AllianceBernstein®

November 2020

Market Update – Fixed Income Trading Liquidity
For the Week Ended 13 November 2020

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	• Global developed market (DM) interest rates sold off 6-7bp relatively uniformly across countries during the week ended November 13, with curves modestly steeper in a Veteran's Day holiday shortened week in the US. • Uncertainty around the results of the US presidential election abated and financial markets have interpreted the US election results – divided government – as a favorable result for risk assets, with stocks rallying, government bonds bear-steepening and inflation breakevens trading higher by 7-8bp. Markets are expressing optimism that there may be more fiscal stimulus out of Washington DC, but less likelihood of dramatic increases in corporate and individual taxes and lower probability of punitive business regulations. • The 10-year US Treasury to German Bund spread remained at 144 bp. This is the first week in many months that US yields have not led in a selloff. • Federal Reserve bond purchases stand at $80 bn US Treasuries and $60 bn MBS per month. • Liquidity in nominal Treasuries and TIPS widened to 2-3x normal bid-offer spreads following the volatility after the US election. • Volumes post-election were very high vs recent averages. Despite the high volumes, market depth in the Treasury market—defined as the sum of the three bids and offers by queue position, using the top 3 bids and offers in 10-year Treasury notes, averaged between 8:30 and 10:30am daily (Sourced from BrokerTec)—has been down following the election as the initial flight to quality and ensuing sell off led to choppy price action.	Bid-offer spreads for on-the-run and off the run US Treasuries are 2-3x pre-crisis conditions. TIPs bid/ask is 2-3x wider vs pre-crisis levels

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	This has still not recovered much, which may be in part due to the mid-week US holiday.	
Investment Grade (IG) Corporates	**US IG** • During the week ended November 13, the US IG cash bond market spreads gapped tighter after the Biden win was confirmed and the Pfizer vaccine headline hit Monday, but most of the tightening was given back during the remainder of the week. The IG index spreads closed 3 bp tighter week-over-week, after closing 7bp tighter after Monday's strong session. • Unlike the prior week, secondary market flows leaned toward better selling/profit taking by investors after the strong rally last week that carried into Monday. The primary market was also busy as supply exceeded expectations with $44bn in new issues pricing, which also weighed on the secondary market. • Generically, higher-beta issuers weakened during the latter half of the week with the broader market tone, but covid-related names outperformed and stayed well bid. • Asia investors remained active buyers of long-end bonds throughout the week despite the interest rate volatility. IG cash bonds saw small inflows during the week – picking back up on the pre-US-election trend. • Fed purchases under the secondary market purchase program (SMCCF) were $103mn ($20.6mn/day) over the past week. • Bid/ask spreads remain wider than pre-crisis levels. **European IG** • During the week ended November 13, there was an aggressive move tighter in spreads post US elections and vaccine headlines on Monday amid a constructive technical backdrop. • There was lighter supply than in the US IG market, which helped Euro IG to outperform. It remained easy to recycle risk even at tighter spread levels. • In the subordinated financials sector, new issues came with fairly low resets vs other issued AT1/RT1 debt, and with very low coupons that still garnered large subscription books and traded well.	US IG spreads are generically 1-1.5x wider vs normal market conditions AT1/Preferreds are 1-1.5x wider vs normal market conditions

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	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 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 US high yield market drifted lower (during the week ended November 13) after rallying on Monday. ETF arbitrage investors drove price action, providing an aggressive bid on Monday and transitioning to better sellers as equities weakened over the course of the week. • The primary market bounced back following a low issuance week, with $10.1bn of new issues pricing across 12 deals. This brought MTD issuance to $11.35bn. • Most deals came at the tight end of initial price guidance and were heavily oversubscribed (up to 6.8x) after being upsized. Persistent interest in new issues continues to indicate that investor cash balances are healthy and "real money" investors see new issues as the best place to buy risk. • The HY index spreads moved 8 bp tighter to 435 bp, after closing at 402bp on Monday. This compares to March 23 wide levels of 1100 bp and pre-covid-19 tight levels of 341 bp on Feb 13. • The CCC-BB spread was 82 bp tighter to 433 bp. This is the tightest spread since September 2018 and compares to April 6 wide levels of 1139 bp and pre-covid-19 tight levels of 613 bp on February 13. **Euro HY** • The Euro HY market saw outperformance of higher-beta credit during the week ended November 13, with good liquidity across the week. • Some softness occurred midweek as the HY calendar was fairly heavy and caused some profit taking, although a lot of the deals were fairly niche.	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 1-2x vs normal conditions.

