AllianceBernstein®

May 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 21 May 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	• During the week ended May 21, global developed market government bonds staged a modest (1-3 bp) bull flattening move. Interest rates were pressured by lower stock prices, lower energy and industrial metals commodities, which also weighed on inflation breakevens. Rate volatility was muted week-over-week. • Interest in inflation as an asset class continued to expand despite the weaker tone in risk assets more broadly and selloff in real yields—5-year real yields have sold off 11 bp from the all-time lows of -1.945%. Despite the interest in inflation measures and flows into inflation products, the depth of liquidity for TIPS has not improved very much. Full bid-offer for liquid on-the-run bonds is 4 ticks wide, in line with historical averages; large block trades are best done on days of Fed purchase operations, indicating that central bank support is still very much needed for liquidity in this market. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved by 80-90% from the worst levels on February 26. Market depth in the 30-year part of the curve has improved 70-80% since February 26. • Observable bid-offer spreads are in line with historical averages in on-the-run bonds. Transaction costs in off-the-run bonds are wider vs historical averages but have improved meaningfully since late February. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month. There has been discussion and debate in the market on whether the Fed may look to taper MBS purchases first given valuations in MBS and in the housing market.	
Investment Grade (IG) Corporates	**US IG** • US IG cash bond market spreads remained resilient during the week ended May 21 despite the macro volatility. The index was unchanged week-over-week but set new post-covid tight levels on Monday of +85 bp, 1 bp tighter from the prior Friday.	Bid/ask conditions in the IG market are back to normal

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<tr><th>Sector</th><th>Liquidity Trading Comment</th><th>Bid-Ask Spreads</th></tr>
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$32 billion in new deals priced during the week, pricing with little concessions. Demand remains strong with deals 3.2x oversubscribed on average. Short maturity bonds remained well bid.
Beta compression remains a theme with less demand and larger concessions for higher-quality new issues pricing during the week vs higher-beta bonds.
Positive momentum on flows continued during the week with a $1.68bn inflow – but has slowed relative to several weeks ago. There was strong buying of longer-maturity bonds from Asia at the start of the week, but slowed in the latter half of the week.
In the week ahead, supply is expected to be $25-30 billion.

Euro IG

Euro IG was 2-4bp wider during the week ended May 21 with flows skewed toward better sellers. GBP IG corporates outperformed EUR IG corporates during the week, with spreads only 0-1 bp wider. The curve steepened with longer-dated bonds underperforming. Real estate was the main underperforming sector during the week following heavy supply
AT&T EUR-denominated bonds ended the week 5-10bp tighter as AT&T and Discovery announced an agreement to combine WarnerMedia with Discovery which was viewed constructively for the credit by the market.
Supply picked up during the week at approximately €16.5 bn and £1.75 bn, with low book coverage between 1x and 3x. New issue premia also crept up, generally between 0-10bp. Performance was mixed – with higher-beta/higher-spread bonds performing better.

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.

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<tr><td>High Yield (HY) Corporates</td><td>
US HY

Within the US high yield market during the week ended May 21, absent broader macro volatility, the secondary market remained relatively quiet as investors focused on the persistent new issue calendar. There continued to be some selling by investors to fund outflows, although this has not moved the market lower, all else equal. There was orderly price action lower on Wednesday (and to a lesser extent Thursday) amid the broader risk-off tone. Sellers largely consisted of hedge funds and ETF arbitrage investors.
New issues of $12.545bn across 18 deals outpaced the $11bn YTD weekly average. Demand for new issues remained healthy with most books 2.5-8 times oversubscribed. Performance was mixed in the secondary market.

</td><td>Bid/ask spreads vary by issuer but generically:

BB-rated securities: 0.75 point, which is in line with normal market conditions

B-rated securities: 1 point, which is in line with</td></tr>
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	• US HY market spreads were 4 bp wider week-over-week to 307 bp. The CCC-BB spread was 3 bp wider ending the week at 284 bp. **Euro HY** • The Euro HY market had a softer tone overall during the week ended May 21, but the secondary market was relatively uneventful despite the new issue calendar beginning to slow as was telegraphed. • Markets were pushed lower but it seemed like more of a buyer strike than material selling pressure. Some pockets of the market—predominantly tighter spread BB-rated bonds—saw real weakness, while higher-spread "reopening trade" issuers continued to see better support. • Overall activity has been muted, underlying technicals are still supportive and the market appears to be trading in line with broader macro markets rather than leading the tone. **CDX HY** • CDX HY tracked the macro tone during the week ended May 21, trading weaker in the first half of the week and reaching the widest spreads since early April, but recovering most of the widening in the second half. • Trading volumes were above 30-day averages amid option expiry on Wednesday. • Bid/ask spreads have declined to pre-crisis levels.	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 was quiet during the week ended May 21, with index spreads unchanged at 334bp. The market continued to seem well bid, especially in EM high yield which outperformed investment-grade by ~7bp • Supply continued to underwhelm which, combined with higher investor cash levels, creates a positive technical. • EM inflows in total were the lowest they've been since March, with hard currency bonds posting an outflow. **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** • Asian primary issuance contracted to 1 bn with only Chinese issuers coming to market and bonds trading underwater in the secondary market by week's end. • Indonesia's sovereign and quasi-sovereign debt had a return of interest from onshore investors after the holiday period and traded 5-10bp tighter. • Huarong continued to drive sentiment in Chinese financials which were weaker.	Liquidity conditions are normal for Asia credit Liquidity conditions are normal for Asia local currency debt

