ALLIANCEBERNSTEIN®

August 2020

Market Update –Fixed Income Trading Liquidity
For the Week Ended 14 August 2020

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	• US Treasuries bear-steepened in the week ended August 14th. Following the Treasury Department's announcement to increase supply (on August 4th) the market experienced significant indigestion, causing the Treasury market to bear steepen massively on the week. • The corporate supply also weighed heavily on the sector through the week. • The US Treasury buyback schedule was left unchanged with no surprises in the outright amount of purchases or security types (Treasuries vs. TIPS) and maturities. • For the week, US 10-year yield increased by +14.5 b.p. to 0.710%, and the 5s30s curve steepened by +15.0 b.p. to +115.1 b.p. steep. •	Bid-offer spreads for on-the-run US Treasuries has improved significantly and are in line with pre-crisis conditions. Off-the-run Treasury bonds that are not in cheapest-to-deliver futures baskets are still trading with bid/ask spreads 2-3x wider than pre-covid-19 levels. TIPs bid/ask is 1.5x wider vs pre-crisis levels
Investment Grade (IG) Corporates	**US IG** • US IG cash bonds traded slightly weaker during the week ended August 14th. The index widened 2 b.p. as heavy supply weighed on the secondary market. • The Fed's weekly report showed that the Fed purchased $61 million for its secondary market purchase program (SMCCF) between August 5th and August 11th. This was the lowest weekly purchase pace since the program began. • The primary market picked up with $50 billion in IG supply. Demand for IG credit continues with new issue concessions minimal and deals multiple times oversubscribed. We also saw supply from several COVID-sensitive sectors (REITs, Leisure, Aircraft	US IG spreads are generically 2x wider vs normal market conditions AT1/Preferreds are 2-3x wider vs normal market conditions

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	lessors) which were absorbed well, indicating there is still a demand for these credits despite the recent tightening. • Bid/ask spreads remain wider than pre-crisis levels. **European IG** • It was very quiet once again during the week ended August 14th, with one of the lowest supply weeks post Brexit, including SSA (Sovereigns, Supranational and Agencies) supply. • Anecdotally the ECB felt like the largest player in the market and combined with light supply caused the space to grind tighter. Short offers particularly in bonds eligible for ECB purchases were increasingly difficult to source. **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.	
High Yield (HY) Corporates	**US HY** • The new issue market took center stage once again in the week ended August 14th, with $22.4 billion pricing across 28 issuers, bringing the MTD issuance to over $40 billion. • The large amount of issuance is starting to weigh on the market creating mild indigestion and leading to spread widening. Adding to the underperformance was a move higher in rates. • Despite the sell off, technicals in the new issue market remained firm with books well oversubscribed and pricing on the tight end of expectations. • Deals with above market coupons outperformed. • The new issue calendar is likely to slow somewhat in the second half of August, but there are still talks of more issuance next week. At the moment, it is unclear if there will be any weeks with no issuance due to holidays as is usually the case. • The index spread was 20 b.p. wider on the week, to 498 b.p. This compares to March 23 wide levels	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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	of 1100 b.p. and pre-covid-19 tight levels of 341 b.p. on Feb 13. **Euro HY** • Volumes remain light amid the summer lull in activity. • There was no activity in the primary market in the week ended August 14, supporting a grind tighter in the market as sidelined cash slowly gets put to work. • The underlying technicals feel constructive, even with the more covid exposed credits seeing investors cover their underweights on the margin. However, the European investor base is reluctant to get long B/CCC credits on the back of a big tail risk to a prolonged recovery. • . **CDX HY** • CDX HY traded lower along with broader credit markets during the week ended August 7th. • 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.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • The theme in EM credit during the week ended August 14th was the compression trade. High yield spreads were 25 b.p. tighter, dramatically outperforming IG credit (which was a few b.p. tighter on the week) on a beta adjusted basis. This was on the back of US treasury auctions, which led to a back up in rates as well as profit taking in IG credit. • Volumes felt like the highest in a while but below non-summer days, as the re-pricing of IG risk led to a rush to get things done prior to the expected lull over the next final few weeks of the summer. • Flows continue to be constructive in the asset class and supply should be non-existent until post Labor Day which should provide a good back drop for IG to recover some of this quick repricing. **Local Currency EM** • 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
Asia	**Asia Hard Currency** • Asia hard currency credit continued to grind tighter in the week ended August 14th. However, we observed more two-way flow, especially in China	Asia IG credit is ~1 to 1.2x wider vs. normal market conditions

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<tr><th>Sector</th><th>Liquidity Trading Comment</th><th>Bid-Ask Spreads</th></tr>
<tr><td></td><td>technology names with US/China tensions in the forefront.
Non-China IG names made a significant return to the market in the form of new issues which priced on the tight side of expectations and found support to continue tightening in the secondary market.
Liquidity was constructive with a better bid tone and light dealer inventories.
Asia Local Currency
Liquidity in Asia local currency debt was mostly normal.
The rally in Malaysian government bonds appeared to abate as realization of supply set in. Also, Malaysia GDP contracted more than expected in Q2, falling -17.1% vs. expectations of -10.9%
In Indonesia, Fitch affirmed BBB rating and short end continued to rally as onshore banks are flushed with liquidity. While bonds rallied 25 b.p., the currency underperformed with USDIDR reaching 14955 towards the end of the week as NDF (non-deliverable forwards) maturities weighed on sentiment.</td><td>Asia HY credit is ~1 to 1.5x wider vs. normal market conditions

