ALLIANCEBERNSTEIN

October 2020

Market Update – Fixed Income Trading Liquidity
For the Week Ended 9 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 9, with US government bonds the worst performer for the second week in a row as yields rose by more than 7 bp. Curves also steepened globally. Market participants began pricing in US election outcomes that increase the probability of large-scale fiscal stimulus that would need to be funded in the US Treasury market. • 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. • 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.	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
Investment Grade (IG) Corporates	**US IG** • Similar to the previous week, US IG cash bond spreads moved with macro sentiment during the week ended October 9, tightening 8 bp week-over-	US IG spreads are generically 2x wider vs normal market conditions

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	week. Both primary and secondary markets were firm throughout the week. • In primary markets, engagement levels picked up from the previous week with the average deal 4.5x oversubscribed (up from 2.75x the prior week). and many deals pricing with negative new issue premium. • Secondary markets saw higher-beta bonds better bid, particularly in longer maturities. The 10/30s curve began to flatten as a result of the strong bid for long-maturity bonds and Treasury curve steepening. • Technicals remain supportive with continued inflows, light supply expectations in coming weeks and dealers remaining light on risk. Liquidity is expected to continue to be thin heading into year end as dealers want to preserve the solid performance achieved YTD. • Fed purchases under the secondary market purchase program (SMCCF) remained light as they bought only $122mn ($24mn/day) over the past week. 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 9, as the technical picture helped the market perform. 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. Of note, a number of covid-exposed issuers also came to market and were well-received, coming at/through existing secondary market levels and subsequently performed well. **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	AT1/Preferreds are 2x wider vs normal market conditions

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	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 continued to be better bid during the week ended October 9 as high yield bond spreads ground tighter alongside equity strength. • Equity strength drove the HYG ETF to outperform over cash bonds, creating 30-70bp premium to NAV throughout the week. This created a persistent bid from ETF arbitrage invesetors which contributed to the market "re-racking" higher. • $8bn of new issuance priced across 14 deals. This compares to the 2020 weekly average of $10.3bn. New issues during the week included both well-known issuers (Charter, MGM, Gray TV) and more storied situations (Brightstar, BiLo, Jaguar Land Rover). The market was receptive to both. • The HY index moved 41 bp tighter to 471 bp. This is the tightest the index has been since March 4 and 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 4 bps tighter to 534 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 9, 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.	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 CCC-rated and below: 1.5-2.5 points; 0 to 1pt vs normal CDX HY bid/ask is 1-2x vs normal conditions.

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	CDX HY • CDX HY traded firmly along with the broader market during the week ended October 9. • Trading volumes trended down after the roll period. Bid/ask spreads have declined but remain elevated relative to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • The JPMorgan EMBI Global Diversified index spreads traded ~25 bps tighter to a level of 405 bp during the week ended October 9, close to 7-month tight levels. Investment-grade sovereigns continued their grind toward March tight levels, as the HY-IG spread differential remained elevated, nearly 160bp above the 5-year average. • Robust retail offer-wanted lists tracked the supportive global macro risk backdrop resulting in the first time since February 2019 in which the EM ETF saw back to back weekly inflows of 400mn or greater. • New issue supply picked up marginally, with a handful of corporate deals pricing at the tight end of initial guidance, offering little new issue premium, with books 5-7x oversubscribed and deals trading up ~1-2 points on the break. PEMEX surprised investors with a 1.5bn 5-year "drive-by" deal, with pricing inside initial guidance, subscriptions of ~10bn, and bonds trading up 0.5pt on the break. **Local Currency EM** • Liquidity is close to normal.	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 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 rallied 11bp during the week ending October 9, more than offsetting the 2-10bp bear steepening of US Treasury rates. • 5 issuers raised a total of USD 3.2bn, taking advantage of a rebound in risk sentiment • Liquidity was normal and dealers had ample balance sheet to accommodate two-way flows. **Asia Local Currency** • Asia local currency markets were relatively sideways, and liquidity was generally favorable • On Friday, China came back from the 8-day Golden Week holidays and China Government Bonds sold off 5-8bp as the PBOC skipped open market operations and onshore rates "caught up" with generally higher global rates.	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

