MSCI Liquidity Risk Monitor Special Report

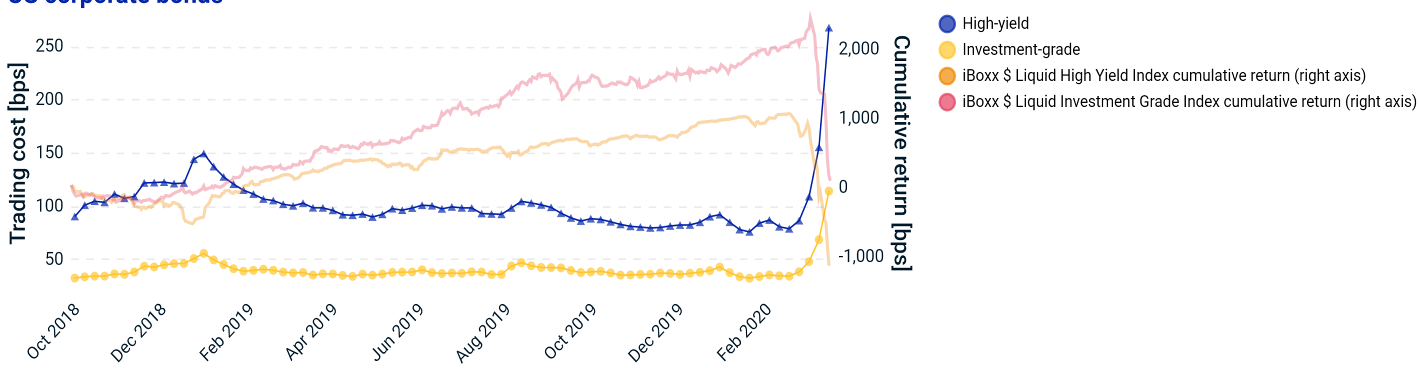
March 24, 2020

Weekly report highlighting the behavior of key liquidity indicators during the COVID-19 global crisis

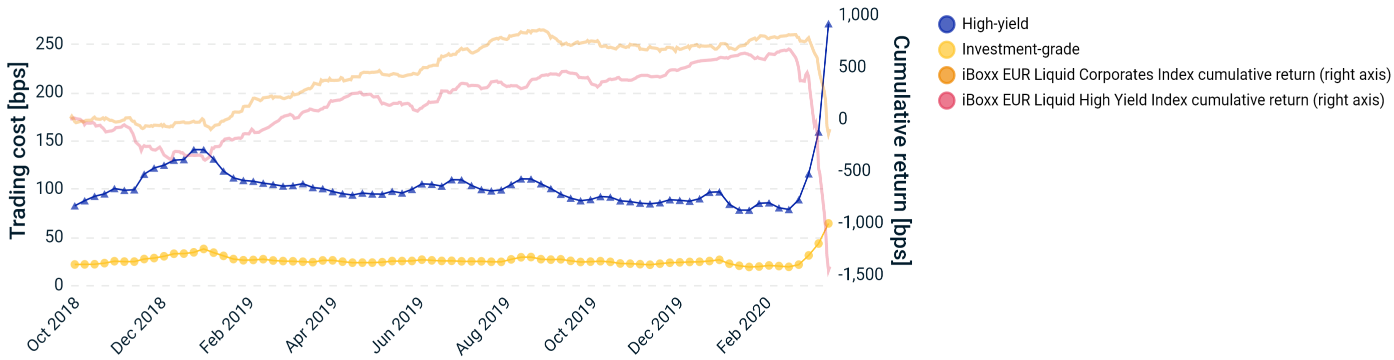
Cost of forced selling of USD 10 million

- The liquidity of both investment-grade and high-yield corporate bonds have deterioratied further since last week, and the transaction cost shocks are now more than twice as severe as during the December 2018 high-yield sell-off.
- A drop in market making activity was observed. The average number of dealers quoting an instrument and the average number of daily quotes have both decreased. However, there was only a moderate decrease in the average quoted sizes.
- The price uncertainty has reached extreme levels and there is a very high variance in the prices quoted by dealers.

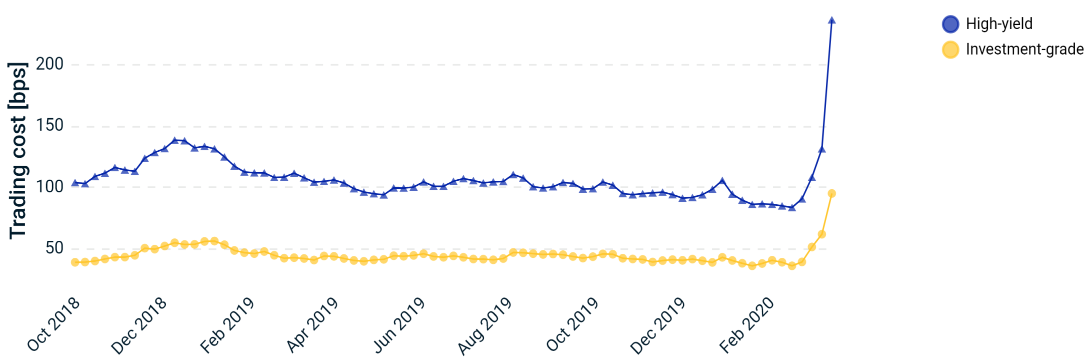
US corporate bonds



Corporate bonds - non-US developed countries



Corporate bonds - emerging countries



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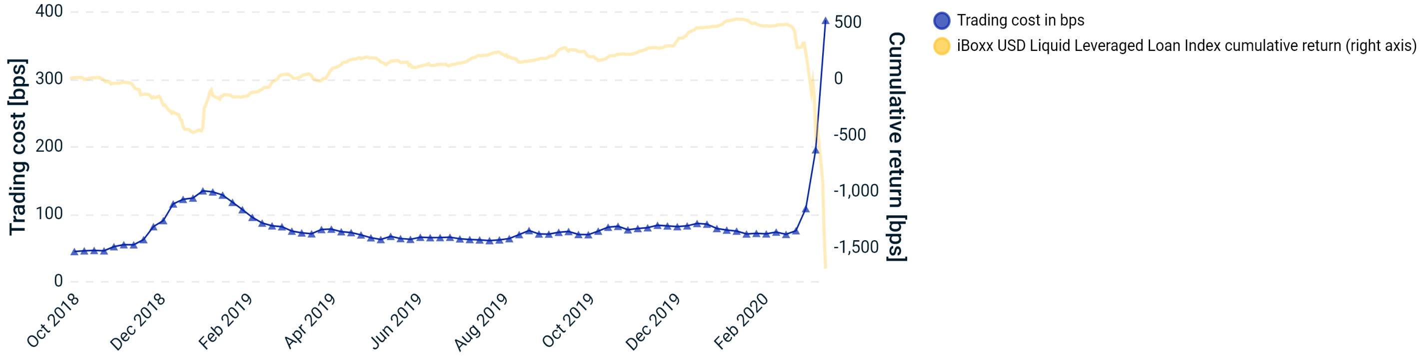
- The liquidity of bank loans has deteriorated significantly more than that of corporate bonds during the current market turmoil.
- The extreme transaction costs are driven by a very high market impact cost component and consequently, trading large order sizes has become very expensive.
- As opposed to corporate bonds, there is a significant drop in the quoted sizes for both U.S. and non-U.S. bank loans, indicating a reduction in the market depth.

US bank loans



Non-US bank loans