AllianceBernstein®

November 2020

Market Update – Fixed Income Trading Liquidity
For the Week Ended 20 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 rallied during the week ended November 20, led by the US where 10-year bonds rallied 7+ bp and curves flattened as the long end rallied 13 bp. • There were two primary drivers of both duration and curve moments in the US over the week: (1) rising covid cases and increased lockdowns driving expectations for the Fed to extend weighted average maturities of the SOMA (system open market account) portfolio of Treasury holdings; and (2) uncertainty around the size and timing of potential fiscal stimulus and corresponding Treasury supply. • Federal Reserve bond purchases stand at $80 bn US Treasuries and $60 bn MBS per month. • Liquidity in nominal Treasuries and TIPS as measured by bid-offer spreads has returned to the width seen before the US election, with on-the-run 10-year and 30-year notes trading ½ and 1 tick wide respectively.	Bid-offer spreads for on-the-run and off-the-run US Treasuries and TIPS are have returned to pre-crisis conditions.
Investment Grade (IG) Corporates	**US IG** • During the week ended November 20, the US IG cash bond market outperformed both stocks and CDX IG with index spreads closing ~5bp tighter week-over-week. • Similar to last week, covid-related issuers continued to outperform in both primary and secondary markets. • Long-maturity bonds were well supported as Asia investors remained active buyers of long-end bonds, US-based LDI investors put assets to work, and most of the supply during the week was 10-year maturities or less.	US IG spreads are generically 1-1.5x wider vs normal market conditions AT1/Preferreds are 1-1.5x wider vs normal market conditions

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• Liquidity continues to thin as the holiday season and year end approaches. Technicals remain supportive as inflows continue and supply is expected to remain light for the remainder of the year. • US Treasury Secretary Mnuchin announced on Thursday that the PMCCF and SMCCF will expire at the end of the year and asked the Fed to return any unused funds to the Treasury. IG cash bonds were generally unchanged on the headline, including shorter-maturity bonds. • Bid/ask spreads remain wider than pre-crisis levels. **European IG** • The week ended November 20 was a quiet week ahead of the US Thanksgiving holiday. Overall supply remained light and combined with the supportive macro tone, caused the market to continue to grind tighter amid a constructive technical backdrop. • Among financials, the periphery was again in focus after BBVA's divestiture of its PNC business caused speculation to resume about consolidation with another smaller Spanish bank. **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** • During the week ended November 20, most investor focus was on the robust primary market. $16.1bn in new issues priced across 16 deals, compared to the $10bn 2020 weekly average, and bringing MTD issuance to $17.5bn. A diverse range of issuers came to market looking to price before the holiday season slowdown. Most deals were well oversubscribed (up to 10x) after upsizing and repricing tighter. Investors generally	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

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	favored longer-maturity, higher-coupon deals. 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. • Alongside strong primary market demand, the secondary market was firm with lower-quality bonds outperforming. Compression was in full effect with CCC-rated bonds outperforming higher-quality bonds. • The HY index spreads moved 12 bp tighter to 423 bp. This compares to post-covid-19 tight levels of 402 set on November 9 and 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 7 bp tighter to 426 bp. This compares to post-covid-19 tight levels of 416bp set on November 18 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 a beta compression theme in both the primary and secondary markets during the week ended November 20. • After the rally amid initial vaccine news over the past two weeks, there was better two-way flow. "Real money" investors that are facing inflows and remain lighter in covid-related risk remain better buyers. Distressed/opportunistic investors that bought covid-related bonds earlier appear to be the only meaningful sellers. • The new issue market was active with deals well-oversubscribed, pricing well inside initial price guidance, and trading up on the break. Above-market yielding deals performed best. • Of note, Carnival Corporation issued senior, unsecured USD and EUR bonds last week, the first unsecured transaction since issuing first- and second-lien deals earlier in the year with double-digit yields. Existing Carnival unsecured EUR-denominated bonds had traded up on the vaccine news; the new issue came with a 7.625% yield (inside initial price talk) and traded up on the break. • Technicals remain supportive of risk/beta compression. While higher-beta parts of the market are outperforming, there has been little rotation out of higher-quality bonds and instead	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.

