Analytics key as economic uncertainty looms in 2025

numerix

Market participants in 2024 had to contend with significant changes in inflation, interest rates and geopolitical risk. Against such a shifting backdrop, cutting-edge data and analytics have never been more important. *Global Capital* spoke to **Satyam Kancharla**, Executive Vice President and Chief Product Officer at front-to-risk technology firm **Numerix**, about trends to expect in 2025 and how changing market dynamics impact analytics requirements

GC: How do you anticipate interest rate movements and inflation trends will impact fixed income markets in 2025?

Kancharla: With central banks changing rate regimes, there seems to be a consensus that the period of higher inflation has passed. There is also a new US administration and market optimism on the expectation of a favourable regulatory and fiscal environment. There wasn't much market volatility or uncertainty surrounding the US election, nor was there much interruption with ongoing and newly escalating geopolitical conflicts, which shows a resilient market. However, we feel this could change in 2025, especially with new tariffs and tax reductions in the US, which could dramatically change global trade dynamics and lead to further inflation and volatility, especially in fixed income markets.

Across the bond market it would be reasonable to expect a strong year ahead. The higher interest rate environment has been particularly beneficial to the convertible market. Companies have been more willing to issue convertible securities to pay lower coupons rather than issuing debt in the high yield market. From an investor's standpoint, the option embedded in the convertible market offsets some of the interest rate risk compared to fixed income securities.

GC: What role do you see analytics and technology playing in adapting to market volatility across fixed income?

Kancharla: Regardless of whether volatility falls or rises in 2025, there is a growing focus on identifying alpha returns with systematic credit strategies. These strategies are data driven approaches to evaluating pricing, where the scope of analytics requirements has become more rigorous, and the latency demands have shifted closer and closer to real-time. This trend points to a continued push toward efficient data and analytics processes that can be scaled horizontally and vertically. In this regard, flexible cloud scaling is something we expect to see more of in 2025.

If we see high volatility regimes, we believe that advanced analytics for stress testing and scenario analysis will be especially important. Traders will want to analyse their portfolios with shifts in multiple risk factors simultaneously, to provide key insights into how the portfolios will react to market changes so they can hedge or rebalance positions appropriately. Market volatility is particularly important in the convertible market, where volatility is a key driver for convertible valuations.

Satyam Kancharla

GC: What trends have you observed in clients' preference for traditional versus structured fixed income products, and what is driving these trends?

Kancharla: We have encountered more structured SOFR notes than we saw in term rates and we've noticed that pricing approaches sometimes use assumptions that systems need to support even if the assumptions aren't technically representative of the instrument. In terms of structures, we've come across structured notes that reference market indices like SOFR with constant maturity rates being paid, where the notes are fixed-floaters and sometimes callable. There is often a convention mismatch between the fixed and floating periods, in payment frequency and even day count for accrual periods, which is interesting. It is not clear what is driving interest in these, but there is a good chance this trend will continue.

We've seen some investors transitioning to structured finance instruments for both the attractive yields and to widen their potential investment opportunities. For example, we've seen an increase in appetite for CLOs and ABS securities from investors who have traditionally focused on treasuries, corporates or MBS. A few start up hedge funds have tried to enter the structured finance space to take advantage of both the high yields and the inherent complexity of the securities, as these firms believe their sophisticated modelling and trading approaches may give them an edge over other players in the market.

GC: Are there any interesting innovations or trends you are keeping an eye on for 2025?

Kancharla: In the convertible market specifically, new issuance has continued to be strong despite the Fed rate cuts which began in September 2024, and we've seen an increase in the number of investment grade companies issuing convertibles. One trend we're keeping an eye on is the 119 convertible securities that are maturing in 2025, which have a market value of approximately $58 billion. Most of these bonds were issued in the record setting year of 2020 during the COVID pandemic when companies were trying to secure capital. The expectation is for companies to either exchange or issue new debt to replace these securities.

From a technology perspective, we're continuing to monitor advances in AI and machine learning and exploring how they can provide value to practitioners in our markets. We're also watching the continuing electronification of the fixed income markets and advances in structured credit trading, so we can help our clients stay on the forefront of these trends.