ALLIANCEBERNSTEIN®

October 2020

Market Update – Fixed Income Trading Liquidity
For the Week Ended 30 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 (DM) interest rates were mixed during the week ended October 30, with US yields modestly higher and curves steeper on continued stimulus optimism. The rates market increasingly priced in the possibility of a democratic sweep in the US election and what that may mean for the size of any potential fiscal stimulus package in coming months. Core European markets moved in the opposite direction. The 10-year US Treasury to German Bund spread made new local highs of 150 bp – the widest level since mid-March – with the US pricing in a healthier economic recovery and stimulus vs rising Covid-19 cases and shutdowns in Europe. Also driving European yields lower was the ECB delivering on market expectations during their Oct 29 meeting, preparing for an increase of their bond purchase program at the December meeting. • The high correlation between the moves in duration and curve is mostly a biproduct of the Fed's monetary policy stance on front end rates, and asset purchase programs shifting volatility to longer maturities. Curve has been trading directionally with duration for many months now. • 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,	Bid-offer spreads for on-the-run US Treasuries has improved significantly and are in line with pre-crisis conditions. Off-the-run Treasury bond bid/ask spreads are nearly back to pre-covid-19 levels. TIPs bid/ask is 1.5x wider vs pre-crisis levels

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	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. • Deep off-the-run US Treasuries are nearly back to their pre-covid bid/ask spread levels. Bonds that have less than 70% of Federal Reserve System Open Market Account ownership have deeper liquidity, as they can be offered into the Fed purchase programs.	
Investment Grade (IG) Corporates	**US IG** • US IG cash bond spreads leaked wider during the week ended October 30, but outperformed equities with the index closing the week 2 bp wider week-over-week. • Dealers lightened balance sheets further during the week as several portfolio trades (block trades of multiple securities) were executed by investors buying risk or moving down in quality. Investor buying out of Asia slowed relative to the previous week ahead of month end and the upcoming US election. Technicals remain supportive as supply remained light ($20bn pricing during the week), with continued inflows, and dealers remaining light on risk. Engagement levels remain low and liquidity is expected to continue to be thin heading into the US election and year end as both dealers and investors want to preserve the solid performance achieved YTD. • Fed purchases under the secondary market purchase program (SMCCF) remained light as they bought only $99mn ($19.8mn/day) over the past week. • Bid/ask spreads remain wider than pre-crisis levels. **European IG** • Despite the macro tone, the technical picture remained reasonable in the Euro IG market during the week ended October 30, with cash bonds outperforming CDS index on the softer days. • Generally, the macro weakness did not cause substantial outflows and as such, most supply that came for sale was able to be recycled with certain exceptions - such as the euro peripheral AT1 market which felt “unloved”. • Liquidity was thinner as the US election approached as it seemed many investors were	US IG spreads are generically 1-1.5x wider vs normal market conditions AT1/Preferreds are 1-1.5x wider vs normal market conditions

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	positioned for their perceived outcome prior to this week, so activity and conviction levels to transact further were low. **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 outperformed stocks during the week ended October 30, supported largely by a bid from "real money" investors, particularly in the higher-quality part of the market. • In the secondary market, the only real supply during the week came from ETFs which were better sellers as HYG was persistently cheap to NAV. • In the new issue market, 13 deals priced for a total of $7.45bn, despite the equity volatility – including 3 deals on Wednesday when stocks were off 3.5%. Deals remain "one off" and "storied" situations requiring multiple day roadshows. Markets are receptive to these transactions if they come at the right valuation. New issue volume is expected to drop off as many deals were pulled forward ahead of the US election. • The HY index moved 41 bp wider to 505 bp. Recent tight levels of 460 bp were set on October 13. This compares to March 23 wide levels of 1100 bp and pre-covid-19 tight levels of 341 bp on Feb 13. • The CCC-BB spread was 21 bp wider to 563 bp. This compares to April 6 wide levels of 1139 bp and pre-covid-19 tight levels of 613 bps on February 13. **Euro HY** • During the week ended October 30, the Euro HY market trended weaker on ETF selling, but saw	Bid/ask spreads vary by issuer but generically: BB-rated securities: 1 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 CDX HY bid/ask is 1-2x vs normal conditions.

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	few "real money" investors raising cash ahead of the US election. Dealers were reluctant to bid for risk by the end of the week amid equity market volatility and consistent ETF selling, but real money investors looked to buy at the lower levels in select credits. • Issuers more directly exposed to covid-19, such as gaming, travel and leisure, underperformed as lockdowns rolled out across Europe. However even those issuers seemed supported at lower price levels as risk positioning among investors seemed on the lighter side relative to the spring. • The primary market saw only a single BB-rated issuer in the market for a refinancing. This deal priced at the tight end of initial price guidance and traded up on the break. • Overall the Euro HY market continues to trade in line with the broader macro environment, but outflows appear not material enough to deplete cash balances and investors seem relatively conservatively positioned in the face of the many unknowns (US elections Brexit, covid-19 vaccine/lockdowns) **CDX HY** • CDX HY traded weaker during the week ended October 30 and continued to underperform cash bonds. • Trading volumes picked up on the back of heightened volatility. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • During the week ended October 30, the JPMorgan EMBI Global Diversified index spreads were ~5 bp wider, but volumes continued to be well below average. • Technicals continue to improve with investors positioned light in below investment grade, and below-investment-grade vs investment-grade valuations hovering around multi-year wide levels. Anecdotally, cash balances across "real money" and "hedge fund" investors have crept up as inflows remain robust and investors are unwilling to increase beta with elevated uncertainty surrounding a vaccine and the US election. • Sub-Saharan Africa oil exporters underperformed during the week, down 3-4 points as Brent crude	EM IG sovereigns are back to normal market conditions EM HY sovereigns are back to normal market conditions EM IG corporates are back to normal market conditions EM HY corporates are back to normal market conditions

