June 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 18 June 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	• Following the FOMC meeting during the week ended June 18, we saw heavy volumes in both nominal and TIPS markets. • There were a number of high level drivers contributing to the bull flattening move over the second half of the week. These included the Fed that was more hawkish than expected, market participants who got ahead of the curve before the meeting, and investors looking to reduce/ exit the runaway inflation, bear-steepening risk. Additionally, James Bullard's (St. Louis Fed President) interview on Friday was perceived to be very hawkish as his forecasts called for a 2022 hike. • Macro 5s30s steepener trades were very crowded heading into the FOMC meeting. There are still some legacy macro steepeners left even as market participants look to exit them. • Demand for long end bonds is coming from pension plans that are almost 100% funded, underweight long end duration and looking to put cash to work. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved meaningfully from the challenges seen in February 2021. • Observable bid-offer spreads are in line with historical averages in on-the-run bonds. Transaction costs in off-the-run bonds are wider but have improved meaningfully since late February. TIPS bid offer spreads widened out 2 ticks last week vs. normal levels. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • Despite the macro volatility, US IG market was firm during the week ended June 18, and the index once again set new post-covid tights of 81 bp on Wednesday, a level not reached since March 2005. • Supply was in line with expectations of $20-25 billion as approximately $23 billion priced throughout the week. Similar to last week, the technicals in the market remain supportive but	Bid/ask conditions in the IG market are back to normal

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	momentum has slowed as demand for new issues is not as robust as a few weeks ago. • The market held in well following the FOMC meeting on Wednesday, but we did begin to see real money selling out the curve in the latter half of the week as we saw weakness in equities along with the treasury curve bull flattening. • At the beginning of the week, flows out of Asia were muted but following the FOMC meeting, we saw net buying in the long end in the latter half of the week. • The positive momentum on flows accelerated again with $3.99 billion in inflows during the week. • In the week ahead, supply is expected to be in the range of $15-20 billion. Expectations for supply in the month of June are $100 billion, in line with the 5-year average. **Euro IG** • Euro and GBP IG creased spreads were unchanged to 1 bp wider during the week ended June 18. • Flows were slightly skewed towards better buyers early in the week but switched to better sellers after Wednesday. Longer dated bonds underperformed causing some reversal of the curve flattening we've seen in recent weeks. • S&P revised the outlook on PVH's BBB- rating from Negative to Stable. Their € bonds ended the week 5-10 bp tighter. • Supply remained relatively heavy during week at approximately €17 billion and £2.5 billion. Book coverage remained relatively low, with most deals between 1x and 4x oversubscribed. However, new issue premiums also remained low. Performance was mixed ending the week in the range of -8 to +4bp. • We continue to see the compression theme play out with higher beta / spread deals performing well. **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.	
High Yield (HY) Corporates	**US HY** • The US high yield market was uneventful once again during the week ended June 18. • The primary market remained active with another $9.5 billion pricing across 15 deals. New issues continue to face the same positive demand technicals we have seen all year. • US HY market spreads were 4 bp tighter week-over-week to 286 bp. The CCC-BB spread difference was 6 bp tighter to 270 bp. **Euro HY**	Bid/ask spreads vary by issuer but generically: BB-rated securities: 0.75 point, which is in line with normal market conditions

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	• In the week ended June 18, the volumes were subdued in the secondary market as the primary market again remained active. We expect another busy week next week (6+ deals) before it begins to quiet down for the summer into July. Secondary markets traded lower for the first time in weeks post the FOMC meeting and rate volatility. However, both actual price action and volumes around the macro volatility were decidedly low. • Liquidity conditions remained normal in terms of bid/offer spreads. • The primary pricing was at the tight end of ranges and broadly trading sideways. Technicals seem to be slowly be softening given the amount of new issue. **CDX HY** • CDX HY traded weaker along with macro tone during the week ended June 18. Hedges came off ahead of the FOMC meeting which pushed CDX HY close to YTD highs. However, the hawkish Fed put pressure on CDX along with macro products, leading to the underperformance vs. cash bonds. • Trading volumes picked up amidst volatility and option expiry. • Bid/ask spreads have declined to pre-crisis levels.	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.
Emerging Market Debt (EMD)	**Hard Currency EM** • EM credit held firm all week with spreads optically widening 8 bp with the rally in core rates. This week was all about the Fed and core rate volatility but the strong technical backdrop in the EM credit market was consistent throughout. Wednesday volumes were miniscule after the Fed's meeting. • Flows remained robust during the week. This coupled with continued demand in the primary market corroborates our view of high cash levels and investors being marginally under-risked. Furthermore, by Thursday afternoon, the generally disengaged real money community began to take some interest in the 30-year LATAM IG market which was ~6-10 bp wider at one point before closing the day closer to unchanged in spread terms. • El Salvador continued to underperform, trading down 3-4 points with more pessimism surrounding a potential IMF plan. **Local Currency EM** The local EM rates market mostly tracked US Treasuries. Liquidity remains adequate but volatility is to be expected.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • Asia credit spreads tightened 9 bp as the US Treasury yield curve bear flattened with the short-end selling off as much as 16 bp on the week; Asia credit index had a flat week in terms of total return. • Supply was relatively muted as only USD 2.1 billion worth of bonds were issued, owing to the public holiday on Monday as well as the FOMC decision on Wednesday.	Liquidity conditions are normal for Asia credit Liquidity conditions are

