October 2020



Market Update – Fixed Income Trading Liquidity For the Week Ended 16 October 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
Sector US Treasuries	 Global developed market interest rates fell during the week ended October 16, with curves flattening across the board. The high correlation between the moves in duration and curve is mostly a biproduct of the Fed's monetary policy stance on front end rates, and asset purchase programs shifting volatility to longer maturities. Curve has been trading directionally with duration for many months now. Key factors moving markets during the week included: Rising covid-19 cases in Europe, resulting in government-imposed curfews Dimmed prospects for fiscal stimulus, and stimulus-related supply, in the US with 2 weeks until the election. This also pushed breakevens lower. Lingering Brexit uncertainty The 10-year US Treasury to German Bund spread make local highs of 137 bp – the widest level since mid-March – amid resilient economic data in the US for the month of September such as retail sales Federal Reserve bond purchases stand at \$80 bn US Treasuries and \$60 bn MBS per month. Liquidity in the TIPS market improved slightly as investors bought 5-year TIPS on fiscal stimulus hopes. The tone in the market improved and there was decent two-way interest with 	Bid-Ask Spreads Bid-offer spreads for on-the-run US Treasuries has improved significantly and are in line with pre- crisis conditions. Off-the-run Treasury bond bid/ask spreads are nearly back to pre- covid-19 levels. TIPs bid/ask is 1.5x wider vs pre-crisis levels

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	(Sourced from BrokerTec)—has recovered to	
	levels last seen before the covid-19 crisis.	
	Deep off-the-run US Treasuries are nearly back to	
	their pre-covid bid/ask spread levels. Bonds that	
	have less than 70% of Federal Reserve System	
	Open Market Account ownership have deeper	
	liquidity, as they can be offered into the Fed	
	purchase programs.	
Investment	US IG	US IG spreads are
Grade (IG)	 US IG cash bond spreads tightened 1 bp overall 	generically 1-1.5x wider
Corporates	week-over-week during the week ended October	vs normal market
	16, with the market softening at the beginning of	conditions
	the week on the back of negative covid-19 and	
	stimulus headlines but rebounding with the macro	AT1/Preferreds are 1-
	tone in the second half.	1.5x wider vs normal
	• In primary markets, there was little supply during	market conditions
	the week (majority coming from BAML who	
	brought \$8.5bn in bonds across the curve). The	
	average deal was 2.1x oversubscribed, less robust	
	than 4.5x from the prior week.	
	Technicals remain supportive with continued	
	inflows, light supply expectations for the	
	remainder of the year, and dealers remaining light	
	on risk. However, engagement levels stayed low	
	and liquidity is expected to continue to be thin	
	heading into the US election and year end as both	
	dealers and investors want to preserve the solid	
	performance achieved YTD.	
	Fed purchases under the secondary market purchase program (SMCCF) remained light as they	
	bought only \$136mn (\$34mn/day) over the past	
	week. This is well below the pace when the	
	program began when the Fed bought an average	
	of \$1.4bn/week for the first seven weeks. The Fed	
	released September transaction-level reporting	
	which showed no ETF purchases since July 23.	
	Bid/ask spreads remain wider than pre-crisis	
	levels.	
	European IC	
	European IG	
	Despite the macro tone, the technical picture arraying the Function of the former location the former location the former location of the former locati	
	remained decent in the Euro IG market during the	
	week ended October 16. Supply continues to	
	underwhelm and is more focused on "niche" areas	
	like ESG-oriented and hybrid issuers. New issues	
	came to market at/through existing secondary	
	market levels and although secondary market	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	performance was lackluster, these new deals	
	managed to recover as the tone improved.	
	REIT Preferreds	
	Liquidity in the REIT preferred market is typically	
	limited under more normal conditions given the	
	retail nature of the investor base. Current liquidity	
	is better than in March and April but is still not	
	back to normal.	
