REPORT Q2 2026

FIXED INCOME EXPERT NETWORK REPORT

Fixed income set for volatile 2026

Research by

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Contents

Intro

This edition of the valantic FSA Fixed Income Expert Network report finds that executives within the network are approaching the coming months with cautious optimism, as market infrastructure has performed well during recent volatility. The intense market moves following the outbreak of the war in Iran have tested market infrastructure, but fixed income markets have remained resilient and functional.

The volatility experienced earlier this year is expected to persist, bringing both opportunities and ongoing challenges. While infrastructure has largely performed well, liquidity remains a central topic of concern for participants, shaping strategies and priorities.

This report explores how firms are adapting their trading strategies, including a shift toward risk reduction, increased use of hedging instruments and a greater focus on liquidity management. It also evaluates trading infrastructure performance under recent pressure.

In addition, we analyse execution trends during volatile markets, the performance of market-makers and the growing importance of non-bank liquidity providers. The report also explores structural challenges in post-trade processes, including fragmentation, readiness for shorter settlement cycles and resulting areas requiring investment.

Finally, the report addresses broader themes such as de-dollarisation and reviews overall market sentiment. Confidence remains positive, but firms are conscious of potential volatility triggers and liquidity shortages amid ongoing uncertainty.

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

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Trading, valantic FSA

SECTION 1

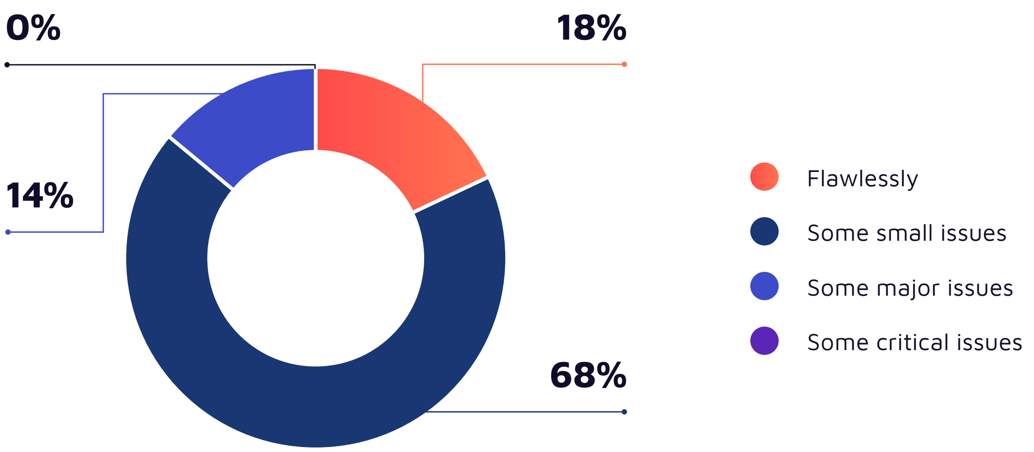
Managing Market Volatility

Market volatility in February and March, in the wake of US and Israel's attacks on Iran, provided a stress test for fixed income markets.

Despite the intense volatility and elevated volumes, fixed income infrastructure demonstrated a significant degree of resilience. A majority of respondents reported that markets functioned with only minor issues, while a further 18% described performance as flawless.

However, while operational infrastructure held up, the quality of liquidity and efficiency of execution deteriorated under pressure – consistent with recent volatility, where dealers remain active but defensive in their quotes and spreads.

OVERALL, HOW WELL DO YOU THINK THAT FIXED INCOME MARKETS PERFORMED DURING THE VOLATILITY OF FEBRUARY AND MARCH IN TERMS OF LIQUIDITY AND OPERATIONAL RESILIENCE?



According to members of the Expert Network, the most significant pressure points during recent volatility were concentrated in real-time infrastructure. Market data feed latency and margin/collateral management systems were each cited by the network as the most stressed workflows. This was particularly evident among hedge funds, where almost 70% of respondents said that margin or collateral systems came under pressure during high volatility periods.

