AllianceBernstein

October 2020

Market Update – Fixed Income Trading Liquidity
For the Week Ended 2 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 sold off during the week ended October 2, with US government bonds the worst performer as yields rose by more than 4 bp. Curves also steepened globally. Price action was volatile with many geopolitical cross currents. • 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 meaningful trading volume. • 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 (Sourced from BrokerTec)—has recovered to levels last seen before the covid-19 crisis.	Bid-offer spreads for on-the-run US Treasuries has improved significantly and are in line with pre-crisis conditions. 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. TIPs bid/ask is 1.5x wider vs pre-crisis levels
Investment Grade (IG) Corporates	**US IG** • US IG cash bond spreads tightened during the week ended October 2, as the macro backdrop stabilized relative to the previous week. The index moved 6 bp tighter. • Supply remained light with only $16bn pricing throughout the week. Technicals remain supportive with continued inflows, light supply expectations in coming weeks, and dealers remaining light on risk. • Engagement levels are lower than previous weeks, which can be seen in the primary market, where books were only 2.7x oversubscribed this week vs YTD average of 4x oversubscribed. Liquidity is	US IG spreads are generically 2x wider vs normal market conditions AT1/Preferreds are 2x wider vs normal market conditions

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	expected to continue to be thin heading into year end as dealers want to preserve the solid performance achieved YTD. • Despite the volatility seen in the previous week, the Fed purchases under the secondary market purchase program (SMCCF) remained light as they bought only $70mn ($14mn/day). 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. • Bid/ask spreads remain wider than pre-crisis levels. **European IG** • There was a firm tone in the Euro IG market during the week ended October 2, as the technical picture helped the market perform even when the macro picture was softer intra-week. Selling risk remained fairly easy, while better-value issuers proved difficult to source. Supply continues to underwhelm and is more focused on "niche" areas like ESG-oriented and hybrid issuers, which is expected to continue. **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) Corporates	**US HY** • The US high yield market was better bid during the week ended October 2 despite equity market volatility. • $5.5bn of new issuance priced across 9 deals. This is nearly half the 2020 weekly average of $10.4bn. Most books were oversubscribed (5-6x) indicating that "real money" cash balances continued to be healthy. Expectations for supply for the coming week are similar. • The HY index moved 29 bp tighter to 511 bp. This compares to March 23 wide levels of 1100 bp and	Bid/ask spreads vary by issuer but generically: BB-rated securities: 0.75-1.25 points, which is 0-0.25pt wider versus normal market conditions B-rated securities: 1-1.5 points; 0 to 0.5pt wider vs normal

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	pre-covid-19 tight levels of 341 bp on Feb 13 and recent tight levels of 472 bp on August 5. • The CCC-BB spread was 30 bps wider to 559 bp. This compares to April 6 wide levels of 1139 bp and pre-covid-19 tight levels of 613 bps on February 13. This widening was entirely due to compositional factors, as call announcements moved spreads. **Euro HY** • During the week ended October 2, generally the euro HY market was firm. The market has been a "passenger" to macro markets, with lower-than-average volumes going through the market, but generally investors are putting cash to work. • The new issue market was active with deals generally pricing at the tight end of guidance and trading unchanged to higher. • Overall it is easier to sell than buy risk. Investors are selectively searching for value and there is more talk than action about the known unknowns that lay ahead (elections, Brexit, covid lockdowns/vaccines, fiscal stimulus, etc.). • The technical backdrop remains supportive and although price action is expected to be "gappy" around the many sources of risk/uncertainty, investors seem well set up to buy the dips. **CDX HY** • CDX HY traded firmly along with the broader market during the week ended October 2. • The new HY 35 series that launched this week traded well as expected as heavy long positions in the previous series rolled to the newest series. • Trading volumes picked up during the roll week. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.	CCC-rated and below: 1.5-2.5 points; 0 to 1pt vs normal CDX HY bid/ask is 1-2x vs normal conditions.
Emerging-Market Debt (EMD)	**Hard Currency EM** • The JPMorgan EMBI Global Diversified index spreads traded 5 bps tighter to a level of 430 bp during the week ended October 2, with investment-grade bonds driving most of the move. • The direction of risk was predominantly based on fiscal stimulus headlines. • It was another slow week in the primary market with only a few small deals pricing. • Brazil has captured market attention on the back of headlines that they may use creative accounting	EM IG sovereigns are 1.25-1.5x wider vs normal market conditions EM HY sovereigns are 1.25-1.5x wider vs normal market conditions

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	to get around spending caps to fund social programs. Brazil's fiscal and debt trajectories will be under the microscope going forward • Argentina bonds stabilized, seeing a decent bid after experiencing post-restructuring declines. **Local Currency EM** • Liquidity is close to normal.	EM IG corporates are 1.25-1.5x wider vs normal market conditions EM HY corporates are 1.25-1.5x wider vs normal market conditions
Asia	**Asia Hard Currency** • Asia hard currency credit spreads ground tighter by 2bp during the week ending October 2, in a market largely inactive due to the Mid-Autumn Festival / National Week holidays in the Greater China region • 5 issuers made a push to print deals ahead of these holidays, and they were collectively able to raise USD 4.3bn via USD bond offerings • Markets were stable but liquidity was challenged because a number of dealers and investors were out on holidays **Asia Local Currency** • Asia local currency markets had a quiet week shortened by holidays • Indian government bonds posted a modest rally of ~5 to 10bps in a bull steepening fashion after the government announced the updated 2nd half of 2020 borrowing calendar, which was left unchanged from the previous target. This addressed the market's fears about excessive supply. • Malaysia government bonds bull steepened by ~5 to 12bps, retracing some of the recent selloff, as investors regained confidence after a strong 5-year MGS auction and amid renewed expectations for rate cuts on the back of the recent rise in local COVID-19 cases	Asia IG credit is ~1 to 1.5x wider vs. normal market conditions Asia HY credit is ~1.5 to 2x wider vs. normal market conditions Asia local currency debt is ~1 to 1.5x wider vs. normal market conditions
Securitized	**CMBS** • CMBS spreads continued to grind tighter on average volume during the week ended 2 October. With only modest issuance expected in October, the technical backdrop remains positive. Currently, 10-year, AAA-rated bonds are hovering in the swaps+90bps area. There continues to be considerable price dispersion below the single-A-rated class. Trading velocity in mezzanine classes has picked up, resulting in the gradual improvement of bid/offer spreads in the A/BBB tranches. AAA bid/offer spreads have retraced the post-covid-19	

