



Market Update – Daily Fixed Income Trading Liquidity Update 25 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	<ul style="list-style-type: none"> The open-ended bond purchase program enacted by the Fed is having a positive effect on liquidity and market functionality. The Fed is buying \$75bln per day across the curve all week. This is allowing dealers to reduce their bloated balance sheets. In our view, the worst of the levered investor unwind may be behind us. Like yesterday, today (March 25) there was good “two-way” trading in the market, compared with the heavy skew toward selling long end bonds of the past several weeks. Liquidity in 30-year bonds is facilitated primarily by the Fed; liquidity in long bonds is much reduced after their operations end at 2pm in NY. Depth in the US Treasury cash bond market remains poor, 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. 	<p>Bid-offer spreads in the most liquid on-the-run benchmark cash US Treasuries have widened by 2-3x vs normal market conditions.</p> <p>Off-the-run Treasury bonds may trade significantly wider than on-the run bonds.</p>
Investment Grade (IG) Corporates	<p style="text-align: center;">US IG</p> <ul style="list-style-type: none"> On March 25, tone continued to improve in the US IG corporate bond market. New issue supply (\$24 bn on March 25) did not push prices lower in the secondary market. Instead we saw new issues reprice with tighter spreads. Demand for new issues was strong, with deals ranging from 6x to 10x oversubscribed Credit curves remain flat to inverted but short- 	<p>US IG spreads are generically 5-6x wider vs normal market conditions</p> <p>AT1/Preferreds are 5-6x wider vs normal market conditions</p>

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	<p>maturity bonds continued to normalize as we saw strong demand in the 2- to 5-year part of the curve.</p> <ul style="list-style-type: none"> • Despite bid/ask spreads remaining at wide levels, now the offer side (rather than the bid side) is the more challenged <p style="text-align: center;">European IG</p> <ul style="list-style-type: none"> • Central bank action has helped stabilize the euro denominated markets—particularly intermediate- and longer-maturity bonds eligible for QE purchase. • As the market has firmed we have seen less selling pressure in shorter-maturity bonds. The market saw €8.4bn of supply on March 25, initially causing nervousness but fears abated as spreads tightened and secondary market liquidity improved somewhat. • Tone much firmer in AT1 (subordinated financial) markets with demand for bonds coming from across the region, although liquidity remains challenged. Volumes were relatively low, as light dealer inventories meant tradeable offers were hard to find. 	
High Yield (HY) Corporates	<p style="text-align: center;">US HY</p> <ul style="list-style-type: none"> • The tone of high yield in recent weeks has been tied to equities—with high yield closely following equities moves. • HY rallied again on March 25, as buyers continued to return to the market. • Bid-ask spreads remain elevated—not because of the lack of buyers as in recent weeks, but instead because dealers were concerned about not being able to source bonds. <p style="text-align: center;">European HY</p> <ul style="list-style-type: none"> • 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. • Overall liquidity remains challenged in both directions (bid/offer) as investor conviction levels are not high and sentiment is skiddish around macro moves. • However, relative to last week, there is more broad-based stability in the markets for high quality BB-rated bonds and the TMT sector. • Bid/ask spreads are still wide, but there is a less panicked tone. Sellers are primarily funding outflows or building up cash balances/reducing risk 	<p>High yield spreads are 2 to 3x wider than normal times for BB and B securities and 3 to 5x wider for CCC</p> <p>CDX HY bid/ask is 4-5x vs normal conditions.</p>

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	<p>in the anticipation of further outflows/volatility, but outflows appear to have slowed (although remain negative), and cash balances have been built up. The selling pressure we saw from ETFs has also significantly reduced</p> <p style="text-align: center;">CDX HY</p> <ul style="list-style-type: none"> • CDX HY traded with a very firm tone on March 25 	
Emerging-Market Debt (EMD)	<p style="text-align: center;">Hard Currency EM</p> <ul style="list-style-type: none"> • Following global macro risk sentiment, the JP Morgan EMBIGD index spread rallied on March 25, closing ~615 bps. This is ~150 bps wider than peak levels during the 2016 oil shock (465 bps) and ~150 inside Global Financial Crisis peak (770 bps). • In HY EM, there has been a clear dispersion between oil exporters and non-oil exporters, with exporters underperforming • Liquidity and price transparency has improved in sovereigns and quasi sovereigns, albeit still significantly below average. Liquidity in EM corporates remains very challenged; most trading has been in sovereigns and quasi-sovereigns <p style="text-align: center;">Local Currency EM</p> <ul style="list-style-type: none"> • For the most part, Local EM prices are tracking macro risk and the moves in currencies. • On March 25 there was a broad-based rally with liquidity improving even in Latin America where trading had been very challenged 	<p>Bid/ask spreads have tightened from last week's levels:</p> <p>EM IG sovereigns are 2.5x wider vs normal market conditions</p> <p>EM HY sovereigns are 3x wider vs normal market conditions</p> <p>EM IG corporates are 3x wider vs normal market conditions</p> <p>EM HY corporates are 5x wider vs normal market conditions</p>
Securitized	<p style="text-align: center;">CMBS</p> <ul style="list-style-type: none"> • The last new issue in the CMBS market priced March 11th. In the secondary market, the tone is slowly showing signs of improvement. • Bids have been strong for the AAA-rated part of the capital structure, and spreads have tightened. There is minimal liquidity for mezzanine classes, but investors are beginning to express interest in AA-rated bonds amid the rally in AAAs. • Bid/ask spreads remain elevated: A-rated and BBB-rated bonds are roughly 5x wider vs normal conditions, and BB-rated are roughly 7x wider. • Liquidity exists in the CMBX market, volumes are elevated, as are bid/ask spreads. <p style="text-align: center;">ABS</p> <ul style="list-style-type: none"> • While volumes were low, there was a shift in technicals on March 25, with buyers emerging and very limited selling. Demand was concentrated in 	

