



**Market Update –Fixed Income Trading Liquidity
For the Week Ending 31 July 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"> The open-ended bond purchase program enacted by the US Federal Reserve (Fed) is having a positive effect on liquidity and market functionality. The Fed has committed to purchasing a minimum of \$80bn US Treasuries and \$40bn MBS every month, with possibilities to increase should circumstances change for the worse. Global rates continued to trade lower during the week ending July 31. 10-year US Treasuries hit a weekly close all-time low yield level of 0.529%. The 5s30s curve marginally steepened, halting a multi-week flattening. The FOMC July meeting concluded with no major changes to the Fed’s dovish stance. The Fed extended central bank swap and repo lines over year end, which caused the front end of the Treasury curve to rally. One significant move this week was the decline in rate volatility, which made new all-time lows. Market depth, which is 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 and sourced from BrokerTec data is about 95% of its pre-Covid19 levels. Market depth on 2-year through 5-year bonds is now back to pre-covid-19 levels. 	<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 mostly sideways during the week ending July 31. Secondary market flows were quiet ahead of Q2 earnings and as summer sets in. The Fed’s weekly report showed that the Fed purchased \$155mn for its secondary market 	<p>US IG spreads are generically 2x wider vs normal market conditions</p> <p>AT1/Preferreds are 2-3x wider vs normal market</p>

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	<p>purchase program (SMCCF) between July 22 and 28, down 75% week over week.</p> <ul style="list-style-type: none"> The primary market picked up from previous weeks, with \$28bn in new issues coming to market between July 27-31. The market absorbed this supply well as weekly IG inflows are resilient. Bid/ask spreads remain wider than pre-crisis levels. <p style="text-align: center;">European IG</p> <ul style="list-style-type: none"> It was extremely quiet once again during the week ended July 31 with a trickle of primary issuance retaining the market's focus. The market was very technical in spots with covid-19-related credits feeling a little more pressure. Away from that, the market seems to be in the heart of low summer activity. <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. 	<p>conditions</p>
<p>High Yield (HY) Corporates</p>	<p style="text-align: center;">US HY</p> <ul style="list-style-type: none"> The week ended July 31 was an earnings-heavy week in US High Yield. The market was strong despite some equity volatility, as demand continues to outstrip supply in both the new issue and secondary market. \$6.9bn of new issue bonds came to market during the week. New deals remain well supported, with most multiple times oversubscribed and priced at the tight end of initial price guidance. The index spread was 13 bps tighter on the week, to 491 bp. This compares to March 23 wide levels of 1100bp and pre-covid-19 tight levels of 341 bp on Feb 13. <p style="text-align: center;">Euro HY</p> <ul style="list-style-type: none"> Volumes remain light amid the summer lull in activity. Investors have been hesitant to put cash to work in those issuers that are most heavily exposed to covid-19, but still putting cash to work elsewhere. 	<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> <p>CDX HY bid/ask is 1-2x vs normal conditions.</p>

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	<ul style="list-style-type: none"> The primary market is beginning to slow down as performance for new deals has started to be more lackluster. Overall underlying technicals still feel constructive, but investors are becoming increasingly selective/defensive. <p style="text-align: center;">CDX HY</p> <ul style="list-style-type: none"> CDX HY traded better along with macro tone during the week ended July 31. 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. 	
Emerging-Market Debt (EMD)	<p style="text-align: center;">Hard Currency EM</p> <ul style="list-style-type: none"> Hard currency EM debt spreads moved modestly tighter during the week ending July 31 as spreads on the JP Morgan EMBI Global Diversified Index declined by 5 bps, closing the week at 440 bp, driven by positive inflows, a quiet secondary market, manageable supply and a dovish US Federal Reserve. Turkey was a focal point during the week, as the currency came under pressure and CDS spreads widened ETFs continued to request offers as NAVs traded at a premium, providing another supportive technical to the market. <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 IG credit spreads had a strong finish to the month of July, as a combination of asset manager inflows and solid local bank interest saw spreads compress. Indonesia and Philippines sovereign bonds tightened 15 to 20 bps and high-beta sovereign Sri Lanka also saw a return of interest. Korean bonds underperformed. Asia HY saw Indian renewables well bid and China property saw mixed two-way flows as shorter end issuance from developers continued Liquidity was constructive with a better bid tone and dealer inventories feeling light. <p style="text-align: center;">Asia Local Currency</p> <ul style="list-style-type: none"> Asia local currency debt liquidity functioned as normal for the most part during the week ended July 31. 	<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. normal market conditions</p>