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	• Indian government bonds rallied~7 to 11bps on Friday after the RBI meeting, which unveiled a series of measures to support the bond market, such as upsizing open market operations to 200bn and extending the relaxation of held to maturity limits for banks.	
Securitized	**CMBS** • The secondary CMBS market remained firm despite an increase in supply week-over-week during the week ended 9 October. Approximately $1.6bn of bonds were placed for bid, nearly $500mn more than the prior week. • The trickle of October new issuance began during the week. One new conduit deal priced, with all classes oversubscribed and pricing at or through initial price guidance. The 10-year AAA-rated class priced at swaps+90, 4 bps wider than the previous deal that priced on September 21. However, the AAA-A spread flattened to 125 bps. This represents the flattest credit curve since February. • AAA bid/offer spreads have retraced the post-covid-19 widening, while AA/A and BBB-rated classes are moderating but remain approximately 2x their pre-covid-19 levels. • CMBX performed in line with other risk asset markets. There continues to be increased activity in more recent vintage BBB- tranches. Nearly $500mn of Series 9-11 traded during the week vs $60mn of series 6-8. The lack of trading volume in earlier vintage series is preventing liquidity conditions from fully recovering. 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 seven transactions for the week ending October 9 totaling $7.352bn across prime auto lease, prime and subprime auto loan and unsecured consumer ABS deals. ABS year-to-date supply now stands at $149.9bn compared to $177.9bn recorded in 2019 over the same time period. Except for the student loan sector which has seen an increase of 13% YTD, all sectors have seen declines in volumes with credit card ABS experiencing the steepest decline at -87%. • ABS spreads for benchmark sectors continued to move to tighter levels last week with senior tranches	

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	of prime auto loan ABS moving 5 to 7bp tighter and credit card notes unchanged. • In the week ahead, nine deals are pre-marketing for a total of $4.611 bn and three issuers that have filed 15G forms. **CRTs** • There were no new issues during the week ended October 9, although there are two new issues in pre-marketing for next week. • With the absence of primary market supply, secondary market spreads were tighter during the week. • 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** • Spreads continued to drift wider during the week ended October 9. This secondary market widening is slowly leaking into primary market execution. AAA-rated primary market spreads are currently between 132-137bp. The bottom part of the capital stack (BB-rated) has also widened from 725 bp and par value the previous week to 760 bp and a two-point original issue discount. Primary market spreads are expected to remain under pressure in coming weeks. • Liquidity remains good in the CLO market with dealer positioning looking lighter than normal. Bid/ask spreads remain at or around to pre-crisis levels but may come under pressure amid the current supply dynamics. **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 $12bn in the 7 days ended October 9. Prime funds saw inflows of $7bn over the same period.	

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	• The short-maturity government segment feels saturated with supply. T-bills have widened 1-2bp week-over-week. Repo has been trading at the top end of its range. • Dealer forecasts expect a net T-bill paydown of $150 to 200bn in Q4. • 1-month LIBOR set at 0.145% and 3-month LIBOR setting at 0.23%. SOFR set at 0.10%. The CP spread to T-Bills remains around 10 bp.	
US Municipals	• Municipal bond yields s continued to move higher again during the week ending October 9, as benchmark yields ended the week as much as 10bp higher. Heavy expected supply in October is putting pressure on the market. • There is more willingness on the part of investors to participate in the primary market vs the secondary market because many large new deals are pricing with concessions. For example, spreads for last week's New York GO deal priced 10-15bp wider than their last deal from late August 2020. This trend is expected to continue in the lead up to the US election, where some deals will need to come with concessions to get done. • The odd lot penalty was a touch higher compared to the previous week, with discounts to round lot bid side evaluations averaging around 1.5 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 $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$142.5 billion to support liquidity in Government of Canada markets since the purchase program started on March 27 through October 7. **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario and British Columbia.	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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	• 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$9.5bn in par value year to date through October 7 within their provincial buying program to support liquidity, but BOC participation has been relatively light in this sector in recent weeks.	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 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 October 7). BBB- bonds are trading by appointment unless there is a new issue.	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. • 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.	Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet.