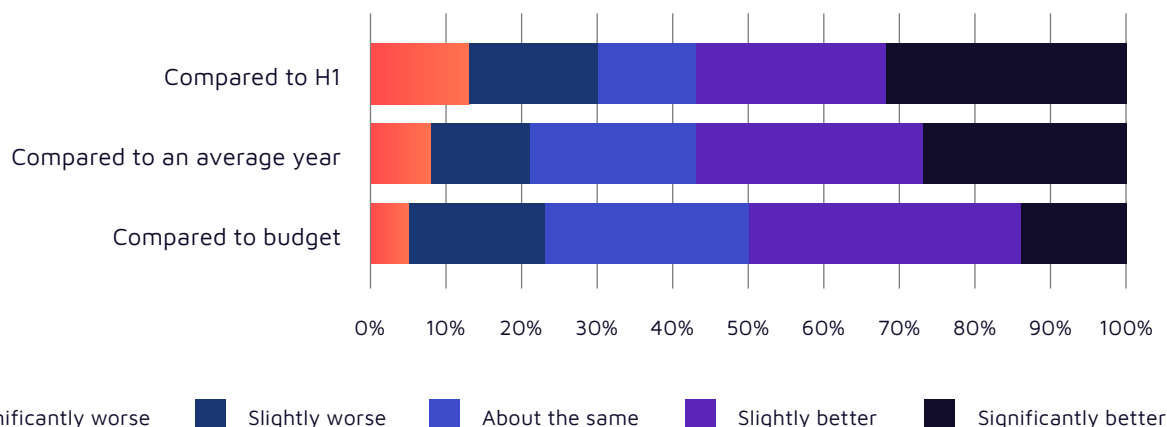
Despite these challenges on the horizon, network members are running into H2 on the back of a positive first half of the year.

Strong market conditions translated into a profitable period for fixed income firms in the first half of 2026. A majority of the network reported stronger fixed income performance in

H1 2026 compared with the same period last year, with 33% reporting significantly better performance and 25% slightly better.

Performance was similarly strong against an average year, with 56% reporting better results. Half of the network also outperformed budget, although just 14% did so significantly.

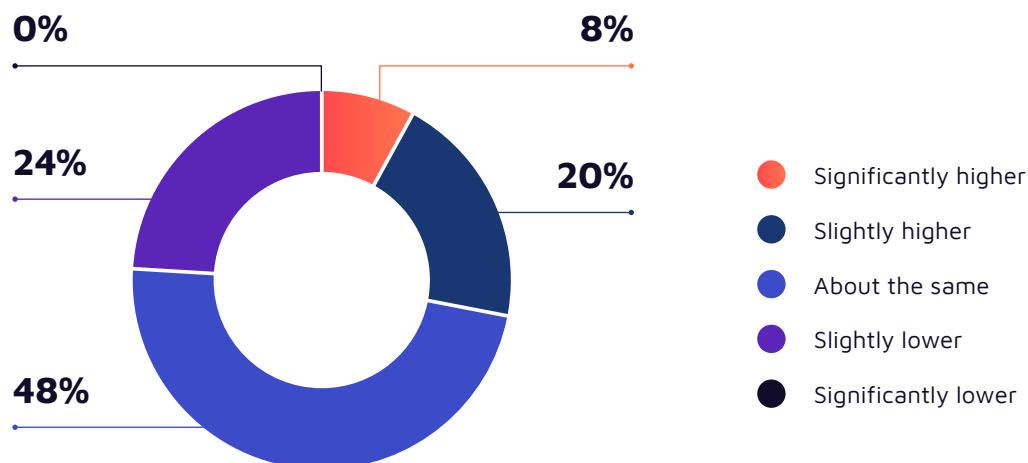
IN TERMS OF PROFITABILITY, HOW STRONG A YEAR WAS THE PERFORMANCE OF YOUR FIXED INCOME BUSINESS IN THE FIRST HALF OF 2026 - COMPARED TO H1 2025, TO WHAT YOU EXPECTED AT THE BEGINNING OF THE YEAR (BUDGET), AND TO AN AVERAGE YEAR?



The outlook for volumes in H2 is more subdued, as network members consider a more complicated period of market conditions. Almost half expect trading volumes to remain around first half levels, while 28% expect an increase and 24% expect volumes to fall slightly.

