AllianceBernstein®

August 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 13 August 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	• 10-year US Treasury notes finished the week ended August 13 richer by 2.5 bp at 1.278% but higher than the lows of a couple weeks prior. The 5s30s curve was flatter by the same amount. The price action on the week was driven mostly by the drop in Friday's University of Michigan data and by the infrastructure bill, as House moderates strengthened their call for a vote before party-line reconciliation. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved 80-90% from the challenges seen in February 2021. Market depth in the 30-year part of the curve has improved ~80% since February. • Observable bid-offer spreads are in line with historical averages in the most liquid bonds. Transaction costs in off-the-run bonds are wider but have improved meaningfully since late February. • In TIPS, on-the-run bond bid-offer spreads are 1-2 ticks wide during the most liquid parts of the day; off-the-run bonds in 5-10 year maturities are ~4 ticks wide; longer-maturity TIPS are trading 8-10 ticks wide. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • Supply remained the focus in the US IG market during the week ended August 13, with another $40 bn pricing across 40 deals. The robust supply weighed on secondary market spreads at the beginning of the week in both cash bonds and synthetics, but spreads rebounded in the latter half of the week a supply quieted down and most new issues traded better in the secondary market. • On the margin, higher-beta deals performed better than higher-quality deals and longer-maturity bonds performed better than shorter-maturity bonds.	Bid/ask conditions in the IG market are back to normal

For Investment Professional use only. Not for inspection by, distribution or quotation to, the general public.

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• Secondary market flows remained subdued and this trend is expected to continue as Labor Day weekend approaches. • Overnight flows picked up during the week, skewed towards better buying of long-maturity bonds despite profit-taking flows at the beginning of the week. • There were $3.9 billion in inflows during the week. **Euro IG** • EUR and GBP IG spreads were unchanged to 1bp wider during the week ended August 13 with low trading volumes. • Flows were slightly skewed towards better sellers, particularly in long-maturity bonds. EUR hybrids underperformed senior debt with bonds on average ~5bp wider. • Supply was light with only EUR2.7bn pricing, but supply is expected to increase in coming weeks. **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 week ended August 13 again saw heavy primary market issuance, with $14.395 bn pricing across 21 deals. New issue performance in the secondary market was mixed and deals were moderately oversubscribed (2-4x). Supply is expected to slow through the end of August. • The active new issuance calendar took focus away from secondary market activity. US HY index spreads ended the week 8 bp wider week-over-week to 309 bp. The CCC-BB spread difference was 4 bp tighter to 303 bp. **Euro HY** • In the week ended August 13, trading volumes continued to be very light amid the August summer lull. Overall, there was minimal price action, but CDS index prices drifted lower. • Bid-ask spreads remain unchanged and in line with normal market averages. **CDX HY** • CDX HY traded a touch better along with the macro tone during the week ended August 13. • Trading volumes were in line with the 30-day average. • Bid/ask spreads have declined to pre-crisis levels.	Bid/ask spreads vary by issuer but generically: BB-rated securities: 0.75 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.

For Investment Professional use only. Not for inspection by, distribution or quotation to, the general public.

Asia	**Asia Hard Currency** • During the week ended August 13, Asia credit spreads tightened 7 bp as US Treasury yields rose by ~2-4bp across the curve, resulting in a total return gain of 0.1%. • Primary market activity slowed further with only USD 2.4 billion pricing vs 3.1 billion the previous week. • Bonds issued by Huarong Asset Management rallied by 3-7 points on media reports that the release of 2020 financial results was imminent. • China high yield property bonds continued their recovery, with benchmark credits rising ~1-2 points on the week, even as Evergrande bonds continued to be volatile around the ~$40-50 price range amid headlines. **Asia Local Currency** • Asia local currency bond yields were generally higher following the upward movement of global interest rates. • China government bond yields rose by ~5-8bp as CPI and PPI surprised to the upside and markets brace for a surge in local government supply in the third quarter.	Liquidity conditions are normal for Asia credit. Liquidity conditions are normal for Asia local currency debt
Securitized	**ABS** • The ABS primary market priced six transactions for the week ending August 13 totaling $8.5bn across student loan, whole business, solar, non-prime auto loan, prime auto lease and loan sectors. ABS year-to-date supply now stands at $164.2bn compared to $109.1bn and $147.9bn recorded over the same period in 2020 and 2019, respectively. • Indicative benchmark spreads were unchanged over the week. **CMBS** • During the week ended August 13, the CMBS curve steepened. At the top of the capital stack, AAA-rated spreads were tighter by 3bp. BBB-rated classes were unchanged to 5bp wider. No new issues priced, and only one single asset/single borrower (SASB) deal is expected to price in the near term. • The technical backdrop remains positive, although macro volatility and continued fears of the economic impact of the delta variant are potential headwinds. • Bid/offer spreads in AAA to A rated tranches have retraced their post-COVID widening, while BBB rated classes remain 2x the historical average. • CMBX performance was mostly positive on the week. Series 6 A and BBB- rated classes were the worst performers, widening 37 bp and 65 bp respectively. Flows in Series 6 picked up with $226mn in BBB- trading, compared to a 3-month weekly average of $162mn. Bid/offer spreads in CMBX have retraced their post-COVID widening.	