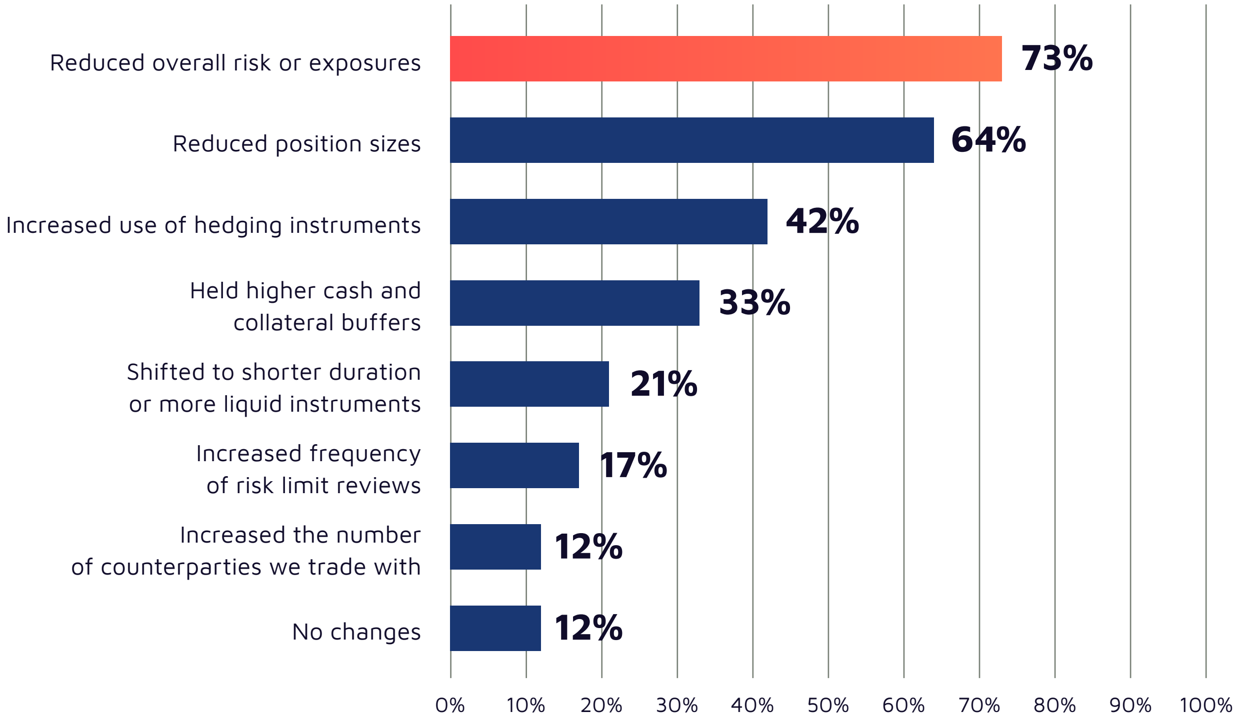
Other areas, such as reporting systems, were comparatively less affected, indicating that post-trade systems remained relatively stable, despite the huge volumes running through them during the volatility event.

Reactions to volatility

The volatility has, however, prompted a decisive shift toward risk reduction among market participants. A significant majority of firms said that they had reduced overall risk or exposures and position sizes, signalling a move toward defensive positioning. In addition, over 40% of respondents said they had increased their use of hedging instruments, while a third of respondents held higher levels of cash and collateral buffers.

Overall, the consistent and coordinated "risk-off" approach across the market directly reflects heightened uncertainty in market conditions and is likely to continue for some time to come, potentially reducing profitability for some firms in the second half of the year.