	 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)	US HY	Bid/ask spreads vary by
Corporates	The US high yield market remained better bid	issuer but generically:
	during the week ended October 16, but secondary market trading was quiet ahead of the US general	BB-rated securities: 1
	election.	point, which is in line
	 New issue activity slowed, with \$5.05bn of pricing 	with normal market
	across 9 deals. This compares to the 2020 weekly	conditions
	average of \$10.3bn. New issues during the week	
	were multiple times oversubscribed (1.5-8x)	B-rated securities: 1
	indicating investor cash balances continue to be	point, which is in line
	healthy. "Crossover" buying from insurance and	with normal market conditions
	euro-based investors led to large book sizes and oversubscriptions in deals from Rolls-Royce (7.2x	conditions
	and \$7.2bn) and Can-pack (8x and \$3.2bn). The	CCC-rated and below:
	new issue market is expected to remain active in	1.5points which is in line
	the week to come (5-10bn expected).	with normal market
	 The HY index moved 2 bp wider to 472 bp after 	conditions
	hitting recent tight levels of 460bp on October 13.	
	This compares to March 23 wide levels of 1100 bp	
	 and pre-covid-19 tight levels of 341 bp on Feb 13. The CCC-BB spread was 1 bp wider to 535 bp. This 	CDX HY bid/ask is 1-2x vs normal conditions.
	compares to April 6 wide levels of 1139 bp and	normal conditions.
	pre-covid-19 tight levels of 613 bps on February	
	13.	
	Euro HY	
	• During the week ended October 16, it was all	
	about new issues in the Euro HY market.	
	The primary market was strong with most deals	
	pricing at the tight end of initial price guidance	
	and trading up on average 1 point.	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	 The Euro HY market continues to outperform amid macro volatility given supportive underlying technical. 	
	 Liquidity is still challenged due to minimal overall flow in the market, but the technical picture 	
	remains supportive.	
	CDX HY	
	 CDX HY traded weaker along with the broader market during the week ended October 16, and 	
	underperformed cash bonds.	
	 Trading volumes trended down after the roll period. Bid/ask spreads have declined but remain algorated rolative to pro-cricic levels. 	
Emerging-	elevated relative to pre-crisis levels. Hard Currency EM	
Market Debt (EMD)	 The JPMorgan EMBI Global Diversified index spreads traded ~5 bp wider during the week ended October 16 amid limited flow as "real money" investors were generally satisfied with positioning heading into the US election. Price 	EM IG sovereigns are 1.25-1.5x wider vs normal market conditions
	 action was driven by dealers and more opportunistic or "fast money" investors. Thematically, the HY-IG spread differential widened another 20 bp, driven by the lack of 	EM HY sovereigns are 1.25-1.5x wider vs normal market conditions
	 marginal buying of HY sovereign risk and demand for Latin American and Middle East investment grade bonds. Inflows continued their robust pace during the week, after last week's 3rd largest weekly inflow into the ETF "EMB". Of note, El Salvador bonds 	EM IG corporates are 1.25-1.5x wider vs normal market conditions
	sold off 4-7 points on the week after several underwhelming IMF investor calls.	EM HY corporates are 1.25-1.5x wider vs normal market
	 Local Currency EM Liquidity is close to normal. 	conditions
Asia	Asia Hard Currency	Asia IG credit is ~1 to
	 Asia hard currency credit spreads widened 2bp during the week ending October 16. 25 issuers raised a total of USD 16.5bn, which 	1.5x wider vs. normal market conditions
	marked the second busiest week of the year for	Asia HY credit is ~1.5 to
	 primary market issuance Despite the heavy supply, liquidity was normal, and dealers had ample balance sheet to accommodate 	2x wider vs. normal market conditions
	two-way flows.	Asia local currency debt is ~1 to 1.5x wider vs.