For Investment Professional use only. Not for inspection by, distribution or quotation to, the general public.

	CRTs • During the week ended August 13, decent volumes continue to pass through the market compared to the typically slow August. Spread levels week over week were unchanged. Profit taking continues among hedge fund and opportunistic investors that bought CRT bonds last year. • 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** • Generic primary market clearing levels on the week stood roughly at 112-119 bp for AAA-rated spreads; AA-rated spreads at around 160-165 bp; A-rated at 200-210 bp; BBB-rated at 295-310 bp; and BB at 600-650 bp. • 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. 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	• The Fed Reverse Repo facility (RRP) usage was around $1 trn. • 1-month LIBOR set at 0.089%; 3-month LIBOR set at 0.125%. • SOFR set at 0.05%. The Effective Federal Funds Rate set at 0.10%. • There was some concern around late October/early November US Treasury maturities as investors believe the government will run out of "extraordinary measures" and potentially default on its debt. Congress must raise or suspend the debt ceiling to avoid default. • Government money market funds had $20 billion of inflows in the week ended August 13. Prime funds had $29bn of outflows over the same period.	
US Municipals	• In the week ended August 13, municipal bonds continued to see inflows into the market. However, even with higher-than-average cash balances, investors continue to focus on short-maturity bonds. • Municipals underperformed the US Treasury market in almost all points along the curve and long maturities were wider by 5-7 bps. High-grade and mid-grade issuers were weaker in longer maturities, with deals needing to be cheapened to get done, dealers taking securities onto their balance sheets, or restructuring deals to shift the size to shorter maturities.	

For Investment Professional use only. Not for inspection by, distribution or quotation to, the general public.

	• In high yield, the focus was on the primary market, where several deals priced with high demand/double digit oversubscriptions. However, the secondary market for municipal high yield bonds shows the same weakness in long maturities. There is muted trading in the secondary market despite the strong demand in new issues. • Odd lot discounts to round lot bid side levels were approximately 1 point for small odd lots (5k-15k) and 0.25 points for larger odd lots (100k+).	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. Bank of Canada (BOC) is "buying at least $2 billion of Canadian government bonds a week until the recovery is well underway.'' It should continue to support market liquidity. "Purchases of longer-maturity bonds have a greater impact, dollar-for-dollar spent, by removing more term risk from markets and putting downward pressure on term premiums. Lower term premiums imply lower GoC bond yields, all other things equal." • The latest BOC balance sheet shows that the central bank continued to support liquidity in Canadian markets (as of August 11). • The Government Bond Purchase Program (GBPP) has resulted so far in $245.67bn in net buying (assets minus liabilities minus position at the start of the QE in March 2020). As expected, there was a reduction of QE bond buying to $2bn per week after the latest BOC meeting. • According to the latest BOC research, Federal debt is the most liquid sector within the Canadian fixed income markets. • Looking ahead, the central bank is expected to go into silent with a federal election on September 20, providing limited feedback to investors on Canadian capital market liquidity. **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 but will favor agency trades. • The Bank of Canada's Provincial Bond Purchase Program (PBPP) has ended. Therefore, the central bank does not provide a back stop to the provincial sector. Reduced trading activity during summer months could hinder liquidity. **IG Corporates** • The latest Bank of Canada research highlights the limited liquidity in Canadian corporate bond markets, which can impact pricing; many dealers are maintaining low balance	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 12 cents given the recent higher volatility. Off the run, high coupon Canadas were reported to have limited liquidity in volatile periods with much wider bid-ask given small outstanding size in these securities. For example – the latest ultra-long Canada 2064 bid-ask is at 35 cents, reflecting its liquidity issues given this is not a benchmark. 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 generally trading by appointment, particularly in the energy sector. Inventories are reduced and dealers

For Investment Professional use only. Not for inspection by, distribution or quotation to, the general public.

