ALLIANCEBERNSTEIN®

May 2020

Market Update – Daily Fixed Income Trading Liquidity Update 5 May 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 $8bn per day during the week of May 4 (from $10bn per day the week of April 27). • Three themes remain at the forefront in rate/macro investor minds this week: (1) Central bank asset purchases as a percent of pandemic-related supply; (2) Investors selling interest rates to buy new issue investment-grade credit; (3) US Treasury borrowing estimates, projected to be $2.999tn this quarter, assuming an $800bn end of quarter cash balance. • Liquidity in the TIPS market remains worse due to the oil selloff and Fed tapering—on-the-run 10-year TIPS can be moved at 2-3 tick wide bid/offer spreads but liquidity in off-the-run bonds and longer-maturity bonds can be 3-6x as wide.	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) Corporates	**US IG** • US IG cash bonds traded mostly sideways, and market focus once again was the primary market. • New issue supply remains busy with $37.6 bn in new issues coming to market between May 4 and 5. The market has begun to see some companies that issued last month return to the market. Concessions ticked up but remain relatively low. • Credit curves continue to normalize across the quality spectrum. The long end has begun to steepen with most high-quality names back to pre-crisis levels. • Bid/ask spreads remain wider than pre-crisis levels.	US IG spreads are generically 4x wider vs normal market conditions AT1/Preferreds are 2-3x wider vs normal market conditions

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	Odd-lot liquidity is still improving, but not back to normal conditions yet. **European IG** • Supply levels have begun to pick up modestly in the European IG market, with niche and less well-known names continuing to tap primary markets. Liquidity tailed off toward the end of the week ending May 1 as holidays in Asia and Europe led to lower volumes in the latter half of the week. • In the secondary market, off-the-run names which have had poor liquidity since the selloff began in earnest continue to gain investor focus and are becoming tradeable, despite the modest uptick in primary market activity, as investors scour for value. • Liquidity in the AT1 (subordinated financial) market remains incredibly technical and very bond-/issuer-specific. In spots such as core high-quality issuers, bid/offer spreads were back to pre-selloff levels, but in more niche and second-tier names where dealers have no agenda, it remains wide. **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 May 5, trading volume continued to be very light.	
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 May 5, the US high yield market was generally firm along with the broad macro tone. Energy outperformed on higher crude oil prices. • Secondary trading remains concentrated around idiosyncratic events and earnings. • The new issue market remains open with another 3 deals pricing for $1.4 bn pricing. We expect supply to continue. **European HY** • Daily sentiment has dislocated somewhat between cash bonds and equities/the iTraxx Crossover index. After several weeks of outperformance in cash bonds, the market has begun to lag modestly.	Spreads are 1 point wider than normal times for BB-rated securities Spreads are 1-2 points wider than normal times for B-rated securities Spreads are 2-4 points wider than normal times for CCC-rated and below securities CDX HY bid/ask is 3-4x vs normal conditions.

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	• The first signs of new issuance have highlighted the constructive market tone. • Idiosyncratic risk is in focus as potential defaults/restructurings loom. • Technicals remain broadly constructive, as flows are generally positive, investors are more conservatively positioned and primary issuance remains light. • The market continues to see healthy two-way flows but bid/ask spreads remain elevated. **CDX HY** • CDX HY traded mostly in line with the broader macro tone. • Trading volumes remain light as volatility is close to the lows in a month. • Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • A mixed tone to start the week as the index tightened ~15bps but Latin American issues faded into the close Tuesday May 5 with most pointing to supply indigestion following April's record issuance month. • Oil exporters again outperformed as crude oil prices rose. • Supply continues to come to market with 5 deals already priced this week, all ~4-7x oversubscribed even with limited new issue premiums. • Liquidity continues to improve as transaction costs have slightly narrowed over the last week. **Local Currency EM** • Local EM rates continue to track macro risk and the moves in currencies. • Liquidity is close to normal	EM IG sovereigns are 1.5x wider vs normal market conditions EM HY sovereigns are 2x wider vs normal market conditions EM IG corporates are 2x wider vs normal market conditions EM HY corporates are 3x wider vs normal market conditions
Securitized	**CMBS** • The market for new issue CMBS is slowly beginning to open. One deal will price Thursday, and another is poised to announce next week. While spreads have certainly moved wider since the last conduit deal in March, no concession to current market prices is being required to place this most recent issue. All tranches are well oversubscribed, especially the mezzanine classes. At this time the AA, A, and BBB rated classes are 16x, 25x, and 11.5x oversubscribed. • Despite the demand for mezzanine tranches in this new issue, the secondary market for below AAA-	

