AllianceBernstein®

February 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 12 February 2021

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 at the end of each week.

Sector	Liquidity Trading Comment	Bid-Ask Spreads
US Treasuries	• During the week ended February 12, duration continued to sell off amid heavy volumes and investors expressing an inflation-higher bias—expecting wider inflation breakevens and steeper yield curves. The US Treasury market has a supply hangover as shown in the lackluster end user demand stats at last week's 30-year auction, which was the first long bond auction to have below-12-month demand stats in many months. • The focus in Washington, DC is now on fiscal stimulus and the \$1.9trn proposed size that appears more likely by many market participants. • Federal Reserve bond purchases continue at \$80 billion US Treasuries and \$40 billion MBS per month. • The developed market rates complex is at the peak liquidity of the past two years. Depth is high in both cash and futures markets. Facilitating large risk transfers can be done without "paying up" for the liquidity. Bid-offer spreads continue to grind tighter.	Bid-offer spreads are trading in line with pre-covid levels. Bid-offer spreads continue to grind tighter, with 10-year notes trading ½ of a tick wide and 30-year notes also trading as tight as ½ of a tick (1 tick = 1/32nd).
Investment Grade (IG) Corporates	**US IG** • The technicals in the US investment-grade cash bond markets remained constructive during the week ended February 12. Cash bond index spreads tightened 1bp week-over-week, and the market set new YTD tight levels (+91bp) on Monday, levels not seen since February 2018. • A key issue during the week centered around the 20-year part of the curve following JP Morgan's announcement that they would begin to quote 20-year investment-grade corporate bonds (2037-2044 maturities) off of the 20-year Treasury bond on March 1 (although this had been postponed by the end of the week). Most year-to-date 20-year supply has been benchmarked to the 20-year Treasury, although bonds issued earlier may be quoted relative to 30-year Treasuries, so this move could remove confusion in longer-maturity bonds where bonds with the same ticker and similar maturities trade with different benchmarks.	Bid/ask conditions in the IG market are back to normal

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Unlike last week, supply took the back seat during the week with only $19bn pricing, underwhelming expectations of $25-20bn.
As expected, overnight flows from Asia were subdued due to Lunar New Year. The market saw an inflow of $2.8bn during the week.
Supply for the week ending February 19 is expected to be in the ~$20 to 25bn range.

European IG

It was a fairly quiet week ended February 12, with spreads ending the week broadly unchanged. Markets remained rangebound and appear to be at the mercy of fund flows which were benign.
Supply continued to be fairly light, further adding to the constructive technical backdrop.

REIT Preferreds

Liquidity in the REIT preferred market is typically limited under more normal conditions given the retail nature of the investor base.
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.

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<tr><td>High Yield (HY) Corporates</td><td>
US HY

The high yield market was firm during the week ended February 12. The primary market continued to be very active, as 17 deals priced, totaling $14.2bn notional. Secondary markets were quiet during the week. There was an uptick in two-way portfolio trade activity.
High yield index spreads were 11 bp tighter to at 323bp. The spread between CCC and BB-rated bonds was 3bp tighter to 319 bp.

Euro HY

During the week ended February 12, focus remained on primary market supply. High-yielding new deals were significantly oversubscribed, tightened from initial price talk and performing well on the break.
Secondary market activity was light, with ease of transacting in both directions.

CDX HY

Continuing the YTD theme, CDX HY once again underperformed cash bonds and the macro tone during the week ended February 12. Breaking the 109.60 level has proven challenging for CDX HY.
Trading volumes were around average.
Bid/ask spreads have declined to pre-crisis levels.

</td><td>Bid/ask spreads vary by issuer but generically:

BB-rated securities: 1 point, which is in line with normal market conditions

B-rated securities: 1 point, which is in line with normal market conditions

CCC-rated and below: 1.5points which is in line with normal market conditions

CDX HY bid/ask is in line with normal conditions.</td></tr>
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Emerging-Market Debt (EMD)	**Hard Currency EM** • During the week ended February 12, EM credit "took a breather", as the EMBI Global Diversified Index spreads widened ~5bp on the week to ~344bp. This is ~4bp wide of pre-crisis levels. High yield underperformed investment grade by ~12 bp driven by Egypt and Ivory Coast's supply-induced indigestion. • Early in the week, Ecuador traded down 9 points, giving up most of the prior week's gains after the 2 leftist candidates appeared poised to advance to the second round of the presidential election; as more votes were tallied, and the market-friendly candidate pulled into second place, the curve bounced ~5 points. • Outside of a few deals pricing in London, the primary market was subdued as Pemex's black-out date to issue before earnings came and went. **Local Currency EM** • Liquidity is close to normal.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • Asia credit spreads drifted wider by 1bp during the week ended February 12. Investment-grade spreads were essentially unchanged, whereas high yield slumped, widening 10bp on the week as investors trimmed risk into the holiday period. The China property sector was particularly weak in light of the emergent concerns of contagion from the China Fortune Land default. • Primary market activity was quite with only 2 deals totaling $550mn coming to the market due to the Lunar New Year holidays. **Asia Local Currency** • Asia local currency markets were quiet heading into the Lunar New Year holidays and liquidity was relatively poor amid think trading volumes.	Asia IG credit is ~1.5 to 2x wider vs. normal market conditions Asia HY credit is ~1.5 to 2x wider vs. normal market conditions Asia local currency debt is ~1.5 to 2x wider vs. normal market conditions
Securitized	**CMBS** • During the week ended February 12, CMBS and CMBX spreads tightened modestly week-over-week. Trading volumes for both were slightly lower relative to recent averages as the market headed into the long weekend. • One new conduit deal was announced and is expected to price close to the initial price guidance. • Bid/offer spreads remain unchanged: spreads for AAA to A-rated CMBS classes have retraced their post-covid-19 widening, while bid/offer spreads for BBB-rated classes remain approximately 2x their pre-covid-19 levels. CMBX A.6, BBB-.6, and BB.6 bid/offer spreads remain approximately 2x their historical averages. **ABS** • The ABS primary market priced thirteen deals for the week ending February 12 – the busiest week of the year so far – totaling $8bn	

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• Secondary market spreads were mostly unchanged during the week. Spreads for benchmark ABS were 1-2bp tighter, including those for prime auto loan ABS which remain at record tight levels.
• There are nine ABS deals totaling $10.2bn that have been announced for the week ahead, all tighter from initial price guidance.

