ALLIANCEBERNSTEIN®

April 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 23 April 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	• Develop market rates moved just a couple basis points during the week ended April 23 amid low volumes and volatility. • The outcome and market reaction to the ECB meeting was muted. • The April month-end duration extension is small with the Treasury index extending by 0.06 years. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved by 80-90% from the worst levels on February 26. Market depth in the 30-year part of the curve has improved 70-80% since February 26. • Observable bid-offer spreads are in line with historical averages in on-the-run bonds. Transaction costs in off-the-run bonds are wider vs historical averages but have improved meaningfully over the past several weeks. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • The US IG cash bond market traded sideways during the week ended April 23, with the index spreads closing 1bp wider week over week. • New issue supply was in line with expectations with $26bn pricing. Similar to the prior week, issuance was skewed towards financials with another big 6 bank (Morgan Stanley) issuing $7.5bn following the $34bn that JP Morgan, Goldman Sachs and Bank of America brought the previous week. Goldman Sachs and Ally also tapped the preferred market, bringing $2.025bn in new issuance in total. Unlike the prior week, the financials space firmed up with new issues grinding tighter (8bp on average) in secondary markets. • Secondary market flows remained relatively light and dealers were net lifted of $1.5bn of risk. • The positive momentum on flows continued with a $4.88bn inflow. Overnight flows from Asia remained muted. • Looking ahead, $20bn in supply is expected next week.	Bid/ask conditions in the IG market are back to normal

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	Euro IG • The euro IG market was mostly unchanged, with two-way flows during the week ended April 23. The tone felt slightly weaker towards the end of the week, although volumes were low. • Tobacco widened 5-10bp during the week following the announcement that the Biden administration is considering rules to lower the nicotine content of cigarettes. Corporate hybrids also underperformed, with spreads ~3bp wider on average. • New issue supply picked up, but was still reasonably light at ~10bn EUR and ~2.6bn GBP. Deals came 1.5x to 6x oversubscribed and generally performed well in the secondary market. **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** • The US high yield market traded in line with broader risk markets during the week ended April 23. • ~$8.34bn in new issues priced across 14 deals. As with most deals month-to-date, order books were largely oversubscribed (2-6x), and were well-supported in the secondary market. • The secondary market felt softer early in the week as bonds came out for sale against the heavy new issuance calendar. It was also reported that investors were selling amid isolated outflows. The market firmed later in the week. • Option adjusted spreads on the index ended the week 5bp wider at 297 bp. The spread between CCC and BB-rated bonds was 22bp tighter to 313 bp. **Euro HY** • The Euro HY market saw weaker price action during the week ended April 23 as the primary market remained busy/in focus, and selling against it picked up. Much of the uptick in selling against the calendar was hedge fund driven, as they flipped YTD new issue performers. "Real money" flows at lower levels were much more stable/two-way. New issue markets are expected to remain active in the weeks ahead. **CDX HY** • CDX HY traded weaker along with the macro tone and outperformed cash during the week ended April 23. Flows were more bullish as macro and quantitative investors added risk amid weakness. • Trading volumes began to normalize following the recently busy roll period.	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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	• Bid/ask spreads have declined to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • It was relatively quiet in EM credit during the week ended April 23 as index spreads widened a few basis points on scant volume with most market participants focused on a handful of idiosyncratic stories rather than high-level beta moves. • Peru was at the forefront as 2 polls showed the leftist candidate Castillo with a sizeable double-digit lead, which led to a significant selloff in Peruvian assets. CDS were ~20bp wider, 30-year cash bonds were down 3 points and corporate bonds were down ~4-10 points. • Ukraine and Russia bounced a few points following the de-escalation between the two countries. • Supply picked up with a handful of corporates and sovereigns pricing deals with larger-than-average concessions than seen in the past few months. **Local Currency EM** • The local EM rates market mostly tracked US Treasuries. Liquidity remains adequate but volatility is to be expected.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • Asia credit spreads tightened 2bp during the week ended April 23, gaining 0.8% on a total return basis with help from a modest rally in US Treasury yields. • Huarong's USD bonds continued to be volatile, gaining ~3-5bp on the week amid multiple headlines. But the broader China IG as well as Asia credit market was little impacted in contrast to earlier in April. • The primary market was robust with new issues totaling USD12.3bn on the week. The majority of the supply came from investment grade issuers. **Asia Local Currency** • Asian local currency bond performance was mixed even as global core yields further consolidated. • Korea Treasury bond yields steepened with the front end dropping 2bp and long maturities rising as much as 8bp, as the country's ruling party started discussions of yet another round of pandemic stimulus. • Indian government bonds bull steepened by ~5 to 15bp as local covid cases continued to surge, causing market participants to project an easier policy path for the RBI.	Liquidity conditions are normal for Asia credit Liquidity conditions are normal for Asia local currency debt
Securitized	**CMBS** • During the week ended April 23, CMBS spreads leaked wider on modest secondary market flows. The top of the capital stack widened 3 bp, while lower-rated tranches were wider by 3-5 bps. • The second in a series of 3 consecutive conduit deals priced. The senior AAA-rated class needed to be widened, albeit only one basis	