This split shows the uncertain state of opinion on the market's direction through the rest of the year. Yields have stayed elevated through H1 2026 and the Fed has moved into a new approach to market guidance, leaving market participants unsure how to navigate forward.

HOW DO YOU EXPECT OVERALL FIXED INCOME TRADING VOLUMES TO DEVELOP IN H2 2026 VERSUS THE FIRST HALF?



SECTION 3

AI and Automation

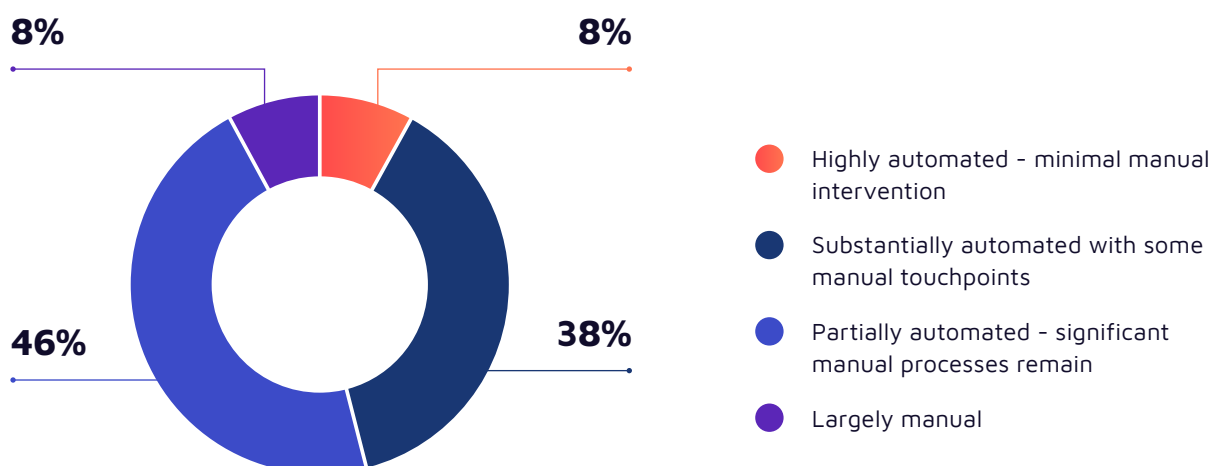
Automation is an increasingly important area of investment as fixed income firms look to improve efficiency across the trade lifecycle. However, significant manual processes remain in the middle and back office.

Just 8% of the network describe their allocation, confirmation, settlement and

reconciliation workflows as highly automated with minimal manual intervention.

While 38% have achieved substantial automation, almost 50% of the network remain only partially automated, with significant manual processes still embedded in their workflows.

OUTSIDE OF EXECUTION, HOW WOULD YOU DESCRIBE YOUR FIRM'S CURRENT LEVEL OF WORKFLOW AUTOMATION **ACROSS THE FIXED INCOME TRADE LIFECYCLE (ALLOCATION, CONFIRMATION, SETTLEMENT, RECONCILIATION)?**