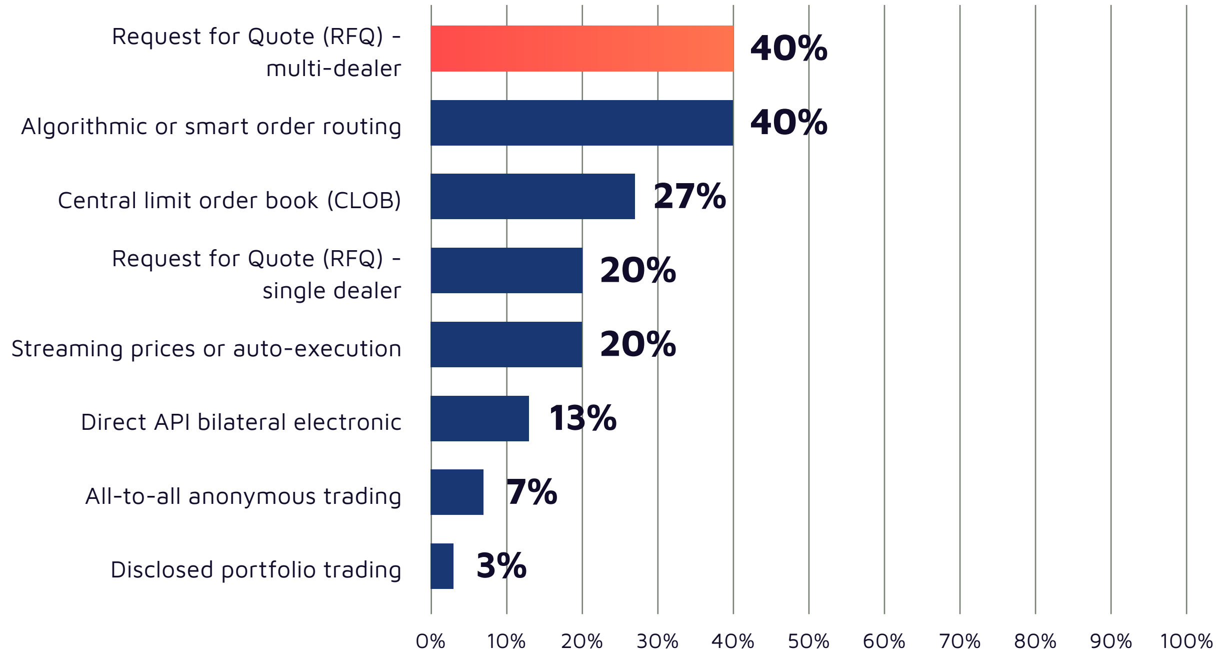
HOW HAVE YOU ADJUSTED YOUR TRADING APPROACH IN RESPONSE TO CURRENT VOLATILITY?



In terms of execution methods during the volatility, multi-dealer RFQ and algorithmic trading were said to be the most effective methods, both cited by 40% of respondents.

Multi-dealer RFQ protocols provide access to multiple liquidity sources, enabling improved price discovery when markets are dislocated. Meanwhile, algorithmic and smart order routing tools allow for faster and more adaptive execution in rapidly changing conditions. This finding follows a broader structural shift in fixed income markets towards more automated and multi-venue execution.

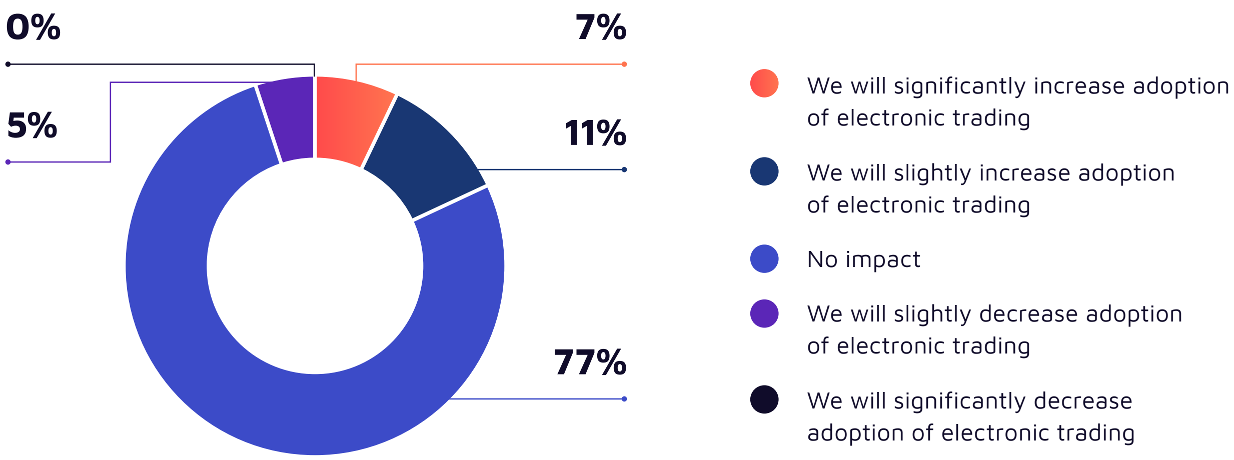
WHICH ELECTRONIC EXECUTION METHODS DID YOU FIND THE MOST EFFECTIVE DURING RECENT ELEVATED VOLATILITY?



Despite the challenging market environment, volatility had a limited impact on firms' approach to electronic trading, with 77% of respondents citing no change. Many firms have already invested heavily in electronic execution capabilities in response to previous periods of market stress.

This means that current conditions are testing, rather than transforming, trading workflows.

HAS THE CURRENT VOLATILITY IMPACTED YOUR FIRM'S APPROACH TO ELECTRONIC TRADING?