	 Asia Local Currency Asia local currency markets were relatively sideways, and liquidity was generally favorable 	normal market conditions

Sector	Liquidity Trading Comment	Bid-Ask Spreads
Securitized	 On Thursday, the Thai government declared a state of emergency as protests in Bangkok escalated, but the impact on local government bonds was muted, as foreign selling was offset by onshore expectations for further monetary easing by the Bank of Thailand. On Wednesday, India announced a plan to increase borrowing by INR 1.1 trn via government bond issuance from October 2020 to March 2021. Bonds sold off ~3 to 8 bp over the week. CMBS The technical backdrop in the CMBS market remained positive during the week ended 16 October. With little supply on the horizon, the secondary market remains well-supported. Approximately \$1.1bn of bonds were placed for bid, nearly \$500mn less than the prior week. Both spreads and liquidity conditions were little changed week over week. 	Bid-Ask Spreads
	 AAA bid/offer spreads have retraced the post-covid- 19 widening, while AA/A and BBB-rated classes are moderating but remain approximately 2x their pre- covid-19 levels. CMBX performance was mixed during the week. Newer vintages modestly outperformed older vintages on healthy trading volume. Liquidity conditions remain challenged at times but are improving as trading volumes increase. Bid/offer spreads remain wider than their pre-covid-19 levels, with A.6, BBB6, and BB.6 at approximately 2x their historical averages. 	
	ABS	
	 The ABS primary market priced six transactions for the week ending October 16 totaling \$3.5bn across unsecured consumer loan, insurance premium, railcar, FFELP and prime and non-prime auto loan ABS deals. ABS year-to-date supply now stands at \$153.4bn compared to \$194bn recorded in 2019 over the same time period. The execution across deals at the top of the capital structure remained robust, but a hint of investor fatigue was evidenced within non-investment-grade rated tranches. Benchmark secondary spreads remained largely unchanged on the week with 3- 11bp tightening across stranded assets, 1-10bp across equipment and 5-10bp across the AA-rated portion of FFELP student loan ABS. 	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	 In the week ahead, ten deals are pre-marketing for a total of \$5.67 bn and two issuers that have filed 15G forms. 	
	 CRTs It was all about new issues as three deals came to market during the week ended October 16. First was a STACR deal which was 5x oversubscribed and bonds traded up on the break 1 to 4+ points. The other two new issues were mortgage insurer CRT deals from Radian and Genworth, sized at \$350+mn and each more than 5x oversubscribed. The new issue trend is expected to continue in coming weeks, and supply seems to be easily absorbed, highlighting the amount of cash on the sidelines. The secondary market was fairly quiet with most participants focusing on new issue. Short, seasoned IG cash flows and newly issued B1s continued to be well bid but are meeting limited supply. Spreads were tighter by 25 to 50 bps on the week. Liquidity remains robust in all subsectors within CRTs. 	
	 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 Spreads continued to drift wider during the week ended October 16. This secondary market widening is slowly leaking into primary market execution. AAA-rated primary market spreads are currently between 132-137bp. The bottom part of the capital stack (BB-rated) seem to have settled at a spread of 760 bp and a two-point original issue discount. Liquidity remains good in the CLO market with dealer positioning looking lighter than normal. Bid/ask spreads remain at or around to pre-crisis levels but may come under pressure amid the current supply dynamics. 	
	 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. 	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
Money Market	 Government money market funds saw outflows of 	
	\$5bn in the 7 days ended October 16. Prime funds	
	saw outflows of \$6bn over the same period.	
	• The T-bill curve was unchanged week over week.	
	Repo has been trading at the top end of its range.	
	• 1-month LIBOR set at 0.143% and 3-month LIBOR set	
	at 0.21%. SOFR set at 0.09%. The CP spread to T-	
	Bills remains around 10 bp.	
US Municipals	• During the week ending October 16, benchmark	
	municipal bond yields widened 1 bp in 2-year	
	maturities and fell 1 bp in 5-30yr maturities,	
	underperforming the decline in US Treasury yields	
	across the curve.	
	 Lipper reported inflows of \$741mn (as of Oct 14) 	
	bringing YTD inflows to \$24.4bn	
	 While light activity in the secondary market 	
	continues, market tone improved within the tax-	
	•	
	exempt space for the week.	
	The odd lot penalty declined compared to the	
	previous week, with discounts to round lot bid side	
	evaluations averaging around 1.25 points.	
	The spread between taxable municipals and similar	
	corporates has widened in the post-virus era. Over	
	the past two weeks, AA-rated corporate spreads	
	have tightened 9bp in 10-20year maturities, while	
	AA-rated taxable muni spreads widened 10bp for 10-	
	year maturities and were unchanged for 20-year.	
	 In terms of the primary market, despite elevated 	
	supply, new issue transactions were well received	
	and digested across sector and structure.	