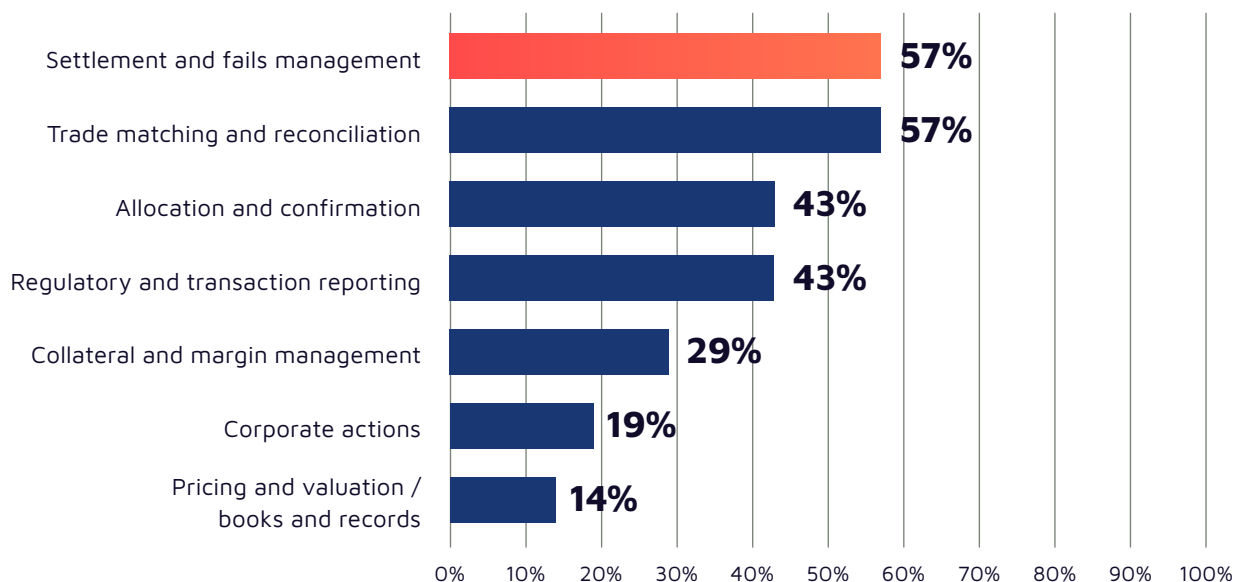


Settlement and fails management and trade matching and reconciliation are the highest priorities for automation investment, both cited by almost 60% of network members.

These are areas where fragmented systems, exceptions and manual intervention can create

significant operational overhead. The focus on settlement and fails management also reflects firms' desire to cut the cost of failed trades and improve the resilience of increasingly automated trading workflows. Elsewhere, allocation and confirmation and regulatory reporting continue to create frictions.

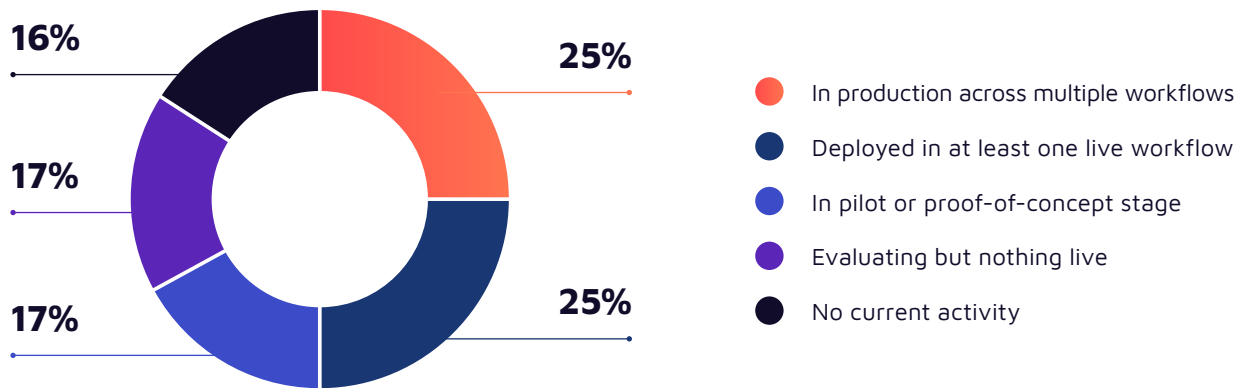
WHICH POST-EXECUTION WORKFLOWS ARE THE HIGHEST PRIORITY FOR AUTOMATION INVESTMENT AT YOUR FIRM?



The other tool that firms are looking to as an efficiency driver is artificial intelligence. AI adoption in fixed income operations is already moving beyond experimentation. Half of network members have AI or machine learning deployed in at least one live workflow, including 25% deployed across multiple workflows.

In the near term, AI is likely to create operational improvements rather than transformational changes in the way operations are run at their firms. Firms are focusing on areas characterised by large volumes of fragmented data and manual exception handling and not replacing core trading or post-trade systems.

