June 2021

## Market Update – Fixed Income Trading Liquidity
## For the Week Ended 11 June 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 | • During the week ended June 11, US Treasuries staged a bull flattening rally, with rates pressured lower by lower stock prices.<br>• TIPS breakevens sold off during the week. Full bid-offer for liquid on-the-run bonds is 4 ticks wide, in line with historical averages; large block trades are best done on days of Fed purchase operations, indicating that central bank support is still very much needed for liquidity in this market.<br>• Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved meaningfully from the challenges seen in February 2021.<br>• Observable bid-offer spreads are in line with historical averages in on-the-run bonds. Transaction costs in off-the-run bonds are wider but have improved meaningfully since late February.<br>• Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month. | |
| Investment Grade (IG) Corporates | **US IG**<br>• US IG continued to trade sideways during the week ended June 11 with the index closing 1 bp tighter at 84 bp.<br>• Supply overwhelmed expectations of $25-30 billion as $36 billion priced throughout the week. The technicals remain supportive but momentum has slowed as demand for new issues is not as robust as a couple weeks ago. We also observed lackluster performance of the new issues in the secondary market.<br>• Given the rates rally, flows out of Asia were relatively quiet at the beginning of the week, but there was a pickup in buying out the curve in the latter half of the week.<br>• The positive momentum on flows accelerated with a $3.23 billion inflow during the week.<br>• In the week ahead, supply is expected to be $20-25 billion. Expectations for supply in the month of June are $100bn, in line with the 5-year average. | Bid/ask conditions in the IG market are back to normal |

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| | **Euro IG**<br>• Euro IG were generically 1 to 2bp tighter during the week ended June 11, while GBP IG were 0 to 1 bp tighter.<br>• Flows were two way, with some better sellers of tight short dated paper and better buyers in the long end causing modest curve flattening amid rates rally.<br>• KPN Euro bonds were 5-15 bp tighter and their GBP bonds were ~35 bp tighter following the news that EQT/Stonepeak have ended their plans to take over KPN.<br>• Supply picked up this week with approximately €18 and £3 billion. Book coverage remains relatively low with most deals between 1x and 4x oversubscribed. New issue premium crept up generically between 0-10 bp and was more prevalent for the lower beta deals. Despite the heavy supply most deals performed well during the week.<br>• We continue to see the compression theme play out with higher beta / spread deals performing well even when they came without new issue concessions.<br><br>**REIT Preferreds**<br>• Liquidity in the REIT preferred market is typically limited under more normal conditions given the retail nature of the investor base.<br>• 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**<br>• The US high yield market was uneventful during the week ended June 11.<br>• New issues continued to print with $9.65 billion pricing across 13 deals.<br>• New issues continue to face the same positive demand technicals we have seen all year. Most deals traded up modestly in the secondary market.<br>• US HY market spreads were 6 bp tighter week-over-week to 291 bp. The CCC-BB spread difference was 11bp tighter to 273 bp.<br><br>**Euro HY**<br>• The Euro HY market was characterized by spreads grinding tighter on light volumes during the week ended June 11.<br>• During the week, €3.23 billion printed across 6 deals (vs. the weekly average of €2.5 billion). Deals generally printed at the tight end or well through initial price talks (IPT), suggesting continued strong demand to play new issue, and sidelined cash. Performance however was a little lack luster with most deals trading near reoffer. The primary market should remain active in the weeks ahead. | Bid/ask spreads vary by issuer but generically:<br><br>BB-rated securities: 0.75 point, which is in line with normal market conditions<br><br>B-rated securities: 1 point, which is in line with normal market conditions<br><br>CCC-rated and below: 1.5points which is in line with normal market conditions |

