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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. (Operator Instructions) As a reminder, this conference call is being recorded, July 25, 2018.

I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

David Cresci - *MarketAxess Holdings Inc. - IR Manager*

Good morning, and welcome to the MarketAxess Second Quarter 2018 Conference Call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter and will provide an update on trends in our businesses; and then Tony DeLise, Chief Financial Officer, will review the financial results.

Before I turn the call over to Rick, let me remind you that today's call may include forward-looking statements. These statements represent the company's beliefs regarding future events that, by their nature, are uncertain. The company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the company's future results, please see the description of risk factors in our Annual Report on Form 10-K for the year ended December 31, 2017. I would also direct you to read the forward-looking statement disclaimer in our quarterly earnings release, which was issued earlier this morning and is now available on our website.

Now let me turn the call over to Rick.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Good morning, and thank you for joining us to discuss our second quarter 2018 results. This morning, we reported strong second quarter results, driven by increased trading volumes, year-over-year market share gains across all 4 of our core products and record Open Trading activity. Overall, trading volume of $421 billion was up 16% year-over-year. Our estimated U.S. high-grade market share of 17.4% was up from 17% last year. Second quarter revenue of $107 million was up 11% compared to Q2 2017. Operating income for the quarter was $52 million, up 6% from a year ago, and diluted EPS was up 7% to $1.07. Open Trading adoption continues to accelerate and reached record volume of $89 billion, up 57%. Additionally, emerging market and Eurobond volumes both saw rapid growth during the quarter.

Slide 4 provides an update on market conditions. Overall, secondary trading conditions were less favorable in the second quarter versus Q1. Credit spread volatility and interest rate volatility both declined and high-grade new issue volume was up. That combination in the short term creates a more difficult environment for market share gains. In addition, the flattening of the yield curve tends to reduce average years to maturity of bonds traded on the platform. This is one of the factors that negatively impacts our high-grade fee capture. Strong results during the quarter in other products helped to offset slower-than-normal growth in high grade.

Slide 5 provides an update on Open Trading. Open Trading volume growth accelerated during the quarter and was up 57% to a record $89 billion. Open Trading represented 21% of our volume in Q2, up from 16% last year. Over 256,000 Open Trading transactions were completed in the second quarter, up from 155,000 (sic) [158,000] in Q2 2017. Liquidity providers or price makers on the platform, drove 802,000 price responses, representing a 45% increase in activity in the second quarter. Liquidity takers saved an estimated $38 million in transaction costs through Open Trading on the system, up 71% from the second quarter last year. Participants benefited from average transaction cost savings of approximately 2 basis points in yield when they completed a U.S. high-grade transaction through Open Trading protocols. Importantly, Open Trading volume is growing rapidly across all 4 core products as dealer and investor clients embrace this new source of liquidity.

Slide 6 demonstrates the benefits of greater automation in credit trading. Inquiry and trade count were both up strongly in Q2, motivating market makers to continue to invest in automated tools for market making. Total trade count was up 18% year-over-year to over 800,000 transactions during the quarter. Dealer algo responses are growing rapidly, especially for (inaudible) inquiries. Algo-generated price responses were up over 120% year-over-year. The growing use of algos is improving the investor client experience with average responses per inquiry reaching new highs across the system. Growing automation on the MarketAxess trading platform creates a highly competitive environment, including small micro-lot orders. High-grade micro-lot volume was up 23% year-over-year and estimated market share is strong at 24%. We are also seeing growing use of investor auto execution tools to lower the cost of trading on low-market impact transactions. We believe that cost benefits will continue to drive investor and dealer clients to higher levels of automation in credit trading.

Slide 7 provides an update on international progress. Our international business experienced another quarter of rapid growth. MiFID II continues to have a positive impact on client trading behavior, leading to a 27% increase in volume with European clients. Eurobond volumes from European clients were up 34% year-over-year. Emerging market volume was up 27% with strong growth in both external debt markets as well as the 24 local EM markets where we currently operate. We now have over 600 international client firms active on the platform, representing a 17% increase in the number of institutions year-over-year. Our growing footprint in international credit trading significantly expands the long-term growth opportunity for our shareholders.

