ALLIANCEBERNSTEIN®

July 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 30 July 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	• Global developed market interest rates rallied again in the week ended July 30, with the US leading the way versus its core Europe counterparts. Bonds were in a relatively tight range with the 2-year, 5-year and 7-year auctions clearing with demand statistics in line with 12-month averages. • The main event of the week was the July FOMC meeting, where no new ground was broken; subsequently interest rate volatility traded lower. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved 80-90% from the challenges seen in February 2021. Market depth in the 30-year part of the curve has improved ~80% since February. • Observable bid-offer spreads are in line with historical averages in the most liquid bonds. Transaction costs in off-the-run bonds are wider but have improved meaningfully since late February. • In TIPS, on-the-run bond bid-offer spreads are 1-2 ticks wide during the most liquid parts of the day; off-the-run bonds in 5-10 year maturities are ~4 ticks wide; longer-maturity TIPS are trading 8-10 ticks wide. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • The US IG market traded sideways throughout the week ended July 30, with index spreads unchanged week-over-week. • Supply overwhelmed expectations, with several issuers bringing benchmark deals on Thursday. A total of ~28bn priced during the week. Engagement remains low relative to YTD averages, but demand picked up compared to recent weeks, despite deals pricing with zero to negative concession.	Bid/ask conditions in the IG market are back to normal

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	• High-beta bonds remained well bid. During the week high-beta deals saw more robust demand relative to higher-quality deals and outperformed in the secondary markets. • Similar to the previous week, longer maturities remained well supported. Overnight flows remained quiet but were net buyers of long maturity bonds. There was $294 million in inflows during the week. • For the month of August, supply is expected to be ~$75-85bn. **Euro IG** • EUR and GBP IG spreads were unchanged with low trading volumes during the week ended July 30. The airline sector was the main outperformer, as the UK announced it would reopen its borders. Euro hybrids outperformed vs senior debt with bonds 2-12 bp tighter; longer call hybrids outperformed most. • Corporate earnings were in the spotlight during the week; while overall earnings results were positive, there was only modest impact on spreads. • Supply was very light with only EUR 1.3bn. Supply is expected to increase in mid-August. **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** • It was an unremarkable summer week ended July 30 in the US HY market, with index spreads ending the week 5 bp wider week-over-week to 294 bp, on relatively light secondary market volume. The CCC-BB spread difference was 7 bp tighter to 288 bp. • The focus remained on new issuance, with $10.665 billion pricing across 11 deals, in line with the YTD weekly average of ~$10bn. **CDX HY** • CDX HY traded weaker and underperformed the macro tone during the week ended July 30. Beta compression dominated within derivative space and HY underperformed IG. • Trading volumes were in line with the 30-day average. • Bid/ask spreads have declined to pre-crisis levels.	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 normal market conditions CCC-rated and below: 1.5points which is in line with normal market conditions

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		CDX HY bid/ask is in line with normal conditions.
Emerging Market Debt (EMD)	**Hard Currency EM** • The week ended July 30 was an active week in EM credit as index spreads widened a few basis points, but general risk tone was constructive amid month-end buying. • Idiosyncratic events took center stage during the week. In China, technology and property assets tumbled with little contagion into other regions outside of the weaker global macro sentiment. • In Colombia, there was forced selling amid index changes, with an estimated ~1bn notional trading. Spreads moved as much as ~25 bp wider on the week, but closed the week only ~5-10 wider. • PEMEX's CEO's comments confirming sovereign support and assuring investors there would be no further supply led the curve to bounce off of recent wide levels. • In Peru, assets declined as leftist President Pedro Castillo was sworn in on Wednesday and began to fill his cabinet positions and called for a new constitution. • On the supply front, Oi priced a ~800mn deal with books 2-3x covered and bonds trading up on the break and on the week.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • During the week ended July 30, Asia credit primary market issuance was subdued at USD 5.3 billion. • Chinese regulation remains in focus. The education sector continued to decline, and there was spillover to the technology sector. • China property developer bonds dropped 5-6 points in BB-rated bonds. • Outside of China IG, liquidity has deteriorated, with spreads performing predominantly on investor flow rather than fundamentals. **Asia Local Currency** • Liquidity continues to function normally.	Asia hard currency IG/HY liquidity has become more challenging with bid-offer spreads 1.5x wider vs normal. Liquidity conditions are normal for Asia local currency debt
Securitized	**CMBS** • During the week ended July 30, CMBS spreads reversed course from the prior week and tightened 1-2bp throughout the capital stack. While secondary trading remained muted, the primary market was busy. Six deals priced, 5 single asset/single borrower and one conduit. The market digested the new issues easily. The calendar is expected to slow going forward, with only two new issues currently being marketed, one single asset/single borrow and one conduit.	

