ALLIANCEBERNSTEIN®

July 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 23 July 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	• Global developed market rates rallied in the week ended July 23, with the US underperforming its European and UK counterparts. Most of the rally outside the US could be attributed to dovish central bank rhetoric in Europe and rising covid delta variant concerns/cases. • Interest rates were volatile intra-week in the US with the 10-year note trading in a 19 bp range – a surprisingly large range given a lack of major economic data releases or Fed-speak and seemingly driven by moves in equities. The US 10-year Treasury yield hit an intraday low of 1.12% on Tuesday following a big move lower in stocks. Also of note was the outperformance of the 5-year point on the curve, with 5s30s trading above the technically-significant support level of 120 bp steep at the close of the week. • Liquidity in terms of market depth in on-the-run cash 5-year and 10-year Treasuries has improved 80-90% from the challenges seen in February 2021. Market depth in the 30-year part of the curve has improved ~80% since February. • Observable bid-offer spreads are in line with historical averages in the most liquid bonds. Transaction costs in off-the-run bonds are wider but have improved meaningfully since late February. • In TIPS, on-the-run bond bid-offer spreads are 1-2 ticks wide during the most liquid parts of the day; off-the-run bonds in 5-10 year maturities are ~4 ticks wide; longer-maturity TIPS are trading 8-10 ticks wide. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • The US IG market started out weak on the back of macro tone and delta variant concerns during the week ended July 23, but quickly rebounded and retraced most of the move wider by the end of the week. • As expected, supply was light, with ~18bn pricing and lower engagement than in recent weeks, with deals 2.5x oversubscribed	Bid/ask conditions in the IG market are back to normal

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	on average (vs YTD average of 3x). New issue premia trended down compared to recent weeks. Higher-beta deals attracted stronger demand. • In the secondary market, flows leaned toward better buying in long maturities and selling in intermediate maturities. Overnight flows were quiet amid the interest rate volatility. Overall positive momentum on flows continued with $4.3 billion in inflows during the week. **Euro IG** • Euro and GBP IG spreads were unchanged to 1bp tighter with low trading volumes during the week ended July 23. Euro IG remained stable during the week's macro volatility. The airline sector was the main underperformer, which struggled due to concerns over the delta variant. Euro hybrids underperformed vs senior debt with bonds 7-10 bp wider. • Supply was very light with only EUR 2bn, and is expected to stay low for the coming weeks as Q2 earnings pick up. Overall book coverage remains relatively low, and new issue premia have modestly crept up. **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** • During the week ended July 23, the US HY market index spreads ended the week 7 bp wider week-over-week to 289 bp, largely recovering from price action lower on Monday. The CCC-BB spread difference was 14 bp wider to 281 bp. • On Monday, "fast money" investors drove selling of recent new issues and covid-related bonds. ETF arbitrage investors were sellers of broader risk, putting further pressure on the market. "Real money" investors were largely on the sidelines. Many of the higher-coupon deals that priced in the prior week outperformed the broader market in the secondary market. • As sentiment in the risk markets recovered later in the week, focus shifted to new issues. In the primary market $8.926 billion priced across 7 deals. **Euro HY** • In the week ended July 23, there was an uptick in volatility early in the week as global concerns over the Delta variant grew. Interest returned to the secondary market during the week. More covid-exposed names sold off 1-3 points at the lows, but retraced	Bid/ask spreads vary by issuer but generically: BB-rated securities: 0.75 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