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	point, to place the issue. The third new issue will be announced in the coming days. • Liquidity in the secondary market remains abundant, with AAA to A-rated CMBS classes having retraced their post-covid-19 widening, while bid/offer spreads for BBB-rated classes remain approximately 2x their pre-covid-19 levels. • CMBX flows remain light at all parts of the capital stack. Recent vintage series continue to outperform seasoned vintages. Finding liquidity can be challenging yet CMBX bid/offer spreads remain unchanged, with CMBX A.6, BBB-.6, and BB.6 bid/offer spreads approximately 2x their historical averages. **ABS** • The ABS primary market priced five deals for the week ending April 23, totaling $3.4bn across PACE, auto fleet, and prime and non-prime auto loan sectors. ABS year-to-date supply now stands at $75.5bn compared to $54.4bn recorded over the same period in 2020. The calendar for next week has seven deals totaling $3.2bn currently in pre-marketing. • Indicative benchmark spreads tightened 1-2bp across ABS sectors, except for FFELP which saw levels unchanged and private credit SLABS which recorded 2-5bp tightening on the week. Strong technicals, fueled by low dealer inventories and robust fundamentals, have lent strong support to ABS spreads. **CRTs** • The week ended April 23 extended the CRT market rally of recent weeks. The market was generically 8 to 24 ticks higher week-over-week. Slower future speed assumptions continue to creep into the market, which is accretive for shorter, premium dollar price bonds. The only area of the market that saw a pullback was the B2 space which saw weakness towards the end of the week. • STACR 2021-DNA3 priced after building a strong order book with oversubscriptions of up to 9x on some classes, and the deal traded well on the break. • Secondary market liquidity is robust and bid/ask spreads remain tight, around pre-covid levels. **Legacy Non-Agency RMBS** • Legacy RMBS continue to trade well. After having widened to the 1000-1200 bp range in March 2020, spreads are currently trading inside 200 bp discount margin. **CLOs** • The new issue market remained the focus of the CLO market during the week ended April 23. Demand for single A through BB-rated classes remains strong. AAA and AA-rated classes are the most difficult to place.	

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	• Supply in the CLO secondary market continues to trade well, with little supply to test the current trading levels. Any supply seems to be easily absorbed by the market. Original issue discounts for BB-rated bonds are all but done for top tier managers. • Levels on the week stood at 115-117bp for AAA-rated spreads; AA-rated spreads at around 160-165bp; A-rated are 190bp; BBB-rated are 290-295bp; and BB around 625bp. • 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 improved during the week ended April 23. Current coupon bonds are trading at 0.5-1 tick wide and the rest of the coupon stack is wider by 2-2.5 ticks.	
Money Market	• During the week ended April 23, it was quiet ahead of the FOMC meeting. SOFR continued to set at 0.01%. The Effective Federal Funds Rate set at 0.07%. 1-month LIBOR set at 0.111%; 3-month LIBOR set at 0.184% • Usage of the Fed Reverse Repo facility (RRP) has been $70-100bn per day. • Government money market funds had $29bn of inflows in the 7 days ended April 23. Prime funds had $1bn of outflows over the same period.	
US Municipals	• Municipal benchmark yields were unchanged during the week ended April 23. • The new issue calendar was larger than recent weeks with $11.8bn in new deals printing, but it was digested by the market. • While municipal/Treasury ratios are currently below 50% in 7-year bonds and shorter maturities, the market continues to see strong inflows. With a lighter new issue calendar in the week ahead ($5.8bn expected) the technical picture remains strong. • An additional positive technical is the news that the Biden administration is seeking to tax capital gains as ordinary income for high earners, which would be positive for tax exempt municipals. • Odd lot discounts to round lot bid-side valuations are ~1 point for 5-15k size and ~0.25-0.5 points for larger size.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. 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 BOC revised QE as expected, from $4bn to $3bn per week at the last BOC meeting. 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.	Federal: bid/ask was at 5 cents in the 10-year area, but for the long end of the curve, it remains relatively wider at up to 15 cents given the recent higher volatility.

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	• The BOC has purchased C$245.8 billion to support liquidity in Government of Canada markets through April 21. Market participants will be watching economic data and statements from BOC officials to gauge whether or not the BOC will continue to reduce its QE in coming quarters. According to the latest BOC research, Federal debt is the most liquid sector within the Canadian fixed income markets. **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$17.5 billion in par value year to date through April 21 within their provincial buying program to support liquidity. The BOC has cut their maximum weekly take out to $350mn from $500mn and the buying program is done only once per week. Dealers expect this purchase program to mature on May 7, 2021. **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. • Liquidity has been improving temporarily in the aftermath of new corporate deals. 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$240 million par as of April 21), indicating the impact is limited. The BOC has announced that they will cut the maximum size of their tenders under the purchase program, reducing the max amount to C$50mn from C$100mn previously • Based on lack of intervention and BOC comments it is expected the program will be cancelled on May 7, 2021. **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	Off the run, high coupon Canadas were reported to have limited liquidity in this high volatility period with much wider bid-ask given small outstanding size in these securities. Provincial: concession reported to be above average 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

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	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). • The next RRB auction will be a 30-year bond on June 2. There is expected to be some liquidity related to the auction on that specific day. Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	not hold these securities on their balance sheet. Bid-ask is not a reliable indicator for trading.

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