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	<p>higher-quality, shorter-average life ABS with limited trading in lower-quality tranches.</p> <ul style="list-style-type: none"> • New issues have been sidelined by the market volatility. Top tier issuers are likely to sit out and wait given their lack of funding urgency and availability of cheaper funding alternatives. • The Fed is trying to break the cycle, announcing the Term Asset-Backed Securities Loan Facility (TALF) on March 23. Substantively similar to the '08-09 program, the Fed offers non-recourse, non-mark-to-market lending on auto, card, student, equipment, and floorplan ABS. Like TALF 1.0, the program is only for primary new issue and does not address the congested secondary market. The Structured Finance Association is asking the Fed and Treasury to expand the program to the secondary market. <p style="text-align: center;">CRTs</p> <ul style="list-style-type: none"> • Trading in the CRT market has been significantly challenged, partly because of the challenges in the repo/commercial paper market. • Prices have declined meaningfully amid unknowns about the mortgage market and fears of forced liquidations from REITs and hedge funds. • March 25 saw more “two-way” trading flow in seasoned investment-grade and below-investment-grade last cash flow (lower tranche) bonds • Investment-grade last cash flow bonds from early (2016, 2017) vintages traded at +1300 discount margin and below-investment grade 2018 vintages in the +1500 spread area. Newer vintage last cash flow bonds and equity tranches have more challenged liquidity with limited trading. Bid/ask remains wide at roughly 2-3x normal. <p style="text-align: center;">Legacy Non-Agency RMBS</p> <ul style="list-style-type: none"> • 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. There was a large (\$1.4Bn) sale of mezzanine subprime bonds over the weekend (a first even during the GFC) which seems to have been absorbed relatively easily by the market. <p style="text-align: center;">CLOs</p> <ul style="list-style-type: none"> • After challenged liquidity in recent weeks, trading was improved in AAA-rated tranches on March 25. Liquidity in lower-quality tranches remains 	

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	<p>challenged. Bid/ask spreads remain 2-3x wider relative to typical levels.</p> <p style="text-align: center;">Agency MBS</p> <ul style="list-style-type: none"> • We have seen tightening in Agency MBS spreads vs US Treasuries since the Fed announced it would purchase \$50bln per day as part of their QE • Bid/ask spreads vary by coupon, with 30-year, 3% coupons in line with historical bid/ask spreads, but higher coupons trading 2-6x higher vs pre-crisis levels 	
Money Market	<ul style="list-style-type: none"> • The Fed finally released details on the Commercial Paper Funding Facility (CPFF). The most important point was the start date some time during the first half of April, which may prove problematic as the market is still clogged, as dealer balance sheets are at capacity and will need to be reduced going into quarter end. Primary CP issuance did increase, largely driven by overnight paper. Bids in the secondary market are still limited. • Prime fund outflows have slowed but are still significantly larger than historical averages. Government funds continue to see massive inflows—the 7-day total surpassed \$315bln. This has increased the need for repo, Treasuries, and GSE (government-sponsored enterprise, i.e., Fannie Mae and Freddie Mac) issues • T-bills yields continue to fall deeper into negative territory. Bid/offer yields are both negative up to 3 months. The offer side is negative up to 9 months. 1-month and 2-month bills are currently offered at -0.14% and -0.16%, respectively. • Repo is trading at or below zero. Intraday liquidity remains poor. • LIBOR continues to reset higher (0.959% on 1-month, 1.267% on 3-month on March 25), a reflection of short-term funding stresses. 	
US Municipals	<ul style="list-style-type: none"> • Tone in the municipal market improved meaningfully on March 25 amid optimism about fiscal stimulus and the Fed’s purchase programs. • Yields moved lower as dealers opened up their balance sheets, selling abated and buyers emerged • Liquidity—which has been significantly challenged amid industry outflows—was better than it has been in weeks, particularly for investment grade municipals—including investment grade odd lots—with bids much improved. • Liquidity in high yield municipals remains 	

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Canadian Market	<p data-bbox="462 241 1079 273">challenged; trading is limited for high yield odd lots.</p> <p data-bbox="690 283 787 304">Federal</p> <ul data-bbox="414 315 1079 420" style="list-style-type: none"> <li data-bbox="414 315 1079 420">• Liquidity is best in benchmark issues for block sizes of <=CAD15m; very limited liquidity in off-the-run, high coupon bonds <p data-bbox="682 451 803 472">Provincial</p> <ul data-bbox="414 493 1079 703" style="list-style-type: none"> <li data-bbox="414 493 1079 630">• Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia, but concessions can be high; very limited liquidity in oil-generating provinces (Newfoundland, Alberta, Saskatchewan) <li data-bbox="414 640 1079 703">• Most dealers will not bid on off-the-run, high coupon provincial issues <p data-bbox="657 745 828 766">IG Corporates</p> <ul data-bbox="414 777 1079 913" style="list-style-type: none"> <li data-bbox="414 777 1079 840">• Very limited liquidity; many dealers forced to reduce balance sheet inventories, so unable to provide bids <li data-bbox="414 850 1079 913">• Liquidity limited even in higher-quality, senior bank deposit notes <p data-bbox="592 955 909 976">Real Return Bonds (RRBs)</p> <ul data-bbox="414 987 1079 1050" style="list-style-type: none"> <li data-bbox="414 987 1079 1050">• Trading “by appointment”, similar to private placement market 	<p data-bbox="1112 283 1412 388">Federal: bid/ask typically +2 to +3bp; can be more depending on volatility</p> <p data-bbox="1112 451 1364 556">Provincial: +5bp to +10bp on size < CAD 10m</p>

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