Dealers, Information, and Liquidity Crises in Safe Assets

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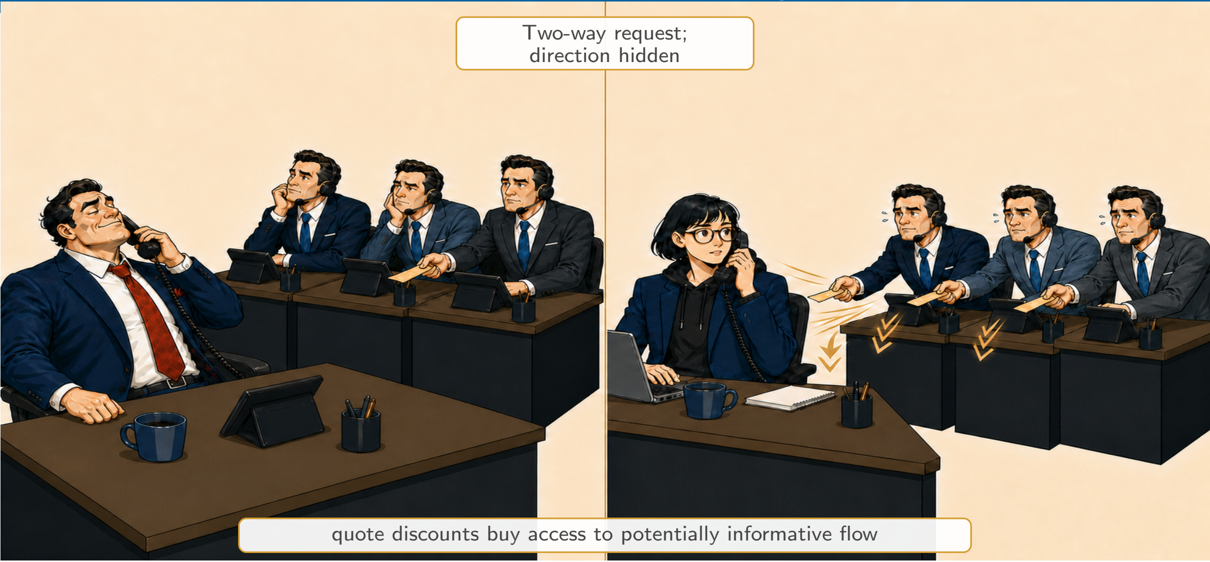
Comic mechanism: meet the cast

Dealer | **AlphaMax Macro less-informed client** | **Zittadel more-informed client**

ex ante: one dealer type; two client types

Fictionalized names and characters; no claim about actual institutions or people.

Dealers compete for informed flow—not for every client

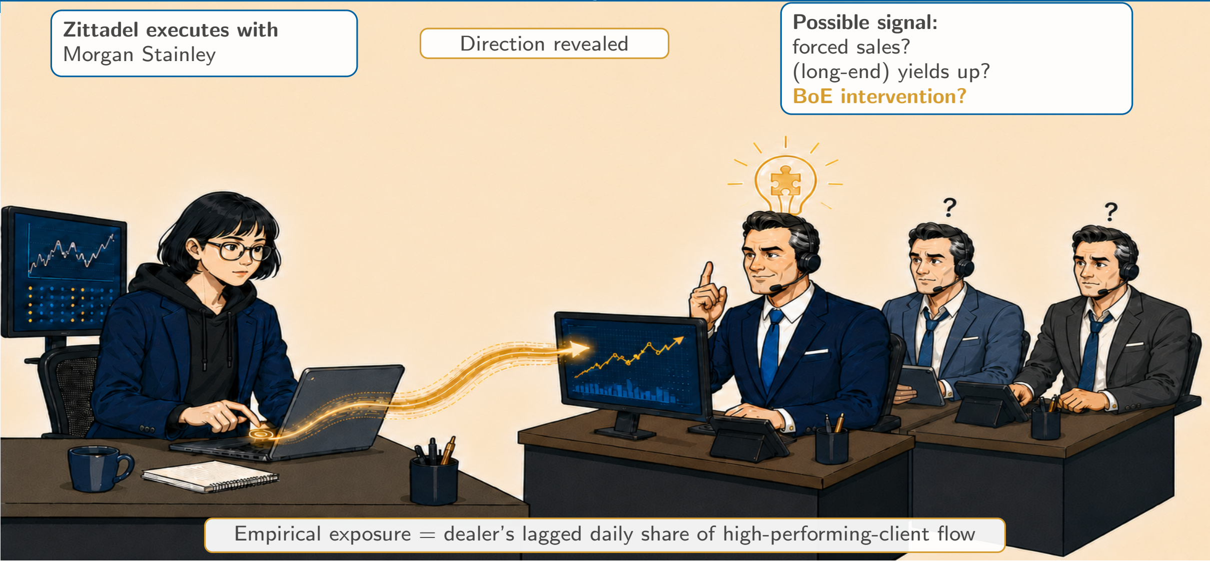


Execution reveals direction—and may update the dealer

Zittadel executes with
Morgan Stainley

Direction revealed

Possible signal:
forced sales?
(long-end) yields up?
BoE intervention?