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	has been outright spending of cash/inflows into the higher-yielding universe. **CDX HY** • CDX HY traded well along with macro sentiment and outperformed IG during the week ended November 20. • Trading volumes dipped down ahead of the holidays. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • EM credit continued to tighten with the JPMorgan EMBI Global Diversified index spreads tighter by ~3bp. Beta compression slowed following the last 3 weeks of significant high yield outperformance. • The bid for investment-grade credit was buttressed by ARAMCO's successful $8bn mega-deal, which was 5x oversubscribed and traded up 1-3 points on the break. The 5bp rally in core interest rates, persistent demand from Asia life insurer flows, and high "real money" investor cash levels all contributed to a firm bid for investment-grade bonds. • Turkey continued to outperform following the CBRT's orthodox decision to hike interest rates by 475bp, providing investors with more confidence and leading CDS to grind 25 bp tighter and cash bonds to rally 1-2 points. **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 20 saw non-China investment-grade bonds firm, but China investment-grade issuers impacted by the US restrictions widening 10-70bp over the week. Overall Asia IG index performance was +2bp. • Primary market activity dropped to less than $1.3bn, from $8bn the previous week. • There continues to be demand for high-quality, low-beta bonds from Korea, Hong Kong and Singapore, with offers thin on the ground. **Asia Local Currency** • China yields stabilized as the PBOC injected liquidity at the start of the week. • Indonesia government bonds and the rupiah saw a sharp rally amid a bond auction on Tuesday with a	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