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	<ul style="list-style-type: none"> The Indonesia bi-weekly auction saw decent demand from foreign asset managers in the long end, exhibiting some return of foreign participation and comfort around the BI/MOF debt burden-sharing program. China government bond rates were 10 to 12 bps higher as concerns returned around supply and the request from the Ministry of Finance for special Local Government Bond issuance quotas to be depleted by October. 	
Securitized	<p style="text-align: center;">CMBS</p> <ul style="list-style-type: none"> With the new issue pipeline now empty, attention returned to the secondary market during the week ended July 31. Trading flow was average, and spreads continued to grind tighter. The bid for BBB-rated paper continues to intensify and the credit curve maintains its flattening bias. Week-over-week AAA, A, and BBB- rated tranches were tighter 2, 10, and 20 bps respectively. Liquidity remains fleeting lower in the capital stack but near normal in higher-quality tranches. AAA bid/offer spreads are approaching pre-covid-19 levels, while AA/A, and BBB bid/offer spreads remain approximately 2x their historical averages. CMBX continues to trade heavy as flows remain depressed. Liquidity will likely remain challenged until trading volumes increase or risk-taking by dealers (which is flat risk in most series and tranches) returns. Bid/offer spreads remain mostly unchanged. A.6 is ~2x, BBB-.6 is ~3 x and BB.6 ~4x the normal bid/offer spread. <p style="text-align: center;">ABS</p> <ul style="list-style-type: none"> Four ABS deals totaling \$1.5bn priced in the primary market during the week ending July 31, across unsecured consumer, non-prime auto loan and auto lease. With this, July issuance totaled \$16.5bn, slightly ahead of the \$15.84bn recorded over the same month last year. 2020 year-to-date ABS supply is currently tracking \$96.6bn compared to \$137.2bn over the same period last year. The new issue market continues to see strong subscription levels with final pricing levels well inside of initial price thoughts. In the secondary market, indicative spreads remained unchanged on the week, with most of the top-tier names back to pre-pandemic levels. Supply and demand technicals continue to remain strong. 	

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	<p>However, liquidity and price execution remain tiered by issuer.</p> <ul style="list-style-type: none"> For the August 4 TALF loan subscription date, \$646.3mn in loans were requested from the Fed. Small business led the demand (\$486.9mn), followed by CMBS (\$113.1mn) and student loans a distant third (\$46.3mn). ABS TALF loan demand was strictly for secondary trades, as none of the new issues that came to market were TALF-eligible. <p style="text-align: center;">CRTs</p> <ul style="list-style-type: none"> The CRT market has underperformed broader risk markets recently as several large sellers have taken profits amid the post-crisis rally. Two parts of the CRT market where the supply/demand imbalance is particularly challenged are B2 and fixed severity deals. <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 bp range in March, spreads are currently trading at or around 200 bp 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 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 ending July 31. The repo rate for general collateral remains in the low to mid-teens. Government money market funds saw inflows of \$9.8bn in the 7 days ending July 31. Prime funds saw inflows of \$82mn in the same time period. The commercial paper supply technicals continue to 	

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	<p>keep the spread to T-bills narrow at ~15 bps.</p> <ul style="list-style-type: none"> 1-month LIBOR set at 0.16% and 3-month LIBOR set at 0.25%. SOFR set at 0.10% 	
US Municipals	<ul style="list-style-type: none"> Technicals continue to fuel the rally in the municipal market with 11 straight weeks of inflows. An abundance of principal and coupon redemptions is expected in August. Despite all-time low benchmark yields, investor demand for municipals remains, as the municipal/US Treasury ratios are still well above 100% across the curve. In the primary market, deals continue to be well-received with subscriptions in the 5-10x range. Odd-lot discounts are nearly back to pre-crisis levels at 0.5 to 1pt below round lot bid-side evaluations. 	
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 <=CAD25mn; 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 \$94bn so far to support liquidity in the Government of Canada markets. <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. 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\$5.8bn in par value year to date 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 	<p>Federal: bid/ask typically +1 bp but for the long end of the curve, it can be more depending on volatility (risk off markets) and size outstanding.</p> <p>Provincial: concession of +1 bp and more on size > CAD 25mn, particularly at the longer end</p> <p>BBB- corporates are trading by appointment</p>

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	<p>days; many dealers are maintaining low balance sheet inventories, so will not provide bids in many sectors.</p> <ul style="list-style-type: none"> 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 of corporate debt (5 years or less) should support liquidity in that market for BBB and higher-rated securities. However, the central bank has bought a relatively small amount of corporate securities to date (C\$130mn par), indicating the impact is limited. BBB-bonds are trading by appointment unless there is a new issue. The corporate calendar is expected to be light as we begin 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\$400mn 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 will include 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>in many cases, particularly in the energy sector. Inventories are reduced and dealers are not looking to increase their BBB- exposure with reduced trading activity in July</p> <p>Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.</p>

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