ALLIANCEBERNSTEIN®

April 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 16 April 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	• The develop market rate complex has rallied ~15bp over the two weeks since March month end. The curve has been volatile and reactive to both economic data and "Fed-speak" for pricing in FOMC rate hikes. Markets are now pricing in 17bp tightening by January 2023, 30.5 by June 2023 and 75 by the end of 2023. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved by 80-90% from the worst levels on February 26. Market depth in the 30-year part of the curve has improved 70-80% since February 26. • Observable bid-offer spreads are in line with historical averages in on-the-run bonds. Transaction costs in off-the-run bonds are wider vs historical averages but have improved meaningfully over the past several weeks. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • During the week ended April 16, flows were relatively muted at the beginning of the week in both primary and secondary markets. Up to Wednesday, the primary market saw only $10bn price. Following 1Q2021 bank earnings releases, three of the big six banks tapped the primary market on Thursday and Friday for $34bn in total, putting pressure on the financials space. JP Morgan ($13bn) and Bank of America ($15bn) each priced the biggest US bank new issue on record on back to back days. The interest rate rally on Thursday also pushed some buyers to the sidelines, causing the market to underperform equities. • The positive momentum on flows accelerated with a $6.4bn inflow. Overnight flows from Asia remained muted. • Looking ahead, $25-30bn in supply is expected next week with a skew toward financials.	Bid/ask conditions in the IG market are back to normal

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	Euro IG • The euro IG market saw spreads grind tighter on low volatility during the week ended April 16. Net flows in European credit were fairly balanced with a small skew towards better bid leading to a modest tightening in spreads. There was no spillover from the widening in Asia credit spreads to the European credit market. • New issue supply continued to be reasonably light with ~9bn EUR and no GBP supply coming to market during the week. Deals came with minimal concessions to existing curves and were 1.5x to 4.5x oversubscribed and generally performed well in the secondary market. **REIT Preferreds** • Liquidity in the REIT preferred market is typically limited under more normal conditions given the retail nature of the investor base. • 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** • The US high yield market was again focused on the new issue market during the week ended April 16 amid heavy new issuance. • ~$15.4bn priced across 17 deals, outpacing the YTD weekly average of $12bn. Order books were largely oversubscribed (3-9x), and were well-supported in the secondary market, mostly trading up 1-4 points. There was some selling to fund the new issues. • The secondary market was largely uneventful, and option adjusted spreads on the index ended the week unchanged at 292 bp. The spread between CCC and BB-rated bonds was 9bp wider to 313 bp. **Euro HY** • Focus remained on the primary market in Euro HY during the week ended April 16. $4bn priced across 6 deals, in line with the busiest weeks year-to-date and above the weekly average. • Secondary markets were muted but there was increased selling to fund primary markets as cash balances have slowly come down. Performance was mixed in both primary and secondary markets this week as for the first time this year, the majority of deals did not trade above reoffer. • Overall liquidity generally remains good and there has been two-way flow in markets that have traded lower, but the constructive technicals have softened on the margin. **CDX HY** • CDX HY traded better along with the macro tone during the week ended April 16. CDX HY closed the week up 18 cents with most of the strength coming towards the end of the week. • Trading volumes began to normalize following the recently busy roll period.	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 in line with normal conditions.