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Despite the hawkish FOMC outcome and rates volatility, Asia credit traded firm; spreads rallied as investors put cash to work with a major risk event out of the way.
USD bonds issued by Evergrande, a major property developer in China and one of the largest borrowers in Asia HY, recovered about 2-2.5 points from the recent plunge as selling pressure abated. Elsewhere, China HY property space was weaker as idiosyncratic credit situations continued to play out.

Asia Local Currency

Asia local currency bonds traded generally weaker with a flattening bias following the selloff in US real yields post the FOMC meeting.
Australia and New Zealand rates sold off by 4-18 bp as economic releases in both countries (employment report in Australia and 1Q GDP growth in New Zealand) surprised significantly to the upside.
Indonesian government bonds sold off as much 20 bp after the FOMC as USD strengthened and sentiment towards the EM local assets soured given the higher US real yields.

</td><td>normal for Asia local currency debt</td></tr>
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CMBS

Although secondary trading volume increased during the week ended June 18, price action appeared to be driven mostly by new issue. AAA rated bonds were unchanged, while the belly of the stack rallied 1-3 bp. BBB rated tranches were modestly wider by 2-3 bp. With one to two new issues pricing per week, supply remains regular but is easily digested by investors. The junior AAA to single A classes continue to be preferred. Those classes are multiple times oversubscribed and pricing through initial guidance. Liquidity conditions remain unchanged. Bid/offer spreads in AAA to A rated tranches have retraced their post-COVID widening, while BBB rated classes remain 2x the historical average.
CMBX performance was mixed. Except for newer vintages outperforming seasoned vintages, there was no consistent theme to last week's price action. The rally in CMBX series 6 BBB- reversed course on less robust trading volume then we've seen the past few weeks. Bid/offer spreads in CMBX series 6 have, at least temporarily, retraced their post-COVID widening.

ABS

The ABS primary market priced nine transactions for the week ended June 18 totaling $6.1 million across solar, franchise, equipment, private credit student loan, auto lease and prime auto loans sector. ABS year-to-date supply now stands at $118.2 billion compared to $77.2 billion recorded in 2020 over the same period.
ABS sector continued to receive strong execution in the primary market as evidenced from upsizing and final spreads printing through their initial guidance. Notably, Santander Consumer raised $1.7 billion in the ABS market this past week, through its auto lease

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	SRT 2021-B transaction, the largest deal size off the platform since it launched in 2017. • On the forward calendar, $5.7 billion across seven ABS transactions is currently in pre-marketing and scheduled for the week of June 18th, to include a $2.2 billion HERTZ transaction 3-year and 5-year, AAA to BB rated capital structure, it's first transaction since the courts have confirmed the company's reorganizational plan. • Indicative benchmark spreads were unchanged on the week and remained at/near cyclical tights for consumer and esoteric ABS. **CRTs** • During the week ended June 18, Last Cash Flow Bonds were unchanged. B2 was where we saw the healthiest performance. Volume curtailed after the Fed's meeting as the market took a breather to figure out the impact the rate move would have on speeds. Approximately $860 million traded in the secondary market. • Essent, an mortgage insurer issuer came out with its first deal of the year. While they were not able to attain the levels Arch did the prior week, they still priced at relatively tight levels. • Secondary market liquidity is robust and bid/ask spreads remain tight, around pre-covid levels. **Legacy Non-Agency RMBS** • Legacy RMBS continue to trade well. After having widened to the 1000-1200 bp range in March 2020, spreads are currently trading inside 200 bp discount margin. **CLOs** • The new issue market remained the focus of the CLO market during the week ended June 18. A good balance between supply and demand exists with investors continuing to be attracted to the relative value CLO offers. • Generic primary market clearing levels on the week stood roughly at 112-114 bp for AAA-rated spreads; AA-rated spreads at around 165 bp; A-rated at 195-200 bp; BBB-rated at 300-305 bp; and BB widening to 625-675 bp with top tier managers pricing at par and lower quality managers needing OID (original issue discount) to print deals. • 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 well supported, given the Fed purchases of $40bn per month. Current coupon bonds are trading at 0.5-1 tick wide and the rest of the coupon stack is wider by 2-2.5 ticks.	