Now let me turn the call over to Tony to discuss the financial results in greater detail.

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

Thank you, Rick. Please turn to Slide 8 for a summary of our trading volume across product categories. U.S. high-grade volumes were $231 billion for the quarter, up 13% year-over-year, primarily due to an 11% increase in U.S. high-grade TRACE market volume. We completed approximately 5,200 block trades during the second quarter. However, the tailwinds from major short-dated paper selling programs experienced in the first quarter did not repeat in the second quarter and new issuance was fairly robust in 2Q.

Volumes in the other credit category were up 23% year-over-year, while estimated aggregate market volumes for emerging markets, high yield and Eurobonds was down 7%. Market share gains were the main driver behind the 32% growth in Eurobond volume and 27% growth in emerging markets volume. Healthy growth in client engagement is evidenced across each of our core products. We now have over 1,450 client firms active on the platform, an increase of over 300 in just the past 2 years, and we have almost 850 clients trading in 3 or more products. With 5 important trading days remaining in July, estimated U.S. high-grade market share is running slightly below the second quarter level and estimated high-yield market share is running well ahead of the second quarter level.

On Slide 9, we provide a summary of our quarterly earnings performance. Overall, revenue was up 11% year-over-year. The 16% increase in trading volume drove commissions 10% higher. The $1.1 million uplift in post-trade services revenue is primarily due to a combination of new MiFID II services and the new customers. Expenses were up 16% year-over-year, leading to a 6% increase in operating income. Excluding duplicate rent expense recognized during the build-out phase of the company's new corporate offices in New York City, operating income was up 10%. The effective tax rate was 23.9% in the second quarter and 22.6% year-to-date. We expect that the effective tax rate for full year 2018 will be within the 23% to 25% guidance range. Our diluted EPS was $1.07 on a fairly stable diluted share count of 37.9 million shares.

On Slide 10, we have laid out our commission revenue, trading volumes and fees per million. Total variable transaction fees were up 2% year-over-year as the 16% increase in trading volume was offset by the impact of our new high-yield fee plan implemented in the third quarter and revisions to the Eurobond fee plan together with the mix shift within certain products. U.S. high-grade fee per million was up $4 compared to the first quarter of 2018, as the mix shift paper and smaller trade size under our tiered fee more plan more than offset lower duration. The $1 million sequential increase in U.S. high-grade distribution fees was principally due to one market maker moving to distribution fee plan. A portion of the distribution fees recognized in the second quarter related to a prior period. We expect that third quarter high-grade distribution fees will be roughly $500,000 lower than the second quarter level.

Our other credit category fee capture was down $6 on a sequential basis. At a granular level, fees per million for emerging market corporates and emerging market sovereigns, European high-grade and high-yield and U.S. high-yield that trades on either a price or a spread protocol were all consistent with the first quarter. That said, there was a mix shift among products with a greater percentage of volume derived from Eurobonds and emerging markets, resulting in lower sequential fee capture in the other credit category.

Slide 11 provides you with the expense detail. Sequentially, expenses were flat as lower commission -- compensation and benefit costs were offset by increases in several other line items, most notably marketing and advertising. A reduction in the variable bonus accrual, which is tied directly to operating performance and seasonally lower employment taxes and benefits, accounted for the $2.6 million drop in compensation and benefits cost. The timing of various programs and events greatly influences the quarterly marketing and advertising expense. We believe that second quarter level is more indicative of the run rate for marketing and advertising expenses for the next 2 quarters. Our full year 2018 expenses are projected to fall in the lower half of the guidance range of $220 million to $232 million, inclusive of approximately $8 million in duplicate rent expense.

On Slide 12, we provide balance sheet information. Cash and investments as of June 30 were $420 million compared to $407 million at year-end 2017. During the second quarter, we paid a quarterly cash dividend of $16 million and repurchased 32,000 shares at a cost of $6.6 million. We also spent $9 million on construction associated with the build-out of a New York City office space. Trailing 12 months pretax flow was a record $169 million. Based on these results, our board has approved a $0.42 regular quarterly dividend.