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	• 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 was mostly wider week-over-week, although there were pockets of tightening, mostly in AA-rated tranches. Seasoned series, specifically series 6 and 7, were the worst performers on a spread basis. Trading volumes picked up, albeit from depressed levels. Bid/offer spreads in CMBX have retraced their post-COVID widening. **CRTs** • During the week ended July 30, secondary market liquidity returned on the final trading day of the month with a strong investor bid for B2 bonds which had been out of favor for the prior two weeks. The rest of the capital stack was well bid and liquidity for larger blocks remains high. • 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** • Generic primary market clearing levels on the week stood roughly at 113-116bp for AAA-rated spreads; AA-rated spreads at around 160bp; A-rated at 200-205 bp; BBB-rated at 300-310 bp; and BB at 600-635 bp. • 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 Fed Reverse Repo facility (RRP) usage hit a record high of ~$1.04 trillion. • 1-month LIBOR set at 0.09%; 3-month LIBOR set at 0.124%. • SOFR set at 0.05%. The Effective Federal Funds Rate set at 0.10%. • Government money market funds had $24 billion of inflows in the week ended July 30. Prime funds had $12bn of inflows over the same period.	
US Municipals	• In the week ended July 30, the technical backdrop for municipal bonds remained strong as the market continued to see inflows. August is a heavy month for coupon and principal	

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	payments which will inject even more cash into the market. New issue supply has been underwhelming; many issuers have received federal aid and so require less capital through debt issuance. • There was light selling pressure in a few widely held names in the transportation sector because of delta variant headlines. However, the spread widening was short-lived and there was no significant widening given the abundance of cash in the market. • Odd lot liquidity remains robust and has settled into a range of 0.50 to 0.75 points haircut to round lot bid side levels on average.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. Bank of Canada (BOC) is "buying at least $2 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." • The latest BOC balance sheet shows that the central bank continued to support liquidity in Canadian markets (as of July 28). • The Government Bond Purchase Program (GBPP) has resulted so far in $260.80 bn in net buying (assets minus liabilities minus position at the start of the QE in March 2020). As expected, there was a reduction of QE bond buying to $2bn per week after the latest BOC meeting. • 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. Reduced trading activity during summer months could hinder liquidity. **IG Corporates** • The latest Bank of Canada research highlights the limited liquidity in Canadian corporate bond markets, which can	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 12 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. For example – the latest ultra-long Canada 2064 bid-ask is at 30 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 generally trading by

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	impact pricing; many dealers are maintaining low balance sheet inventories, so will not provide bids in some sectors such as telecommunications, pipelines, and transportation. • Trading is on an agency basis for issuers affected by mergers and acquisitions. • The Bank of Canada had a 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 ended this Corporate Bond Purchase Program (CBPP) on May 25, 2021. Lower corporate supply in summer months could lead to reduced secondary market liquidity.	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.
	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 continued lack of liquidity. Trading a block can only be done on an appointment basis. • Finance Department documents indicate that Canada will issue only C$1 billion in RRBs in the current fiscal year with four auctions. 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, trading by appointment, as dealers hold very limited inventories in RRB securities. The next RRB auction is expected in September 2021.	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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