August 2020

Market Update –Fixed Income Trading Liquidity
For the Week Ended 7 August 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	• 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 $80 billion US Treasuries and $40 billion MBS every month, with possibilities to increase should circumstances change for the worse. • The week ended August 7th was a tale of two weeks with rates rallying on Monday and Tuesday and the 10-year US Treasury yield closing at an all-time historical low of 0.505%. However, the decline in yields reversed sharply after the first two days with the 10-year yield ending the week 4 b.p. higher. Longer maturities sold off the most. • The market pivoted mid-week after the release of the TBAC Quarterly Refunding Statement, which indicated that starting in August, the US Treasury supply of 10 to 30-year maturities is going to be higher than initially expected. • The 30-year swap rate lead the market higher, selling off as the 30-year swap spread widened to a new multi month high of -38.375 b.p.	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 bonds traded well during the week ended August 7th. Spreads tightened 7 b.p. and are now trading at the post-COVID tights. • Secondary market flows remained quiet as we enter the seasonally slower August period. • The Fed's weekly report showed that the Fed purchased $141 million for its secondary market purchase program (SMCCF) between July 29th and August 4th. This was the lowest weekly purchase pace since the program began.	US IG spreads are generically 2x wider vs normal market conditions AT1/Preferreds are 2-3x wider vs normal market conditions

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<tr><th>Sector</th><th>Liquidity Trading Comment</th><th>Bid-Ask Spreads</th></tr>
<tr><td></td><td>The primary market picked up with $40 billion in IG supply. Demand for IG credit continues with new issue concessions minimal and deals multiple times oversubscribed. We also saw supply from several COVID-sensitive sectors (REITs, Energy, Aircraft lessors) which were absorbed well, indicating there is still a demand for these credits despite the recent tightening.
Bid/ask spreads remain wider than pre-crisis levels.
European IG
It was extremely quiet once again during the week ended August 7th, as the market seems to be in the heart of low summer activity.
REIT Preferreds
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.</td><td></td></tr>
<tr><td>High Yield (HY) Corporates</td><td>US HY
The new issue market took center stage in the week ended August 7th, with nearly $19 billion pricing across 24 issuers.
The issuance was well absorbed as technicals remain strong with money coming into market through inflows as well as through coupons, calls, and tenders.
Secondary trading was focused around the earnings calendar. Additionally, many market participants were sidelined by the power outages that swept through the tri-state area which further slowed secondary volumes.
New deals remain well supported, with most multiple times oversubscribed and priced at the tight end of initial price guidance.
The index spread was 12 b.p. tighter on the week, to 476 b.p. This compares to March 23 wide levels of 1100 b.p. and pre-covid-19 tight levels of 341 b.p. on Feb 13.
Euro HY
Volumes remain light amid the summer lull in activity. Investors have been hesitant to put cash to</td><td>Spreads are 0.75-1.25 point wider than normal times for BB-rated securities

Spreads are 1-1.5 points wider than normal times for B-rated securities

Spreads are 1.5-2.5 points wider than normal times for CCC-rated and below securities

CDX HY bid/ask is 1-2x vs normal conditions.</td></tr>
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<tr><td></td><td>work in those issuers that are most heavily exposed to covid-19, but still putting cash to work elsewhere.
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.
As the macro environment has firmed and supply continues to be limited, the covid related issuers have seen a relief rally in week ended August 7th, following their recent underperformance.
CDX HY
CDX HY traded better along with broader credit markets during the week ended August 7th.
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.</td><td></td></tr>
<tr><td>Emerging-Market Debt (EMD)</td><td>Hard Currency EM
Spreads on the JP Morgan EMBI Global Diversified Index declined 20 b.p. to 420 b.p. in the week ended August 7th, driven by persistent demand for IG credit.
Turkey was once again a focal point during the week, as liquidity concerns and dwindling reserves pushed the currency under pressure while CDS spreads were relatively stable despite an intra period widening.
Argentina announced it had come to an agreement with bondholders early in the week which helped to support bond prices.
IG credit continued to outperform. Over the last two months the spread ratio between HY and IG has increased to the highest level since the GFC.
Local Currency EM
Liquidity is close to normal.</td><td>EM IG sovereigns are 1.5x wider vs normal market conditions

EM HY sovereigns are 2x wider vs normal market conditions

EM IG corporates are 2x wider vs normal market conditions

EM HY corporates are 3x wider vs normal market conditions</td></tr>
<tr><td>Asia</td><td>Asia Hard Currency
Asia hard currency credit tightened 11 b.p. in the week ended August 7 on the back of positive technicals and better-than-expected economic data such as China PMIs and US jobs report.
Primary pipeline remained active with 14 issuers tapping the market for $4.75 billion. The supply eased from the weekly average of approximately $ 8 billion in July.</td><td>Asia IG credit is ~1 to 1.2x wider vs. normal market conditions

