AllianceBernstein®

February 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 19 February 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 February 19, US 10-year rates sold off by 13 bp in a "bear steepening" move that saw 2s10s and 5s30s steepen by 3-4bp. The US Treasury-German bund spread was contained as the rates selloff and reflation theme played out across the developed markets. The UK was the worst performer, with 10-year yields moving 18bp higher on a combination of strong vaccination rates, spillover from the more-hawkish-than-expected MPC meeting 2 weeks ago, and long-maturity gilt market supply. • On the supply front within the US Treasury market, end user demand has been lower vs 12-month averages in the most recent 20-year and 30-year nominal bond auctions and also demand was also weaker at the latest 30-year TIPS auction. • Long-maturity real yields are the part of the market getting most attention. Volatility has been high as 30-year real yields sold off 20bp on the week and now trade with a positive yield for the first time since June 2020. • Fiscal stimulus remains in the crosshairs in DC, with a $1.9trn pandemic relief package now seen as consensus among market participants. • On the monetary policy front, the FOMC minutes released on February 17 from the January meeting showed the Fed remained extremely focused on the goal of maximum employment. Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month. • Bid-offer spreads have come off their post-pandemic tight levels and depth has come down on the week following poor auction results.	Bid-offer spreads are trading in line with pre-covid levels. 10-year notes are trading ½ of a tick wide and 30-year bonds have widened from ½ to a full tick wide (1 tick = 1/32nd).
Investment Grade (IG) Corporates	**US IG** • The US investment-grade cash bond market was firm during the holiday-shortened week ended February 19 amid the sharp selloff in US Treasury rates. On the back of the rise in yields, buyers emerged, and the market set new YTD tight levels (+88bp) on Thursday.	Bid/ask conditions in the IG market are back to normal

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	• The 20-year part of the curve remains a hot topic in the market and has stayed well bid. • There was some selling towards the end of the week in anticipation of heavy supply for the next couple weeks. Similar to last week, supply underwhelmed expectations. The market had another inflow of $4.5 bn, although overnight flows from Asia remained subdued despite the end of Lunar New Year. • Supply for the week ending February 26 is expected to be in the ~$30 to 40bn range. **REIT Preferreds** • Liquidity in the REIT preferred market is typically limited under more normal conditions given the retail nature of the investor base. • 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.	
High Yield (HY) Corporates	**US HY** • It was a relatively benign week in the high yield market during the week ended February 19. The pace of new issuance slowed dramatically with only 5 deals, totaling $3.45bn notional. New issuance is expected to pick up again during the week ending February 26. Secondary markets were relatively quiet and focused around recent new issues. • There was a deep bid for higher-quality yield-to-call bonds as investors looked to stay invested during a week of muted new issuance and elevated cash build from coupons, calls and tenders. Although rate-sensitive bonds were quoted down amid the rate move, there were not material volumes trading lower. • High yield index spreads were 4 bp tighter to at 319bp. The spread between CCC and BB-rated bonds was 1bp tighter to 318 bp. **Euro HY** • During the week ended February 19, price action was mixed. Liquidity/the ability to transact two-way was healthy across the rating/spread spectrum despite moves in global core interest rates and broader macro volatility. There was marginal selling in BB-rated bonds and profit taking in tighter-spread, more rate-sensitive bonds, but the proceeds were largely recycled and covid-sensitive and higher-yielding value-oriented issuers have slowly seen better bids with the macro tone indicating reflation and a rotation from growth to value. • Overall index levels closed tighter week-over-week on both spread and yield. Technicals remain strong, evidenced by the new issue market – there was only one BB-rated refinancing deal during the week, which priced through initial price guidance with minimal concession to existing bonds and traded up on the break.	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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	CDX HY • Continuing the YTD theme, CDX HY once again underperformed cash bonds and traded 50 cents lower during the week ended February 19. • Trading volumes were around average. • Bid/ask spreads have declined to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • During the week ended February 19, EM credit continued to drag its feet in the face of a spike in developed market interest rates and a softer tone in global macro risk. HY sovereigns continued their recent underperformance, with spreads widening 10bp versus IG, which was flat on the week. • Weekly flows were driven by ETFs as EMB traded at its largest discount to NAV in 5 months, leading to a series of bid-wanted lists and a quick repricing of risk. Flows, which have been the bedrock of EM credit's blistering rally, turned negative and broke the previous 19-week inflow streak. **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** • Asia credit performed strongly against the backdrop of the global rates selloff, and the index spread tightened by 8bp during the week ended February 19. • Flows were relatively quiet as a number of markets slowly reopened from the Lunar New Year holidays. In China, activity resumed officially on Thursday. • The US Treasury selloff had the effect of bringing out yield-sensitive buyers. Investment-grade spreads tightened by 5bp week-over-week. Performance in the Asia HY index spread tightened by 22bp, supported by a strong recovery in China HY property bonds. • Primary market activity was quiet with only 1 deal totaling $250mn coming to the market. **Asia Local Currency** • Liquidity in the Asia local currency markets was relatively thin coming out of the Lunar New Year holidays, which exacerbated the volatility induced by the selloff in interest rates • Indonesian government bonds experienced a severe rout as yields rose by ~30 to 40bp over the week. The country faces a daunting issuance wall in 2021 in the face of an expansionary budget program. • Local rates sold off across the board albeit with different magnitudes. Thailand, Singapore and India were notable underperformers. • China government bonds had a relatively stable open upon their return from holidays, with yields closing the week unchanged overall.	Asia IG credit is ~1 to 1.5x wider vs. normal market conditions Asia HY credit is ~1 to 1.5x wider vs. normal market conditions Asia local currency debt is ~1 to 1.5x wider vs. normal market conditions