Now let me turn the call back to Rick for some closing comments.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Thank you, Tony. We are pleased with the overall growth in trading activity during the quarter. Most importantly, we are seeing good progress on long-term growth priorities, including Open Trading and international expansion. The increased investment in trading automation by both dealer and investor clients is a clear sign that the future of electronic trading in credit is bright.

Now I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Kyle Voigt from KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

I think -- so first question, I guess, is on probably like you noted some of the micro lot, fixed asset -- you're having there, and I think, it's mostly on the institutional side, obviously, but there are some retail assets you looked that last year, they didn't end up winning. But at that time, it sounded like there was analysis done regarding this build versus buy mentality for the retail space. And it sounded like you may be kind of looking at developing some point quick-to-trade functionality for -- to introduce this year. Just wondering has that been an investment priority this year? And then is there something you anticipate rolling out more directly in the retail space, I guess, over the near to medium term?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes, that's a good question, Kyle. Thank you for that. But I think we're very highly comfortable that our liquidity pool is among the most competitive for micro-lot trade sizes. We have not prioritized the investment in the retail segment in the first half of the year. But we continue to look closely as that opportunity would involve some modest tweaks to the technology platform to suit the retail client segment and some improved focus on sales and marketing toward that community. Not only are we active in micro-lots, we have a tremendous amount of overlap in the market makers that are active in small tickets for institutions and also make markets in the retail segment. So we're engaged with those market makers and increasingly talking to participants in the retail segment and that is, we think, a long-term opportunity for the company to look at how we could enter that space organically.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Okay, fair enough. And the second question just be on Open Trading. Just given the record percentage of your volume in the quarter at 21%, can you just talk about, I guess, longer term, what internally or like what targets do you have or where do you think that can go as a percentage of your total market -- of your total volume? And then, I guess, what time -- what kind of time frame do you think it will take you to get there?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

I don't know that we have a specific target on where Open Trading percentages will go. And our focus has always been on broadening and deepening our liquidity pool to better serve our clients. And the best part of Open Trading is, it's the most important thing, we think we've done to add new liquidity and broaden the liquidity pool and improve execution quality. So judging by the rapid growth in the last few years, we would expect Open Trading to be a significantly higher percentage of our volume. That said, dealers continue to be a very important part of the liquidity pool, and we expect that to be the case, especially in larger trades and less liquid bonds. So there will always be, in our mind, a balance between traditional clients and dealer activity on the platform and Open Trading activity.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Okay. And then last one from me, just a follow-up on Open Trading. You gave a kind of breakdown of Open Trading penetration between your different products. It looks like the Eurobond and EN -- EM uptake of Open Trading continues to grow pretty rapidly from a lower base in some of the other products. Can you just talk about what's changed there in each of those buckets in EM and Eurobonds over the past year? Whether it be regulatory changes driving increased adoption or protocol changing or I think, you introduced maybe on the local EM side, but yes, if you can just kind of highlight what's changed and what the outlook is there?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes, thank you for that. I think we mentioned in last quarter's calls that we have -- call that we made some technology changes in Open Trading for Eurobonds. And that has made it easier for market makers to respond to Open Trading orders, and we've seen the benefit of that through greater Open Trading activity in Eurobonds. We've also introduced some new protocols that have been important to investors. So really we think that's been mostly some technology enhancements that we've been able to deliver to make it easier for market participants to respond in Eurobonds.

On the EM side, I think, it's just organic adoption as the quarters roll on and dealers and investors are seeing more trading opportunities available in EM in the open order book. The behavior is changing, and we're seeing better price responses coming back. Most of it is in external debt. It is very difficult to solve the riddle around trade settlement in many of the EM local markets. We're working through that one market at a time. But the bonds that trade and settle through Euroclear are significantly easier for trade settlement than many of the local markets. So it is organic growth in EM, Open Trading activity primarily in external debt markets.

