ALLIANCEBERNSTEIN®

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 |
|---|---|---|
| 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.<br>• Key factors moving markets during the week included:<br>    • Rising covid-19 cases in Europe, resulting in government-imposed curfews<br>    • Dimmed prospects for fiscal stimulus, and stimulus-related supply, in the US with 2 weeks until the election. This also pushed breakevens lower.<br>    • Lingering Brexit uncertainty<br>• 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<br>• Federal Reserve bond purchases stand at $80 bn US Treasuries and $60 bn MBS per month.<br>• 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 meaningful trading volume.<br>• Depth in the Treasury market—defined as the sum of the three bids and offers by queue position, using the top 3 bids and offers in 10-year Treasury notes, averaged between 8:30 and 10:30am daily | Bid-offer spreads for on-the-run US Treasuries has improved significantly and are in line with pre-crisis conditions.<br><br>Off-the-run Treasury bond bid/ask spreads are nearly back to pre-covid-19 levels.<br><br>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.<br>• 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 Grade (IG) Corporates | **US IG**<br>• US IG cash bond spreads tightened 1 bp overall week-over-week during the week ended October 16, with the market softening at the beginning of the week on the back of negative covid-19 and stimulus headlines but rebounding with the macro tone in the second half.<br>• In primary markets, there was little supply during 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.<br>• 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.<br>• 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.<br>• Bid/ask spreads remain wider than pre-crisis levels.<br><br>**European IG**<br>• Despite the macro tone, the technical picture 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 | US IG spreads are generically 1-1.5x wider vs normal market conditions<br><br>AT1/Preferreds are 1-1.5x wider vs normal market conditions |

| Sector | Liquidity Trading Comment | Bid-Ask Spreads |
|---|---|---|
| | performance was lackluster, these new deals managed to recover as the tone improved.<br><br>**REIT Preferreds**<br>• 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.<br>• 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.<br>• Trading volume is trending low since valuations continue to recover. | |
| High Yield (HY) Corporates | **US HY**<br>• The US high yield market remained better bid during the week ended October 16, but secondary market trading was quiet ahead of the US general election.<br>• New issue activity slowed, with $5.05bn of pricing across 9 deals. This compares to the 2020 weekly average of $10.3bn. New issues during the week were multiple times oversubscribed (1.5-8x) indicating investor cash balances continue to be healthy. "Crossover" buying from insurance and euro-based investors led to large book sizes and oversubscriptions in deals from Rolls-Royce (7.2x and $7.2bn) and Can-pack (8x and $3.2bn). The new issue market is expected to remain active in the week to come (5-10bn expected).<br>• The HY index moved 2 bp wider to 472 bp after 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.<br>• The CCC-BB spread was 1 bp wider to 535 bp. This compares to April 6 wide levels of 1139 bp and pre-covid-19 tight levels of 613 bps on February 13.<br><br>**Euro HY**<br>• During the week ended October 16, it was all about new issues in the Euro HY market.<br>• The primary market was strong with most deals pricing at the tight end of initial price guidance and trading up on average 1 point. | Bid/ask spreads vary by issuer but generically:<br><br>BB-rated securities: 1 point, which is in line with normal market conditions<br><br>B-rated securities: 1 point, which is in line with normal market conditions<br><br>CCC-rated and below: 1.5points which is in line with normal market conditions<br><br>CDX HY bid/ask is 1-2x vs normal conditions. |

| Sector | Liquidity Trading Comment | Bid-Ask Spreads |
|---|---|---|
| | • The Euro HY market continues to outperform amid macro volatility given supportive underlying technical.<br>• Liquidity is still challenged due to minimal overall flow in the market, but the technical picture remains supportive.<br><br>**CDX HY**<br>• CDX HY traded weaker along with the broader market during the week ended October 16, and underperformed cash bonds.<br>• Trading volumes trended down after the roll period. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels. | |
| Emerging-Market Debt (EMD) | **Hard Currency EM**<br>• 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 action was driven by dealers and more opportunistic or "fast money" investors.<br>• Thematically, the HY-IG spread differential widened another 20 bp, driven by the lack of marginal buying of HY sovereign risk and demand for Latin American and Middle East investment grade bonds.<br>• 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 sold off 4-7 points on the week after several underwhelming IMF investor calls.<br><br>**Local Currency EM**<br>• Liquidity is close to normal. | EM IG sovereigns are 1.25-1.5x wider vs normal market conditions<br><br>EM HY sovereigns are 1.25-1.5x wider vs normal market conditions<br><br>EM IG corporates are 1.25-1.5x wider vs normal market conditions<br><br>EM HY corporates are 1.25-1.5x wider vs normal market conditions |
| Asia | **Asia Hard Currency**<br>• Asia hard currency credit spreads widened 2bp during the week ending October 16.<br>• 25 issuers raised a total of USD 16.5bn, which marked the second busiest week of the year for primary market issuance<br>• Despite the heavy supply, liquidity was normal, and dealers had ample balance sheet to accommodate two-way flows.<br><br>**Asia Local Currency**<br>• Asia local currency markets were relatively sideways, and liquidity was generally favorable | Asia IG credit is ~1 to 1.5x wider vs. normal market conditions<br><br>Asia HY credit is ~1.5 to 2x wider vs. normal market conditions<br><br>Asia local currency debt is ~1 to 1.5x wider vs. normal market conditions |

