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Disappearing Dealers: How The Pullback in SP Trading Balance Sheet Has Rewired Market Structure

Over the past 10 years, CLO issuance has multiplied, while dealer holdings fell. In the first of a three-part guest essay, Daniel Ezra looks at the causes of this change — and how it affects the market

By Daniel Ezra, Founder & CEO, Entegra

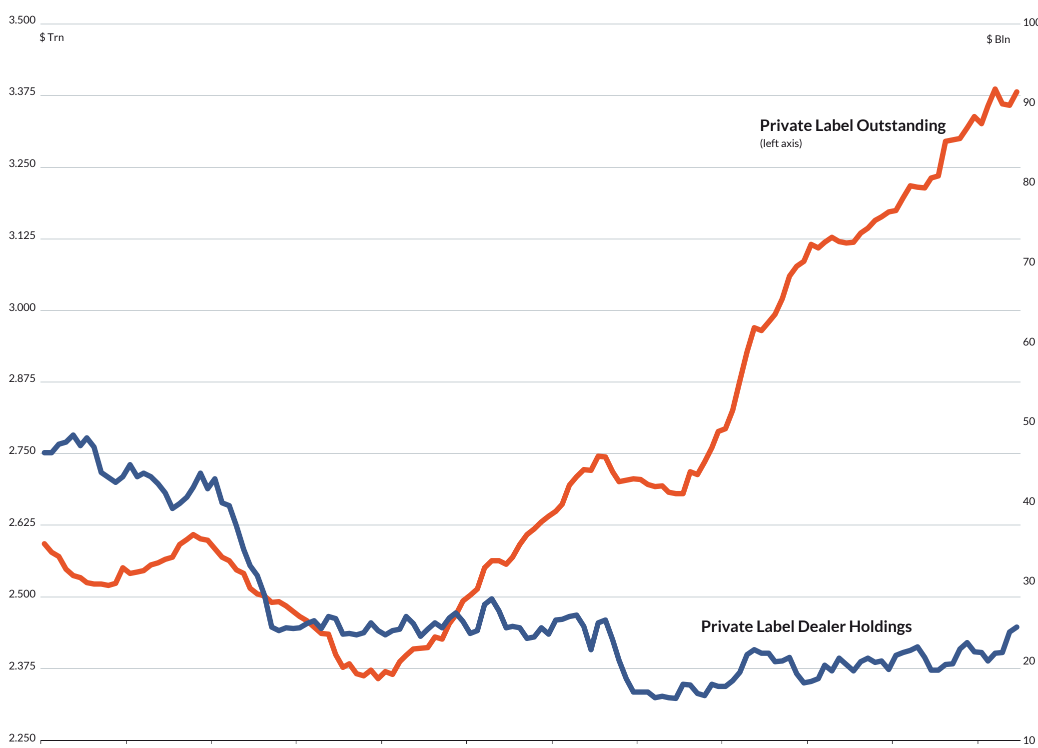
Over the past decade, the credit markets have undergone a structural shift few anticipated, but everyone now feels: dealers are no longer the backbone of liquidity. Nowhere is this more visible than in securitized products, where dealer inventories have collapsed even as outstanding volumes have ballooned.

Take private-label securitized products (SPs) — RMBS, CMBS, ABS, and CLOs. From 2013 to 2024, dealer holdings have fallen by nearly 50%, from nearly $50 billion to around $25 billion. In that same period, SP outstanding has grown by more than $1.4 trillion. (See chart 1.) The divergence is stark: more product, less balance sheet.

CLOs offer a clearer microcosm. Dealer CLO holdings are down roughly 30% since 2015, while CLO issuance has grown by approximately 250%. As of mid-2024, CLO dealer inventories sit below $4.7 billion, despite the asset class surpassing $1.2 trillion in size. (See chart 2, overleaf.) In real terms, this means dealers today hold less than 0.5% of the CLO market, which makes for a very thin layer

Chart 1: Private Label SP Outstanding vs Dealer Holdings

Total private label SP outstanding has grown by ~1.5x since 2015 as dealer balance sheets have nearly halved. Dealer balance sheets now represent ~1% of the outstanding private label SP market.