Operator

And our next question comes from Rich Repetto from Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

So not to beat this anymore, but tremendous success with the Open Trading. And I guess, what surprises me, and this is reflected in the other numbers as well but as the previous call said the penetration, but your volume in Open Trading was up quarter-to-quarter off the robust first quarter levels. So I guess, my question is, how much -- what's driving -- from the first quarter to now, there had to be some changes to get this penetration, like what's the incremental change that actually saw your penetration go up so much, your volume go up in Open Trading when overall volume was down, I think, 9%, 9.5%?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

I think it's a sign as a growing acceptance of all-to-all trading in credit. It's really all cylinders contributing to the sequential growth that we announced this morning, Rich, that dealer community is using Open Trading more actively for their own source of liquidity. It's an increasingly valuable tool for them to turn their balance sheets over more rapidly and move bonds off their balance sheet that may have become aged. Investors are responding to more trade inquiries as they see opportunities rolling through. And then, the third piece is really what I talked about earlier in trading automation and the increased use of algos. They can go to work whether it's a disclosed inquiry or an anonymous inquiry. So I think all 3 pieces of that are combining to create a much more valuable marketplace and source of liquidity for both our dealer and investor clients.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

And again, not to get too deep into this, Rick, but, but the volume being up, but if you look quarter-to-quarter, again, the price responses were down. The 802,000 price responses down from 820,000, so we maybe getting too far in the weeds in this. But just a last follow-up on this is block trading as a lower percentage -- was it also the size of trades block trading being a lower percentage 2Q versus 1Q that helps Open Trading?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes, that could be a piece of it too. I think that's a reasonable observation. As I mentioned, I think, a very modest decrease in price responses had much more to do with market conditions than anything else. As you know looking at the other companies you cover, the second quarter was significantly quieter than the first. And we were the beneficiary of better interest rate and credit spread volatility in Q1 and the changing investors' sentiment drove a lot of short and block programs on the system and created the best block quarter that we had ever had. That was not the case in Q2. You saw a much lower levels of volatility in both credit spreads and interest rates. I think I saw this morning that we had 21 days where the 10-year note was stuck in a 7 basis point range. So it was just a different quarter, and I think that was the primary driver of slightly reduced trading activity levels across the platform and slightly fewer price responses.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

Got it. And just one last regulatory, I guess, sort of follow-up or question. During the quarter, as you see Commissioner Jackson, who I know you know, talked in -- I think he was quoted saying that the fixed income markets were -- had conflicts of interest hidden costs and were -- just did not provide a level playing field. You're on the fixed income advisory committee. And I guess, the question is, how much action -- or what could we expect in the second half of the year in regards to regulation or, let's just say, the next 18 months in the fixed income markets since you are so close to it? And how would that -- do you see that benefiting market access and the electronic platforms?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Sure, well, thanks for that. And coincidently, FIMSAC just met a week ago, and the sub-committee that I chair on e-trading and technology, made the one recommendation of the day this quarter for the SEC to really revisit and consider modernizing the regulatory framework for fixed income e-trading, which is currently fragmented because what you find is that platforms that have protocols that look closer to cross-matching, primarily the retail platforms, are regulated primarily as ATS systems and report their volumes as ATS. However, the institutional market, which has favored RFQ protocols really does not fit with the current ATS framework whatsoever. So we are today primarily regulated as broker-dealers. And so we think that there -- it is an important time for the SEC to focus on fixed income e-trading and make sure that they're mitigating risk around any systematic risk in the industry, make sure that the regulatory framework is consistently applied across all platforms. And what we recommended is that the SEC form a working group with FINRA and the MSRB to make sure that there is a thoughtful and consistent regulatory framework that emerges without redundancies. The other risks that we see is that if all 3 of them continue to regulate different pockets of the e-trading industry, there will be redundancies that really don't pass any cost-benefit analysis. So that was universally supported by FIMSAC 1.5 weeks ago. I think that led to Commissioner Jackson's comments, which you saw in the media, and I do expect that this working group will be up and running and that there will be focus on this topic in the second half of this year. We view it as a good thing. We think that improving the soundness and best practices around e-trading for the entire industry will be a good thing for market participants in the U.S. fixed income. And we are highly supportive, we are regulated in parts of an ATS and parts as a broker-dealer and of course, as a public company with public reporting. So we are supportive. We think this will be a good thing for the e-trading markets in fixed income.

Operator

And our next question comes from Patrick O'Shaughnessy from Raymond James.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

First, I was hoping you could speak to some of the puts and takes in your information services and post-trade services revenues in the second quarter? And what your expectations are going to be like for the remainder of the year?

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

Sure, Patrick. The line will probably stick out more on the post-trade services side. And in the prepared remarks, I was commenting year-over-year on what drove that change, which is really due MiFID II related services and new customers associated with that. When you look at sequentially post-trade services was down around $1 million sequentially and there's several items, all of them around a couple of hundred thousand dollars, which drove that variance. So we didn't have a repeat of some nonrecurring MiFID II implementation fees that was a couple of hundred thousand dollars. The dollar did strengthen in the second quarter versus the first quarter. That was a couple of hundred thousand dollars. And then there was -- there are clients that are on variable plans where dependent on their volume activity, it does influence revenue as well. So you tally those up and you see the post-trade services revenue down around $1 million-or-so. Looking forward, the growth there, it is going to be dependent on new clients and new services. And we do think over the next several quarters, the quarterly run rate will look a bit better than what you saw in 2Q. So assume if you look at the Q2 numbers, assume going forward, it'll be somewhere in that $3.5 million to $4 million range for post-trade services. On the information services side, which is namely a data revenue, it's our bond secured data service volume, pricing, liquidity data, it's our Axess All servicing and reference data as well. It was up around 7% year-over-year. If you look historically for that business strike, we've grown revenue around 10% per year. The vast majority of that revenue is recurring. And we do have a fairly robust pipeline that we're -- that are various levels of closure and expect that information services line, we still feel good around that 10% growth there year-over-year.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Great. I want to follow up on -- I guess, you guys touched on block trading a little bit, but I don't know if I caught what your market share of block trading was in the second quarter?

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

Yes, so Patrick, we didn't state what the block trade number was, but you recall in the first quarter we were -- we ended up a little bit shy of 11% in the first quarter. And in the second quarter, we were just a little bit north of 9%, which -- that's pretty consistent with where we were in full year 2017. And really the main driver there, in the first quarter around the interest rate movement, principally right in the middle of the first quarter, there were a number of short-dated selling programs in the marketplace. We saw a lot of that activity on our platform. We did not see a repeat of that in the second quarter.

Patrick Joseph O'Shaughnessy - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Got it. Okay, great. And I guess, maybe a final question, a bigger picture question. So we've seen a lot of growth. It would seem like in some of the retail-oriented trading platforms, the ones that had the streaming executable quotes. And I think there is some data that suggest that the quotes are actually reasonably small, although maybe there is not a whole lot of depth of book at the inside quote. Do you think we're at a point where the market structure is ready for streaming quotes to move upmarket and for institutions to be able to -- be willing to trade off of that type of protocol? Or do you think that request for quote is going to remain dominant trading protocol for some period of time?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes, it's a good question, Patrick. It's -- I think you're seeing increased automation and trading at all levels of the client spectrum. Our understanding is that the retail and ATS system, the average trade sizes tend to be around $30,000 or $40,000, so it's is a very different business than the institutional platforms operate today. Most of what is streaming are offers on those platforms. The bid type, as we understand it, tends to be more RFQ. And we are actively engaged with the market makers that are active both on our platform and on the retail systems, and I think you get a mixed view on whether they're ready for a true central limit order book and whether they see that as a benefit to their business model or not. So to date, the evidence is that for the institutional market, they're getting more competitive levels from RFQ protocols. They've been able to trade on the retail platforms if they choose to for many years. And there's not much sign that they've gone there at this point. And I think the reason is that right now, they see more competitive pricing through RFQ protocols. But this is something we have to keep a close eye on. We do have that micro-lot liquidity base, and if market makers and clients believe that they're ready for a full live environment, that is something that we have to be prepared to provide. From a technology standpoint, we think it's fairly straightforward for us to add that protocol. The message from clients today is mixed.

Operator

And our next question comes from Chris Allen from Compass Point.

Christopher John Allen - *Compass Point Research & Trading, LLC, Research Division - Analyst*

I was wondering if you could give us maybe a little bit more flavor in terms of how the environment's shaping up relative to 2Q. It looks like volumes according to BondTicker for high-grade and high yield are down decent amount, but obviously, the July 4th week there. So any color just in terms of the July environment and maybe how the month has been progressing whether it's starting to pick back up, again, in the back half of the month or it's just consistent with the course of the month?