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Securitized	**CMBS** • During the week ended February 19, the CMBS market was largely unchanged week-over-week on modest trading volume. Approximately $1.5bn bonds were presented to the market for bid, $405mn fewer than the previous week. • Issuance remains light. One new conduit deal priced, with all classes oversubscribed and pricing through initial guidance. • CMBX performance was mixed. AAA classes were little changed from the prior week. However, BBB- classes were modestly wider for most series. Pockets of increased liquidity can be discovered that temporarily narrow bid/offer spreads. • Bid/offer spreads remain unchanged: spreads for AAA to A-rated CMBS classes have retraced their post-covid-19 widening, while bid/offer spreads for BBB-rated classes remain approximately 2x their pre-covid-19 levels. CMBX A.6, BBB-.6, and BB.6 bid/offer spreads remain approximately 2x their historical averages. **ABS** • The ABS primary market priced six deals for the week ending February 19 totaling $6.53bn across container, prime auto lease, fleet and prime auto loan sectors. Year-to-date ABS supply now stands at $32.7bn compared to $38.8bn recorded over the same period in 2020. Primary market execution remained strong and deals priced at or through the lower end of the initial guidance range, with upsized amounts and oversubscription. • Indicative benchmark spreads in the secondary market remained largely unchanged during the week, with a notable 2 bp tightening across the prime auto ABS money market tranche in line with the new primary market prints. • There are five ABS deals totaling $3bn that are in pre-marketing for the week ahead. **CRTs** • The week ended February 19 saw spreads mostly unchanged from the prior week. Volumes continue to be elevated, highlighting the amount of money looking to be put to work. • STACR 2021-HQA1 priced during the week, their largest deal since the pandemic began. Pricing on the last cash flow was widened from initial price talk, but even so the deal priced at the recent tight levels. Genworth is premarketing a seasoned deal – their first in quite some time. • 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 February 19 continued to be busy in the CLO market. The secondary market continues to pull the primary market tighter. • 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 remain well supported, given the Fed purchases of $40bn per month. Bid/offer spreads for current coupon bonds are trading at ½ of a tick wide and the rest of the coupon stack is wider by 1-2 ticks in line with recent liquidity.	
Money Market	• T-bills were tighter week-over-week as the market faces net paydowns of $96bn this week, stemming from the reduction in the Treasury General Account. • Other front-end interest rates are being dragged down with T-bills. SOFR set at 0.02%. The Effective Federal Funds Rate set at 0.07% • 1-month LIBOR set at 0.115%, while 3-month LIBOR set at 0.176%. • Government money market funds saw $27bn of inflows in the 7 days ended February 19. Prime funds had $2bn of outflows over the same period.	
US Municipals	• The municipal market underperformed the US Treasury market during the week ended February 19. Shorter maturity benchmark yield levels were 10-15bp wider, and longer maturities were 18bp wider. While the week began with Municipal/Treasury ratios at all-time low levels (5-year below 40%), as rates sold off ratios rose but remain at relatively low levels (5-year below 60%). Investors continue to sit on cash, with overall positive inflows into municipal funds on the week despite the selloff. • Odd-lot discounts to round-lot bid side evaluations were wider amid the market volatility.	
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$212 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through February 19. 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

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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$16.3 billion in par value year to date through February 19 within their provincial buying program to support liquidity. Dealers expect this purchase program to mature on May 7, 2021. • 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. **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 $10bn 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$200 million par as of February 19), indicating the impact is limited. 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. **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. • Trading in Canada RRBs continues to show a lack of liquidity. Trading a block can only be done on an appointment basis. • Of note, the last $300mn auction of RRB 0.5% Dec 2050 was done on February 10. On that day the central bank was not able to buy its maximum of 6 Canada RRBs for a total of $450mn with a target of $75mn per line item (from 2026 to 2047 maturities). In December, the BOC bought net $34mn in RRBs compared with $122mn in February (BOC buying program less new supply). Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	in these securities. 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. 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. Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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