March 2020

Market Update – Daily Fixed Income Trading Liquidity Update 20 March 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 08-09 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	• Depth in the US Treasury cash bond market is down by 80-90% over the last few weeks in on-the-run bonds vs. normal market conditions. Moving large blocks of Treasuries takes more time than usual. • 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. • The bond purchase programs enacted by the Fed seem to be having a positive effect on liquidity and market functionality. We are finding solid liquidity in pockets both with the Fed as a submitter into their bond purchase operations and through dealers. The Fed purchases will total at least $75bln per day during the week beginning March 23. • There continues to be ongoing selling of long-end bonds, including sales from long bond ETFs	Bid-offer spreads in the most liquid on-the-run benchmark cash US Treasuries have widened by 3-4x vs normal market conditions. Off-the-run Treasury bonds may trade significantly wider than on-the run bonds.
Investment Grade (IG) Corporates	**US IG** • We continue to see issuers come to the primary market on days with relative macro stability. • On March 20 there was some "indigestion" in the new issue market, as concessions rose (25 to 85 bps) and two deals were pulled due to lack of demand. The new issue market is expected to be busy during the week beginning March 23. • New issue concessions have pushed overall spreads wider. • ETF selling continues to weigh on sentiment and push spreads wider • Credit curves remain flat to inverted – this began with shorter maturity bonds but has spilled over to	US IG spreads are generically 5-6x wider vs normal market conditions AT1/Preferreds are 5-6x wider vs normal market conditions

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	the 5yr/10yr curves and 10yr/30yr curves. • Outflows across the industry – as well as the underperformance of bank stocks – have weighed on prices in the preferred/hybrid market **European IG** • Central bank action from both the European Central Bank (ECB) late March 18 and Bank of England (BoE) March 19 helped stabilize the euro denominated markets—particularly intermediate- and longer-maturity bonds eligible for QE purchase. • ETF selling is a presence in the market but the magnitude to which it is creating distortions is less significant than in the US. • In the UK, sentiment improved with BoE action, although details are still unknown about how much bond buying will be credit. • Shorter maturity bonds in both markets remain under selling pressure. • In the AT1 market (subordinated financials), while still weak, there has been a bit better tone	
High Yield (HY) Corporates	**US HY** • The tone of high yield in recent weeks has been tied to equities—with high yield closely following equities moves. • Sellers have been primarily mutual funds either to meet redemptions or to create more buffer to address future outflows. • Buyers have been investors who are short covering, private equity/credit funds with locked up capital, and other institutions • Traditional dealers are providing limited liquidity often preferring to act as an agent with a counterpart lined up on the other side. Accordingly, larger-sized blocks may trade at prices significantly different from what is published on "screens" **European HY** • Daily sentiment follows equities and the iTraxx Crossover index • Dealer liquidity is minimal and not likely to improve as participants continue to shift to work from home/disaster recovery locations. • Larger-sized blocks have regularly traded below the "screen context", particularly during the most volatile equity sessions. But it is worth highlighting that the tone has begun to improve, particularly in higher quality bonds. A more stable macro	High yield spreads are 2 to 3x wider than normal times for BB and B securities and 3 to 5x wider for CCC CDX HY bid/ask is 4-5x vs normal conditions.

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	environment and announcement of the ECB's asset purchases helped. • Sellers are primarily funding outflows or building up cash balances/reducing risk in the anticipation of further outflows/volatility. Buyers have had selective interest in higher-quality issuers. Where there are shorts or issuers with active CDS, there have been more consistent bids for bonds, as hedge funds have been actively looking for arbitrage opportunities. **CDX HY** • Trading volume has been trending lower this week as market participants started to work from home. Flows were more balanced in the past couple days, and the market was less disrupted compared to the past couple weeks, albeit challenged vs normal market conditions.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • The JP Morgan EMBIGD index spread is now above 650 bps, more than 2x January levels (tights of sub 300) and approaching levels seen in the 2008 Global Financial Crisis. • Liquidity remains challenged in sovereigns except for certain pockets of the market (e.g., better in IG where there is a local presence). Liquidity in EM corporates is even more challenged; most trading has been in sovereigns and quasi-sovereigns • ETF selling, which has been one of the most significant challenges weighing on prices, abated somewhat towards the end of the week and we saw some selective buying. **Local Currency EM** • For the most part, Local EM prices are tracking macro risk and the moves in currencies. There has been a clear de-risking trend here among investors that were long local rates, as well as levered hedge fund investors cutting risk amid increasing volatility. • Volatility (and challenged liquidity) is likely to persist in the near term as the de-risking technical is more powerful in the very short term than valuation.	EM IG sovereigns are 4x wider vs normal market conditions EM HY sovereigns are 5x wider vs normal market conditions EM IG corporates are 4x wider vs normal market conditions EM HY corporates are 10x wider vs normal market conditions
Securitized	**CMBS** • The last new issue in the CMBS market priced March 11th. In the secondary market, finding liquidity remains challenging, even in the AAA part of the capital structure. There is limited bid for mezzanine	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	classes. • CMBX continues to trade sloppily, as supply from hedge funds looking to short the commercial real estate market is being met by limited demand. • Bid/ask spreads remain elevated: A-rated and BBB-rated bonds are roughly 4x wider vs normal conditions, and BB-rated are 6x wider. **ABS** • The curve in ABS has inverted as shorter-maturity bonds have weakened amid heightened secondary market supply across rentals, student loans, prime and subprime autos, unsecured consumer loans and credit cards. The ABS market eagerly awaits the restart of the CP market (Fed facility began Friday, March 20). • In the face of challenged liquidity and difficult communication with participants working remotely, the most plain-vanilla AAA-rated bonds are trading with + 120bp discount margin which in more normal markets was +10. • While it's difficult to say exactly where prices should be, there is 2-way flow and investors are engaging. • There are investors who are beginning to see relative value, and while it's significantly more time-consuming to trade, trades are getting done. • Primary issuance has dried up, trading is only in the secondary market for the moment. **CRTs** • Trading in the CRT market is significantly challenged, partly because of the challenges in the commercial paper market. • Prices have declined meaningfully as fears about the mortgage market escalated. • Spreads are around +2000 discount margin. • Bonds are trading infrequently but generic bid/ ask could be estimated at 5-7 points.	
Money Market	• Sentiment in the secondary commercial paper market has improved. • The Fed has thrown everything at this market's liquidity issues. While there are still details about the Fed's facilities to be determined, the anticipation of these programs/facilities has gotten money markets moving again. • LIBOR continues to move higher, a reflection of short-term funding stresses. • During the past week, we've seen industry flows out	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	of prime funds and into government funds. These investor inflows have tightened repo and government securities across the money market curve. T-Bills are being offered at negative yields up to 9 months. Bid/ask is 5 to 10 bps but trading is not challenged.	
US Municipals	• Liquidity in higher-quality municipal bonds is significantly challenged amid industry outflows. • Selective pockets of demand have emerged as municipals have underperformed Treasuries at all maturities. • Liquidity in odd-lots and high yield municipals is even more challenged and trading is limited.	