AllianceBernstein®

April 2020

Market Update – Daily Fixed Income Trading Liquidity Update 7 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 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	• The open-ended bond purchase program enacted by the Fed is having a positive effect on liquidity and market functionality. The Fed reduced their purchases of US Treasuries to $50bn per day this week (from $60bn per day at the end of last week). • On April 7, market depth rose to the highest levels since early March, yet still off the highs from early February. Volumes were at ~60% of recent averages as rates sold off in the NY session amid an equity market rally. • Of note, the US Treasury released the Monthly Statement of the Public Debt report yesterday, showing a record $15.1bn reconstitution of Principal STRIPs. This reflects buyside investors and dealers reconstituting whole bonds and offering them into the Fed to reduce long end duration. • Rate volatility continues to fall and there continues to be good "two-way" trading in the market. • Most US Treasury buying comes during the Fed operations. Long bonds continue to trade poorly after the Fed 20- to 30-year maturity purchase operations end at 2pm in NY. • 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.	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 with a firm tone on April 7 with BBB-rated bonds outperforming. • New issue supply remains active with $28 billion in new deals coming to market, across 20 issues. Along	US IG spreads are generically 4-5x wider vs normal market conditions

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	with the strong tone in the secondary market, demand was strong with deals 5.4x oversubscribed on average. • Credit curves, in particular the 5-10 year part of the curve, continue to normalize across the quality spectrum as we saw strong demand and better liquidity in the 5-year part of the curve. • Bid/ask spreads remain wider than pre-crisis levels. Odd-lot liquidity is still challenged, but not to the same extent seen a couple weeks ago. **European IG** • The European IG market continues to see heavy supply. Concessions for high quality/ECB eligible bonds have trended down, while lower-quality issuers continue to see larger concessions. Broadly, subscription levels remain high. • As more niche / lower quality issuers bring new deals to the primary market, this continues to improve secondary market liquidity as a new clearing level for risk is re-struck. Similar to European high yield, conviction levels are waning from the dealer community in the AT1 (subordinated financial) market, given the decent bounce in prices off the lows, particularly in light of the cheap senior bank supply that has come to market. Adding to this, dealers have lightened up their balance sheets heading into the Easter holiday. As such, bid/offer spreads have widened—more so on the offered side. **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 7, trading volume continued to be very light.	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 7, the market was up, with fallen-angel energy names rallying more than the broad market. • We continue to see life in the new issue market, with two new issues and one re-opening on April 7.	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.

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	Both new issues priced 50 bps through the initial “whisper” pricing. • Bid/ask spreads remained unchanged **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. • Some hedge funds expressed a more bearish view in recent days, setting shorts with the expectation for weaker equity/macro markets as the US moves into an expected peak of virus spread. • 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. • Dealer liquidity is minimal and has deteriorated as more participants shift to work from home locations. Dealer balance sheet usage is increasingly restricted with most trades >2million needing to be done on an agency basis. • Overall liquidity remains challenged, but trading is happening. Since the Euro HY market has had no new issuance, it is increasingly hard to put cash to work – it is easier to sell than to buy. However, we expect the new issue pipeline to slowly build with higher-quality issuers if the macro picture remains more stable. • 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 traded with better tone on April 6-7 vs last week, slightly outperforming stocks and cash bonds. However, trading volume has been lighter.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • EM continues to follow the global macro risk tone—as has been the case over the last few weeks. On April 7, CDX EM started off strong as stocks rallied,	Bid/ask spreads have tightened from last week’s levels:

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	and then saw gains fade as equities sold off into the close. • Thematically, there has been a reversal in oil exporter underperformance amid speculation of an OPEC production cut. Angola, for example, is now ~20 points off its lows, whereas similar non-oil exporting countries are generically up ~10 points over the same period. • Investment-grade new issuance continues to be in demand as most issuers continue to offer ~40 to 50 bps concessions to ensure their deals get executed. • Liquidity and price transparency have improved in sovereigns and quasi sovereigns, albeit still below average. Liquidity in EM corporates remains very challenged; most trading has been in sovereigns and quasi-sovereigns. **Local Currency EM** • For the most part, Local EM prices are tracking macro risk and the moves in currencies. • Liquidity has moved 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 3x wider vs normal market conditions EM HY corporates are 5x wider vs normal market conditions
Securitized	**CMBS** • In CMBS, there continues to be demand for AAA- through A-rated conduit securities. AAA-rated bonds trade at ~s+200, AA-rated bonds at ~s +400, and A-rated bonds at ~ s+600. There continues to be selling of the sector, but the supply is met with consistent demand. • In contrast, demand for BBB- and lower-rated bonds has not yet materialized. Bonds that do trade have very specific collateral compositions, typically less retail and hospitality debt and more exposure to office and industrial properties. • Bid/offer spreads remain wide and are 4x normal in the AAA-rated space. BBB-rated bonds are roughly 5x wider vs normal conditions, and BB-rated are roughly 7x wider. • CMBX series 6 volumes have declined noticeably over the past 2 trading sessions. The lack of volume is keeping BBB- and BB-rated tranches in a tight spread range and unable to join the rally in other risk markets. Bid/ask spreads remain wide but have moderated somewhat. Bid/offer spread for A.6 is ~2x, BBB-.6 is ~3 x and BB.6 ~5x the normal bid/offer spread. **ABS** • In ABS, it has been an active start to a shortened	