Asia HY credit is ~1 to 1.5x wider vs. normal market conditions</td></tr>
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	• Liquidity was constructive with a better bid tone and light dealer inventories. **Asia Local Currency** • Liquidity in Asia local currency debt was mostly normal. • In India, RBI left the repo rate unchanged at 4%, which came as a disappointment to the market and triggered a rates selloff of 10-15 b.p. with the belly part of the IGB curve underperforming. • In Malaysia, government bonds rallied in the first half of the week but reversed a portion of the gains after it was reported that the Minster of Finance is seeking to raise the debt ceiling from 55% to 60%.	Asia local currency debt is ~1 to 1.2x wider vs. normal market conditions
Securitized	**CMBS** • The week ended August 7th was slow for AAA BWICs (bids wanted in competition) and secondary trading in general. • We continue to see increasing demand for A and BBB rated bonds causing the credit curve to maintain its flattening bias. Last cash flow AAAs were tighter by about 5 b.p. week-over-week, while single A rated classes were tighter by approximately 10 b.p. • AAA bid/offer spreads have retraced the post-COVID widening, while AA/A and BBB rated classes remain 2x their historical average. • 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 are slowly moderating. A.6 is ~2x, BBB-.6 is ~2 x and BB.6 ~3x the normal bid/offer spread. **ABS** • The new issue market was fairly active in the week ended August 7th, with ten transactions pricing for a total of $6.2 billion. Sectors included rental car, heavy equipment, subprime auto, private and government guaranteed student loan, insurance premium finance, containers, timeshare, and wireless handsets. New issue remains very well subscribed, with transactions pricing well inside of initial price expectations. • Secondary trading was slightly lighter week-over-week, but indicative spreads remain unchanged.	

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	• Supply and demand technicals remain strong, and are supportive of spread levels, but liquidity and price execution remain tiered by issuer. **CRTs** • After recent underperformance of the broader risk markets, CRT spreads tightened modestly in the week ended August 7th. Volumes have been extremely muted with no sellers of large blocks. However, what has been sold seems to have been readily absorbed by a good two-way flow. • Fixed severity deals (early issued CRTs where losses are calculated according to a fixed severity schedule as opposed to actual-loss schedule) were down dramatically in July but have recovered somewhat in the week ended August 7th. **Legacy Non-Agency RMBS** • Legacy RMBS have recovered back to pre-crisis levels. After having widened to the 1000-1200 b.p. range in March, spreads are currently trading at or around 200 b.p. discount margin currently. **CLOs** • 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. **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	• There were no liquidity issues of note in the repo markets for the week ending August 7. • Government money market funds saw inflows of $28 billion in the 7 days ending August 7. Prime funds saw inflows of $3 million in the same time period. • The commercial paper supply technicals continue to keep the spread to T-bills narrow at ~15 b.p.	

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	• 1-month LIBOR set at 0.17% and 3-month LIBOR set at 0.26%. SOFR set at 0.10%	
US Municipals	• Technicals continue to fuel the rally in the municipal market with 13 straight weeks of inflows. An abundance of principal and coupon redemptions drove benchmark yields significantly lower. • AAA municipal / US Treasury ratios are slowly drifting towards their pre-covid levels: 71.74% for 5-year maturities, 101.39% for 10-year maturities, and 101.92% for 30-year maturities.The supply during the week ended August 7th was manageable, with 7.7 billion in new issues. The proportion of taxable issuance remained high (>30%), resulting in increased subscription for a limited supply of exempt paper. • Odd-lot discounts are nearly back to pre-crisis levels at 0.5 to 1pt below round lot bid-side evaluations.	
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 $100.8 billion so far to support liquidity in the Government of Canada markets. **Provincial** • 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$6.6 in par value year to date within their provincial buying program to support liquidity.	Federal: bid/ask typically +1 b.p. 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 12 b.p. bid-ask given small outstanding size in these securities. Provincial: concession of +1 b.p. and more on size > CAD 25 million, particularly at the longer end

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	IG Corporates • Limited liquidity, particularly during risk-off trading days; 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 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$ million par), indicating the impact is limited. The central bank did not buy any security in recent weeks. BBB- bonds are trading by appointment unless there is a new issue. The corporate calendar is expected to be light in August, another factor that could be a detriment to corporate market liquidity. **Real Return Bonds (RRBs)** • The last C$400 million 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 includes 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.	BBB- corporates are trading by appointment, particularly in the energy sector. Inventories are reduced and dealers are not looking to increase their BBB- exposure with reduced trading activity in summer days Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.