AllianceBernstein

June 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 25 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	• 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. • 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. TIPS bid offer spreads widened out 2 ticks last week vs. normal levels. • Federal Reserve bond purchases continue at $80 billion US Treasuries and $40 billion MBS per month.	
Investment Grade (IG) Corporates	**US IG** • US IG market spreads were range-bound during the week ended June 25, with the index tightening 1bp week-over-week. • Supply slightly exceeded expectations of $15-20 billion as approximately $23 billion priced throughout the week. Technicals in the market remain supportive but momentum has slowed as demand for new issues is not as robust as a few weeks ago. • In the secondary market, flows were balanced for most of the week, except for Friday when dealers were net lifted of $1.6bn in bonds following the US Treasury curve bear steepening. Overnight flows were muted relative to robust long maturity bond buying seen during the prior week following the FOMC meeting. • The positive momentum on flows slowed with $233 million in inflows during the week, the smallest inflow in 7 months. • In the week ahead, supply is expected to slow ahead of the 4th of July holiday weekend and be in the range of $15-20 billion. Expectations for supply in the month of July are $70-75 billion (3-year average ex-2020 is ~92bn). **Euro IG** • Euro and GBP IG spreads were largely unchanged with low trading volumes during the week ended June 25.	Bid/ask conditions in the IG market are back to normal

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• Flows were mostly two-way and there was modest curve flattening, predominantly in higher-beta bonds. AT1 and corporate hybrids outperformed as the compression theme continued to play out. • Supply was relatively light during the week as summer began. ESG continued to be in focus with ~55% of the week's supply being ESG-related. Overall book coverage was relatively low although there was increased demand for non-generic deals. Most deals continued to come with minimal to no new issue premium. **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 June 25, US HY market spreads were 11 bp tighter week-over-week to 275 bp. The CCC-BB spread difference was 1 bp tighter to 269 bp. • The secondary market remains firm and relatively quiet on light news. The primary market remained active with $10.23 billion pricing across 14 deals. New issues continue to face the same positive demand technicals seen all year. **Euro HY** • In the week ended June 25, liquidity conditions remained normal in terms of bid/offer spreads and volumes were healthy but reasonably light in the secondary market. • It was all about primary market supply with 4bn EUR equivalent pricing across 9 deals. The secondary market leaked lower week-over-week despite the firmer macro backdrop as selling to fund the primary market calendar began to occur. • However, the primary market technicals remain healthy with good book subscriptions. Most deals continue to price at the tight end of initial price guidance and deals trading at/above reoffer. **CDX HY** • CDX HY traded better along with the macro tone during the week ended June 25. For the first time this year, CDX HY traded with a premium to NAV. • Trading volumes were in line with the 30-day average. • Bid/ask spreads have declined to pre-crisis levels.	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 with normal market conditions CDX HY bid/ask is in line with normal conditions.
Emerging Market Debt (EMD)	**Hard Currency EM** • During the week ended June 25, it was a somewhat directionless week in EM credit with index spreads tightening 5 bp. EM high yield saw a bounce mid-week reversing previous trading days of beta de-compression, but still underperformed investment grade.	EM IG and HY sovereigns and EM IG and HY corporates are