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	widening, while AA/A and BBB-rated classes are moderating but remain approximately 2x their pre-covid-19 levels. • In CMBX, there has been a small increase in trading of more recent vintage mezzanine, however volumes in series 6 remain light. With little new relevant data to change fundamentals, levels tend to follow the broader macro markets. Bid/offer spreads are moderating, but remain wider than their pre-covid-19 levels, with A.6, BBB-.6, and BB.6 at approximately 2x their historical averages. **ABS** • The ABS primary market priced five transactions for the week ending October 2 totaling $1.5bn across unsecured consumer, solar, time share and servicer advance ABS deals. ABS year-to-date supply now stands at $141.2bn compared to $174.4bn recorded in 2019 over the same time period. • Secondary market trading over the week took a backseat given the deluge of new issue ABS supply, as the volume of bids wanted and TRACE data have fallen back to this year's seasonal levels, from the spikes in March. Amid supply pressure, benchmark ABS spreads widened 1 to 3bp across auto ABS on the back of slightly weaker primary market prints, while benchmark spreads across credit cards and equipment ABS widened by 1bp in sympathy with softer auto spreads. • In the week ahead, eight deals are premarketing for a total of $6.172 bn and three issuers that have filed 15G forms. **CRTs** • There were no new issues during the week ended October 2, although there are several new issues being discussed that should come to market before the US election, depending on market conditions. • With the absence of primary market supply, secondary market spreads were tighter during the week, especially in investment-grade bonds. • Several sellers came to market with modest lists of bonds that were easily absorbed amid good two-way flow and spreads tightened. These bonds are anywhere from 25 cents to a dollar higher versus previous week marks. • Non-investment-grade bonds also had a good week but that revolved around dealers clearing out inventory in an efficient manner prior to quarter	

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	end. Investors bought last cash flow and B1 bonds at relatively generous levels. This highlights the cash on the sidelines that can support the market under the proper circumstances. • 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** • The week ended October 2 was somewhat uneventful in the CLO market. Spreads at the top of the capital stack drifted slightly wider, continuing the trend from the previous week. It is becoming clear that supply in the market will continue at least until the US election in November. Primary market spreads started to leak wider after several days of the secondary market telegraphing that levels were overdone. Under current market conditions primary market supply is expected to be heavy in the coming weeks. • Liquidity remains generous. Bid/ask spreads remain at or around to pre-crisis levels, but may come under pressure amid the supply dynamics mentioned above. **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.	
Money Market	• Government money market funds saw outflows of $56bn in the 7 days ended October 2. Prime funds saw outflows of $126bn over the same period, driven primarily by the much-anticipated exit of the Vanguard prime fund. Despite this, there was no pressure on short-maturity CP markets. The CP spread to T-Bills remains around 10 bp. • LIBOR continues to hit new record lows, with 1-month LIBOR setting at 0.14% and 3-month LIBOR setting at 0.22%.	

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	• The T-bill curve was unchanged week-over-week. Repo is trading at the top of its band, SOFR set at 0.10%.	
US Municipals	• The municipal bond market traded with a weaker tone during the week ending October2, as benchmark AAA-rated yields rose 2-5bp in sympathy with US Treasury rates and mutual funds experienced their first outflows after 19 consecutive weeks of inflows. • In general, secondary volumes remain muted as underwriters pull forward deals to October as many are gearing up for a potential bout of volatility around the US election and dealers are reluctant to use their balance sheets to warehouse risk heading into year end. As a result, the focus is almost entirely on the new issue calendar, with $1bn+ deal sizes coming at concessions in order to get placed. • The tone was apathetic in the high yield market, as spreads drifted wider. With the lack of a stimulus bill, increased supply and fund outflows, investors have been selective in where they put money to work. Liquidity is beginning to wane a bit for lower-rated issuers, and there is less depth than is typical. • Odd lot liquidity has weakened slightly, with discounts to round lot bid side evaluations averaging around 1-2 points.	
Canadian Market	**Federal** • 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. • The BOC has purchased C$137.5 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through September 30. **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia. • Concessions are requested so dealers will take less-liquid positions.	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. Provincial: concession of +1 bp and more on size > CAD 25 million, particularly at the longer end. In risk-off markets,

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	• 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$9.2bn in par value year to date through September 30 within their provincial buying program to support liquidity, but BOC participation has not been meaningful in this sector in recent weeks. **IG Corporates** • 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. • 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$150 million par), indicating the impact is limited. The central bank did not buy additional bonds in recent weeks (as of September 30). BBB- bonds are trading by appointment unless there is a new issue. **Real Return Bonds (RRBs)** • 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 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$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.	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 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. Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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