ALLIANCEBERNSTEIN®

January 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 22 January 2021

Liquidity management has been a heightened focus for AllianceBernstein for years, as we recognized the reduced liquidity in the marketplace after the 2008-2009 financial crisis. We view liquidity management as a business imperative.

In an effort to provide timely updates for our clients on fixed income market trading liquidity, we have developed the following update, aggregated from our traders at the end of each week.

Sector	Liquidity Trading Comment	Bid-Ask Spreads
US Treasuries	• During the week ended January 22, the government bond market stayed within the new carved out range during the first week of the Biden administration. Global developed market yields were mixed with US duration unchanged at the 10-year point, outperforming Europe which staged a 2-3bp selloff. Interest-rate curves universally steepened as global central banks and policy makers made it clear that the fiscal stimulus measures associated with covid-19 relief are top priority and growing deficit spending is not an immediate concern. • The FOMC continued to push back on the idea that they are considering tapering asset purchases any time soon; Fed bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month. • The developed market rates complex is at the peak liquidity of the past two years. Depth is high in both cash and futures markets. Facilitating large risk transfers can be done without "paying up" for the liquidity. Bid-offer spreads continue to grind tighter.	Bid-offer spreads are trading in line with pre-covid levels. Bid-offer spreads continue to grind tighter, with 10-year notes trading ½ of a tick wide and 30-year notes also trading as tight as ½ of a tick.
Investment Grade (IG) Corporates	**US IG** • The US investment-grade cash bond markets underperformed equities during the holiday-shortened week ended January 22. On Tuesday (Jan 19) the IG index closed through 2020 tight levels (+92bp) but ended the week at +95bp. • Technicals remain supportive as supply continued to price with negative new issue premium and market inflows accelerated to $8.25bn. However, investors seem more cautious/selective in their purchases at current valuations. • Demand for long maturities slowed, and the compression trade is not as strong as in prior weeks. • Supply for the week ending January 29 is expected to be steady, in the $25-30bn range.	Bid/ask conditions in the IG market are back to normal

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	European IG • During the week ended January 22, activity was very light, as apathy from investors seems to be the general tone. There is limited trading activity, with a focus on relative value trades, as optimizing carry appears to be investors' priority. **REIT Preferreds** • Liquidity in the REIT preferred market is typically limited under more normal conditions given the retail nature of the investor base. Current liquidity is better than in March and April 2020 but is still not back to normal. • Dealers are only providing balance sheet capacity on select issuers, so for many issuers, trades must be done on an agency basis; trading is therefore limited. • Trading volume is trending low since valuations continue to recover.	
High Yield (HY) Corporates	**US HY** • The primary market was in focus during the week ended January 22, as 20 deals priced, totaling $13.4bn notional. Deals continued to price inside initial price talk, with oversubscribed order books and most traded up on the break in the secondary markets. There was little selling against the new issuance, and spreads continued to grind tighter. • High yield index spreads were little changed overall at 349bp. The spread between CCC and BB-rated bonds was 20bp tighter to 327 bp. Energy outperformed. **Euro HY** • During the week ended January 22, it was all about the primary market, with secondary market volumes still light. There were five new deals totaling EUR2.3bn, with all pricing well through initial price talk and with books well oversubscribed. Most deals traded up on the break, with above-market yielding issuers continuing to outperform. • Liquidity is fine and generally two-way in secondary markets on light volume, but the most covid-exposed names are generally continuing to drift lower as global vaccine rollout concerns weigh on sentiment. Actual selling pressure in these names still remains rather low, but there are no buyers stepping in either. • Primary markets are expected to remain the key theme in the week ahead **CDX HY** • CDX HY traded weaker, once again underperforming both cash bonds and stocks during the week ended January 22. • Trading volumes are average, but flows were quiet since CDX HY has been trading range-bound. • Bid/ask spreads have declined to pre-crisis levels.	Bid/ask spreads vary by issuer but generically: BB-rated securities: 1 point, which is in line with normal market conditions B-rated securities: 1 point, which is in line with normal market conditions CCC-rated and below: 1.5points which is in line with normal market conditions CDX HY bid/ask is in line with normal conditions.