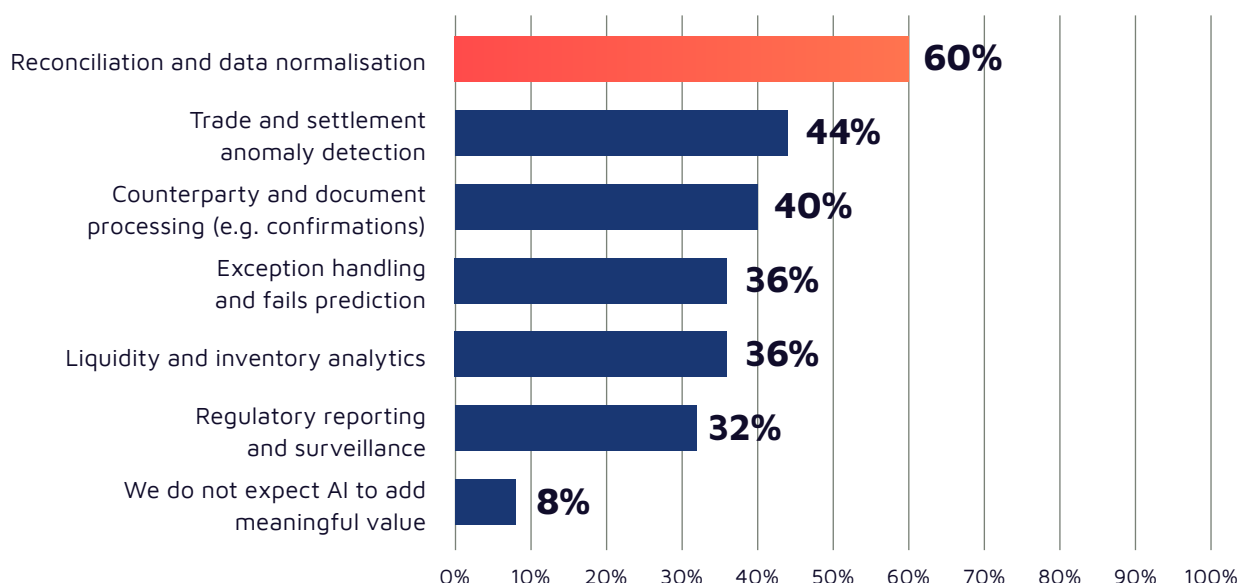
WHAT BEST DESCRIBES YOUR FIRM'S DEPLOYMENT OF AI OR MACHINE LEARNING IN **FIXED INCOME OPERATIONS AND MIDDLE-OFFICE WORKFLOWS?**



Reconciliation and data normalisation was the most commonly identified opportunity for AI driven efficiency, cited by 60% of network members. Trade and settlement anomaly detection followed at 44%, while 40% identified counterparty and document processing. These use cases lend themselves to AI because

they require firms to identify patterns, reconcile information from multiple sources and prioritise exceptions for human intervention. AI therefore looks likely to sit on top of existing workflows, strengthening automation in areas where rigid rules-based systems have historically struggled with unstructured data or exceptions.

WHERE DO YOU SEE THE GREATEST POTENTIAL FOR AI TO ADD VALUE IN **FIXED INCOME OPERATIONS OVER THE NEXT TWO YEARS?**



SECTION 4

Transaction Cost Analysis (TCA)

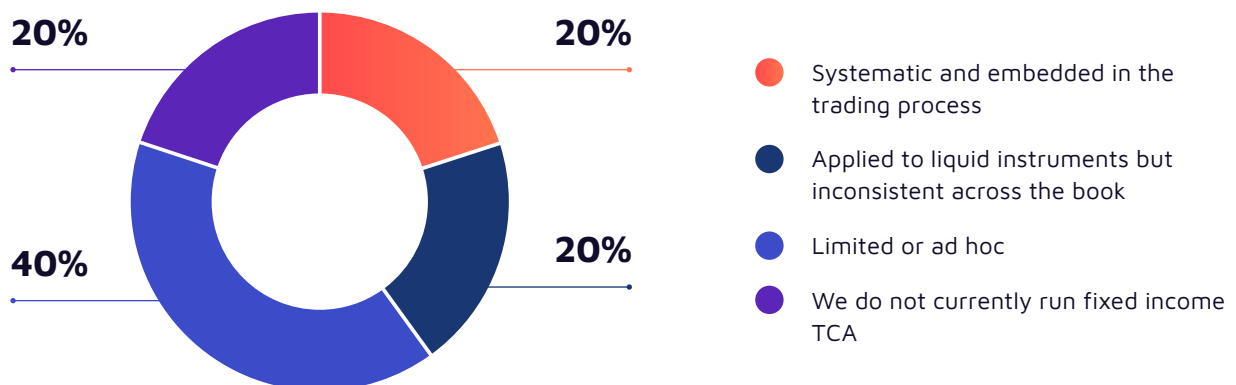
As fixed income trading becomes increasingly electronic, the ability to measure execution quality is becoming more refined. However, TCA remains difficult to apply consistently across an asset class marked by fragmented liquidity, uneven electronification and instruments that trade infrequently.