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	prices dipped below $37 during Wednesday's global macro selloff. • Supply continued to be quiet outside of the Asia-Pacific region where a handful of investment-grade corporate issues were well-received, with books 7-10x oversubscribed on average, deals coming inside initial price guidance, and trading tighter on the break. **Local Currency EM** • Liquidity is close to normal.	
Asia	**Asia Hard Currency** • Asia hard currency credit spreads tightened 1bp during the week ending October 30, defying the broader selloff in risk assets led by US equities. • The primary market remained active with 18 issuers raising close to USD 7bn. • Asia debt funds saw inflows of USD 500mn over the week, notable considering the overall macro weakness. • Real money investors were not aggressively selling to pare down risk. There were some private bank buyers on dips and hedge fund short covering which supported the lower end of the region's credit quality spectrum. **Asia Local Currency** • Liquidity in Asia local currency markets was generally supportive despite coming under pressure from a global rates selloff. • Korea Treasury bonds largely tracked US Treasuries lower, as the curve sold off ~5 bp on the week, but other Asian local rates were broadly unchanged.	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** • Both CMBS and CMBX widened in sympathy with other risk asset markets during the week ended 30 October. AAA-rated CMBS and CMBX widened 3-6 bp; BBB-rated CMBS widened 10 bps; BBB- CMBX was cheaper by 25-75bp depending on the series. • CMBS trading volume was light with only 914mn of bonds out for the bid, 130mn fewer than the prior week. • With little trading volume in both CMBS and CMBX, bid/offer spreads remain unchanged from the prior week. Liquidity varies within quality tranches based on several factors including performance and collateral characteristics. In CMBS, AAA-rated bid/offer spreads have retraced the post-covid-19	

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	widening. Below the AAA-rated credit quality level, those deals perceived as "top-tier" have also seen their bid/offer spreads normalize, while "lower-tier" classes remain approximately 2x their pre-covid-19 levels. • Within CMBX, bid/offer spreads 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 eight transactions for the week ending October 30 totaling $3.2bn across servicer advances, device payment, whole business, solar, equipment, private credit student loan, FFELP and non-prime auto loan ABS deals. ABS year-to-date supply now stands at $164bn compared to $207bn recorded in 2019 over the same time period. • ABS spreads were unchanged on the week, as the primary market continued to churn out deals ahead of an anticipated lull around US election day. • In the week ahead, one student loan deal is announced and set to price ahead of the US election. The remainder of the year is expected to see opportunistic year-end ABS funding transactions, though the volume is expected to fall short of the $23.9bn issued during October. **CRTs** • There were no new issues during the week ended October 30 and so focus was on the secondary market. Dealers' inventory coming into the week was fairly heavy, and so took the lull in new issue supply to sell down their inventory bonds. Sales were generally done at meaningful concessions to prior week levels. Spreads ended the week roughly 75 to 100 bp wider. • Liquidity has begun to show signs of some stress. Depth of bid remains robust, but dealer markets are now for smaller size blocks (2mn vs 5mn previously), making it challenging to trade larger sized blocks away from Bid-Wanted-In-Competition (BWIC) lists. **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.	

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	CLOs • Spreads continued to drift wider during the week ended October 30. The primary market leaked marginally wider with AAA-rated deals coming in the 137-142bp spread range. The secondary market saw a leveling off on fairly low volumes before the election. Top-tier issuers trade in the 140-150bp spread range. The bottom part of the capital stack (BB-rated) are trading in the 700 to 800 bp spread range. • 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 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 inflows of $18bn in the 7 days ended October 30. Prime funds flows were flat over the same period. • T-bills tightened 1-2bp week-over-week. Repo has been trading at the upper bound of 0.09%. • 1-month LIBOR set at 0.14% and 3-month LIBOR set at 0.22%. SOFR set at 0.09%. The CP spread to T-Bills remains around 10 bp.	
US Municipals	• Municipal bonds were mostly quiet during the week ending October 30, aside from primary issuance which remained high. • The past 2 weeks saw high new issuance ahead of the US election as issuance was pulled forward. • MTA priced a new issue and drove the market tighter by 30-50bp. • Odd lot liquidity remained stable, but volumes were definitely lower than historical averages. Discounts to round lot bid side evaluations averaged 1 to 1.25 points on odd lots of 5k-15k size, while larger lots of 100k to 1mn are 0.25 to 0.5 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 $4 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	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

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	should support liquidity at the 30-year part of the yield curve. • The BOC has purchased C$154 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through October 28. In coming weeks liquidity could be negatively impacted by the US election.	outstanding size in these securities.
	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, even with the Bank of Canada's buying program of provincial debt. • The BOC has purchased C$10.5bn in par value year to date through October 28 within their provincial buying program to support liquidity.	Provincial: concession of +1 bp and more 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.
	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 Bank of Canada's buying program (focused on securities of 5-years or less) should support liquidity for corporate bonds rated BBB and higher. However, the central bank has bought a relatively small amount of corporate securities to date (C$160 million par), indicating the impact is limited. The central bank did not purchase additional bonds in recent weeks (as of October 28). BBB- bonds are trading by appointment unless there is a new issue. • It should be noted that corporate traders are unlikely to increase their inventories ahead of the November 3 US election, which could also lead to dislocations in liquidity.	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.
	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.	Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.

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	• The next auction will be held on December 2. 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.	

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