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	• Covid-related issuers outperformed amid the vaccine news, anywhere from +5 to 6 points generally on the week. On balance, corporate news flow was positive at the margins, helping underlying sentiment. **CDX HY** • CDX HY traded well along with macro sentiment and outperformed IG during the week ended November 13. • Trading volumes picked up on the back of heightened volatility. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • EM credit continued to set new post-covid tight levels as the JPMorgan EMBI Global Diversified index tightened ~18bp to close at ~380bp, a level last seen in early March. The exuberant start to the week following Pfizer's promising vaccine results brought out a host of buyers as dealers struggled to maintain risk. • Beta compression continued with HY sovereigns rallying 30bp vs IG grinding ~5bp tighter, resulting in ~65bp of beta compression in the past 2 weeks, but still ~170bp wide of the January 2020 tight spread differential of 330bp. • The technical backdrop remains robust, evident in strong inflows (second largest since February per EPFR) and strong subscriptions for several Latin America corporate new issues, one of which was 6x oversubscribed and broke up 3 points. • Turkey was the noteworthy outperformer during the week as President Erdogan announced the firing of his son-in-law as finance minister coupled with pragmatic language around monetary policy. The sovereign curve bull-steepened with 10-year bonds trading up 8 points and 30-year bonds 11 points higher, while CDS tightened 130bp and the US dollar depreciated ~10.5% versus the Turkish lira. **Local Currency EM** • Liquidity is close to normal.	EM IG sovereigns are back to normal market conditions EM HY sovereigns are back to normal market conditions EM IG corporates are back to normal market conditions EM HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • The week ended November 13 saw a compression trade as Asia HY outperformed IG at the index level, with spreads tightening 20bp and 8bp respectively.	Asia IG credit is ~1 to 1.5x wider vs. normal market conditions

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	• Primary market activity started to pick up with >$8bn in new issue supply but still subdued after the pre-election rush came to market. • At the end of the week there were concerns regarding a US Executive Order restricting transactions in a number of Chinese corporate securities. Spillover to the broader market was limited with only a few idiosyncratic issuers impacted. **Asia Local Currency** • The Asia local currency market saw positive flows throughout the week ended November 13 with local markets trading in a narrow range. • China yields continued to rise, responding to defaults during the week by local government SOEs.	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 November 13, CMBS benefited from the strength in other markets and spreads tightened throughout the capital stack. AAA-rated CMBS were tighter by 5-10 bp, while A-rated CMBS tightened 15 bp. • Secondary market supply picked up as $1.1bn of bonds were out for bid, versus $761mn the prior week. Two new issues are expected to announce next week, with 2-3 more expected before the end of the year. • With the US election behind us, focus for investors will shift back to the impact of a worsening covid situation and its impact on commercial real estate. • Bid/offer spreads remain unchanged. Bid/offer spreads for AAA to A-rated classes have retraced their post-covid-19 widening, while bid/offer spreads for BBB-rated classes remain approximately 2x their pre-covid-19 levels. • AAA-rated CMBX tranches underperformed the cash market and ended the week unchanged. However, BBB-rated CMBX tranches rallied 2-5 points week-over-week, outperforming their cash counterparts. Liquidity remains sporadic and therefore bid/offer spreads have not changed. CMBX A.6, BBB-.6, and BB.6 bid/offer spreads remain approximately 2x their historical averages. **ABS** • The ABS primary market priced one transaction – a whole business ABS deal - for the week ending November 13 totaling $0.4bn. ABS year-to-date	