Asia local currency debt is ~1 to 1.2x wider vs. normal market conditions</td></tr>
<tr><td>Securitized</td><td>CMBS
Activity remained light in the CMBS secondary market in the week ended August 14th. Trading volumes were anemic causing prices to remain little changed. Unexpectedly, two new conduit transactions are being brought to market. The deals are expected to go well, as the market is currently starved for supply.
AAA bid/offer spreads have retraced the post-COVID widening, while AA/A and BBB rated classes remain 2x their historical average.
CMBX continues to trade heavy as flows remain depressed. Liquidity will likely remain challenged until trading volumes increase or risk-taking by dealers returns (the dealers are currently flat risk in most series and tranches). Bid/offer spreads are slowly moderating. A.6 is ~2x, BBB-.6 is ~2 x and BB.6 ~3x the normal bid/offer spread.
ABS
The ABS primary market priced eight transactions in the week ended August 14th, totaling $5.5 million across unsecured consumer loans, servicer advances, equipment, as well as prime and non-prime auto loans. ABS year-to-date supply now</td><td></td></tr>
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	stands at $109.1 billion compared to $147.9 billion recorded in 2019 over the same time period. Primary new issue continues to mostly price through initial spread guidance and to be oversubscribed. • In the secondary market, limited volumes and low dealer inventories led to tighter indicative spreads during the week. AAAs were 3b.p.-10 b.p. tighter while subordinates were 20 b.p.-45 b.p tighter across asset classes. • Secondary trading was slightly lighter week-over-week, but indicative spreads remain unchanged. • Supply and demand technicals remain strong, and are supportive of spread levels, but liquidity and price execution remain tiered by issuer. **CRTs** • After underperformance of the broader risk markets in July, CRT spreads continued to tighten modestly in the week ended August 14th. Volumes have been extremely muted with no sellers of large blocks. However, what has been sold seems to have been readily absorbed by a good two-way flow. • Fixed severity deals (early issued CRTs where losses are calculated according to a fixed severity schedule as opposed to actual-loss schedule) were down dramatically in July but have recovered somewhat in August. **Legacy Non-Agency RMBS** • Legacy RMBS have recovered back to pre-crisis levels. After having widened to the 1000-1200 b.p. range in March, spreads are currently trading at or around 200 b.p. 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	

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	Fed buying and increased investor interest. Bid/offer for lower coupon bonds is just ½ of a tick wide.	
Money Market	• The market has been quiet in the week ended August 14 as investors wait for front-end supply and a resolution to the stimulus stalemate. • There were no liquidity issues of note in the repo markets for the week ended August 14. • Government money market funds saw outflows of \$11 billion in the 7 days ending August 14. Prime funds saw outflows of \$7 billion in the same time period. • The commercial paper spread to T-bills is still tight at approximately 0.10%-0.15% . • 1-month LIBOR set at 0.16% and 3-month LIBOR set at 0.27%.	
US Municipals	• Munis widened in the week ended August 14th, in line with US Treasury rates. As the AAA municipal / US Treasury ratio dropped to its lowest level in months, and in some cases on record, the relative value between munis and treasuries saw investors move into treasuries. Despite this, flows continued into the municipal market more broadly, although some large intermediate funds saw outflows. There were also more bid wanteds around mid week. • There was 10.5 billion in new issues: \$8.3 billion in tax-exempt bonds and \$2.2 billion in taxable bonds. New issues in spreadier names such as City of Newark and Lincoln Center continued to have double digit subscriptions. Large taxable deals such as Yale Health Services and NY Presbyterian Hospital saw strong demand for long noncallable bonds. However, we are starting to see fatigue in higher quality CA names given how tight CA levels had become prior to the widening. San Diego USDs and LA leases both had limited demand and did not tighten. • Odd-lot liquidity remains good for high quality bonds, although the volume of bid wanteds dragged on the haircuts to round lot bid-side levels towards the end of the week. Haircuts for small odd-lots (those 50K and under) were 1-2 pts and those for larger odd-lots were <1pt. • Odd-lot discounts are nearly back to pre-crisis levels at 0.5 to 1pt below round lot bid-side evaluations.	
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	Federal: bid/ask typically +1 b.p. but for the long end of the curve, it can be more depending on

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	(BOC) bond buying. Comments by central bank Governor Macklem that the BOC will buy at least $5 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. • BOC has bought $105.9 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through August 12th.	volatility (risk off markets) and size outstanding. Off the run Canadas can have a 12 b.p. bid-ask given small outstanding size in these securities.
	Provincial	
	• Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia. • Concessions are requested so dealers will take less-liquid positions. • Secondary-market liquidity in oil-generating provinces (Newfoundland, Alberta, Saskatchewan) has improved with WTI over US$40 per barrel. • 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$6.9 in par value year to date through August 12th within their provincial buying program to support liquidity.	Provincial: concession of +1 b.p. and more on size > CAD 25 million, particularly at the longer end
	IG Corporates	
	• Limited liquidity, particularly during risk-off trading days; many dealers are maintaining low balance sheet inventories, so will not provide bids in many sectors. • Trading on an agency basis for high-beta issuers. The market has improved in sectors such as banks and telecom companies. • The Bank of Canada's buying program of corporate debt (5 years or less) should support liquidity in that market for BBB and higher-rated securities. However, the central bank has bought a relatively small amount of corporate securities to date (C$ million par), indicating the impact is limited. The central bank did not buy any security in recent weeks. BBB- bonds are trading by appointment unless there is a new issue. The corporate calendar is expected to be light in August, another factor that could be a detriment to corporate market liquidity.	BBB- corporates are trading by appointment, particularly in the energy sector. Inventories are reduced and dealers are not looking to increase their BBB- exposure with reduced trading activity in summer days
	Real Return Bonds (RRBs)	

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	• The last C$400 million 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 includes 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 inventories, if any, of these RRB securities. The next auction will be held in September. Trading a block can only be done on an appointment basis.	Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.