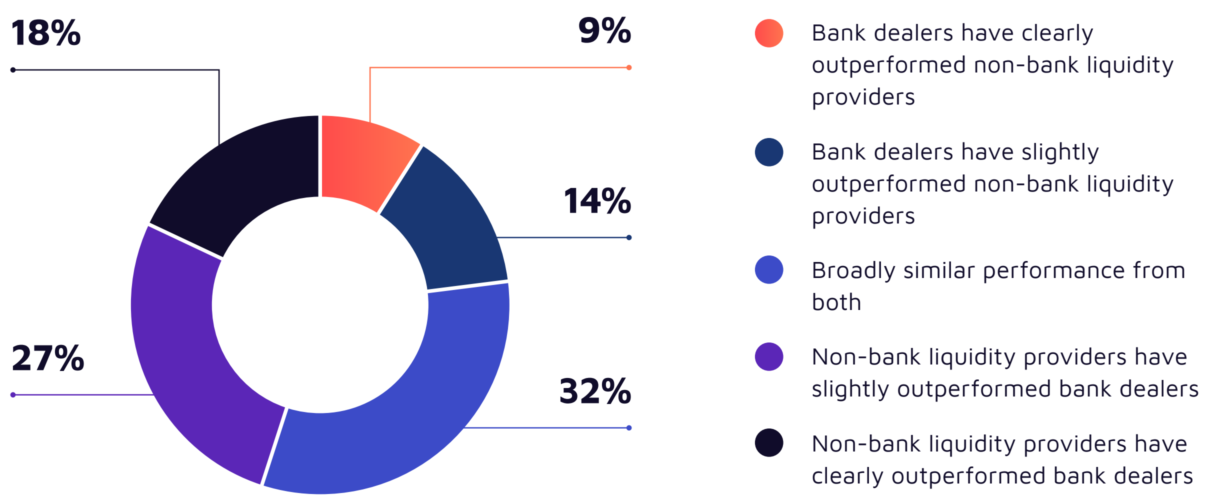
Market-maker performance

Market-makers were generally said to have performed well during the recent volatility. However, firms did report deteriorations in liquidity quality. Buy-side firms reported that bid-offer spreads widened materially, axes and inventory shown became less informative and some market-makers became selective about who they executed with. While liquidity providers remained active, they operated with greater caution, reducing transparency and increasing spreads to protect themselves against rapid market moves.

Performance between bank dealers and non-bank liquidity providers was broadly comparable, with 32% of respondents indicating similar outcomes. However, a combined 45% reported that non-bank liquidity providers outperformed banks, compared to 23% favouring bank dealers.

Non-bank liquidity providers are playing an increasingly important role in fixed income markets, particularly during periods of stress, and are becoming more competitive with traditional dealer models.

HOW WOULD YOU COMPARE THE PERFORMANCE OF BANK DEALERS VERSUS NON-BANK LIQUIDITY PROVIDERS DURING THE CURRENT VOLATILITY?