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| | • Liquidity conditions were normal in terms of bid/offer spreads, but as volumes become subdued into the summer, the market will be more technical around specific names.<br>• The earnings calendar is heavy which is keeping investor focus, but at a high level, earnings have been strong and supportive of the already positive technical backdrop.<br><br>**CDX HY**<br>• CDX HY traded better along with the macro tone during the week ended June 11. It finally broke through the $110 resistance and we saw short covering after the CPI print.<br>• Trading volumes were slightly below the 30-day average.<br>• Bid/ask spreads have declined to pre-crisis levels. | CDX HY bid/ask is in line with normal conditions. |
| Emerging Market Debt (EMD) | **Hard Currency EM**<br>• EM credit grinded 3bp tighter during the week ended June 11 to 330 bp, buoyed by the firm tone in core rates, WTI breaking through $70, and the continued strong technical backdrop in EM credit.<br>• Looking under the hood, EM HY has now compressed 70 bp versus EM IG since the beginning of April. It is now 70 bp above the Jan '20 tights and 400 bp down from the crisis wides.<br>• Peru was in focus during the week following leftist candidate Pedro Castillo's victory in Sunday's presidential election. Sovereign credit traded down 2-3 points on Monday, but in classic sell the rumor buy the fact fashion, by Wednesday it had completely reversed the underperformance. On Friday, Castillo's advisors held a highly attended policy review meeting and came off sounding more reasonable than most were expecting which led the long end to close the week up 1.5 points (+5 points from Monday's lows).<br>• El Salvador was under pressure this week after the IMF expressed their dissatisfaction with Bukele's decision to use Bitcoin as a legal tender coupled with his government arresting the former San Salvador mayor. The curve traded down 4 points and closed the week at the lows.<br>• Technicals continue to be robust with deals pricing with little to no concessions and books heavily oversubscribed. For example, Aramco had 55 billion for a 6 billion deal. Inflows were strong, especially in local rates, which had a strong week following the move in Treasuries.<br><br>**Local Currency EM**<br><br>The local EM rates market mostly tracked US Treasuries. Liquidity remains adequate but volatility is to be expected. | EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions |
| Asia | **Asia Hard Currency**<br>• Asia credit spreads widened 6 bp over the week ended June 11, but the index posted a solid gain of 0.6% thanks to a rally in US Treasuries, which defied another upside surprise in US inflation. | Liquidity conditions are normal for Asia credit |

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| | • USD bonds issued by Evergrande, a major property developer in China and one of the largest borrowers in Asia HY, continued to plunge, dropping 5~8 points over the week, as investor sentiment soured further on the latest report over the company's related-party dealings with Shengjing Bank<br>• ChemChina's USD bonds continued to squeeze 15~20 bp on the back of a headline suggesting the upcoming Syngenta IPO could target a valuation of USD 60 billion.<br>• Primary market remained active with a total of USD 6.9 billion bonds getting printed with a diverse representation of issuers across countries and sectors.<br><br>**Asia Local Currency**<br>• Asia local currency bonds generally rallied alongside US Treasuries in the week ended June 11, albeit to a lesser extent.<br>• Korea Treasury Bonds twist flattened sharply with the front end selling off as much as 10 bp and back end rallying up to 10 bp as a Bank of Korea official sounded a hawkish tone, suggesting that 1-2 rate hikes should not be seen as policy tightening<br>• China Government Bonds underperformed regional peers with yields rising as much as 5-7 bp on the week as supply picked up in local government bond space and Friday's auction of 30-year center government bonds saw a poor investor reception. | Liquidity conditions are normal for Asia local currency debt |
| Securitized | **CMBS**<br>• CMBS spreads continued to grind tighter in the week ended June 11. Secondary activity picked up, with $166 million additional bonds out for the bid versus the prior week. Activity in the primary market also accelerated. One new issue was announced and a second one will follow closely behind. Last week's new issue was easily digested by the market, as all classes were oversubscribed and most priced tighter than the initial guidance.<br>• Liquidity conditions remain unchanged. Bid/offer spreads in AAA to A rated tranches have retraced their post-COVID widening, while BBB rated classes remain 2x the historical average.<br>• Activity in CMBX Series 6 slowed last week. The rally in series 6 BBB- staled as prices reached $75. However, that still represents a 3-point rally since the beginning of June. Bid/offer spreads in CMBX series 6 have, at least temporarily, retraced their post-COVID widening.<br><br>**ABS**<br>• ABS primary market priced ten transactions for the week ended June 11 totaling $8.4 million across credit cards, aircraft, solar, insurance, auto leases, prime auto loans and non-prime auto loan sector. ABS year-to-date supply now stands at $112.2 billion compared to $70.2 billion recorded in 2020 over the same period.<br>• The flurry of ABS paper in the primary market was digested extremely well as evidenced from the upsizing and final pricing | |