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	supply now stands at $166.1bn compared to $215.7bn recorded in 2019 over the same time period. However, ~4bn of new issues were announced, expecting to price by November 20. • ABS indicative benchmark spreads tightened 0 to 5bp across different sectors on the back of the broader market rally. AAA-rated 3-year credit card ABS benchmark spreads tightened by 2bp on the week and currently stand at swaps +11bp. This represents the tightest level since February 2018 and only 4bp wide of the post-Great Recession tight level of swaps +7bp set in November 2012. • After recording a monthly sequential decline of -1.5% in September, the Manheim Used Vehicle Value Index resumed its upward journey in October to 161.9, a +0.4% month-over-month rise and 15.3% increase from a year ago. **CRTs** • During the week ended November 13, the secondary CRT market was quite active. On Monday all parts of the market rallied in sympathy with broader risk markets. The remainder of the week saw the market give back roughly half of the gains as euphoria faded. Investors that began buying on Monday seemed to continue to do so throughout the week; a modest number of sellers emerged but sales were easily absorbed by the market. • Liquidity remains robust. Dealers are actively making two-way markets and the buy and sell flow has been fairly balanced. **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 at or around 200 bp discount margin currently. **CLOs** • The rally in broader risk markets during the week ended November 13 also came to the CLO market. • In the primary market, top tier issuers that had been marketing AAA-rated tranches at L+130-132 bp pushed spreads into the L+120s. Secondary market spreads also tightened, but not as quickly. • Spreads on lower-rated tranches also tightened. Clearing levels are generically as follows, AA-rated: L+160 bp (20 tighter); A-rated L+230 bp (20 tighter);	

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	BBB-rated: 350-370 bp (10-15 tighter); BB-rated: 700-725 bp (25-30 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 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	• Government money market funds saw outflows of $6bn in the 7 days ended November 13. Prime funds saw $16bn in outflows over the same period. • 1-month LIBOR set at 0.14% and 3-month LIBOR set at 0.22%. SOFR has been setting at 0.09-0.10%. • The T-bill curve continues to flatten as money market funds extend maturities to preserve yield. The majority of T-bills are trading at 0.09-0.10%	
US Municipals	• During the week ended November 13, municipal bonds finished the week stronger after experiencing some weakness earlier in the week amid Monday's US Treasury selloff. • The technical picture was supportive with $1.1bn of inflows, a light calendar due to the mid-week holiday, and low secondary trading volume. Supply is expected to be light for the remainder of the year since many issuers raced to get their respective deals completed before the US election. • In the primary market, new issues were met with strong demand, with many deals 8x-15x oversubscribed. Supply for the coming week is expected to be ~$11bn led by two large deals from New Jersey ($3.5bn) and Massachusetts ($1.2bn) • Odd lot liquidity was better last week, with discounts to round-lot bid-side evaluations in the $1 to 1.25 range, compared with recent discounts averaging $1.25 to $1.50, depending on piece size.	
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	Federal: bid/ask typically +0.5 bp 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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	should support liquidity at the 30-year part of the yield curve. • The BOC has purchased C$162.9 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through November 11.	
	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$11.5bn in par value year to date through November 11 within their provincial buying program to support liquidity.	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 • Limited liquidity, particularly during risk-off trading days 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 market has improved in sectors such as banks and telecom companies. • 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 bought a small amount of bonds last week (as of November 11). BBB- bonds are trading by appointment unless there is a new issue.	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 estimate bid/ask could be as high as +20 bp on BBB-. 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 next auction will be held on December 2 with the FTSE index duration extending by a historical amount of over 1.6 years. At the last auction, the BOC bought a total of C$700mn with C$100mn per line of the 7 Canada RRBs from 2021 to 2047. Even with the	Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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	central bank buying net C$400mn of Canada RRBs, liquidity remains challenging as dealers hold very limited inventories, if any, of these RRB securities. Trading a block can only be done on an appointment basis.	

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