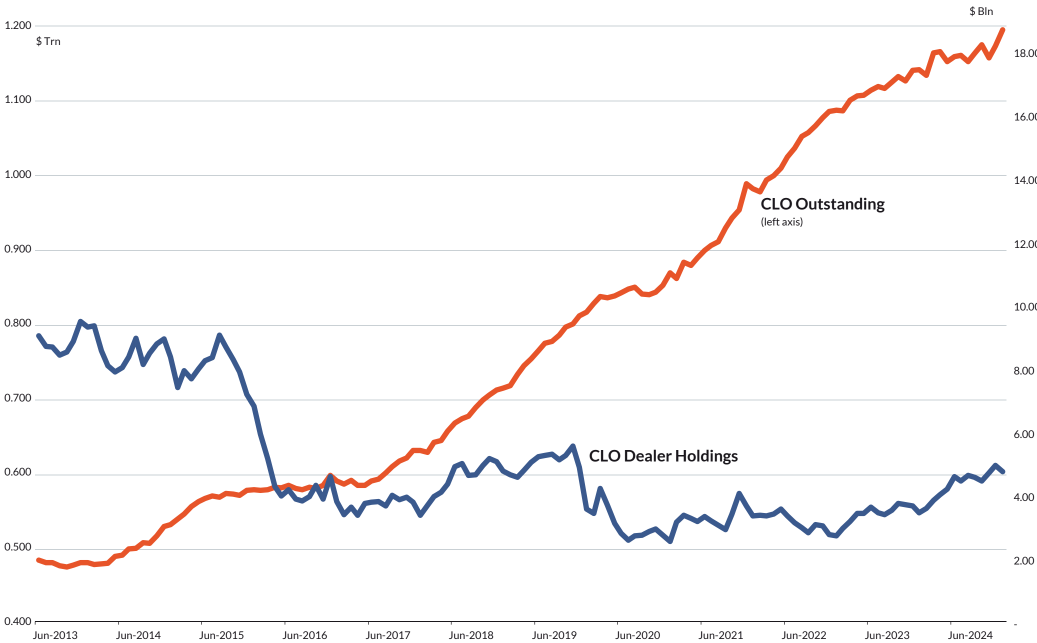
of support for a market they once dominated.

This retrenchment is beginning to get the attention it deserves. Recent market structure articles often cite regulatory capital and RWA constraints as the primary drivers, but that does not tell the full story. Both charts show that during major periods of market stress, including the Oil and Gas crisis of 2015 and 2016 and the COVID shock of 2020, dealer inventories were significantly reduced and as of January 2025 have not returned to their previous peaks.

This is not a talent issue. There are still many highly capable traders on the Street. The real

Chart 2: Private Label CLO Outstanding vs Dealer Holdings

The CLO market has grown 2.5 times since 2013, while dealer balance sheets now support less than 0.5% of the $1.2 trillion CLO market



Source: SIFMA, Federal Reserve

problem is structural. Trading desks have not evolved to reflect the current regulatory environment, and as a result, trading returns on bank capital have suffered. Banks have responded by cutting infrastructure, reducing senior headcount, and turning trading into a functional requirement of maintaining a financing and origination platform. Trading is no longer treated as core competency. The result? Dealers for the most part are no longer true liquidity providers but intermediaries of convenience.

The implications of this extend beyond market structure. There is a cascading effect that touches both the sell side and buy side.

On the sell side, trading used to be the moat. It created high barriers to entry, reinforced client relationships, and supported differentiated platforms. As banks pulled capital from trading, that moat eroded, lowering the drawbridge for more entrants. What followed was a shift to a banking-first model: easier to enter, harder to defend, and far more vulnerable to fee compression. With more institutions positioning as arrangers, competition has moved from service to price.

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>
> *Daniel Ezra*
> *Founder & CEO, Entegra*

As traders become less active, banks lose their most immediate link to the market. Trading desks provide critical insight into client flows, liquidity conditions, and risk sentiment. Without that feedback loop, banks become less responsive and less informed, weakening everything from risk management to origination strategy.

On the buy side, the cost shows up in service quality and liquidity fragility. The CLO market may be broad in breadth but is shallow in depth, with only 200 or so active institutions. There's a greater prospect that when real stress hits, there is limited structural support as everyone rushes for the exit. Fee compression might feel like progress, but it comes at the cost of transparency, coverage, and execution when it matters most.

Ironically, the value of trading is now being reaffirmed by the market itself. We are seeing trading specialists moving into origination, using their trading experience to demonstrate client value and win mandates. Performance Trust in CRE is one early example but is the first of many. The message is clear: trading, when done well, remains a competitive advantage.

The challenge is no longer whether to provide trading support, but how to do so in a way that is aligned, capital efficient, and structurally sound. Our mission is not just to improve returns or fill gaps, but to restore trading as a strategic function that strengthens the infrastructure needed to keep credit markets working across cycles.

ABOUT ENTEGRA'S TRADING AS A SERVICE (TaaS)

Entegra's Trading as a Service (TaaS) is a purpose built, white label solution for arranging banks to provide consistent support on their new issue transactions. It embeds experienced traders within the bank's infrastructure to facilitate daily, deal specific market making throughout the life of a deal.

TaaS operates fully within the bank's systems, protocols, and brand, allowing institutions to maintain full control while enhancing service. It complements both the banking and trading sides of the business by expanding execution capabilities without requiring new capital or displacing existing desks.

Although designed for banks, the model also delivers meaningful benefits to issuers and managers by improving price discovery, secondary visibility, and investor access.

Entegra's broader mission is to restore trading as a growth engine that aligns client service with stronger liquidity and better market outcomes.

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