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Money Market	• The Fed made a 5 bp tweak to administered rates at Wednesday's FOMC meeting. The Fed RRP (reverse repurchase) facility is now set to 0.05%. The IOER (interest on excess reserves) rate is now set to 0.15%. It is important to note that although this tweak helps money market fund yields, there is still a supply/demand imbalance in the front-end. • Usage of the Fed Reverse Repo facility (RRP) hit another record high of $756 billion. • 1-month LIBOR set at 0.096%; 3-month LIBOR set at 0.138%, a new record low. • SOFR set at 0.05%. The Effective Federal Funds Rate set at 0.10%. • Government money market funds had $46 billion in outflows in the week ended June 18. Prime funds had $12billion of outflows over the same period.	
US Municipals	• In the week ended June 18, high grade benchmark trailed the rates move wider initially, but as the long end treasuries performed, munis continued to trade off. • On the week, municipal bonds in the 10 year and 30 year widened by 6-8 bp. In the front end, municipal bonds outperformed rates in most spots and we were 6-10 bp wider. • We saw the previously strong technical in high grades weaken somewhat, as high-quality new issues had some trouble getting done at talk and needed to widen. However, none priced significantly wider than that days' move. In contrast, high yield muni new issues continue to have strong demand with heavy oversubscriptions and performing well on the break. • Odd lot haircuts were slightly larger than they've been due to some hesitance on behalf of dealers in providing liquidity given the volatility.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. Bank of Canada is '' buying at least $3 billion of Canadian government bonds a week until the recovery is well underway .'' It should continue to support market liquidity. "Purchases of longer-maturity bonds have a greater impact, dollar-for-dollar spent, by removing more term risk from markets and putting downward pressure on term premiums. Lower term premiums imply lower GoC bond yields, all other things equal." • Looking at the latest BOC balance sheet we can see that the central bank continued to support liquidity in Canadian markets (as of June 16th). • The Government Bond Purchase Program (GBPP) has resulted so far in $251.4 in net buying (assets minus liabilities minus position at the start of the QE in March 2020). • Market participants will be watching economic data and statements from BOC officials to gauge whether or not the BOC will continue to reduce its QE in coming quarters.	Federal: bid/ask was at 5 cents in the 10-year area, but for the long end of the curve, it remains relatively wider at up to 15 cents given the recent higher volatility. Off the run, high coupon Canadas were reported to have limited liquidity in volatile periods with much wider bid-ask given

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	• According to the latest BOC research, Federal debt is the most liquid sector within the Canadian fixed income markets. **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 but will favor agency trades. • The Bank of Canada's Provincial Bond Purchase Program (PBPP) has ended. Therefore, the central bank does not provide a back stop to the provincial sector anymore. **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 some sectors. • Trading on an agency basis for high-beta issuers. • The Bank of Canada had a $10bn buying program (focused on securities of 5-years or less) to support liquidity for corporate bonds rated BBB and higher. As expected, the BOC has end this Corporate Bond Purchase Program (CBPP) on May 25, 2021. **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. • In the aftermath of the federal budget there were indications that Canada will issue only C$1 billion in RRBs in the current fiscal year with four actions. This will result in net negative supply (BOC buying program plus maturities less new supply). The last $400m RRB auction in the RRB Canada 2054 bond reflected the net negative supply with a $316m buyback RRB program and estimated $800m + in coupon payments on June 1. • Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	small outstanding size in these securities. For example – the latest ultra- long Canada 2064 bid-ask is at 25 cents reflecting its liquidity issues given this is not a benchmark. Provincial: concession reported to be above average 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. 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

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		securities on their balance sheet. Bid-ask is not a reliable indicator for trading.

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