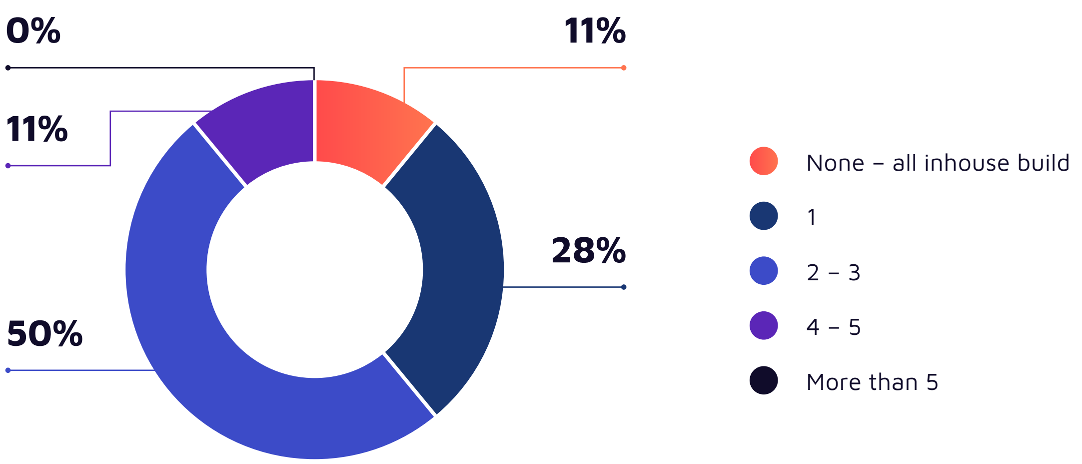


SECTION 2

Post-trade Third-party Vendors

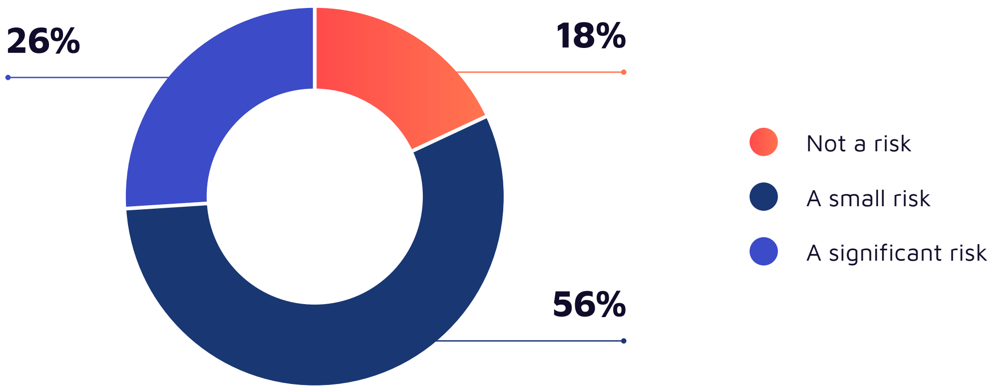
Post-trade workflows in fixed income markets are well-served by third-party vendors. This quarter, one member of the Expert Network asked for views on how their peers were dealing with post-trade technology fragmentation. Overall, almost two thirds of the network reports working with multiple vendors for their back-office functions.

HOW MANY THIRD-PARTY VENDORS DO YOU WORK WITH FOR YOUR FIXED INCOME POST-TRADE WORKFLOWS?



This multi-vendor environment fragmentation is creating risk, with 82% of the firms that work with multiple vendors identifying some level of risk resulting from that setup. This view is particularly prevalent among the sell-side, who typically have a more complex technology infrastructure resulting from historical acquisitions and siloed workflows.

TO WHAT EXTENT DO YOU VIEW POST-TRADE TECHNOLOGY FRAGMENTATION AS A SIGNIFICANT OPERATIONAL RISK FOR YOUR FIRM?

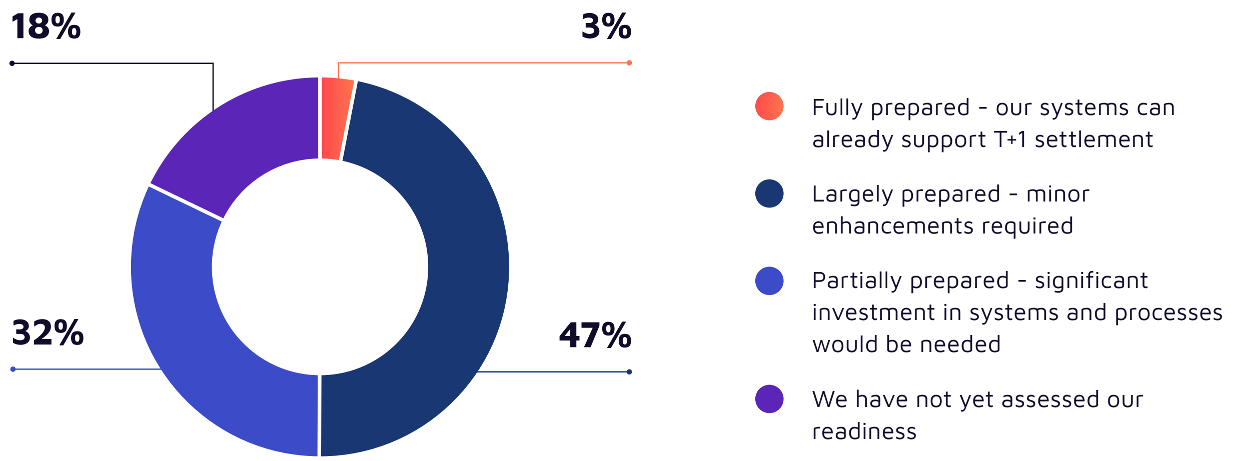


This post-trade complexity is likely to come to the fore as the market moves towards shorter settlement cycles. Across the market, preparedness for shorter settlement cycles remains uneven. Around half of respondents report being largely prepared. However, the remainder remain at best partially prepared and almost one in five have yet to assess their readiness.