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Emerging-Market Debt (EMD)	**Hard Currency EM** • During the week ended January 22, EM credit traded sideways with the EMBI Global Diversified Index spreads finishing flat on the week at ~358bp. • Thematically, last week's high yield/investment-grade beta de-compression reversed somewhat, driven by inflows focused in the high yield space. • In investment-grade, stable core interest rates, coupled with the return of Asia life insurer demand, brought a welcome reprieve to the YTD softness. • Gross supply continued its January sprint, with primary market issuance focused in the sovereign space. Most deals drew large order books and offered 5 to 15 bp concessions on average. **Local Currency EM** • Liquidity is close to normal.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • Primary market issuance slowed for a second week with 7.8bn in deals coming to the market during the week ended 22 January. • CDS underperformed cash bonds where a strong run in China corporates since the Biden inauguration saw spreads rally 10-35 bp, with TMT and quasi-sovereigns leading the move. • Indonesia sovereign and quasi-sovereigns lagged but were only 5-8 wider on the week. **Asia Local Currency** • During the week ended January 22, the themes of EM debt portfolio inflows and strong equity momentum drove currency returns. There were strong Southbound flows into Hong Kong and equity flows out of Taiwan. • The Indonesia bi-weekly auction saw less demand and the market continues to dwell on Bank of Indonesia purchases and front-loaded issuance in early 2021. • Liquidity in China is coming into the fore, with tax payments due and interbank liquidity tight. The PBOC is injecting liquidity to maintain stability.	Asia IG credit is ~1 to 1.5x wider vs. normal market conditions Asia HY credit is ~1.5 to 2x wider vs. normal market conditions Asia local currency debt is ~1 to 1.5x wider vs. normal market conditions
Securitized	**CMBS** • During the week ended January 22, CMBS spreads continued to compress week-over-week. AA and A-rated classes were the best performers, tightening 15bp and 25bp respectively. All tranches are now trading at their 52-week tights. • Two new issues, totaling $2bn are expected to price before month end. The supply is expected to be easily digested by the market as demand continues to be robust at all parts of the capital structure. • Bid/offer spreads remain unchanged: spreads for AAA to A-rated classes have retraced their post-covid-19 widening, while	

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	bid/offer spreads for BBB-rated classes remain approximately 2x their pre-covid-19 levels. • CMBX behaved similarly to its cash counterpart. Spreads were mostly tighter across vintages and throughout the capital stack, with A/BBB-/BB tranches being the best performers. A bid has developed for many BB-rated classes over the past few weeks as some investors have become less bearish on commercial real estate fundamentals and see relative value versus other sectors. Bid/offer spreads remain unchanged. CMBX A.6, BBB-.6, and BB.6 bid/offer spreads remain approximately 2x their historical averages. **ABS** • The ABS primary market priced seven deals for the week ending January 22 totaling $6.3bn across aircraft, private credit student loan, prime auto lease and non-prime auto loan sectors. Year-to-date ABS supply now stands at $10.5bn compared to $16.3bn recorded over the same period in 2020. Most deals that priced over the course of the past two weeks saw record-high over-subscription levels and were well-executed, with final pricing inside the lower end of the initial guidance range. • Indicative benchmark BBB-rated subprime auto ABS spreads tightened to +70bp from +90bp this week, reflecting the new issue pricing as well as even tighter levels seen in secondary markets, in addition to the spread basis between benchmark and lower-tier names. More broadly on strong demand, benchmark ABS spreads tightened 5-25bp across student loans, 0-25bp across prime and non-prime auto loan and 0-5bp across credit card ABS over this past week. **CRTs** • During the week ended January 22, the CRT market continued its rally across the board. The holiday-shortened week saw volumes of 610mm, last seen during March 2020. The supply was well-absorbed. • There was no primary market issuance during the week. Premarketing began for STACR 2021-DNA1 on Thursday with pricing expected on Jan 25. Initial price guidance is at the tightest levels seen since the covid-crisis struck in 1Q2020. • Secondary market liquidity remains robust and there is good two-way flow in all aspects of the CRT market. Bid/ask spreads have normalized around pre-covid levels. **Legacy Non-Agency RMBS** • Legacy RMBS have recovered back to pre-crisis levels. After having widened to the 1000-1200 bp range in March, spreads are currently trading inside 200 bp discount margin currently.	

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	CLOs • The week ended January 22 continued to be busy in the CLO market. The secondary market continues to pull the primary market tighter. As other securitized markets have recently tightened, investors have begun to rotate into CLOs, particularly mezzanine classes, to pick up yield. • Liquidity remains robust in the CLO market. Bid/ask spreads remain at or around pre-crisis levels. **Agency MBS** • Bid/ask spreads in Agency MBS have returned to pre-crisis levels, driven tighter by the combination of Fed buying and increased investor interest. Bid/offer for lower coupon bonds is just ½ of a tick wide.	
Money Market	• Cash from Government-Sponsored Enterprises (GSEs) entered the repo markets in the latter part of the week ended January 22, creating a supply-demand imbalance. • SOFR set at 0.04%, which is the lowest level since May 2020. • 1-month LIBOR set at 0.128%, while 3-month LIBOR saw its fifth consecutive day of declines, setting at 0.213%. • Government money market funds saw $25bn of inflows in the 7 days ended January 22. Prime funds had $2bn of inflows over the same period.	
US Municipals	• During the week ended January 22, municipal bonds continued to trade well. New issue order books were multiple times over-subscribed, and higher-yielding bonds continue to compress towards higher quality bonds. Municipal bonds continue to outperform taxable interest rates. Odd lot haircuts to round-lot bidside evaluations remain low, signaling continued demand. • Despite market strength, trading volumes remain lower than normal.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million; liquidity has improved in off-the-run, high coupon bonds with Bank of Canada (BOC) bond buying. Comments by central bank Governor Macklem that the BOC will buy at least $4 billion of Canadian government bonds per week until the recovery is well underway should continue to support market liquidity. The fact that the BOC will buy more bonds at the long end of the curve should support liquidity at the 30-year part of the yield curve. • The BOC has purchased C$195.1 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through January 14. Government of Canada bonds are the most liquid securities in capital markets in Canada as seen in the latest (November) Bank of Canada research. (Note: BOC figures can be revised)	Federal: bid/ask typically 5 cents in the 10-year area, but for the long end of the curve, it can be more depending on volatility (risk off markets) and size outstanding. Off the run Canadas can have a wide bid-ask given small outstanding size in these securities.

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	Provincial • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia. • Depending on market tone, concessions may be requested in order for dealers to take less-liquid positions. • Most dealers will not bid aggressively on off-the-run, high coupon provincial issues, they will do agency trades, even with the Bank of Canada's buying program of provincial debt. • The BOC has purchased C$14.2 billion in par value year to date through January 14 within their provincial buying program to support liquidity. A continued rise in crude oil prices from current levels could help liquidity in provinces where oil revenues will be pushed upward – Alberta, Saskatchewan and Newfoundland.	Provincial: concession of +1 bp and more on size > CAD 25 million, particularly at the longer end. In risk-off markets, liquidity is drying up and spreads can widen depending on market tone.
	IG Corporates • The latest Bank of Canada research highlights the lack of liquidity in Canadian corporate bond markets, which can impact pricing; many dealers are maintaining low balance sheet inventories, so will not provide bids in many sectors. • Trading on an agency basis for high-beta issuers. • The Bank of Canada's buying program (focused on securities of 5-years or less) should support liquidity for corporate bonds rated BBB and higher. However, the central bank has bought a relatively small amount of corporate securities to date (C$180 million par), indicating the impact is limited. The central bank has not bought bonds since November (as of January 14). BBB-bonds are trading by appointment unless there is a new issue. • Recent conversations with the deputy BoC governor indicated that they view the bond-buying program as a "back-up" facility. They do not see a current need to intervene to provide liquidity to the BBB-corporate market.	BBB- corporates are trading by appointment, particularly in the energy sector. Inventories are reduced and dealers are not looking to increase their BBB-exposure. Dealers may refuse to bid in a risk off market with gaps in spreads.
	Real Return Bonds (RRBs) • The program to purchase Government of Canada securities in the secondary market – the Government Bond Purchase Program or GBPP – should help liquidity since it includes RRBs. The last auction was held on December 2 with the FTSE index duration extending by a historical amount of over 1.6 years. On that day, the BOC bought a total of C$434mn with a target of C$75 million per line of the 7 Canada RRBs from 2021 to 2047. Even with the central bank buying net C$34 million of Canada RRBs in December, liquidity remains challenging as dealers hold very limited inventories of these RRB securities. It is noteworthy to underline that the central bank was not able to reach its target purchases in RRBs 2047 and only bought $59 million. Trading in Canada RRBs continues to show a chronic lack of liquidity. Trading a block can only be done on an appointment basis.	Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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