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

Sure, Chris. So it's been a pretty typical July from a market volume standpoint. And when you look at the tepid trading around 4th of July, every year, we have that same anomaly. If you took the first, like, 10 trading days of the month versus the second 10 trading days, you get a wildly different answer. Right now, we're looking at U.S. credit looking at high-grade and high-yield market volumes compared to, say, July of last year at the same point in time, they are running about 5% lower right now. So a little bit softer, but I would just caution that we still have 5 trading days left here in the month. And I think not that I would guarantee anything, but I could pretty much guarantee that more than 1/4 of the volume is still ahead of us. There's still 5 days left, it's a 21-day month, and it was pretty slow and pretty unusual to have 4th of July fall right (inaudible). And the other thing, Chris, just from a market condition standpoint, the new issue calendar really in that first week, the week of 4th of July, was shut down. What we've seen from the last 2 weeks is much healthier new issuance. So that is a little bit different than what you saw in the first half of the month.

Christopher John Allen - *Compass Point Research & Trading, LLC, Research Division - Analyst*

Helpful.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

And just to expand on that a little bit, Chris, over the medium term, one of the things that we're watching is the great unwind of quantitive easing around the world. The Fed has, obviously, stopped their quantitative easing program and allowing the balance sheet and bonds to slowly mature and wind down. The ECB should be on the quantitative easing by the end of this year, and you've seen some recent comments from the Bank of Japan. I personally think that's a big deal, right? That was a massive program collectively across the central banks around the world. They had been buying an awful lot of government bonds, in the case of ECB, quite a few corporate bonds. So I think that, that will actually be an important event in terms of the market environment over the coming quarters. And it will be interesting on the treasury side because the Fed is no longer buying treasury bonds and the treasury is about to start issuing a lot more bonds. So I do think that the likelihood is that the market environment will improve as we see this gradual unwind of quantitative easing.

Christopher John Allen - *Compass Point Research & Trading, LLC, Research Division - Analyst*

One thing that caught my eye recently was recent reports, just a news article about liquidity, particularly over in Europe, and corporate bond markets being a bit challenged, could be using more derivatives there in the credit markets. Wondering how your -- like whether you've seen similar action and how you guys are thinking about the impact of that theoretically on you guys?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes. In some of the European government markets, the futures contract have more liquidity than the underlying cash market. So that's been the case for a long time. So it's not surprising in a market like Italy when ball picks up that the primary beneficiary is the futures market more so than the cash market. Hasn't really been the case on the credit side. We did see slightly lower volumes during Q2, which we think is related to lower volatility. But we don't really see the same impact on the credit side.

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

And if you look at EM year-to-date, there has been more caution in EM markets over the course of this year. But our best estimate is that EM volumes year-to-date are down 7% or 8% from where they were first half of last year.

Christopher John Allen - *Compass Point Research & Trading, LLC, Research Division - Analyst*

Got it. And just a quick numbers question. Compensation declined sequentially from the first quarter. I'm assuming lower variable comp and obviously some seasonality. But I'm guessing hiring kind of continues, how do we think about the trajectory of that line moving forward?

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

Yes, Chris, so the -- when you look at sequentially, you're right. It wasn't a variable comp line. That was about half of the delta. And our variable compensation pool is very formulaic. So it's -- it is tied directly to operating income. So when you see revenues decline from Q1 to Q2, it does have a direct impact on the variable bonus accrual. Going forward and looking at the second half of the year, we would expect an uptick in that line compared to the second quarter. So right now, looking at the sort of the headcount picture, we are tracking about 30 new hires expected to start in the third quarter. About half of those are with our new analyst -- sales and technology program. So we are tracking a fair number of headcount to join here in the third quarter. So you would expect some uptick there. But when you look at it overall, I had some comments in the prepared remarks around overall expenses, and what we're looking at right now, if you look at that guidance range we gave, what I said was we're tracking towards the lower half of that guidance range. There are still some swing factors in there, but you we feel pretty good about being in the lower half of that guidance range right now.