Canadian	Federal	Federal: bid/ask typically
Market	• Liquidity is best in benchmark issues for block sizes	+0.5 bp but for the long
	of <=CAD25 million; liquidity has improved in off-	end of the curve, it can
	the-run, high coupon bonds with Bank of Canada	be more depending on
	(BOC) bond buying. Comments by central bank	volatility (risk off
	Governor Macklem that the BOC will buy at least \$5	markets) and size
	billion of Canadian government bonds per week	outstanding. Off the run
	until the recovery is well underway should continue	Canadas can have a wide
	to support market liquidity. The fact that the BOC	bid-ask given small
	will buy more bonds at the long end of the curve	outstanding size in these
	should support liquidity at the 30-year part of the	securities.
		securities.
	yield curve.	
	The BOC has purchased C\$147 billion to support	
	liquidity in Government of Canada markets since the	
	purchase program started on March 27 through	
	October 14.	
	Durationial	
	Provincial	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	Liquidity is best in benchmark bonds from Quebec,	Provincial: concession of
	Ontario and British Columbia.	+1 bp and more on size >
	Depending on market tone, concessions may be	CAD 25 million,
	requested in order for dealers to take less-liquid	particularly at the longer
	positions.	end. In risk-off markets,
	• Most dealers will not bid aggressively on off-the-run,	liquidity is drying up and
	high coupon provincial issues, they will do agency	spreads can widen
	trades, even with the Bank of Canada's buying	depending on market
	program of provincial debt.	tone.
	• The BOC has purchased C\$9.9bn in par value year to	
	date through October 14 within their provincial	
	buying program to support liquidity, but BOC	
	participation has been relatively light in this sector in	
	recent weeks.	
	IG Corrector	
	IG Corporates	
	Limited liquidity, particularly during risk-off trading days can impact pricing: many dealers are	
	days can impact pricing; many dealers are	
	maintaining low balance sheet inventories, so will	PPP corporator are
	not provide bids in many sectors.	BBB- corporates are
	Trading on an agency basis for high-beta issuers. The manual has improved in sectors such as hards and	trading by appointment,
	market has improved in sectors such as banks and	particularly in the energy
	telecom companies.	sector. Inventories are
	The Bank of Canada's buying program (focused on	reduced and dealers are
	securities of 5-years or less) should support liquidity	not looking to increase
	for corporate bonds rated BBB and higher.	their BBB- exposure.
	However, the central bank has bought a relatively	Dealers estimate bid/ask
	small amount of corporate securities to date (C\$160	could be as high as +20
	million par), indicating the impact is limited. The	to +25bp on BBB
	central bank has purchased only a small amount of	Dealers may refuse to
	additional bonds in recent weeks (as of October 14).	bid in a risk off market
	BBB- bonds are trading by appointment unless there	with gaps in spreads.
	is a new issue.	
	It should be noted that corporate traders will be prossured not to increase their inventories as bank	
	pressured not to increase their inventories as bank	Drovincial DDDs tradius
	fiscal year end of October 31 approaches, reducing	Provincial RRBs trading
	liquidity. Volatility around the November 3 US	by appointment only.
	election could also lead to dislocations in liquidity.	Dealers do not hold these securities on their
	Real Return Bonds (RRBs)	balance sheet.
	 The C\$400 million RRB auction of the long Canada 	
	0.5% Dec. 2050 on September 2 provided liquidity in	
	the benchmark RRB bond for a limited period in the	
	benchmark RRB bond.	
	 The next auction will be held on December 2. The 	
	 The flext auction will be field on December 2. The program to purchase Government of Canada 	
	securities in the secondary market – the	
	Government Bond Purchase Program or GBPP –	
F	should help liquidity since it includes RRBs. The Professional use only. Not for inspection by, distribution or quotation to,	the general public

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	program began on May 27. The BOC bought a total	
	of C\$700mn with C\$100mn per line of the 7 Canada	
	RRBs from 2021 to 2047. Even with the central bank	
	buying net C\$400mn of Canada RRBs, liquidity	
	remains challenging as dealers hold very limited	
	inventories, if any, of these RRB securities. Trading a	
	block can only be done on an appointment basis.	

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