The complexity of fixed income, particularly around bilateral trading, collateral management and cross-border settlement, makes the move to shorter settlement cycles more difficult.

While the market is progressing towards shorter settlement cycles, operational readiness remains incomplete.

HOW PREPARED IS YOUR FIRM'S POST-TRADE TECHNOLOGY INFRASTRUCTURE FOR A POTENTIAL MOVE TO SHORTER SETTLEMENT CYCLES IN FIXED INCOME MARKETS?



Supporting the transition to shorter settlement cycles will require significant investment across several core operational areas. The most pressing priorities identified by respondents were securities lending and inventory management and collateral and intraday margin management. This underlines the growing importance of real-time visibility over assets and funding requirements.

Trade matching, cash and liquidity management and middle-office workflows were also highlighted as key areas in which investment would be required.

These areas are critical to enabling faster confirmation, funding and processing of trades within compressed settlement timelines.

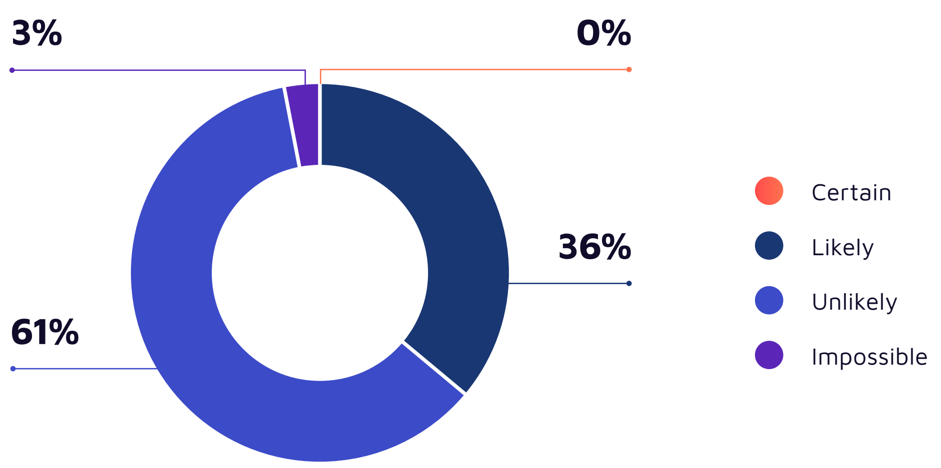
SECTION 3

De-dollarisation

De-dollarisation, the process where economies reduce their reliance on the US dollar, has become an increasingly prominent theme in global markets. While the dollar remains the dominant global reserve currency, geopolitical developments and shifting trade dynamics have prompted greater focus on currency risk and diversification.

Despite this, market participants remain sceptical about the likelihood of a material de-dollarisation of global trade and financial flows over the next decade. Over 60% of respondents view such a shift as unlikely. Despite ongoing geopolitical discussions, the US dollar's role as the dominant global currency is not expected to materially weaken in the near term.

HOW LIKELY DO YOU CONSIDER A MATERIAL DE-DOLLARISATION OF GLOBAL TRADE AND FINANCIAL FLOWS WITHIN THE NEXT DECADE?

