AllianceBernstein®

April 2020

Market Update – Daily Fixed Income Trading Liquidity Update 17 April 2020

In the current markets, volatility is at an extreme level and liquidity has become significantly reduced across many fixed income instruments including government bond markets. 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 towards the end of the New York trading day.

Sector	Liquidity Trading Comment	Bid-Ask Spreads
US Treasuries	• The open-ended bond purchase program enacted by the US Federal Reserve (Fed) is having a positive effect on liquidity and market functionality. The Fed has reduced their purchases of US Treasuries to $15bn per day during the week of April 20-24 (from $30bn per day the week of April 13). The market was disappointed with this tapering (was expecting ~$20bn per day) and as a result the curve sold off and steepened late day on Friday, April 17. • The big recent improvement has been in Treasury market depth, which had fallen by as much as 90+% in the worst of the crisis in March but has recovered to 55-65% of the average depth over the last year. • Rate volatility continues to fall and there continues to be good "two-way" trading in the market. • While still relatively liquid in most contracts, depth in the Treasury futures market is also much lower vs historical averages. Trading in "ultra" contracts is challenging. • An important theme in rates this week was in the TIPS market, which gave up nearly all the month-to-date gains, with 5- and 10-year break evens down 23 and 21 bps respectively. Rising unemployment, the drag from falling oil prices and reduced travel and consumer discretionary spending has outweighed any of the positive effects of monetary or fiscal stimulus on market-based inflation measures. TIPS bid/offer is very dependent on size but is ~2-3x pre-covid-19 crisis levels for normal size.	Bid-offer spreads for on-the-run benchmark 2- through 10-year US Treasury notes has improved significantly and are in line with pre-crisis conditions. For the 30-year note, bid/ask is ~2.5x wider vs pre-crisis. Off-the-run Treasury bonds still trade significantly wider than on-the run bonds, but bid/offer has compressed.
Investment Grade (IG)	**US IG** • US IG cash bonds traded with a better tone on April	US IG spreads are generically 4-5x wider vs

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Corporates	17 after slightly weaker sessions on April 15/16. BBB-rated bonds continued to outperform. • New issue supply quieted down, with $21 billion in new deals coming to market over April 15-17. Demand was less robust, but still relatively strong with deals 4.3x oversubscribed on average. • Credit curves, in particular the 5-year part of the curve and in, continue to normalize across the quality spectrum. • Bid/ask spreads remain wider than pre-crisis levels. Odd-lot liquidity is still improving, but not back to normal conditions yet. **European IG** • Supply lightened in the European IG market as many companies approached their blackout period. • With the macro tone more mixed, concessions in the primary market were variable, ranging from 0 to 40bps with secondary market performance also mixed. • More off-the-run names which have had poor liquidity since the selloff began in earnest are gaining investor focus and are becoming tradeable with primary volumes dropping. • Conviction levels are waning from the dealer community in the AT1 (subordinated financial) market, given the decent bounce in prices off the lows. However, given the technical picture remains intact with many investors sitting on cash, it is leading to an impasse where volumes are lower and is causing the bid/offer spreads to be modestly wider to reflect that. **REIT Preferreds** • Liquidity in the REIT preferred market is limited under more normal conditions and has become significantly challenged amid the current crisis. • Dealers are not providing balance sheet capacity to support the market and so trades must be done on an agency basis; trading is therefore limited. • On April 17, trading volume continued to be very light.	normal market conditions AT1/Preferreds are 4-5x wider vs normal market conditions
High Yield (HY) Corporates	**US HY** • The tone of high yield in recent weeks has been tied to equities—with high yield closely following equity market moves. • On April 17, the market was up on light volumes. • Focus remains on the primary market with Ford	Spreads are 1.5 points wider than normal times for BB-rated securities Spreads are 2 points wider than normal times