| Sector | Liquidity Trading Comment | Bid-Ask Spreads |
|---|---|---|
| | • 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.<br>• 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. | |
| Securitized | **CMBS**<br>• 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.<br>• Both spreads and liquidity conditions were little changed week over week.<br>• 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.<br>• 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, BBB-.6, and BB.6 at approximately 2x their historical averages.<br><br>**ABS**<br>• 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.<br>• 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.<br><br>**CRTs**<br>• 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.<br>• 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.<br>• Liquidity remains robust in all subsectors within CRTs.<br><br>**Legacy Non-Agency RMBS**<br>• 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.<br><br>**CLOs**<br>• 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.<br>• 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.<br><br>**Agency MBS**<br>• 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.<br>• The T-bill curve was unchanged week over week. Repo has been trading at the top end of its range.<br>• 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.<br>• Lipper reported inflows of \$741mn (as of Oct 14) bringing YTD inflows to \$24.4bn<br>• While light activity in the secondary market continues, market tone improved within the tax-exempt space for the week.<br>• The odd lot penalty declined compared to the previous week, with discounts to round lot bid side evaluations averaging around 1.25 points.<br>• 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.<br>• In terms of the primary market, despite elevated supply, new issue transactions were well received and digested across sector and structure. | |
| Canadian Market | **Federal**<br>• 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 \$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.<br>• 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.<br><br>**Provincial** | Federal: bid/ask typically +0.5 bp 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. |

| Sector | Liquidity Trading Comment | Bid-Ask Spreads |
|---|---|---|
| | • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia.<br>• Depending on market tone, concessions may be requested in order for dealers to take less-liquid positions.<br>• 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.<br>• 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. | 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. |
| | **IG Corporates**<br>• Limited liquidity, particularly during risk-off trading days can impact pricing; many dealers are maintaining low balance sheet inventories, so will not provide bids in many sectors.<br>• Trading on an agency basis for high-beta issuers. The market has improved in sectors such as banks and telecom companies.<br>• 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$160 million par), indicating the impact is limited. The central bank has purchased only a small amount of additional bonds in recent weeks (as of October 14). BBB- bonds are trading by appointment unless there is a new issue.<br>• It should be noted that corporate traders will be pressured not to increase their inventories as bank fiscal year end of October 31 approaches, reducing liquidity. Volatility around the November 3 US election could also lead to dislocations in 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. Dealers estimate bid/ask could be as high as +20 to +25bp on BBB-. Dealers may refuse to bid in a risk off market with gaps in spreads.<br><br>Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet. |
| | **Real Return Bonds (RRBs)**<br>• 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.<br>• The next auction will be held on December 2. 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 | |

| 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. | |

S.à r.l. is the management company of the portfolio and has appointed ABSL as its agent for service of process and as its Singapore representative. This document has not been reviewed by the Monetary Authority of Singapore.

**Note to Readers in Vietnam, the Philippines, Brunei, Thailand, Indonesia, China, Taiwan and India**: This document is provided solely for the informational purposes of institutional investors and is not investment advice, nor is it intended to be an offer or solicitation, and does not pertain to the specific investment objectives, financial situation or particular needs of any person to whom it is sent. This document is not an advertisement and is not intended for public use or additional distribution. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in any of the above countries.

**Note to Readers in Malaysia:** Nothing in this document should be construed as an invitation or offer to subscribe to or purchase any securities, nor is it an offering of fund management services, advice, analysis or a report concerning securities. AllianceBernstein is not licensed to, and does not purport to, conduct any business or offer any services in Malaysia. Without prejudice to the generality of the foregoing, AllianceBernstein does not hold a capital markets services license under the Capital Markets & Services Act 2007 of Malaysia, and does not, nor does it purport to, deal in securities, trade in futures contracts, manage funds, offer corporate finance or investment advice, or provide financial planning services in Malaysia.

**Note to UK Readers**: For Investment Professional use only. Not for distribution to individual investors.