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Vanishing Volumes: How Dealer Pullback in SP Erodes Trading Activity and Concentrates Liquidity

Declining trading volumes have deepened the divide between the largest managers and the rest

By Daniel Ezra, Founder & CEO, Entegra

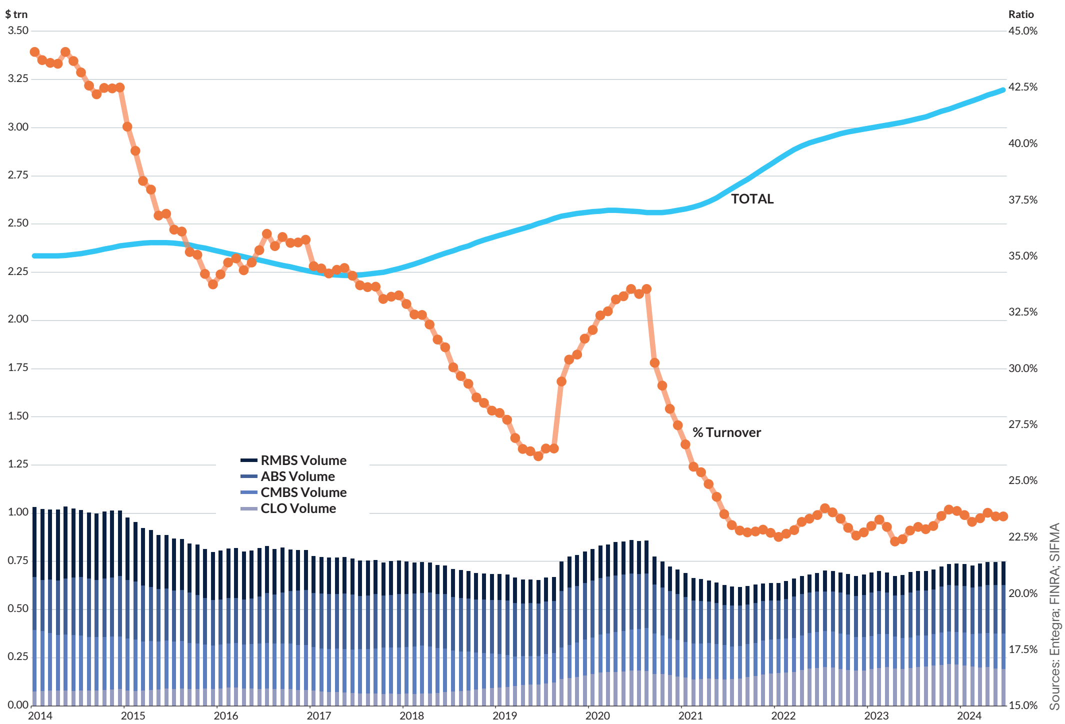
In our first article (Disappearing Dealers, *Creditflux* August 2025, pages 15-16) we showed how shrinking dealer balance sheets in securitized products (SP) hollowed out the backbone of market-making, with the unintended consequence being a race to the bottom in banking fees as the moat around their platforms disappeared. In this follow-up, we examine the impact of that pullback through the lens of declining trading turnover, which concentrates liquidity and widens the divide between the largest managers and the rest.

The decline in SP trading turnover is striking. Measured as trading volume divided by outstanding bonds, it has halved to around 20% since 2014, even as total outstandings have grown from roughly $2.5 trillion to more than $3.3 trillion (chart 1).

The decline, however, is not uniform across asset classes (chart 2, overleaf). CLOs have maintained a low but steady share of activity, but CMBS, RMBS, and ABS have all seen pronounced drops in trading relative to their growing size. Some would argue that low turnover is simply the result of buy-and-hold investors such as banks and insurers, but the data tells a different story.

1: SP Trading Turnover vs Outstanding (Trailing 1 Yr)

Turnover in CLOs, RMBS, CMBS, and ABS has declined from ~40% in 2014 to ~23% in 2024, despite continued market growth. Combined securitized product trading (notional volumes) have declined since 2014



As of YE 2024, US banks and insurers together owned about $1.45 trillion[1], or 43% of the private label SP market. That still leaves 57% of bonds in other hands, a share large enough to support much healthier levels of trading, yet volumes continue to stagnate.

What emerges from lower turnover is a market structure defined by imbalance. Some products and issuers maintain visibility, while much of the rest struggle to attract meaningful secondary support. This is understandable: with less balance sheet available, dealers concentrate on the most liquid names and only step into less liquid areas when they already have a client.