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	bringing a new issue. The deal was announced at $3 bn and upsized to $8 bn, showing underlying demand for paper in the high yield market. **European HY** • Daily sentiment continues to follow equities and the iTraxx Crossover index, but cash bonds continue to outperform the iTraxx index. In periods of softness in equities/iTraxx there have still generally been buyers of cash bonds. • Markets saw better two-way flow for the week ending April 17. Fallen angels that have been some of the best performers of the last two-weeks came off the highs and there was some profit taking in the highest-quality, best-trading credits. However, underlying technicals still broadly feel intact, with limited outflow-related selling and generally investors with high cash balances waiting to deploy at better valuations into weakness or new issue when it comes. • Light dealer inventories have exacerbated the positive technical in the market as equities/macro products have generally been supported and “real money” investors have looked to spend cash. • Investors are becoming more discriminating among lower-quality issuers, as dispersion increases and restructuring headlines begin to appear. • Bid/ask spreads are still wide, but there is no more panic in the market. Sellers are primarily opportunistic, selling on strength in relative outperformers or rotating out of more challenged issuers. Outflow-driven sellers have not been prominent in the past several sessions. **CDX HY** • CDX HY underperformed cash bonds as investors continue to put cash to work. Also, the weakness is being driven by single names as CDX has had 3 issuers facing credit events in the past two days. • Bid/ask spreads declined a bit but remain elevated relative to pre-crisis levels.	for B-rated securities Spreads are 3-4 points wider than normal times for CCC-rated and below securities CDX HY bid/ask is 4-5x vs normal conditions.
Emerging-Market Debt (EMD)	**Hard Currency EM** • Hard currency EM debt continued to track global macro risk as the index was ~10 bps tighter on April 17. • The new issue market was active again the week of April 13 with $10bn in IG sovereign and $1.75 bn in corporate supply. Sovereign issuance has seen a	EM IG sovereigns are 1.5x wider vs normal market conditions EM HY sovereigns are 2x wider vs normal market

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	noticeable decline in new issue premium amid higher demand. • Oil exporters saw profit taking with Brent crude stuck in the ~$20 range leading Nigeria and Angola to trade down 3-6 points vs generic sub-Saharan Africa issuers down ~1 to 3 points over the week. • Liquidity and price transparency continue to improve in sovereigns and quasi sovereigns, albeit still below average. Liquidity in EM corporates has shown slight improvement but remains very low. • Offers were hard to find in EM corporates as private banks and retail investors put cash to work and dealer balance sheets remain light on risk. **Local Currency EM** • Local EM rates continue to track macro risk and the moves in currencies. • Liquidity is close to normal	conditions EM IG corporates are 2x wider vs normal market conditions EM HY corporates are 3x wider vs normal market conditions
Securitized	**CMBS** • After the initial compression in spreads, TALF-eligible AAA-rated securities saw a modest pullback over the past 2 sessions (April 16/17). Spreads are generically 10 to 15 bps wider from their tights. Selling has persisted at the top of the capital structure, but demand remains robust. • Mezzanine tranches still lack sponsorship and will likely remain so until remittance data is fully digested. • Bid/offer spreads are 20bps for 10-year AAA-rated bonds or approximately one quarter point. This is 4x the normal of ~5 bps. Illiquidity persists below the single A-rated level and bid/offer spreads remain stretched at the BBB-rated level at 5x pre-COVID levels. • Bid/offer spread for CMBX A.6 is ~2x, BBB-.6 is ~3 x and BB.6 ~5x the normal bid/offer spread. **ABS** • The ABS primary market re-opened this week with two auto loan ABS deals totaling to $1.8bn. Year-to-date supply increased to $49bn, compared to $75bn over the same period last year. The pipeline is filling up as various ABS issuers have filed 15-G forms, mostly in the auto loan sector, but also in the equipment, subprime auto lease and unsecured consumer sectors. • While TALF 2.0 came into effect when announced on March 23rd, none of the new issues to date are	

Sector	Liquidity Trading Comment	Bid-Ask Spreads

issued as TALF-eligible and will not be until TALF 2.0 is up and running to take loan subscriptions. However, even without having given out any loans, TALF and the other liquidity programs provided by the Treasury and the Fed have already succeeded in improving investor sentiment and in tightening credit spreads.

- This week, benchmark ABS spreads saw 5bp tightening on credit card and 10-60bp on FFELP student loan ABS reflecting scarce secondary supply. Indicative prime auto loan ABS spreads widened on the week, while the non-prime counterpart tightened, to reflect the new issue primary market prints. However, secondary spreads remain inside of the new issue levels for auto ABS.

