AllianceBernstein

June 2020

Market Update – Daily Fixed Income Trading Liquidity Update 26 June 2020

In the current markets, volatility has been elevated and liquidity has become 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 committed to purchasing a minimum of $80bn US Treasuries and $40bn MBS every month, with possibilities to increase should circumstances change for the worse.	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. Bid/ask for the 30-year note, is now also in line with pre-crisis levels. Off-the-run Treasury bonds still trade significantly wider than on-the run bonds, but bid/offer has compressed. TIPs bid/ask is at least 2-3x wider vs pre-crisis levels, and trade by appointment at certain points during the week.
Investment Grade (IG) Corporates	**US IG** • US IG cash bonds' spreads drifted wider on the back of weaker macro tone during the week ending June 26. Flows were quiet amid what seems to be a slower summer period in terms of engagement and liquidity. The technical picture continues to be supportive as supply is expected to be quieter than	US IG spreads are generically 2x wider vs normal market conditions AT1/Preferreds are 2-3x wider vs normal market

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	over the past four months. • The primary market was slower, with $25 bn in new issues coming to market between June 22-26. As in the secondary market, demand ticked down. Concessions were higher. • Bid/ask spreads remain wider than pre-crisis levels. **European IG** • Summer liquidity set in during the week ended June 26, with volumes very low. After the recent spurt of activity, the market seems fatigued with many participants away from their desks and flow concentrated around new issues. **REIT Preferreds** • Liquidity in the REIT preferred market is limited under more normal conditions but has improved from 2-3 months ago. • 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.	conditions
High Yield (HY) Corporates	**US HY** • During the week ended June 26, the US high yield market saw $12 bn of new issues, which followed record supply of $28 bn the prior week. Most of the supply was concentrated in 3 deals: United Airlines ($3.8 bn), American Airlines ($2.5 bn) and Occidental Petroleum ($2 bn). • The secondary market was relatively quiet, with limited cash being raised to fund supply. • On Wednesday June 24, travel related names sold off amid an uptick in covid-19 cases and an equity selloff. • The high yield index widened ~38 bps to +615 OAS and the yield widened 34 bps to 6.77% **Euro HY** • The new issue market continues to be in focus. While only one deal priced during the week ended June 26, there are more expected as issuers press to take advantage of an open primary market before the 4th of July. • Secondary market liquidity is thin in both directions, but volumes are extraordinarily light. Price action has been weaker week-over-week, but real selling	Spreads are 0.75-1.25 point wider than normal times for BB-rated securities Spreads are 1-1.5 points wider than normal times for B-rated securities Spreads are 1.5-2.5 points wider than normal times for CCC-rated and below securities CDX HY bid/ask is 1-2x vs normal conditions.

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<table>
<tr><th>Sector</th><th>Liquidity Trading Comment</th><th>Bid-Ask Spreads</th></tr>
<tr><td></td><td>pressure has been minimal at this point despite both an active primary market and more uncertain macro environment.

CDX HY
CDX HY traded with a weak tone, underperforming both stocks and CDX IG during the week ended June 26. Growth concerns in the US and heavy high yield market supply were the main drivers of the underperformance.
Trading volumes are trending lower now that summer illiquidity has begun to kick in. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.</td><td></td></tr>
<tr><td>Emerging-Market Debt (EMD)</td><td>Hard Currency EM
The summer lull in hard currency EM debt continued during the week ending June 26, as the JP Morgan EMBI Global Diversified Index traded sideways and closed the week a few bps wider at ~475 bps.
After a few weeks of relative outperformance, the Caribbean region underperformed during the week.
Secondary market volumes continue to be quite limited, with focus shifting this week to the primary market. New issues continue to be heavily over-subscribed, while pricing towards the tight end of initial guidance with minimal new issue premium—providing further indication of constructive risk sentiment and high cash levels.
Local Currency EM
Local EM index yields were unchanged, but it is expected that further dovish central bank action should anchor local rates in the short/medium term.
Liquidity is close to normal.</td><td>EM IG sovereigns are back to normal market conditions