CRTs
• The week ended February 12 saw spreads mostly unchanged from the prior week. Volumes continue to be elevated, highlighting the amount of money looking to be put to work.
• No new issues priced during the week, but STACR 2021-HQA1 is currently in pre-marketing, with price whispers putting it at the tightest levels post-covid-19. Genworth is still looking to price 2 MI deals.
• Secondary market liquidity remains robust and there is good two-way flow in all aspects of the CRT market. Bid/ask spreads have normalized around pre-covid levels.

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 inside 200 bp discount margin currently.

CLOs
• The week ended February 12 continued to be busy in the CLO market. The secondary market continues to pull the primary market tighter.
• Liquidity remains robust in the CLO market. Bid/ask spreads remain at or around pre-crisis levels.

Agency MBS
• Bid/ask spreads in Agency MBS remain at the tighter end of their range in terms of OAS relative to US Treasuries, given the supportive Fed purchases of $40bn per month. Bid/offer spreads remain at historical tight levels at just ½ of a tick wide.</td><td></td></tr>
<tr><td>Money Market</td><td>• SOFR set at 0.05%. The Effective Federal Funds Rate set at 0.08%
• 1-month LIBOR set at 0.106%, while 3-month LIBOR set at 0.192%.
• Government money market funds saw $7bn of inflows in the 7 days ended February 12. Prime funds had $152mn of outflows over the same period.</td><td></td></tr>
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US Municipals	• The municipal market continued to outperform the US Treasury market during the week ended February 12. Week-over-week, municipal benchmark yields were 2-4bp tighter. Municipal/Treasury ratios are at all-time low levels (39% at 5-year, 56% at 10-year and 65% at 30-year maturities as of Tuesday morning, February 16. • New issues continue to be light and flows into municipals continue to be strong, creating a solid technical picture despite municipals' relative richness vs both Treasuries and US IG corporate bonds. • MTA brought a long-maturity new issue across three deals, which priced inside existing bond spread levels, although 130mn out of the 700mn deal remained unsold despite price levels leaking wider. • Odd-lot discounts to round-lot bid side evaluations are ~1 point for 5k-15k lots, 0.5 point for 20k-100k and 0.25 point for 100k+.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million; liquidity has improved in off-the-run, high coupon bonds with Bank of Canada (BOC) bond buying. Comments by central bank Governor Macklem that the BOC will buy at least $4 billion of Canadian government bonds per week until the recovery is well underway should continue to support market liquidity. The fact that the BOC will buy more bonds at the long end of the curve should support liquidity at the 30-year part of the yield curve. • The BOC has purchased C$208 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through February 12. Government of Canada bonds are the most liquid securities in capital markets in Canada as seen in the latest (November) Bank of Canada research. (Note: BOC figures can be revised) **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia. • Depending on market tone, concessions may be requested in order for dealers to take less-liquid positions. • 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. • The BOC has purchased C$15.9 billion in par value year to date through February 12 within their provincial buying program to support liquidity. A continued rise in crude oil prices from current levels could help liquidity in provinces where oil revenues will be pushed upward – Alberta, Saskatchewan and Newfoundland. **IG Corporates** • The latest Bank of Canada research highlights the lack of liquidity in Canadian corporate bond markets, which can impact pricing; many dealers are maintaining low balance sheet inventories, so will not provide bids in many sectors.	Federal: bid/ask typically 5 cents in the 10-year area, but for the long end of the curve, it can be more depending on volatility (risk off markets) and size outstanding. Off the run Canadas can have a wide bid-ask given small outstanding size in these securities. Provincial: concession of +1 bp and more on size > CAD 25 million, particularly at the longer end. In risk-off markets, liquidity is drying up and spreads can widen depending on market tone.

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	• Trading on an agency basis for high-beta issuers. • The Bank of Canada's buying program (focused on securities of 5-years or less) should support liquidity for corporate bonds rated BBB and higher. However, the central bank has bought a relatively small amount of corporate securities to date (C$200 million par as of February 12), indicating the impact is limited. BBB- bonds are trading by appointment unless there is a new issue. • Recent conversations with the deputy BOC governor indicated that they view the bond-buying program as a "back-up" facility. They do not see a current need to intervene to provide liquidity to the BBB- corporate market. **Real Return Bonds (RRBs)** • The program to purchase Government of Canada securities in the secondary market – the Government Bond Purchase Program or GBPP – should help liquidity since it includes RRBs. • Trading in Canada RRBs continues to show a lack of liquidity. Trading a block can only be done on an appointment basis. • Of note, the last $300mn auction of RRB 0.5% Dec 2050 was done on February 10. On that day the central bank was not able to buy its maximum of 6 Canada RRBs for a total of $450mn with a target of $75mn per line item (from 2026 to 2047 maturities). In December, the BOC bought net $34mn in RRBs compared with $122mn in February (BOC buying program less new supply). Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	BBB- corporates are trading by appointment, particularly in the energy sector. Inventories are reduced and dealers are not looking to increase their BBB- exposure. Dealers may refuse to bid in a risk off market with gaps in spreads. Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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