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| | spreads falling largely through their initial guidance range. The strong primary demand coupled with favorable secondary technicals led to further spread compression across credit card and prime auto ABS. Spreads across consumer and esoteric ABS sectors held firm at/near their post GFC tights.<br>• On June 10th, Hertz announced that the Bankruptcy Court had confirmed the company's reorganization plan. As a part of the plan, all creditors will be paid in full and existing shareholders will receive more than $1 billion of value. The reorganizational plan will also eliminate all the $5 billion of debt, including all of Hertz Europe's corporate debt, and will provide more than $2.2 billion of global liquidity to the reorganized company. The press release further notes that Hertz will emerge with a new $2.8 billion exit credit facility consisting of at least $1.3 billion of term loans and a revolving loan facility, and an approximately $7 billion of asset-backed vehicle financing facility, each on favorable terms. Hertz, which at the onset of the pandemic last year was forced to file for Chapter 11 relief in May 2020, is now targeting to exit Chapter 11 on June 30, 2021.<br><br>**CRTs**<br>• During the week ended June 11, Last Cash Flow Bonds were generically up 2-4 ticks. Approximately $700 million traded in the secondary market.<br>• Arch, a mortgage insurer (MI) came to market during the week. The deal was massively oversubscribed allowing it to tighten 30-100 bp depending on the class.<br>• Secondary market liquidity is robust and bid/ask spreads remain tight, around pre-covid levels.<br><br>**Legacy Non-Agency RMBS**<br>• 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.<br><br>**CLOs**<br>• The new issue market remained the focus of the CLO market during the week ended June 11.<br>• The CLO secondary market continues to trade well with $200 million daily bid list amounts becoming the norm. However, the supply seems to be easily taken down.<br>• Generic primary market clearing levels on the week stood roughly at 112-114 bp for AAA-rated spreads; AA-rated spreads at around 165 bp; A-rated at 195-200 bp bp; BBB-rated at 300-305 bp; and BB widening to 625-675 bp with some OID (original issue discount) creeping back into the market.<br>• Liquidity remains robust in the CLO market. Bid/ask spreads remain at or around pre-crisis levels. | |

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| | **Agency MBS**<br>• 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 | • 1-month LIBOR set at 0.075%; 3-month LIBOR set at 0.118%, a new record low.<br>• SOFR set at 0.01%. The Effective Federal Funds Rate set at 0.06%. Repo rates were pinned at 0%.<br>• Usage of the Fed Reverse Repo facility (RRP) hit another record high of $548 billion.<br>• Government money market funds had $9 billion in outflows in the week ended June 11. Prime funds also had $9 billion of outflows over the same period. | |
| US Municipals | • With the US Treasury rates rally in the week ended June 11, the muni market mostly kept pace with benchmark AAA yields lower 2-9 bp across the curve.<br>• The firm tone was evident in both primary and secondary markets causing the 30- year muni to treasury ratio to reach a historic low.<br>• Given the stretched valuations, market participants continue to move down the credit quality spectrum with many high yield names gapping higher. In fact, BBB yields hit fresh historic lows on the back of this strength.<br>• Liquidity remains strong across all parts of the market, with even the smallest odd lots typically seeing discounts of only 1 point or less. | |
| Canadian Market | **Federal**<br>• Liquidity is best in benchmark issues for block sizes of <=CAD25 million. “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.”<br>• The Government Bond Purchase Program (GBPP) has resulted so far in $257.4b in buying (assets minus liabilities minus position at the start of the QE in March 2020).<br>• Market participants will be watching economic data and statements from BOC officials to gauge whether or not the BOC will continue to reduce its QE in coming quarters.<br>• According to the latest BOC research, Federal debt is the most liquid sector within the Canadian fixed income markets.<br><br>**Provincial**<br>• Liquidity is best in benchmark bonds from Quebec, Ontario, and British Columbia.<br>• Depending on market tone, concessions may be requested in order for dealers to take less-liquid positions. | Federal: bid/ask was at 4 cents in the 10-year area, but for the long end of the curve, it remains relatively wider at up to 15 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 |

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| | • Most dealers will not bid aggressively on off-the-run, high coupon provincial issues but will favor agency trades.<br>• 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 anymore.<br><br>**IG Corporates**<br>• The latest Bank of Canada research highlights the lack of liquidity in Canadian corporate bond markets, which can impact pricing; many dealers are maintaining low balance sheet inventories, so will not provide bids in some sectors.<br>• Trading on an agency basis for high-beta issuers.<br>• The Bank of Canada had a $10bn 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 end this Corporate Bond Purchase Program (CBPP) on May 25, 2021.<br><br>**Real Return Bonds (RRBs)**<br>• 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.<br>• Trading in Canada RRBs continues to show a lack of liquidity. Trading a block can only be done on an appointment basis.<br>• In the aftermath of the federal budget there were indications that Canada will issue only C$1 billion in RRBs in the current fiscal year with four actions. 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.<br>• Liquidity remains challenging as dealers hold very limited inventories in RRB securities. | example – the latest ultra- long Canada 2064 bid-ask is at 25 cents reflecting its liquidity issues given this is not a benchmark.<br><br>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.<br><br>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 may refuse to bid in a risk off market with gaps in spreads.<br><br>Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet. Bid-ask is not a |

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| | | reliable indicator for trading. |

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