EM HY sovereigns are 1.5x wider vs normal market conditions

EM IG corporates are 1.5x wider vs normal market conditions

EM HY corporates are 2x wider vs normal market conditions</td></tr>
<tr><td>Asia</td><td>Asia Hard Currency
Asia hard currency credit spreads tightened by 5 bps during the week ended June 26 as hopes for a post-covid-19 economic recovery continued to build on better-than-expected macro data.
In the primary market, 12 issuers raised a total of USD 5.8 bn last week, punctuated by a notable increase in HY issuance.
Liquidity was constructive and flows were generally two-way, although risk-on sentiment wore off towards the later part of the week and investors complained of aggressive valuation for selected new issues.</td><td>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</td></tr>
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<tr><td></td><td>Asia Local Currency
Asia local currency debt liquidity functioned as normal for the most part during the week ended June 26. The Philippines was one exception, where the Bangko Sentral ng Pilipinas surprised the market with a 50bps cut on Thursday (June 25) and Philippines government bonds rallied ~40 to 60bps on Friday (June 26) in thin liquidity.
The China government bond market was closed on Thursday and Friday for Dragon Boat Festivals</td><td></td></tr>
<tr><td>Securitized</td><td>CMBS
The CMBS market remained quiet despite the selloff in other risk asset markets. Spreads in the cash market were little changed from the prior week. Only $400MM of bonds were presented to the market for bid verses the recent weekly average of $540MM. CMBX prices drifted lower in conjunction with other risk asset markets on very light trading volumes. These trends are expected to continue until the quarter ends and the July 4th holiday weekend concludes. Liquidity conditions in both CMBS and CMBX remain the same. CMBS AAA, AA/A, and BBB bid/offer spreads are approximately 2x, 2x, and 3x their historical averages. In the CMBX market, A.6 is ~2x, BBB-.6 is ~3 x and BB.6 ~5x the normal bid/offer spread.
ABS
The ABS primary market priced two transactions for the week ending June 26, totaling $2.3bn across equipment and prime auto loan. ABS year-to-date supply now stands at $80bn compared to $190bn recorded in 2019 over the same time period.
Benchmark ABS spreads remained unchanged on the week and continue to benefit from a supply scarcity with dealer inventory levels at the lows, while new issues continue to come heavily oversubscribed.
CRTs
Liquidity remains robust in the CRT sector as bid/ask spreads continue to shrink. As the market pulls back to par, bid/ask spread has continued to approach pre-crisis levels, with the one exception being large block trades. Sellers who have large pieces to sell seem to be willing to pay wider bid/ask—roughly ¼ to ½ point—to get trades done. This compression is affecting all aspects of the CRT market.</td><td></td></tr>
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	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** • Significant size has been passing through the CLO market at or around the recent tight spread levels. The top of the CLO stack in particular shows little sign of wear with all this recent volume. Demand remains quite high as most people see the CLO market as having only recovered 60-70% of what it gave up during the crisis. • Bid/ask spreads are all but back to normal, pre-crisis levels. **Agency MBS** • 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	• The money markets were quiet going into quarter end. Flows in both government and prime funds have been flat over the 7 days ending June 26. • The “turn” (where repo trades over quarter end) is trading at 0.15%. This is not materially different, reflecting no signs of funding pressure – driven by the Fed. • Commercial paper issuers have termed out with limited need to issue shorter maturities. The commercial paper to T-bill spread remains narrow at ~10 bps. • 1-month LIBOR set at 0.17% and 3-month LIBOR set at 0.30%.	
US Municipals	• The muni market remained rangebound with benchmark AAA yields mostly unchanged over the week ending June 26, while secondary trading volumes declined. • The new issue calendar continues to be a primary focus, with deals routinely 10+x oversubscribed and repriced higher. With 6 straight weeks of inflows and the seasonally strong summer reinvestment cash set to hit portfolios, the market is expected to remain well-supported in the near term. • In terms of liquidity, odd lots are generally being bid 0.5 to 3 points below round lot levels, with high grade bonds typically inside of 2 points.	

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Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25mn; limited liquidity in off-the-run, high coupon bonds but the Bank of Canada buying program (C$21.9 bn+ in May, more in June) is helping liquidity in the sector. **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia • Concessions are requested so dealers will take less-liquid positions. • Limited secondary-market liquidity in oil-generating provinces (Newfoundland, Alberta, Saskatchewan) with oil prices trading at low levels. • 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 (C$2.3bn purchased in May) which should support liquidity. **IG Corporates** • Limited liquidity, particularly during risk-off trading days; 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. • The Bank of Canada's buying program of corporate debt (5 years or less) should support liquidity in that market for BBB and higher-rated securities. However, in its first purchases, the central bank only bought C$21.5mn in corporate securities, indicating the impact is minimal. BBB- bonds are trading by appointment. **Real Return Bonds (RRBs)** • The C$400mn RRB auction of the long Canada 0.5% Dec. 2050 on May 27 supported liquidity in the benchmark RRB bond for a limited period. • The program to purchase Government of Canada securities in the secondary market – the Government Bond Purchase Program or GBPP – should help liquidity since it will include RRBs. The program began on May 27. The BoC bought a total of C$700m with C$100m per line of the 7 Canada RRBs from 2021 to 2047. Even with the central bank buying net C$300m of Canada RRBs, liquidity remains challenging as dealers hold very limited	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 +1 to +2bp and more on size > CAD 25mn, particularly at the longer end Large bid/ask spread on BBB- corporates, which are trading by appointment in many cases. Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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	inventories, if any, of these RRB securities. Trading a block can only be done on an appointment basis.	

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