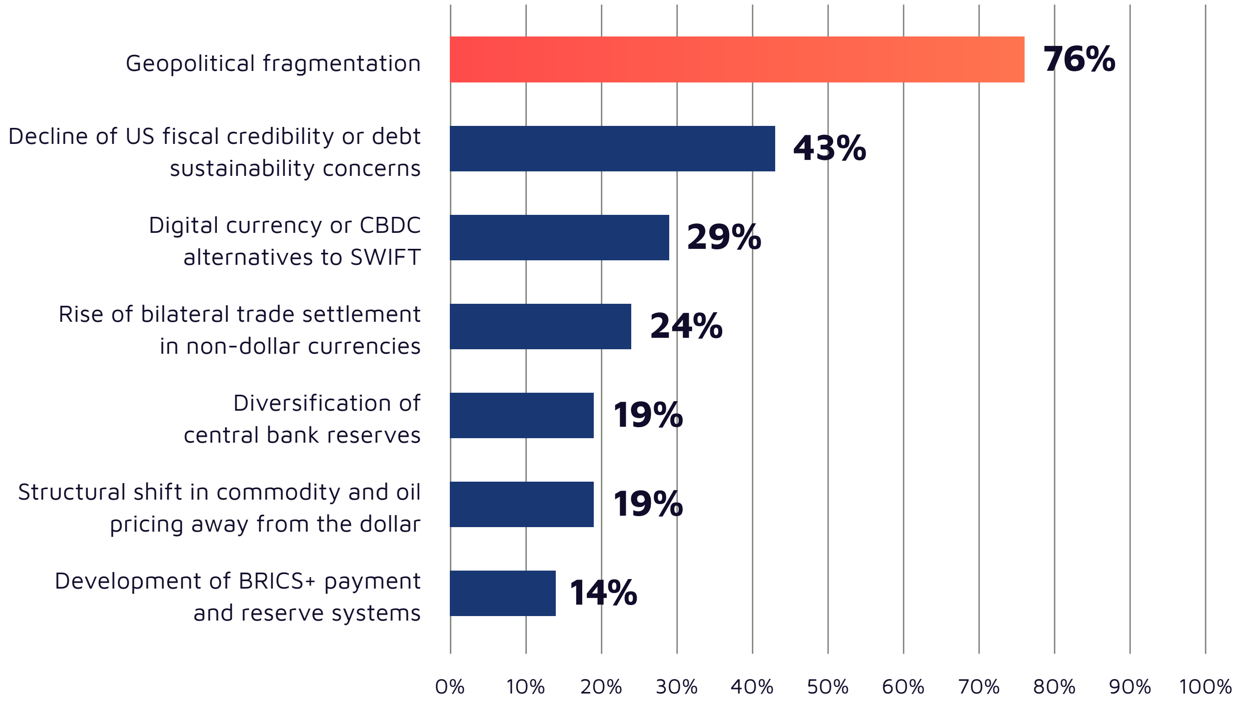


Among the factors that could drive de-dollarisation, geopolitical fragmentation stands out as the most significant, cited by 76% of respondents.

This reflects growing divisions between major economic blocs and the potential for global trade and financial systems to become increasingly regionalised.

Concerns around US fiscal credibility and debt sustainability have also gained traction from 43% of participants, indicating that long-term confidence in US economic fundamentals could play a role in shaping future currency dynamics.

WHICH FACTORS DO YOU CONSIDER MOST LIKELY TO DRIVE DE-DOLLARISATION?