Empirical exposure = dealer's lagged daily share of high-performing-client flow

Dealers receiving more informed-client flow provide less liquidity

Holding client and outcome day fixed: prior-day informed-flow share +1 SD $\rightarrow$ +10 bp worse execution
Dealer-wide fire-sale bonds: +1 SD flow $\rightarrow$ about 0.15σ less net buying and gross volume

Dealers with more informed flow profit in anonymous interdealer trading

Bilateral dealer-to-client: no significant return against less-informed clients

Anonymous interdealer:
$+1$ SD informed flow $\rightarrow$ $+60$ bp higher adjusted 3-day performance

Authors' interpretation: reputation binds bilaterally; anonymity loosens the constraint

External validity of the mechanism

"While the mechanism linking information acquisition and liquidity provision is conceptually general, [..] the LDI episode [might] represent an idiosyncratic stress event."

Mechanism should be active whenever the "value of information" is high:

$$\Omega_t = \frac{\text{Var(return)}_t}{\text{price impact}_t}$$

Volatility raises the value; price impact raises the cost

What the paper shows

- August–October 2022 only, spike during LDI crisis
- $+1$ SD Ω_t predicts a 9 bp larger informed-client discount

The natural extension

- Estimate Ω_t over 2018–2025
- Let Ω_t define the episodes
- Test your mechanisms

External validity of the two key findings

Within-dealer dispersion

$\sim 50\% \rightarrow 75\%$

Informed-client discount

-14.5 **bp**

What the paper does

- study March 2020 "dash for cash"
- two figures, half a page
- results hold

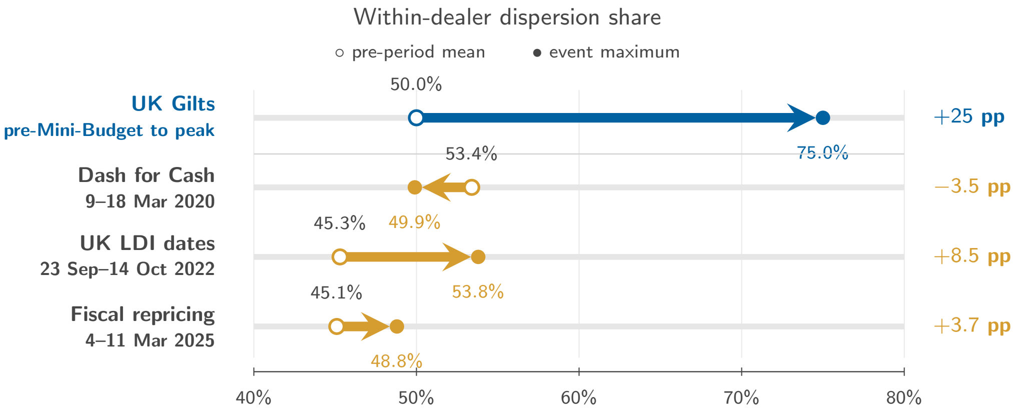
The natural extension

- re-run the entire analysis

Do the facts carry over to other safe assets?

Test with our new transaction-level dataset for German Bunds
Anatomy of a Safe Asset: Bund Market Structure and Reform
Kerssenfischer, Lucke, Scherrieble (2026)

Fact 1: No comparable shift across three Bund windows



Reading

Bund baselines are similar to Gilts, but no Bund event move approaches +25 pp.

Fact 2: The informed-client discount across three Bund episodes

UK Gilts

-14.5 bp

pooled LDI estimate

Weekly estimates reach

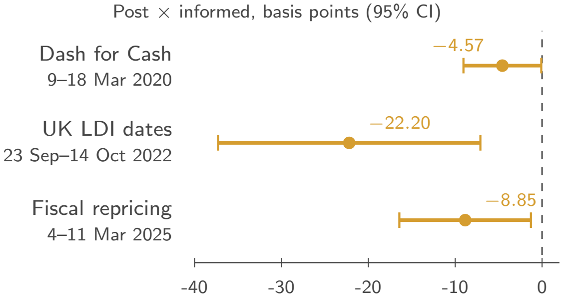
≈ -23 **bp**

after the Mini-Budget

≈ -7 **bp**

at the onset of March 2020

German Bunds: same specification across episodes



Reading

Estimates are reasonably robust: every leave-one-dealer-out coefficient is negative, and only the 2020 two-way-clustered confidence interval includes zero.

UK: pooled LDI = -14.5 bp; weekly discounts reach $\approx$ 23 bp after the Mini-Budget and about 7 bp at the March 2020 onset (Figures 5 and 11).

Conclusion

1. **An important perspective on liquidity crises**
   - Dealers compete for informative clients even as they withdraw liquidity from others.
   - Separate beliefs about the BoE's response from generic rate exposure.
2. **The two headline facts need not travel together**
   - Bunds reproduce the informed-client discount across three episodes.
   - The within-dealer dispersion shift does not appear.
3. **Take the value of information to the full sample**
   - Test whether the mechanism tracks Ω_t, not the crisis label.
   - The full 2018–2025 Ω_t series selects episodes without hand-picking crises.

Bottom line

What makes LDI special, and when should we expect the same mechanism elsewhere?

What the authors assume—and what I would test

Authors do or assume

- **Within-dealer dispersion share ↑:** reflects targeted client allocation
- **"Informed" client:** only investment and hedge funds can qualify; top 33% by market-wide August returns
- **Information:** ability to predict PFLDI sales and bond duration capture info
- **Trading sample:** D2C and interdealer trades only

My critique or proposed test

- Within-dispersion ↑ or across-disp. ↓ ? compare same-bond and same-direction
- Dealers only observe bilateral trade history → better proxy
- Don't you neglect BoE intervention as potential source of info advantage?
  likelihood, timing, size, eligible bonds, ..
- Include direct PFLDI–hedge fund trades: rare C2C trades may be informative in crises