



**Market Update –Fixed Income Trading Liquidity
For the Week Ended 21 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	<ul style="list-style-type: none"> Global developed market bond investors bought the dip in bonds in the week ended August 21 as the supply induced selloff from the prior week reversed. US Treasury bonds rallied with the 10-year yield declining 8 b.p. to 0.683%; curves flattened by that same 8 b.p. figure with the 5s30s curve ending the week at 107.4 b.p. steep. The main event in the week was the release of the FOMC minutes on August 19th. The minutes provided investors with little new information in terms of the FOMC’s thinking on forward guidance or the policy framework. The market was disappointed in this outcome of the minutes. However, the damage was contained to August 19th when consensus/crowded trades were paired back, resulting in a drop in inflation breakeven levels, curve steepening, and a selloff in equities. There were no meaningful changes on the liquidity front from the prior week. 	<p>Bid-offer spreads for on-the-run US Treasuries has improved significantly and are in line with pre-crisis conditions.</p> <p>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.</p> <p>TIPs bid/ask is 1.5x wider vs pre-crisis levels</p>
Investment Grade (IG) Corporates	<p style="text-align: center;">US IG</p> <ul style="list-style-type: none"> US IG cash bonds traded slightly weaker during the week ended August 21. The index widened 3 b.p. as heavy supply weighed on the secondary market. The Fed’s weekly report showed that the Fed purchased \$67 million for its secondary market purchase program (SMCCF) between August 12th and August 19th. This was slightly higher than the prior week’s pace, but still insignificant to the market. 	<p>US IG spreads are generically 2x wider vs normal market conditions</p> <p>AT1/Preferreds are 2-3x wider vs normal market conditions</p>

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	<ul style="list-style-type: none"> • The primary market remained active with \$40 billion in IG supply. Demand for IG credit continues with new issue concessions minimal and deals multiple times oversubscribed. We continued to see more REIT supply which were absorbed well, indicating there is still a demand for covid-centric credits despite the recent tightening. • Bid/ask spreads remain wider than pre-crisis levels. <p style="text-align: center;">European IG</p> <ul style="list-style-type: none"> • Secondary volumes remained very light with many market participants on vacation. The market also saw an absence of primary supply. Anecdotal comments suggest that given the success in the USD new issue markets a few mandates were re-routed to the USD market. • 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. <p style="text-align: center;">REIT Preferreds</p> <ul style="list-style-type: none"> • 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	<p style="text-align: center;">US HY</p> <ul style="list-style-type: none"> • The US HY market started to feel like summer in the week ended August 21, with muted trade volumes, market participants out on vacation, and a slowdown in the new issue market. • The indigestion of new issues from the prior week abated as the new issue market has slowed down and is expected to remain relatively quiet through the Labor Day holiday. • \$8.375 billion priced in the new issue market across 14 deals. While these volumes remain elevated for August, this is a material step down from ~20 billion that had priced during the previous 2 weeks 	<p>Spreads are 0.75-1.25 point wider than normal times for BB-rated securities</p> <p>Spreads are 1-1.5 points wider than normal times for B-rated securities</p> <p>Spreads are 1.5-2.5 points wider than normal times for CCC-rated and below securities</p>

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	<ul style="list-style-type: none"> • The technicals in the new issue market remained strong with books well oversubscribed and pricing on the tight end of expectations. • The index spread was 4 b.p. wider on the week, to 502 b.p. This compares to March 23 wide levels of 1100 b.p. and pre-covid-19 tight levels of 341 b.p. on Feb 13. Last week's closing levels are also wider than recent tights set on August 5th of 472 b.p. <p style="text-align: center;">CDX HY</p> <ul style="list-style-type: none"> • CDX HY traded higher along with stocks and outperformed CDX IG during the week ended August 21. • 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. 	<p>CDX HY bid/ask is 1-2x vs normal conditions.</p>
Emerging-Market Debt (EMD)	<p style="text-align: center;">Hard Currency EM</p> <ul style="list-style-type: none"> • The week ended August 21 was listless in EM credit. Index spreads widened ~10 b.p to close at ~420 b.p. with the beta compression trade taking a pause after the prior week's massive outperformance of HY vs. IG. • Overall, volumes were substantially below average, leaving street flows as the main driver of repricing. • Turkish assets had a volatile week, with CDS widening 15 b.p. following the central bank's decision to leave rates on hold and its delivery of a marginally hawkish guidance. While the rate decision was widely expected, the expectation was for a significantly more hawkish guidance, which would help arrest the bleeding in gross reserves. <p style="text-align: center;">Local Currency EM</p> <ul style="list-style-type: none"> • Liquidity is close to normal. 	<p>EM IG sovereigns are 1.5x wider vs normal market conditions</p> <p>EM HY sovereigns are 2x wider vs normal market conditions</p> <p>EM IG corporates are 2x wider vs normal market conditions</p> <p>EM HY corporates are 3x wider vs normal market conditions</p>
Asia	<p style="text-align: center;">Asia Hard Currency</p> <ul style="list-style-type: none"> • Asia hard currency credit widened by 5 b.p. in the week ended August 21 as investors took profits and trimmed risk after the recent bull rally. • Primary pipeline remained active with 13 issuers tapping the market for \$6.9 billion, as a number of companies took advantage of record low funding costs. • Liquidity was normal and dealer balance sheets had ample room to absorb profit taking flows. 	<p>Asia IG credit is ~1 to 1.2x wider vs. normal market conditions</p> <p>Asia HY credit is ~1 to 1.5x wider vs. normal market conditions</p> <p>Asia local currency debt is ~1 to 1.2x wider vs.</p>