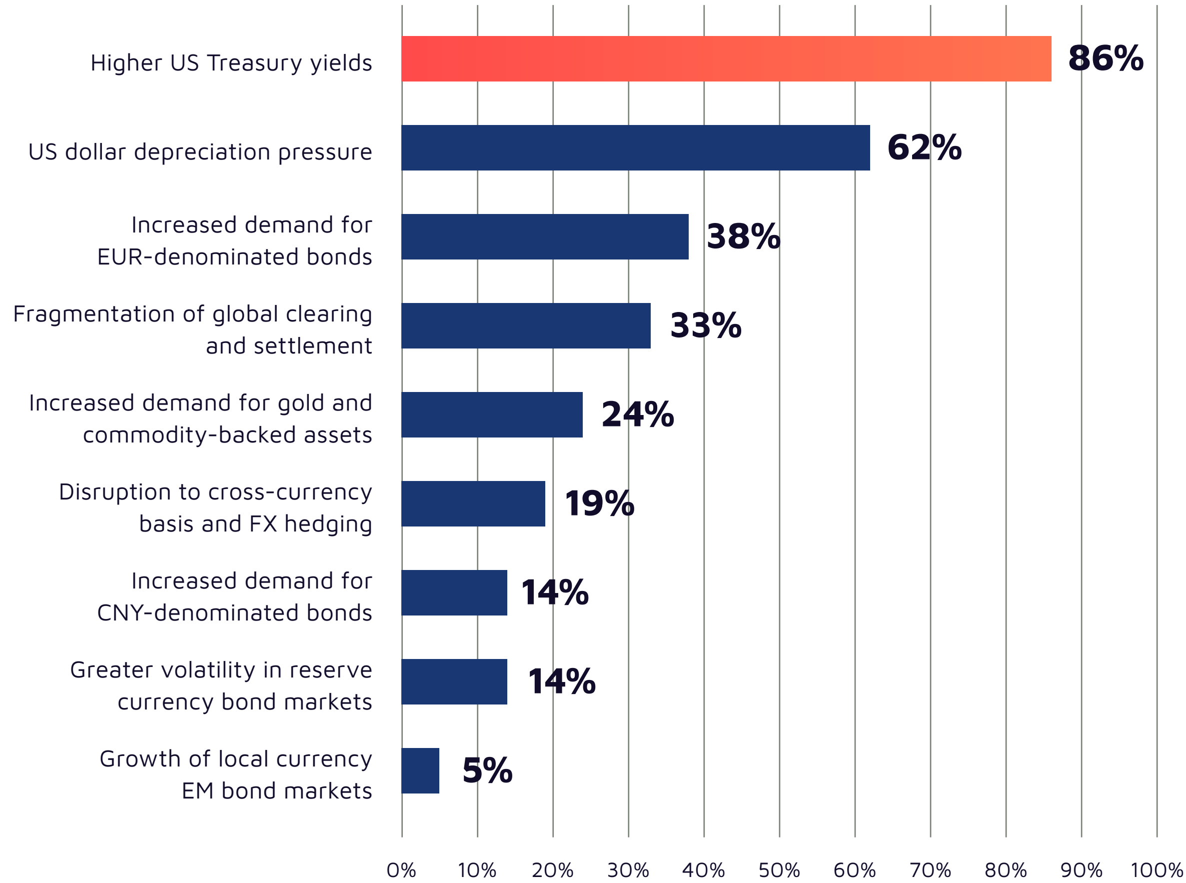


While the likelihood of de-dollarisation is considered relatively low, its potential impact on fixed income markets would be substantial. The most widely anticipated consequence is higher US Treasury yields, identified by almost 90% of respondents, reflecting the prospect of reduced global demand for US government debt.

Depreciation pressure on the US dollar was also highlighted, with almost two thirds of respondents identifying it as a key impact.

A weaker dollar could reshape global capital flows, as investors rebalance portfolios away from dollar-denominated assets.

IF DE-DOLLARISATION WERE TO MATERIALISE AT SIGNIFICANT SCALE, WHAT DO YOU BELIEVE WOULD BE THE KEY IMPACTS ON FIXED INCOME MARKETS?



SECTION 4

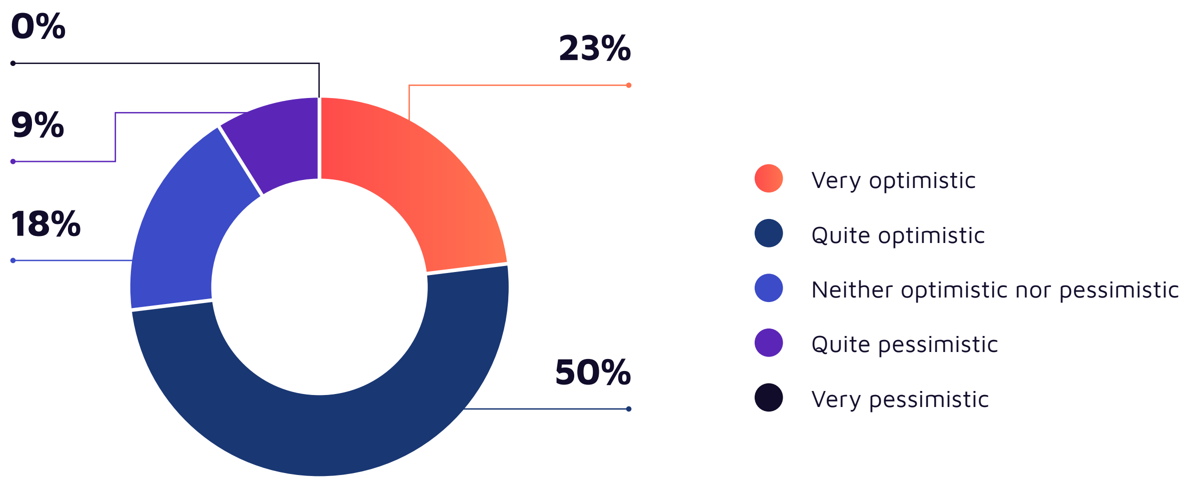
Sentiment

Looking ahead to the next three months, sentiment across the fixed income market remains positive. A majority of respondents are optimistic about their business's performance, an improvement from the previous quarter.

This indicates that despite – or for some because of – recent volatility, most firms retain confidence in their ability to trade and capitalise on fast-moving markets.

Overall, the market environment is characterised by measured confidence: firms are encouraged by resilience and opportunity but remain mindful of ongoing volatility, liquidity pressure and structural risks.

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



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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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