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	• Bid/ask spreads have declined to pre-crisis levels.	
Emerging-Market Debt (EMD)	**Hard Currency EM** • EM credit was firm again during the week ended April 16 as interest rate stability coupled with persistent flows into the sector to drive index spreads 8 bp tighter to close at 348bp. Beta continued to compress, with high yield spreads tighter by ~20bps vs. investment-grade spreads 2 bp wider. • Ecuador was the top performer with the curve trading up ~15 points as the market-friendly candidate handily won the presidency. Peru lagged the low-beta Latin America space by ~2-3bp as the leftist candidate topped expectations in the first round of the presidential election. Russia was a focal point as US sanctions caused an initial knee jerk panic but quickly reversed as locals and offshore investors shrugged off the move. **Local Currency EM** • 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** • Asia credit spreads widened 11bp during the week ended April 16, posting a total return loss of 0.2% despite a modest rally in US Treasury yields. • The Asia credit market was focused on the extreme selloff of Huarong's USD bonds, a troubled Chinese asset manager that spooked investors when they delayed the release of 2020 results at the end of March. After reaching a nadir Thursday morning when bonds dropped to a dollar price in the 50s, they recovered on Friday and ended the week ~8 to15 points lower in price terms (~200 to 1500 bp wider in spread terms). • The Huarong fallout had a spillover effect on the China IG market, particularly the financial sector, with asset management company bonds selling off as much as 50bp and leasing names widening ~5 to 15 bp. Away from financials, the contagion has been largely contained. • Fragile investor sentiment did not hamper the primary market, as a total of $11.7bn came to market. The majority of the supply came from investment grade, punctuated by Tencent's 4.25 bn jumbo deal on Thursday. **Asia Local Currency** • Asian local currency bond performance was mixed even as global core yields declined broadly. • China government bonds rallied ~4-6bp with the 5-year tenor breaching the key 3% level, after a PBOC official commented that they will keep liquidity ample into the tax payment season and anticipated surge in bond supply. • Indian government bonds had a turbulent week as the results of the first GSAP (Secondary Market G-Sec Acquisition Program) operation	Asia IG credit is ~1 to 1.5x wider vs. normal market conditions Asia HY credit is ~1 to 1.5x wider vs. normal market conditions Liquidity conditions are normal for Asia local currency debt

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	showed higher than expected cutoff yields. Bonds initially sold off but recovered some of the losses on Friday as the RBI cancelled the 10-year bond auction, closing the week ~7 to 10bp higher in yield.	
Securitized	**CMBS** • During the week ended April 16, CMBS spreads widened modestly at the top of the capital stack but performance continues to be strong below the AAA-rated level. 10-year AAA-rated bond spreads widened 2bp while AA and A-rated tranches tightened 5bp. • One new issue priced. As with other recent new issues, the top of the capital stack needed to be widened modestly to get the deal over the finish line. Two new issues are expected in the coming weeks which may continue to pressure spreads at the top of the capital stack. • Liquidity in the secondary market remains abundant, with AAA to A-rated CMBS classes having retraced their post-covid-19 widening, while bid/offer spreads for BBB-rated classes remain approximately 2x their pre-covid-19 levels. • As has been the case for several weeks, CMBX performance was mixed. Recent vintage series continue to outperform seasoned vintages. Volumes were modest at all parts of the capital stack. Finding liquidity can be challenging yet CMBX bid/offer spreads remain unchanged, with CMBX A.6, BBB-.6, and BB.6 bid/offer spreads approximately 2x their historical averages. **ABS** • The ABS primary market priced seven deals for the week ending April 16, totaling $6.5bn across equipment, student loan, timeshare, prime auto lease and prime and non-prime auto loan sectors. ABS year-to-date supply now stands at $72bn compared to $49bn recorded over the same period in 2020. The primary market continues to show strong oversubscription levels and upsized deals, with final pricing well inside of initial guidance. • ABS spreads largely held firm on the week, on the back of strong demand in secondary markets, balanced by modest primary supply. Technicals have recovered since the bout of supply pressure in March, on top of general credit market softness due to rate volatility. **CRTs** • The week ended April 16 saw the continuation of strong technicals in the CRT market. Positive momentum continued with prices ranging from 8 ticks to 2 points higher. There continues to be elevated trade volume in B2 bonds, accounting for 55% last week, when typically the cohort is ~25%, highlighting the search for yield. • Two MI deals priced and traded 15-25bp tighter on the break. In the week ahead a STACR deal is expected to price. • Secondary market liquidity remains elevated with new investors reportedly showing interest in the market.	