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	• India investment-grade outperformed and was generically tighter by 10-15bp. **Asia Local Currency** • China government bonds continued to receive inflows from foreign investors and traded firm in 7 to 10-year maturities, with yields 3-5bp lower on the week. • Thai bonds suffered a double hit on Wednesday as bonds weakened heading into the 5- and 30-year auctions. This was followed by an announcement for additional borrowing of THB 700bn to FY 2022, which was later reduced to 500bn. Bonds finished 4-5bp higher on the day.	
Securitized	**CMBS** • CMBS spreads continued to grind tighter during the week ended May 21. 10-year AAA-rated bonds tightened 2bp while BBB-rated bonds tightened 10bp. • The technical backdrop remains positive as manageable primary and secondary supply is met with robust demand. • Liquidity conditions remain more than adequate. 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 continues to see technical factors in various series and tranches drive price behavior, rather than fundamentals. Generally, the top of the capital stack fared better than mezzanine classes week over week. Trading volume remains low, yet CMBX bid/offer spreads remain unchanged, with CMBX A.6, BBB-.6, and BB.6 bid/offer spreads approximately 2x their historical averages. **ABS** • The ABS primary market priced thirteen transactions for the week ending May 21 totaling $10.6bn across credit card, device payment, equipment, unsecured consumer, student loans, fleet, leases, prime and non-prime auto loans sectors. ABS year-to-date supply now stands at $99.6bn compared to $61.2bn recorded in 2020 over the same period. • At just under $11bn, the past week's supply is the highest weekly total in over 14 months, with the market digesting it well as evidenced by upsizing and final pricing spreads falling largely through initial guidance range. Benchmark ABS spreads remain at/near cyclical tights and were unchanged on the week. • The forward calendar has six deals totaling $3.2bn currently in pre-marketing. June is expected to see decent issuance and trading for quarter end before the seasonal summer vacation hinders supply. Overall ABS technical are well balanced with healthy liquidity. **CRTs** • The week ended May 21 saw the same themes extend from previous weeks in the CRT market. Levels were flat week over week	

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	with strong investor demand in the sector. Just over $1 billion traded in the secondary market. • There was some weakness in the MI sector for the first time in several weeks with some bonds trading down and dealer balance sheets growing. • No new issues priced during the week. • 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 May 21. Spreads moved tighter in the primary market with the emergence of some higher-quality issuers coming to market. • The CLO secondary market continues to trade well. Any supply, across in the capital stack, is being met with very strong demand. Secondary market spread levels continue to trade inside the primary market clearing levels. • Generic primary market clearing levels on the week stood at 110 bp for AAA-rated spreads; AA-rated spreads at around 155 bp; A-rated at 185 bp; BBB-rated at 280bp; and BB around 595 bp/par. • 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.	
Money Market	• The T-bill curve is trading negative on the offer out to 3-month maturities. 1-month LIBOR set at 0.091%; 3-month LIBOR set at 0.141%, a new record low. • SOFR set at 0.01%. The Effective Federal Funds Rate set at 0.06%. Repo rates were pinned at 0%. • Usage of the Fed Reverse Repo facility (RRP) increased to a recent high of $395bn per day. • Government money market funds had $50bn of inflows in the 7 days ended May 21. Prime funds had $1bn of inflows over the same period.	
US Municipals	• Long-maturity municipal bonds outperformed US treasuries during the week ended May 21. Benchmark municipal yields were 2-3bp tighter in 10-year and longer maturities and were unchanged in shorter maturities.	

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	• Signs of summer technicials are emerging – typically this period sees high levels of cash and lower issuance. • One of the big headlines for the week was Thursday's news that the Illinois supreme court tossed out the case against $14bn of Illinois bonds whose constitutionality was challenged. After the news, the previously challenged bonds rallied to where non-challenged bonds had been trading and the entire complex tightened with the clearing of the overhang. • Odd lot discounts to round-lot bid-side evaluations were approximately 1 point for 5k-15k size, 0.5-0.75 points for 20k-100k size and 0.25 points for 100k+.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. The BOC purchases of at least $3 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. • The BOC has purchased C$254.7 billion to support liquidity in Government of Canada markets through May 21. 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. • 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, they will do agency trades. • The Bank of Canada's Provincial Bond Purchase Program (PBPP) has ended. BOC bought a total of $17.6b in their provincial buying program to improve liquidity. 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. However, the central bank bought a relatively small amount of corporate securities to date (C$210	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 small outstanding size in these securities. 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.

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	million par as of May 21), indicating the impact is limited. There have been no purchases by the central bank in many weeks and it is widely expected that the BOC will end its Corporate Bond Purchase Program (CBPP) on May 25, 2021. Similar to the provincial sector, dealers will aim to provide liquidity in favorable capital market conditions. **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 feral budget there were indications that Canada will issue only C$1 billion in RRBs in the current fiscal year. This will result in net negative supply (BOC buying program plus maturities less new supply). The next RRB auction will be a 30-year bond on June 2. There is expected to be temporary liquidity related to the auction on that specific day. Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	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 securities on their balance sheet. Bid-ask is not a reliable indicator for trading.

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