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	rated bonds continues to lag. While there are pockets of demand at the AA and A levels, illiquidity persists below the single A-rated tranche and bid/offer spreads remain stretched at the BBB-rated level at 5x pre-COVID levels. • Volumes in CMBX.6 remain depressed. As a result, the index is trading in a very narrow range. Due to the lack of transacting, liquidity has not improved, and bid/offer remains unchanged. Bid/offer spread for CMBX A.6 is ~2x, BBB-.6 is ~3 x and BB.6 ~5x the normal bid/offer spread. **ABS** • Spreads in the secondary market were largely flat with fleet rental ABS modestly tighter in anticipation of news on whether Hertz was going to come to terms with their creditors on payments due. • In primary issuance, Ford has announced a deal from the FORDO shelf ($841mn), their first since November of 2019. Others may tap the market over coming days. **CRTs** • CRT had a slow week (week of April 27), with only a few bid lists of any notable size. • One area that has seen trading is the seasoned B1 space, where bonds are trading in the 1000dm area. The majority of "real money" accounts continue to be buyers at these levels; the only sellers seem to be hedge funds harvesting gains. • The market for early fixed severity deals continues to decline as there has been no indication from the head of the FHFA that they will change the language in those deals to support investors. • While bid/ask spreads have come in measurably since the peak of the crisis, they've been stagnant this week given the lack of trading volume. **Legacy Non-Agency RMBS** • Legacy RMBS continues to trade through the recent crisis. Since January spreads have widened from ~ 200bp to now in the 1000 bp range, but demand for the sector never really faded. **CLOs** • Spreads for tranches at the top of the CLO capital structure continue to march tighter. • The new issue calendar continues to expand as more and more managers are looking to dust the cobwebs	

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<tr><th>Sector</th><th>Liquidity Trading Comment</th><th>Bid-Ask Spreads</th></tr>
<tr><td></td><td>off deals that would have come in early March had Covid-19 not come about. New issue AAA deals seem to have settled around 190dm.
Bid/ask spreads on AAA-rated bonds continue to be close to normal levels (~1 point); mezzanine bid/ask remains elevated at roughly 2.5x. Buyers have not come back into the market for BBB and below like they have for the rest of the stack.
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</td><td></td></tr>
<tr><td>Money Market</td><td>LIBOR continues to set lower as short-maturity markets stabilize. 1-month LIBOR set at 0.22% and 3-month set at 0.45%.
T-bill supply is becoming old news. Continued cash management bill (CMB) issuance and outsized weekly rolls of the 1-, 2-, 3- and 6-month tenors are becoming the new norm. T-bill bid/ask spreads are normalizing back to the 2-3bp range.
There is good liquidity in the repo market, with repo rates holding tight in the middle of the 0.00 to 0.10% range.</td><td></td></tr>
<tr><td>US Municipals</td><td>The strength we saw building towards the end of last week carried over into this week's first two trading sessions, as benchmark yields declined both Monday and Tuesday.
The focus this week is on the primary market. Tuesday saw two deals taking center stage: $1bn Penn State University Taxable and $1.125bn Metropolitan Transportation Authority Tax-exempt. Both deals saw strong demand.
In terms of liquidity, odd lots remain difficult to sell without taking a significant concession from round lot pricing. In general, <1mm pieces are still receiving bids anywhere from 3 to 6 points below round lot bidside evaluations, with the smallest pieces at the top end of that range or wider.
High yield odd lot liquidity remains challenged with it very difficult to solicit a bid.
For context, high grade odd-lots typically trade 0.10-1 points below round lot bid-side evaluations under more normal market conditions.</td><td></td></tr>
<tr><td>Canadian Market</td><td>Federal
Liquidity is best in benchmark issues for block sizes of <=CAD25m; limited liquidity in off-the-run, high coupon bonds but the Bank of Canada buying</td><td>Federal: bid/ask typically +1 to +2bp but for the long end of the curve, it can be more depending</td></tr>
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	program will help 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. • 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. • The Bank of Canada's C$50bn buying program of provincial debt should support liquidity. **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. • The Bank of Canada's buying program of corporate debt should support liquidity in the secondary markets for BBB and higher-rated securities; BBB- are trading by appointment. **Real Return Bonds (RRBs)** • Trading "by appointment", similar to private placement market	on volatility Provincial: concession of +1 to +2bp and more on size > CAD 25m, particularly at the longer end

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