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	• Bid/ask spreads remain around pre-covid levels. **Legacy Non-Agency RMBS** 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. **CLOs** • The new issue market remained the focus of the CLO market during the week ended April 16. Single A through BB-rated classes are seeing pricing come tighter vs initial price talk, while AAA and AA-rated classes have seen lower demand, with deals coming in line with initial guidance. • Supply in the CLO secondary market continues to trade well, especially lower in the capital stack as discount BB-rated bonds become increasingly rare. Original issue discounts for BB-rated bonds are less common as many new issues from top tier managers in this class are getting done at par. • Levels on the week stood at 115bp for AAA-rated spreads; AA-rated spreads at around 165bp; A-rated are 200bp; BBB-rated are 290-300bp; and BB around 635-640bp. • 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 remain well supported, given the Fed purchases of $40bn per month. Bid/offer spreads improved during the week ended April 16. 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	• During the week ended April 16, SOFR continued to set at 0.01%. The Effective Federal Funds Rate set at 0.07%. 1-month LIBOR set at 0.114%; 3-month LIBOR set at 0.186% • NY Fed Vice President Lorie Logan gave a speech at a SIFMA Webinar Thursday stating that "the Fed can adjust administered rates as needed should undue downward pressure on overnight rates emerge." Usage of the Fed Reverse Repo facility (RRP) has seen $30-50bn per day. • Government money market funds had $24bn of outflows in the 7 days ended April 16. Prime funds had $6bn of outflows over the same period. These were largely due to the April 15 tax date.	
US Municipals	• Municipal benchmark yields were 6-11bp lower during the week ended April 16 as municipals showed strength despite ratios and after-tax spreads once again near all-time lows. There are four major tailwinds driving the market: an abundance of cash due to steady inflows, lower-than-average new issue supply, a positive credit outlook for state and local governments, and pending legislation that could potentially increase tax rates.	

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	• High yield credit and sectors heavily impacted by the pandemic have outperformed in recent weeks. Liquidity for odd lots remains robust with discounts to round lot bid-side valuations ranging from 0.50-0.75 points.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. 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 should support liquidity at the 30-year part of the yield curve. • The BOC has purchased C$241.8 billion to support liquidity in Government of Canada markets through April 14. Many dealers are expecting the Canada buying program could be reduced to $3bn per week at the next BOC meeting on April 21. According to the latest BOC research, Federal debt is the most liquid sector within the Canadian fixed income markets. **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$17.5 billion in par value year to date through April 14 within their provincial buying program to support liquidity. The BOC has cut their maximum weekly take out to $350mn from $500mn and the buying program is done only once per week. Dealers expect this purchase program to mature on May 7, 2021. **IG Corporates** • 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 many sectors. • Trading on an agency basis for high-beta issuers. • Liquidity has been improving temporarily in the aftermath of new corporate deals. The Bank of Canada's $10bn 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$240 million par as of April 14), indicating the impact is limited. The BOC has announced that they will cut the maximum size of	Federal: bid/ask was at 5 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 this high volatility period with much wider bid-ask given small outstanding size in these securities. 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. BBB- corporates are trading by appointment, particularly in the energy sector. Inventories are

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	their tenders under the purchase program, reducing the max amount to C$50mn from C$100mn previously • Based on lack of intervention and BOC comments it is expected the program will be cancelled on May 7, 2021. **Real Return Bonds (RRBs)** • 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. • Trading in Canada RRBs continues to show a lack of liquidity. Trading a block can only be done on an appointment basis. • Of note, the last $300mn auction of RRB 0.5% Dec 2050 was done on February 10. On that day the central bank was not able to buy its maximum of 6 Canada RRBs for a total of $450mn with a target of $75mn per line item (from 2026 to 2047 maturities). In December, the BOC bought net $34mn in RRBs compared with $122mn in February (BOC buying program less new supply). • The next RRB auction is expected by May/June, so supply remains limited in RRB markets in 2021. Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	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. Provincial RRBs trading by appointment only. Dealers do not hold these securities on their balance sheet. Bid-ask is not a reliable indicator for trading.

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