Investors mirror that behaviour, directing activity to bonds that already trade and avoiding those that do not. The result is a self-reinforcing cycle where liquidity attracts more liquidity while the rest of the sector

[1] Source: SNL; NAIC

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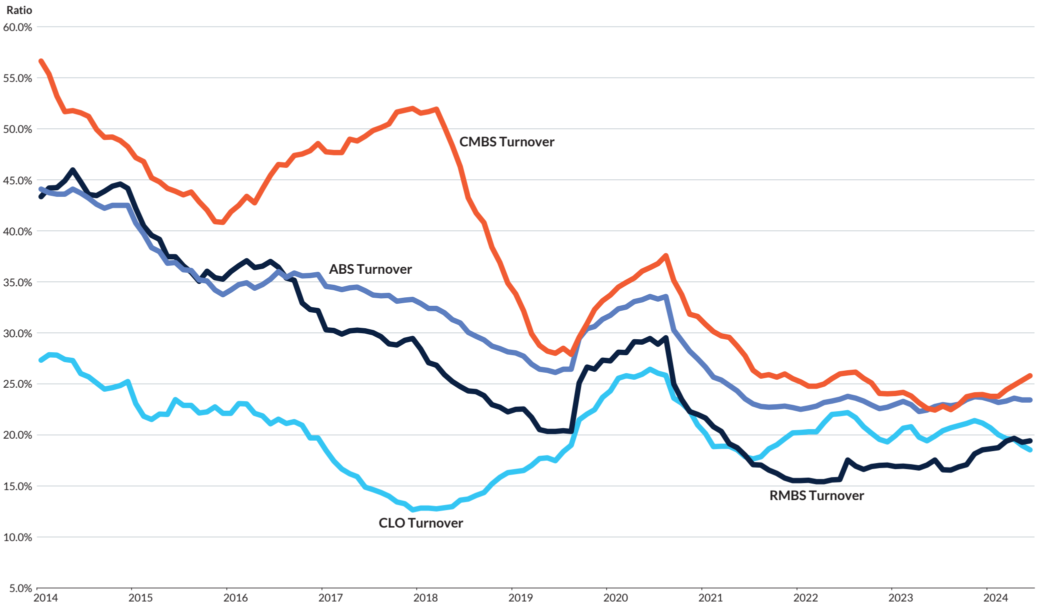
2: Breakdown of SP Trading Turnover By Sector (Trailing 1 Yr)

CMBS, RMBS and ABS have seen a steep decline in trading volumes, while CLOs have maintained a more stable share as the market has grown



Sources: Entegra; FINRA; SIFMA

grows increasingly isolated. Over time, prices become harder to verify, transparency fades, and confidence weakens, turning rational behaviour into structural vulnerability for credit as a whole.

In response, the industry has attempted to provide a range of solutions, but each has limits. ETFs have improved accessibility yet remain small and concentrated in CLOs, with about $35 billion in assets (less than 3% of the overall CLO market). In more mature markets, ETF penetration tends to peak around 6%, underscoring the constraints of this approach.

Electronic platforms such as Octaura, MarketAxess, and Tradeweb are making progress, but participation in private label SP remains shallow. Even in high yield, where electronic trading is far more established, volumes have plateaued at roughly 33% of the market, suggesting there may be a natural ceiling for adoption in SP as well.

Private credit has quickly positioned itself as the most recent answer to this growing issue. For many investors, it looks like a safer substitute for public credit that no longer trades with consistency or depth. But we should be cautious: risk in markets never disappears, it only changes form.

The irony is that private credit's growth is itself a symptom of public market weakness, not a cure. As more capital shifts into these structures, transparency and price discovery erode, leaving investors reliant on size and reputation as signals of safety. The largest platforms then raise capital with ease, while managers without consistent secondary support struggle against the perception of weaker liquidity, regardless of performance. As overall volumes deteriorate, the gap between the largest platforms and the rest continues to widen.

> **Secondary trading is the foundation of investor confidence and market resilience.**
>
> *Daniel Ezra*
> *Founder & CEO, Entegra*

But none of these substitutes address the core problem: the absence of active secondary trading. The challenge ahead is not simply that volumes are shrinking, but how trading can be rebuilt in a way that serves the entire market rather than a select few. Secondary trading is more than execution: it is the foundation of transparency, investor confidence and market resilience. When activity narrows to a select set of names, liquidity pools at the top, leaving the rest of the market thinner, less visible, and more vulnerable.

For asset managers, the impact is real: higher funding costs, weaker secondary support, and fewer tools to compete for capital. That is the hidden cost of vanishing volumes, and it falls most heavily on the buyside.