Two fifths of the network describe their approach towards the maturity of their TCA framework as

limited or ad hoc. One in five do not currently run fixed income TCA at all.

This contrasts with the growing use of electronic and algorithmic execution. Our Q1 report found algorithmic trading becoming an increasingly important component of institutional fixed income execution but also identified market fragmentation and the lack of reliable, high-quality market data as major challenges.

HOW WOULD YOU DESCRIBE THE MATURITY OF YOUR TCA FRAMEWORK FOR FIXED INCOME?



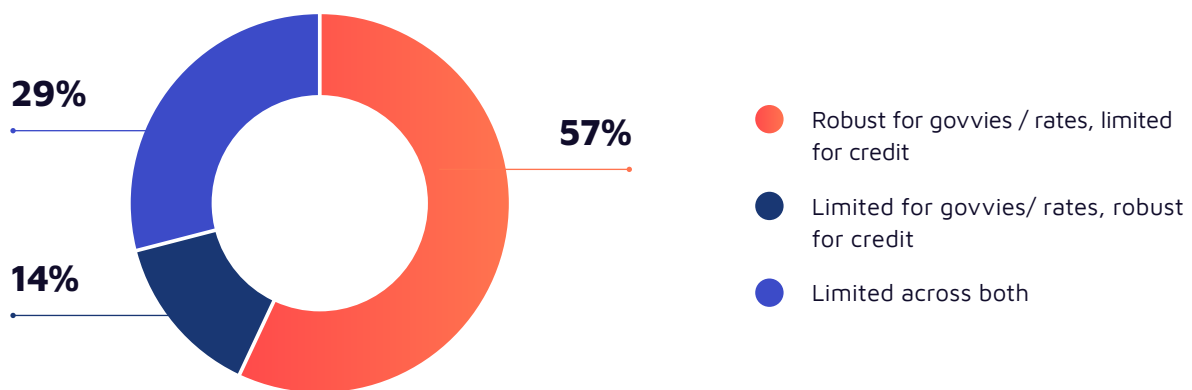
This divide is most apparent between government bonds and less liquid credit. Among members comparing the two, almost 60% have robust TCA for government bonds and rates but limited functionality for credit.

The problem is fundamentally one of data and liquidity. Inconsistent or fragmented market data and sparse trade data in less liquid

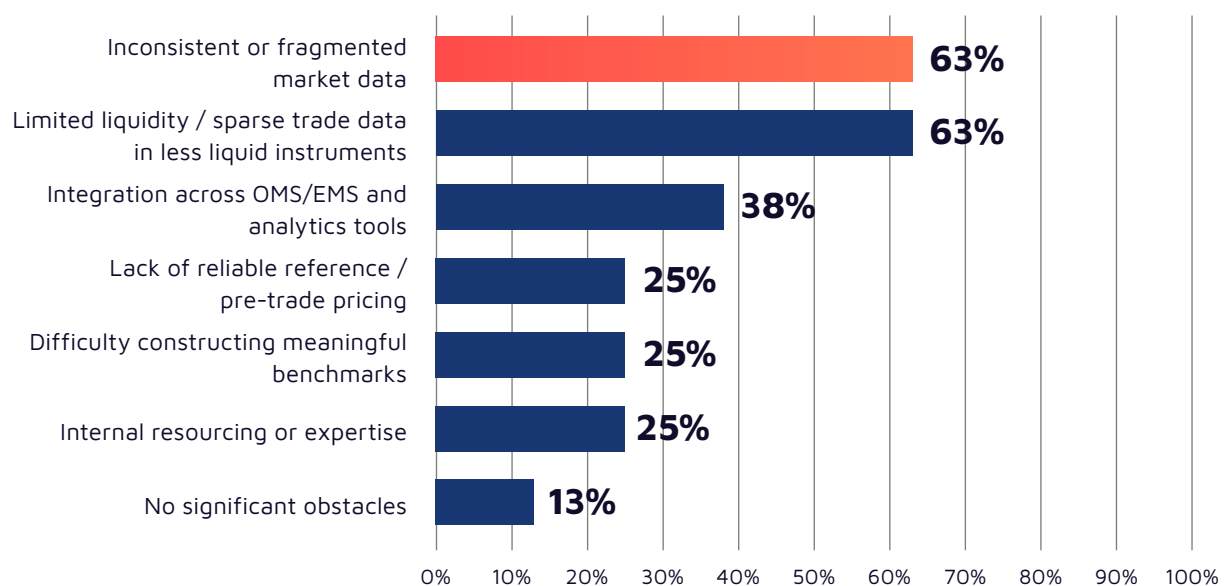
instruments were each cited by 63% of network members as obstacles to effective TCA.