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• Volumes continue to be light, with large Latin American issuers trading at ~50% of their average historical volume. Sri Lanka traded down 3-5 points amid headlines surrounding the Ceylon Petroleum Corporation's attempt to refinance state bank loans, coupled with relative outperformance year to date. The Mexican central bank shocked the market by hiking interest rates 25bp in a split decision, driving shorter-maturity bonds 50bp wider over 2 days and disrupting liquidity. **Local Currency EM** The local EM rates market mostly tracked US Treasuries. Liquidity remains adequate but volatility is to be expected.	back to normal market conditions
Asia	**Asia Hard Currency** • Asia credit spreads tightened just 1 bp against a bear-steepening US Treasury yield curve resulting in a total return loss of 0.1%. • In the primary markets, there was a steady trickle of supply with USD 6.4 billion worth of bonds issued, across a mix of China and non-China as well as both IG and HY. • The China HY property space was weaker by 0.5% as bonds issued by Evergrande, a major property developer in China and one of the largest borrowers in Asia HY, resumed their decline on the back of a series of negative headlines. **Asia Local Currency** • Asia local currency bonds traded generally weaker with a bear flattening bias as global yields marched higher. • One exception was China, where bonds rallied by ~4-6bp as the PBOC injected liquidity via an open market operation for the first time since March. • In Korea, the central bank signaled its intention to start normalizing monetary policy this year, triggering a ~7-13 bp selloff in government bonds.	Liquidity conditions are normal for Asia credit Liquidity conditions are normal for Asia local currency debt
Securitized	**CMBS** • During the week ended June 25, CMBS spreads were modestly wider by 1-2bp at the top of the capital stack, while A and BBB-rated classes remained unchanged. • $2.4bn in bonds were presented to the market for bid, $111mn fewer than the previous week but in line with recent history. • In the primary market, one new issue priced, and another was announced which was expected to price before quarter end. The new issue calendar is expected to be light for the remainder of the summer. • 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 performance was mixed. Newer vintages outperformed seasoned vintages. Most series and tranches outperformed the	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	cash market. Bid/offer spreads in CMBX series 6 have retraced their post-COVID widening. **ABS** • The ABS primary market priced nine transactions for the week ended June 25 totaling $7.3 billion across aircraft, franchise, railcar, private credit student loan, FFELP, auto lease and rental car loan sectors. ABS year-to-date supply now stands at $126.1 billion compared to $79.7 billion recorded in 2020 over the same period. • The ABS sector continued to see strong execution in the primary market as evidenced from upsizing and final spreads printing through their initial guidance. • Indicative benchmark spreads continued to linger near cyclical tight levels. On the week, private credit student loan ABS benchmark spreads tightened 2 bp and prime auto loan ABS registered 0-2bp tightening across the credit spectrum. Spreads for non-prime auto loan segment tightened by 0-2bp for senior debt while subordinated debt saw spreads widen by 4 bp on the week. Consumer and esoteric ABS spreads remained unchanged for the week. **CRTs** • During the week ended June 25, last cash flow bonds were slightly weaker due to technical quarter-end dealer selling. B2 bonds remained on course from the previous week, closing higher. Normal volumes returned with just under $1.2bn in the secondary market. • There was little impact to liquidity following the Supreme Court's ruling on Wednesday related to the FHFA. Consensus expectations are that Fannie Mae will return to the market given changes to the enterprise capital rules around CRTs in Q4 2021. Freddie Mac priced a STACR high LTV deal during the week. • 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 115-116 bp for AAA-rated spreads; AA-rated spreads at around 165 bp; A-rated at 205-210 bp; BBB-rated at 305-310 bp; and BB at 625-675 bp with top tier managers pricing at par and lower quality managers needing OID (original issue discount) to print deals. • Liquidity remains robust in the CLO market. Bid/ask spreads remain at or around pre-crisis levels.	

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	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.	
Money Market	• The Fed Reverse Repo facility (RRP) saw record usage of $813 billion ahead of quarter end. • 1-month LIBOR set at 0.104%; 3-month LIBOR set at 0.147%, a new record low. • SOFR set at 0.05%. The Effective Federal Funds Rate set at 0.10%. • Government money market funds had $2 billion in outflows in the week ended June 25. Prime funds had $9 billion of inflows over the same period.	
US Municipals	• In the week ended June 25, high quality municipal bonds moved wider with interest rate volatility. Late in the week there was stability at wider levels given strong technicals and investor cash on the sidelines. • High yield municipals continue to trade very well with strong demand for new issues. • Odd lot penalties were higher than normal given the overall widening bias.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. Bank of Canada is ''buying at least $3 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." • Looking at the latest BOC balance sheet we can see that the central bank continued to support liquidity in Canadian markets (as of June 16th). • The Government Bond Purchase Program (GBPP) has resulted so far in $251.4 in net buying (assets minus liabilities minus position at the start of the QE in March 2020). • 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. • 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.	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 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 25 cents reflecting its liquidity issues

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	• 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 anymore. **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 some sectors. • Trading on an agency basis for high-beta issuers. • 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. **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. • 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. • Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	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 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. 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.

The above is provided for informational purposes only. All information is unaudited and subject to change. Nothing provided herein is intended to be used for the purposes of making investment decisions.