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	week as dealers traded ~$1.9bn, with ~90% in IG and the remaining falling below BBB. • Secondary market spreads for senior tranches were modestly tighter on the back of strength in the macro picture and positive news surrounding covid-19. Spreads for 2- and 3-year AAA-rated credit card ABS are trading just inside of +70 and +80 bps over swaps respectively, and 2- and 3-year prime auto ABS just inside of +110 and +115. • For non-prime auto ABS, senior tranches saw demand with AAA-rated, ~1-year bonds at +200 over swaps, and marketplace lending AAA-rated bonds at +400 to +500 bps over swaps. Subordinated tranches for these asset classes are still trading on dollar price with limited liquidity. • In the coming week, there is the potential for the first primary issuance in weeks in ABS for prime and non-prime autos, as two issuers filed a 15-G. **CRTs** • Trading in the CRT market has been significantly challenged, partly because of the challenges in the repo/commercial paper market. • Since the beginning of the week, the CRT market has been largely unchanged on light volume. Bid/ask spreads remained roughly 2x normal levels. • Discount margin spreads are still several times their pre-crisis levels. **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** • Bid/ask spreads on AAA-rated bonds are approaching normal levels (~1 point); mezzanine bid/ask remains ~3x wider relative to typical levels. **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	
Money Market	• T-bill supply remains the hot topic in the money markets. To date, the Treasury has announced $580 bn in Cash Management Bills (CMB) to fund the	

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	fiscal stimulus. They have also increased their weekly T-bill rolls. • This supply has helped absorb inflows into government money market funds. The Federal Reserve's Reverse Repo facility for money market funds saw subscriptions fall to $88 bn on April 7 (from $285 bn at quarter end). • The Fed has announced new details on the Commercial Paper Funding Facility, which will begin on April 14. This facility will buy 3-month CP directly from issuers and hold them to maturity. • LIBOR continues to set lower as funding pressure subsides. 1-month LIBOR set at 0.864 % and 3-month set at 1.32%. There is speculation that the Fed will need to reduce their Money Market Liquidity Facility (MMLF) rate in order to ease LIBOR further. The MMLF program lends cash to dealers to fund CP/CD that they've purchased from prime funds, with a loan rate at 1.25%. • We have seen good two-way flow in CP. High quality paper, especially within 3 months is hard to source as issuers have gotten their fills in the past couple days and look to extend out the curve. The markets are flowing again. • Repo is still trading at or slightly above 0%. The Fed Funds rate is currently 0.05%. Government money market inflows and the demand for repo have kept these rates pinned at the lower bound. The Fed's objective is to keep the Fed Funds rate in their Fed corridor of 0.00%-0.25%, so there is speculation that the Fed may implement technical adjustments to move away from the lower bound at this month's FOMC meeting.	
US Municipals	• The municipal market saw yields decline on benchmark bonds over the past two trading sessions. The market remains volatile, with 5-10 bps daily moves in benchmark bonds, which were uncommon prior to the current crisis. • There is still a significant amount of primary market supply that has been sidelined as deals were pulled or postponed over the past few weeks. However, a few high-grade deals were able to come to market successfully on April 7. • Liquidity in high yield municipals remains challenged. • Odd-lot liquidity is still significantly reduced vs several weeks ago. High grade odd-lots are now trading roughly 3-6 points below bid-side eva-	

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	luations. For context, high grade odd-lots typically trade 0.10-1 points below bid-side evaluations under more normal market conditions.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD15m; very limited liquidity in off-the-run, high coupon bonds **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia, but concessions can be high; very limited secondary-market liquidity in oil-generating provinces (Newfoundland, Alberta, Saskatchewan) amid new lows in the Western Canadian Select oil price. • Most dealers will not bid on off-the-run, high coupon provincial issues **IG Corporates** • Limited liquidity; many dealers forced to reduce balance sheet inventories, so unable to provide bids in many sectors. • Trading on an agency basis for high-beta issuers. However, market has improved in telco and bank sectors. • Liquidity limited even in higher-quality, senior bank deposit notes **Real Return Bonds (RRBs)** • Trading "by appointment", similar to private placement market	Federal: bid/ask typically +1 to +3bp; can be more depending on volatility Provincial: +2 to +5bp or more on size < CAD 10m

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