Without regular transactions or consistent pricing data, constructing a meaningful benchmark becomes difficult for market participants trying to construct reliable TCA functionality. For nearly two fifths of members, integration across OMS/ EMS was also a challenge.

HOW DOES THE MATURITY OF YOUR FIXED INCOME TCA COMPARE ACROSS GOVERNMENT BONDS **VERSUS LESS LIQUID CREDIT?**



WHAT ARE THE BIGGEST OBSTACLES TO **EFFECTIVE FIXED INCOME TCA AT YOUR FIRM?**

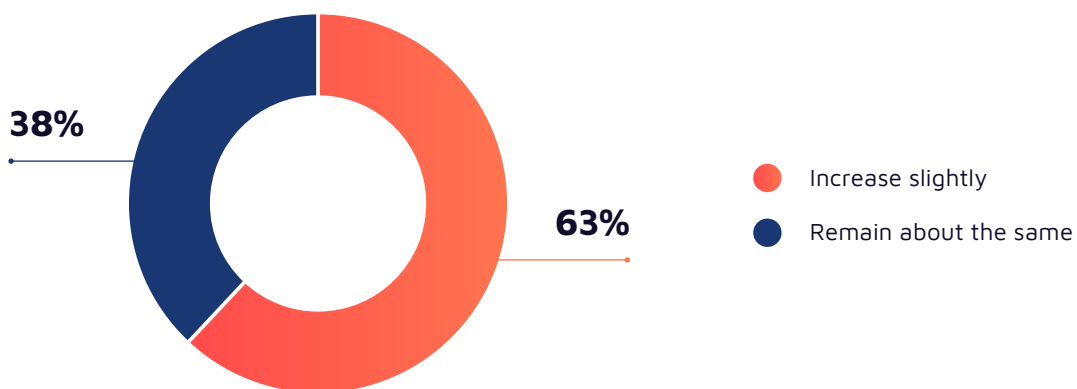


Despite these obstacles, firms expect the role of TCA to grow.

Almost two thirds of the network expect TCA and execution analytics to become more important over the next two years, with no firms expecting their role to decline.

This suggests that TCA is likely to develop alongside greater electronification of fixed income. However, the sophistication of the analytics will continue to vary substantially between liquid government bond markets and less liquid areas of credit, unless the underlying data starts to improve.

HOW IS THE ROLE OF TCA AND EXECUTION ANALYTICS IN YOUR TRADING PROCESS EXPECTED TO CHANGE OVER THE NEXT TWO YEARS?



SECTION 5

Hot Topics

Private Credit's Risk

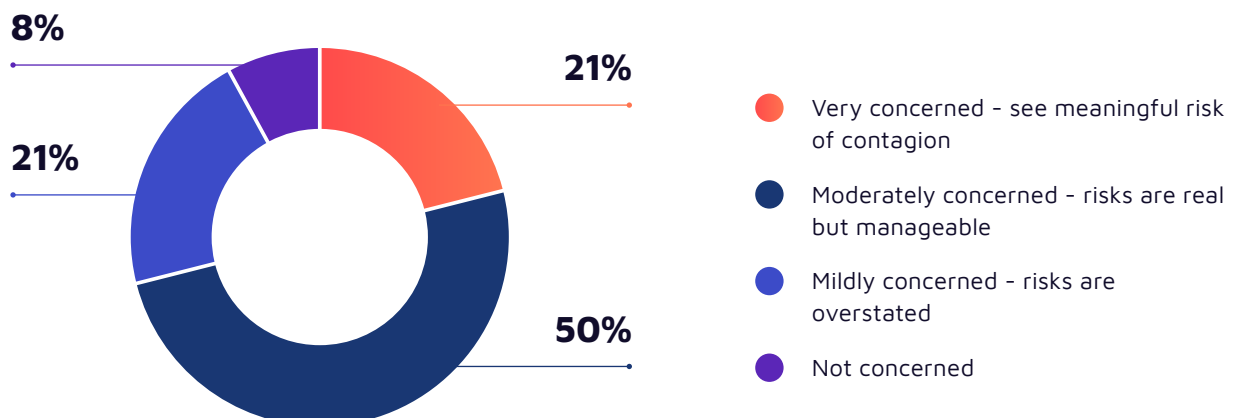
The rapid growth of private credit has increasingly raised questions about the implications of a downturn in the market for the broader financial system and the potential links between private and public markets. Network members recognise these risks, although most do not view private credit as an immediate systemic threat.