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	<p style="text-align: center;">Asia Local Currency</p> <ul style="list-style-type: none"> • The liquidity in the Asia local currency debt mostly functioned as normal during the week ended August 21. • In India, hawkish minutes from the central bank's August Monetary Policy Committee (MPC) meeting triggered a sharp selloff in government bonds. The yields across the curve increased by 15-20 b.p on August 21, a rout exacerbated by poor auction results. • In Korea, the third wave outbreak of the COVID-19 stoked fears of damage to the still nascent economic recovery, but rates were largely unchanged as the market grew wary of additional supply from the probable fourth supplementary budget. 	normal market conditions
Securitized	<p style="text-align: center;">CMBS</p> <ul style="list-style-type: none"> • The market saw two new issues price during the week ended August 21. While one deal was well oversubscribed, the other needed some help to cross the finish line. WFCM 2020-C57, a \$477 million deal brought to market by Wells Fargo, priced mostly wider than initial guidance. DBJPM 2020-C9, brought by Deutsche Bank, Goldman Sachs, and JP Morgan, priced tighter than initial guidance throughout the capital structure. The technical backdrop remains positive, as there is no substantial supply on the horizon. • 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. <p style="text-align: center;">ABS</p> <ul style="list-style-type: none"> • The ABS primary market priced five transactions for the week ended August 21, totaling \$2.1 million across servicer advance, containers, unsecured consumer loan, FFELP student loan (Federal Family Education Loan Program) and prime auto loan sectors. ABS year-to-date supply now stands at \$111.2 billion compared to \$150.7 billion recorded in 2019 over the same time period. Pricing execution remains strong as most bonds continue to price 	

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	<p>through initial spread guidance and see solid over-subscription levels.</p> <ul style="list-style-type: none"> • Good flow and low dealer inventory continue to support the secondary market. Benchmark indicative spreads were tighter during the week: 5 b.p.-10 b.p. in student loan ABS, 2 b.p. in the fixed card ABS and unchanged to 30 b.p. tighter in auto loan and equipment ABS. • The TALF subscription date this week, which fell on August 19, did not see any loan requests for ABS (only \$383 million across CMBS and SBA, or Small Business Administration). To date, a total of \$360 million of TALF loans for premium finance and student loan ABS have settled. AAA ABS spreads are now lower than TALF funding costs. <p style="text-align: center;">CRTs</p> <ul style="list-style-type: none"> • After underperformance of the broader risk markets in July, CRT spreads continued to tighten modestly in the week ended August 21. 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 by 5-10 b.p. in August. <p style="text-align: center;">Legacy Non-Agency RMBS</p> <ul style="list-style-type: none"> • 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. <p style="text-align: center;">CLOs</p> <ul style="list-style-type: none"> • 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. <p style="text-align: center;">Agency MBS</p> <ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • There were no liquidity issues of note in the repo markets for the week ended August 21. • SOFR traded slightly tighter at 0.07% due to increased cash entering the repo market. • Government money market funds saw outflows of \$16 billion in the 7 days ending August 21. Prime funds saw outflows of \$3 billion in the same time period. • The commercial paper spread to T-bills is still tight at approximately 0.10%-. • 1-month LIBOR set at 0.17% and 3-month LIBOR set at 0.23%. 	
US Municipals	<ul style="list-style-type: none"> • The municipal market underperformed Treasuries in the week ended August 21. Technicals are still supported by high cash balances. However, with low levels of all in yields, the market took a breather and several high-quality new issues had to cheapen in order to get absorbed by the market. In the higher yielding space, the opposite was true with new issues more than 20 times oversubscribed. • Odd lot penalties increased this week with the waning in high quality demand as we head into a heavy new issue calendar period. 	
Canadian Market	<p style="text-align: center;">Federal</p> <ul style="list-style-type: none"> • 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. • BOC has bought \$111.6 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through August 19th. <p style="text-align: center;">Provincial</p> <ul style="list-style-type: none"> • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia. • Concessions are requested so dealers will take less-liquid positions. 	<p>Federal: bid/ask typically +1 b.p. 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 12 b.p. bid-ask given small outstanding size in these securities.</p> <p>Provincial: concession of +1 b.p. and more on size > CAD 25 million,</p>

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	<ul style="list-style-type: none"> • 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\$7.2 in par value year to date through August 19th within their provincial buying program to support liquidity. <p style="text-align: center;">IG Corporates</p> <ul style="list-style-type: none"> • 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 central bank has bought a relatively small amount of corporate securities to date (C\$ 130 million par), indicating the impact is limited. The central bank did not buy any security in recent weeks as of August 19th. BBB- bonds are trading by appointment unless there is a new issue. The corporate calendar is relatively light in August, another factor that could be a detriment to corporate market liquidity. <p style="text-align: center;">Real Return Bonds (RRBs)</p> <ul style="list-style-type: none"> • 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. 	<p>particularly at the longer end</p> <p>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</p> <p>Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.</p>

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