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	some/all of the drawdown by end of week, although still broadly underperforming the rebound seen in equities. • Overall, although the tone improved in the second half of the week and prices recovered, the week ended marginally softer, with most selling coming from hedge funds along with dealers reducing balance sheet risk. There was minimal contagion into less covid-exposed parts of the market and healthy two-way volumes as the market recovered through the week. • Bid-ask spreads remain unchanged and in line with normal market averages. **CDX HY** • CDX HY traded a touch better, but underperformed the macro tone during the week ended July 23. • Trading volumes picked up amid the macro volatility • Bid/ask spreads have declined to pre-crisis levels.	with normal market conditions CDX HY bid/ask is in line with normal conditions.
Emerging Market Debt (EMD)	**Hard Currency EM** • The week ended July 23 was a busy week in EM credit as index spreads widened ~5bps in the face of interest rate and global macro risk volatility. • The primary market refused to slow, with several deals pricing and most continuing to offer substantial new issue premium and trading well on the break. • In the secondary market, HY corporates were better offered and there were reports of “real money” investor selling into crossover investor demand. • Colombia was active as ETF sellers finally filled the “real money” investor demand, leading the curve to slightly underperform mid-beta Latin America credit.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions
Asia	**Asia Hard Currency** • During the week ended July 23, Asia credit primary market issuance rose to USD 9.5 billion. • Indonesia USD sovereign new issuance treaded water, but weighed on the rest of the sovereign and quasi-sovereign space with spreads 5-10 bp wider week-over-week. • China property developer bonds were under stress with bellwether bonds dropping 4-6 points and Evergrande 15-18 points lower. Education-related bonds dropped ~5 points on headlines Friday that China is considering turning tutoring firms into non-profits. **Asia Local Currency** • Liquidity continues to function normally.	Asia hard currency IG/HY liquidity has become more challenging with bid-offer spreads 1.2x wider vs normal. Liquidity conditions are normal for Asia local currency debt
Securitized	**CMBS** • During the week ended July 23, CMBS spreads were wider throughout the capital stack as macro volatility and lower yields caused demand for CMBS to wane. 10-year AAA-rated tranches were wider by 3 basis points, while A through BBB rated classes	

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	widened by 4 bps. Supply is slow but steady and the market is easily digesting it. • Bid/offer spreads in AAA to A rated tranches have retraced their post-COVID widening, while BBB rated classes remain 2x the historical average. • CMBX traded in a narrow range and ended little changed week-over-week. Trading volume continues to be anemic. Bid/offer spreads in CMBX have retraced their post-COVID widening. **CRTs** • During the week ended July 23, the market for B2 bonds continued to show weakness while the rest of the capital stack traded sideways. There continues to be a good bid for B1 and last cash flow bonds. • Secondary market liquidity is robust and bid/ask spreads remain tight, 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** • Generic primary market clearing levels on the week stood roughly at 110-118bp for AAA-rated spreads; AA-rated spreads at around 160-165bp; A-rated at 205-210 bp; BBB-rated at 305-315 bp; and BB at 600-650 bp. • 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. 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.	
US Municipals	• In the week ended July 23, municipal yields trailed taxable interest rates, with short-maturity bond yields reacting less to moves wider in taxable rates as municipal investors deployed cash in front end municipals, particularly 5-year. • On the week, municipal benchmark yields were 2-5bp tighter in short maturities and 1bp wider in long maturities. There were a few days where the long maturity part of new deals had unsold balances or had to widen in order to get done. • Municipals continue to see inflows and there is a large amount of coupon income and calls expected in August which will only increase the level of cash in the market. For the smallest (5k-15k) odd lots, there was around a 1pt haircut to round lot bid side levels and this was around 0.25pts for larger (100k+) odd lots.	

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Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. Bank of Canada (BOC) is “buying at least $2 billion of Canadian government bonds a week until the recovery is well underway.’’ It should continue to support market liquidity. “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.” • The latest BOC balance sheet shows that the central bank continued to support liquidity in Canadian markets (as of July 21). • The Government Bond Purchase Program (GBPP) has resulted so far in $260.43 in net buying (assets minus liabilities minus position at the start of the QE in March 2020). As expected, there was a reduction of QE bond buying to $2bn per week after the latest BOC meeting. • 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 but will favor agency trades. • 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. Reduced trading activity during summer months could hinder liquidity. **IG Corporates** • The latest Bank of Canada research highlights the limited 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 such as telecommunications, pipelines, and transportation. • Trading is on an agency basis for issuers affected by mergers and acquisitions. • The Bank of Canada had a 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 ended this Corporate Bond Purchase Program (CBPP) on May 25, 2021. Lower corporate supply in summer months could lead to reduced secondary market liquidity.	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 12 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 example – the latest ultra-long Canada 2064 bid-ask is at 30 cents reflecting its liquidity issues given this is not a benchmark. 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 generally trading by appointment,

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	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 continued lack of liquidity. Trading a block can only be done on an appointment basis. • Finance Department documents indicate that Canada will issue only C$1 billion in RRBs in the current fiscal year with four auctions. 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. • Liquidity remains challenging, trading by appointment, as dealers hold very limited inventories in RRB securities. The next RRB auction is expected in September 2021.	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. 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.