Half are moderately concerned about systemic risks emerging from the market over the next 12-24 months, viewing the risks as real but manageable. A further 21% are very concerned and see a meaningful risk of contagion.

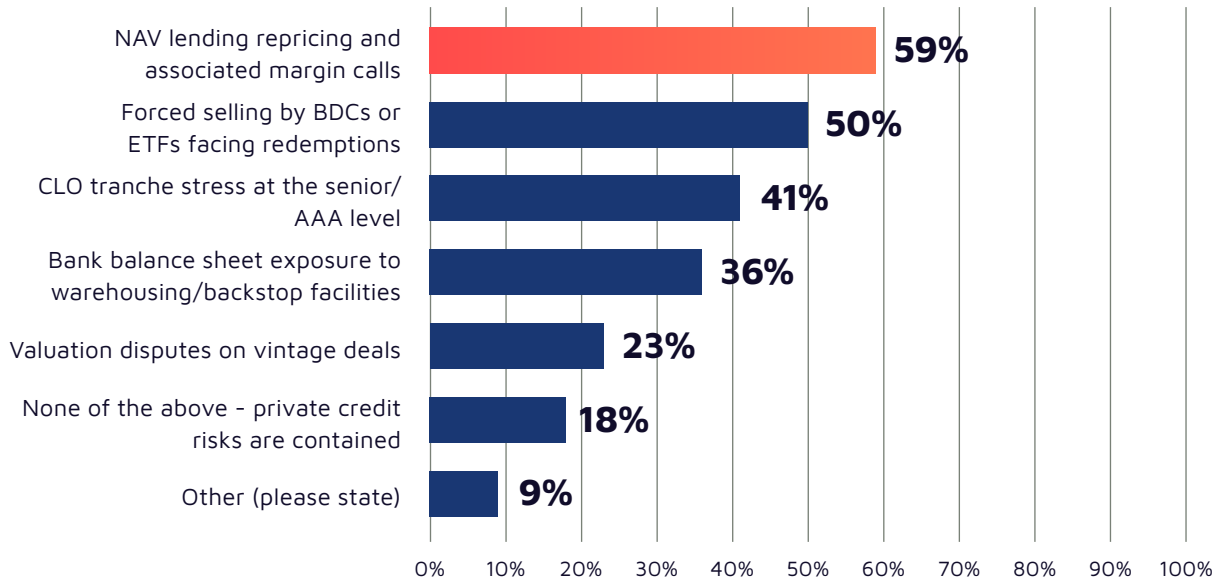
The transmission channels for a private credit blow-out are well defined. NAV lending repricing and associated margin calls were identified as the most likely trigger of broader market stress (59%), followed by forced selling by BDCs or ETFs facing redemptions (50%) and stress in senior or AAA CLO tranches (41%).

These risks share a common theme: private credit stress becomes significant when it creates liquidity demands or forced transactions elsewhere in the financial system, rather than through credit losses alone.

HOW CONCERNED ARE YOU ABOUT SYSTEMIC RISKS EMANATING FROM THE PRIVATE CREDIT MARKET OVER THE NEXT 12-24 MONTHS?