	sheet inventories, so will not provide bids in some sectors such as telecommunications, pipelines, and transportation. • Trading is on an agency basis for issuers affected by mergers and acquisitions. • The Bank of Canada had a buying program (focused on securities of 5-years or less) to support liquidity for corporate bonds rated BBB and higher. As expected, the BOC has ended this Corporate Bond Purchase Program (CBPP) in May 2021. Lower corporate supply in summer months could lead to reduced secondary market liquidity. **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 continued lack of liquidity. Trading a block can only be done on an appointment basis. • Finance Department documents indicate that Canada will issue only C$1 billion in RRBs in the current fiscal year with four auctions. This will result in net negative supply (BOC buying program plus maturities less new supply). The last $400m RRB auction in the RRB Canada 2054 bond reflected the net negative supply with a $316m buyback RRB program and estimated $800m + in coupon payments on June 1. • Liquidity remains challenging, trading by appointment, as dealers hold very limited inventories in RRB securities. The next RRB auction is expected in September 2021.	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 and activity is rare. Dealers do not hold these securities on their balance sheet. Bid-ask is not a reliable indicator for trading.

The above is provided for informational purposes only. All information is unaudited and subject to change. Nothing provided herein is intended to be used for the purposes of making investment decisions.

The information contained here reflects the views of AllianceBernstein L.P. or its affiliates and sources it believes are reliable as of the date of this publication. AllianceBernstein L.P. makes no representations or warranties concerning the accuracy of any data. There is no guarantee that any projection, forecast or opinion in this material will be realized. **Past performance does not guarantee future results.** The views expressed here may change at any time after the date of this publication. This document is for informational purposes only and does not constitute investment advice. AllianceBernstein L.P. does not provide tax, legal or accounting advice. This information should not be construed as sales or marketing material or an offer or solicitation for the purchase or sale of any financial instrument, product or service sponsored by AllianceBernstein or its affiliates.

Note to US Mutual Fund Readers: Investors should consider the investment objectives, risks, charges and expenses of the Fund/Portfolio carefully before investing. For copies of our Prospectus or summary Prospectus, which contain this and other information, visit us online at www.alliancebernstein.com or contact your AB representative. Please read the Prospectus and/or summary Prospectus carefully before investing. AllianceBernstein Investments, Inc. (ABI) is the distributor of the AB family of mutual funds. ABI is a member of FINRA and is an affiliate of AllianceBernstein L.P., the manager of the funds.

Note to Readers in Canada: AllianceBernstein provides its investment-management services in Canada through its affiliates Sanford C. Bernstein & Co., LLC and AllianceBernstein Canada, Inc.

Note to Readers in Europe: This information is issued by AllianceBernstein Limited, 50 Berkeley Street, London W1J 8HA, it is for marketing purposes. Registered in England, No. 2551144. AllianceBernstein Limited is authorised and regulated in the UK by the Financial Conduct Authority (FCA) FRN 147956. **Additional Note to Readers in Austria and Germany**: Local paying and information agents: Austria—UniCredit Bank Austria AG, Rothschildplatz 1, 1020 Vienna; Germany—ODDO BHF Aktiengesellschaft, Bockenheimer Landstrasse 10, 60323 Frankfurt am Main.

For Investment Professional use only. Not for inspection by, distribution or quotation to, the general public.

Note to Readers in Switzerland: This document is issued by AllianceBernstein Schweiz AG, Zürich, a company registered in Switzerland under company number CHE-306.220.501. AllianceBernstein Schweiz AG is authorised and regulated in Switzerland by the Swiss Financial Market Supervisory Authority (FINMA) as a distributor of collective investment schemes. Swiss Representative & Swiss Paying Agent: BNP Paribas Securities Services, Paris, Succursale de Zürich. Registered office: Selnaustrasse 16, 8002 Zürich, Switzerland, which is also the place of performance and the place of jurisdiction for any litigation in relation to the distribution of shares in Switzerland. The Prospectus, the KIIDs, the Articles or management regulations, and the annual and semi-annual reports of the concerned fund may be requested without cost at the offices of the Swiss representative.

Note to Readers in Japan: This document has been provided by AllianceBernstein Japan Ltd. AllianceBernstein Japan Ltd. is a registered investment-management company (registration number: Kanto Local Financial Bureau no. 303). It is also a member of the Japan Investment Advisers Association; the Investment Trusts Association, Japan; the Japan Securities Dealers Association; and the Type II Financial Instruments Firms Association. The product/service may not be offered or sold in Japan; this document is not made to solicit investments.

Note to Readers in Australia and New Zealand: This document has been issued by AllianceBernstein Australia Limited (ABN 53 095 022 718 and AFSL 230698). Information in this document is intended only for persons who qualify as “wholesale clients,” 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.

The [A/B] logo is a registered service mark of AllianceBernstein and AllianceBernstein® is a registered service mark used by permission of the owner, AllianceBernstein L.P.

© 2020 AllianceBernstein L.P