CRTs

- In the CRT market, spreads/prices vary based on seasoning, LTV, seniority in the capital structure but nearly every segment was tighter week over week ending April 17.
- One exception was fixed severity M2 bonds, which have widened over uncertainty about the language of these deals being potentially modified/supported by the FHFA.
- With increased two-way flow and some dealers inclined to take positions in bonds again, bid/ask spreads continue to shrink.

Legacy Non-Agency RMBS

- Legacy RMBS continues to trade through the recent crisis. Since January spreads have widened from ~ 200bps to now > 1000 bps, but demand for the sector never really faded.

CLOs

- The entire CLO capital stack remains well bid, although spreads week over week haven't changed much.
- What was new the week of April 13 was that better managers are starting to test the market to see if it is worth bringing a deal.
- The capital stack for a top-tier manager looks like the following:

Rating	Spread*	Price
AAA	h100s	h90s
AA	h200s	mh90s
A	mh300s	l90s

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<tr><th>Sector</th><th>Liquidity Trading Comment</th><th>Bid-Ask Spreads</th></tr>
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<tr><td>BBB</td><td>h500s</td><td>mh80s</td></tr>
<tr><td>BB</td><td>lm1000s</td><td>h70s</td></tr>
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*h=high; mh=mid to high; l = low; lm= low to mid

Bid/ask spreads on AAA-rated bonds continue to be close to normal levels (~1 point); mezzanine bid/ask remains ~3x wider relative to typical levels as dealers remain defensive.

Agency MBS

Bid/ask spreads vary by coupon, with low coupon (2.5%) TBAs back to historical averages, and the rest of the coupon stack trading much wider, at 2-6x higher vs pre-crisis levels

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<tr><td>Money Market</td><td>

Total Cash Management Bills (CMB) auctioned to date by the US Treasury are now $895 bn.
As of 4/15, the Fed’s MMLF had $50bn in loans. The CPFF had $974mn in issuance. Relatively speaking, that’s not much usage of the facilities considering the CP market has around $1.1tn in outstandings. The fact that these facilities are in place was enough assurance to get markets flowing again.
LIBOR continues to set lower as funding pressure subsides. 1-month LIBOR set at 0.67 % and 3-month set at 1.11%.

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<tr><td>US Municipals</td><td>

Municipal markets were firm this week on lighter volumes than in recent weeks. Friday, April 17’s tone was a little softer, but the balance of trading was on much higher dealer selling than buying.
Friday continued the trend of bringing new issues to market, including California Public Works coming Friday morning and pricing a couple hours later. Historically the new issue market has been closed on Mondays and Fridays but we expect to see this trend continue as 8.8 bn remains in the calendar on “day to day” while 4.1 bn is in the calendar as firm, indicating that issuers continue to be opportunistic on when to come to market.
In the high yield space, we’re finding that two-way flow is possible at the right level, as opposed to a few weeks ago where there were few buyers at any level.
Odd lot liquidity remains in the new normal of 1-3 points below round lot bidside evaluations, where we’ve been for a couple weeks, with a sharp dropoff in bid levels for <100k vs 100k+. Round lot liquidity is strong with bids slightly above bidside evaluations on average. For context, high grade odd-lots

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Sector	Liquidity Trading Comment	Bid-Ask Spreads
	typically trade 0.10-1 points below round lot bid-side evaluations under more normal market conditions.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25m; very limited liquidity in off-the-run, high coupon bonds **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia • Concessions are requested so dealers will take less liquid positions. • Very limited secondary-market liquidity in oil-generating provinces (Newfoundland, Alberta, Saskatchewan) with Western Canadian Select oil price trading at low levels. • Most dealers will not bid on off-the-run, high coupon provincial issues, they will do agency trades. **IG Corporates** • Limited liquidity; 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. However, the market has improved in telco and bank sectors. • Liquidity is limited even in senior bank deposit notes of the big 6 banks if there is large trading size. **Real Return Bonds (RRBs)** • Trading "by appointment", similar to private placement market	Federal: bid/ask typically +1 to +2bp but for the long end of the curve, it can be more depending on volatility Provincial: concession of +2 to +4bp and more on size > CAD 25m, particularly at the longer end