WHICH OF THE FOLLOWING PRIVATE CREDIT RISK FACTORS DO YOU
CONSIDER LIKELY TO **TRIGGER BROADER MARKET STRESS?**



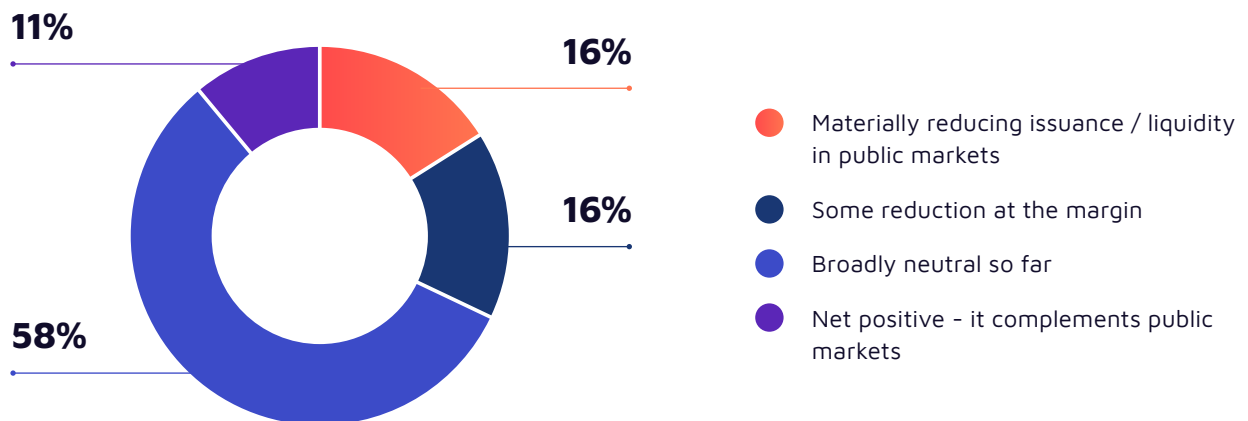
Growth Without Disruption

Despite concerns around systemic risk, there is little evidence so far that private credit growth is hollowing out public fixed income markets.

Almost 60% of the network say the impact on the public markets they trade has been broadly

neutral. A combined 32% have seen some reduction in issuance or liquidity, including 16% who describe the impact as material. However, the potential impact on liquidity will remain important to monitor as the market continues to grow in overall volume and transaction sizes.

WHAT IMPACT IS THE GROWTH OF PRIVATE CREDIT HAVING ON THE PUBLIC FIXED INCOME MARKETS THAT YOU TRADE?



SECTION 6

Sentiment

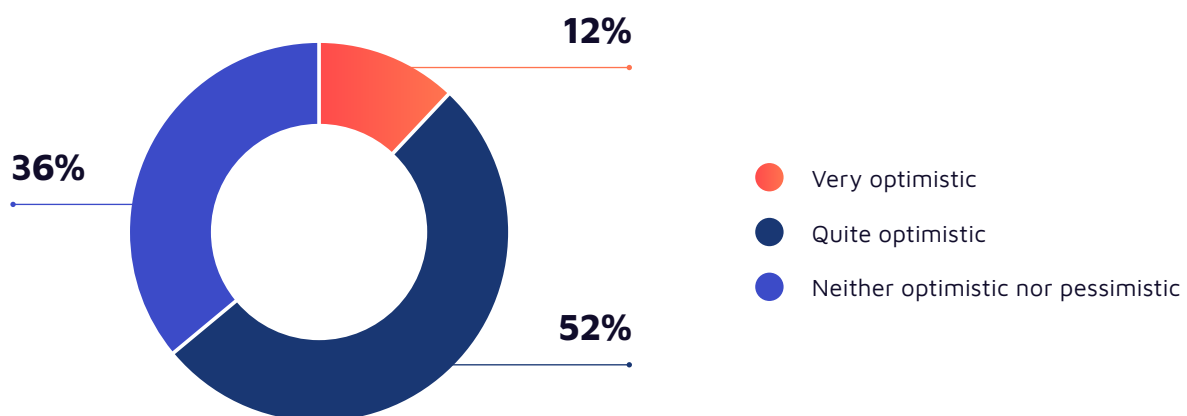
Sentiment among members of the Fixed Income Expert Network remains positive heading into the second half of the year.

A combined 64% of network members are optimistic about the performance of their fixed

income business over the next three months, with 12% very optimistic and 52% quite optimistic.

This represents a slight decline from the previous report, when 69% of the network was optimistic about the next three months.

LOOKING AHEAD TO THE NEXT THREE MONTHS, HOW OPTIMISTIC ARE YOU ABOUT THE **PERFORMANCE OF YOUR FIXED INCOME BUSINESS?**





About us

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

Our mission is to digitise, 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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