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	week-over-week gain of 5-15bp across the local curve. The Bank of Indonesia cut the 7-day reverse repo rate by 25bp to 3.75% but momentum stalled and there was minimal post-market reaction. • Thailand introduced measures to allow further capital outflows as well as an identification mechanism for foreign investors aiming to curb currency speculation.	
Securitized	**CMBS** • During the week ended November 20, CMBS spreads were little changed week-over-week. AAA-rated CMBS spreads remained in the swaps +80-85 area, while AA- and A-rated CMBS tranches tightened ~5 bp. • Secondary market volumes increased substantially. Over $2bn of bonds were out for bid, nearly doubling the prior week volume. • In the primary market, two new issues priced. The market welcomed the new supply and most classes priced through the initial price guidance. • 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. • CMBX traded similarly to their cash equivalents. AAA-rated CMBX tranches were little changed, while A- and BBB-rated CMBX tranches were tighter week-over-week. More recent vintage series (9-13) continue to outperform older series as traders buy back shorts initiated in the summer. 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 eight transactions for the week ending November 20, totaling $6.4bn across prime auto loans and leases, subprime auto loans, whole business, solar, private credit cards, and student loan ABS. ABS year-to-date supply now stands at $170.5bn compared to $219.3bn recorded in 2019 over the same time period. Securitized issuance is expected to be relatively muted during the Thanksgiving-shortened week ahead, with just one auto ABS expected to come to market.	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• Secondary market volumes increased for the week, as dealers traded $8.5bn week-over-week and net added $574mn of risk. This came on the back of the only busy week for primary issuance during the month of November, ahead of the Thanksgiving holiday week. • Technicals remained strong, with low dealer inventories. AAA-rated Prime Auto, Fleet Lease, Floorplan and Bank Card ABS saw spreads trade flat, while Market Place Lending, Sub-Prime Auto, Equipment, Whole Business and Timeshare ABS saw spreads tighten. **CRTs** • During the week ended November 20, the secondary CRT market was rather quiet, with most focus turning to the new issue market. Freddie Mac issued a $1bn STACR high LTV deal, with last cash flow and equity tranches oversubscribed by 3-7+x and spreads tightening 35-50bps. The B2 tranche rose by more than 2 points on the break. The oversubscription levels on this large deal underscore the positive technical currently supporting mortgage credit. • Secondary 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** • 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. Two deals were done in the low 120s, marking new, post-covid-19 tight levels. Secondary market spreads appeared to move tighter in concert. • Spreads on lower-rated tranches also tightened. Clearing levels are generically as follows, AA-rated: L+155-160 bp; A-rated L+215-225 bp; BBB-rated: 340-350 bp; BB-rated: 700-715 bp. • Liquidity remains robust in the CLO market. Bid/ask spreads remain at or around pre-crisis levels. **Agency MBS**	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• 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 inflows of $10bn in the 7 days ended November 20. Prime funds saw $4bn in outflows over the same period. • 1-month LIBOR set at 0.14% and 3-month LIBOR set at 0.23%. Cash entering the repo markets from Government Sponsored Enterprises tightened SOFR to 0.05% (from 0.10% the prior week). • The supply/demand imbalance in overnight repo markets forced government money market funds into short-term T-bills, tightening levels. The T-bill curve is 2-3bp richer week-over-week. 0-4 week T-bills are offered at 1-3bp. This is expected to revert when the GSEs exit the overnight markets in the coming week.	
US Municipals	• During the week ended November 20, municipal bonds finished the week stronger again amid continued positive covid-19 vaccine news. Ratios of AAA-rated municipal yields to US Treasury yields fell below 100% in all spots along the curve, with the 5-year and 20-year maturities standing out near ten-year historical tight levels of 59% and 90% respectively. • With new issue supply expected to be light into the end of the year, last week saw a number of new deals come to market with heavy demand. $14.1 bn in bonds were issued, split $10.4bn tax exempt and $3.7bn taxable. Among deals with higher yields, New Jersey priced a $3.6bn general obligation bond, which was heavily oversubscribed—$38bn in orders—and traded tighter on the break. Higher-quality issuers like Massachusetts also saw strong demand, with their general obligation bonds 5-6x oversubscribed on a $1bn deal. MTA, a name that has been troubled, saw continued investor demand amid positive vaccine news and positive headlines that they are seeking to place new payroll mobility tax dedicated notes with the Fed's Municipal Liquidity Facility, which tightened the curve 50 to 100 bp. • Odd lot discounts to round-lot bid-side evaluations were roughly 1.25 points on small sized trades (5k-10k) and `0.25 point on larger (100k+) trades.	
Canadian Market	**Federal**	Federal: bid/ask typically +0.5 bp but for the long

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• 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$167billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through November 18.	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.
	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$11.9bn in par value year to date through November 18 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 • 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 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 did not buy bonds last week (as of November 18). 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.

Sector	Liquidity Trading Comment	Bid-Ask 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 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.	Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

as defined in the Corporations Act 2001 (Cth of Australia) or the Financial Advisers Act 2008 (New Zealand), and should not be construed as advice.

Note to Readers in Hong Kong: This document is issued in Hong Kong by AllianceBernstein Hong Kong Limited (聯博香港有限公司), a licensed entity regulated by the Hong Kong Securities and Futures Commission. This document has not been reviewed by the Hong Kong Securities and Futures Commission.

Note to Readers in Singapore: This document has been issued by AllianceBernstein (Singapore) Ltd. ("ABSL", Company Registration No. 199703364C). ABSL is a holder of a Capital Markets Services Licence issued by the Monetary Authority of Singapore (MAS) to conduct regulated activity in fund management and dealing in securities. AllianceBernstein (Luxembourg) S.à r.l. is the management company of the portfolio and has appointed ABSL as its agent for service of process and as its Singapore representative. This document has not been reviewed by the Monetary Authority of Singapore.

Note to Readers in Vietnam, the Philippines, Brunei, Thailand, Indonesia, China, Taiwan and India: This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries.

Note to Readers in Malaysia: Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund management services, advice, analysis or a report concerning securities. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AllianceBernstein does not hold a capital markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial planning services in Malaysia.

Note to UK Readers: For Investment Professional use only. Not for distribution to individual investors.