Operator

(Operator Instructions) And our next question comes from Chris Shutler from William Blair.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

In the second quarter, I guess, I would have thought that with the volume on some of the big high-yield ETFs growing pretty nicely in the quarter that market share in high yield would have been up a little bit more. I know there's always lot of puts and takes, but maybe just could put that in perspective for me?

Antonio Louis DeLise - *MarketAxess Holdings Inc. - CFO*

Chris, on the high-yield side, what we saw on our platform was a little bit less of a bid wanted market. We do better when the order flow is more weighed toward bid wanted. We did see volatility drop in the high-yield market. And for us, the ETF community is an important element of our high-yield business. And we track the percentage of their volumes to our overall volume. It did decline in the second quarter. So they were a little bit less active.

Christopher Charles Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay, that helps, Tony. Just one bigger picture question. Rick, I want to get your thoughts on some of these fixed income data aggregation platforms, so ALFA probably being the best-known one. Obviously, really early days, but how do you look at the kind of the long-term competitive risk from those? And in other words, is it, in your view, really important to own the traders desktop?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes, there is quite a bit of movement on data aggregation across the industry. We're tracking about 12 or 13 different data aggregators in the EMS space currently and that numbers seems to grow every quarter. So there are more solutions out there. I think it's another sign that clients have more data available to them ever before and they need technology tools to aggregate and filter that data to make sense of it for their trading operation. We think it's a natural evolution of the market. We are not only on the desktops clients today, we're also offering aggregation and EMS tools ourselves. So it's very early to predict where it will all end up, but I think it's logical to expect that institutional investors are going to increasingly look for aggregation tools. The important piece for us, Chris, in all this is the differentiated liquidity pool. And I think historically we've done a very good job of that and it hasn't been for lack of competition. And EMS tools may make it easier for people to direct traffic to different platforms of their choosing. But we've passed the test of time by constantly innovating and adding to our liquidity pool in order to differentiate the transaction costs and pricing available on the platform, and I think that's the key for us.

Operator

And we have a follow-up question from Rich Repetto from Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

Rick, I apologize, if you mentioned this. But I'm getting a bunch of e-mails to ask you what your actual volume in July to date is?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

You got a curious client base, Rich. I think, Tony, touched on it. It was an unusual 4th of July week with the holiday falling right in the middle of the week. And so I think if you look at the TRACE numbers, you'll see significantly lower average daily volumes in high-grade and high-yield credit during that week. If you look at the numbers since then, it's pretty close to normal. So I think this all balances out over the quarter, but it was an unusual holiday week with the 4th on a Wednesday. The only thing that I would reiterate are the comments that Tony already made on share that month-to-date high-grade share is running a bit below Q2 average and high-yield share is running significantly above the Q2 average. So we've got a mixed bag, and it's 2 or 3 weeks of trading, so I wouldn't read too much into it in any case.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal of Equity Research*

Okay. And I did want to follow up on your volume comments and the quantitative -- the pull back on quantitative easing. I guess, I think, most of us in the -- we're trying to understand the volumes. I think everybody sees it down across the board and trying to figure out whether there's anything incremental beyond just the July 4th seasonality and things like that. And -- so I guess, the question is, do you feel like this is all -- or do you think it's more seasonality here with the volumes? Or do you think that as we go through this transition of quantitative easing that will -- could go through a lull in volumes before the market sort of takes over and steps in?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

I think in the short term it's seasonality. We're in July and we had a very soft week over the 4th. Volatility is our friend. There is no question about that in our minds, that when vol picks up we do better. And we saw a vol pickup in Q1 in both interest rates and credit spreads, and you saw the best results the company has ever produced. So we will do better when volatility is higher. And over the medium term, I think the odds are that both interest rate and credit spread volatility will be higher, not lower, but we're in a bit of an air pocket here right now where if you look at treasury yields and credit spreads, they've been pretty stable over the last 2 or 3 months.

Operator

Thank you. And I'm showing no further questions at this time. I would now like to turn the call back to Rick McVey, Chief Executive Officer, for any further remarks.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Thank you for joining us this morning. Enjoy the rest of summer, and we'll talk to you next quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes today's program. You may all disconnect. Everyone, have a great day.
