ALLIANCEBERNSTEIN®

June 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 4 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 4, US Treasuries staged a bull flattening rally, with rates pressured lower by lower stock prices. • 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. • 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. • 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 cash bond market was relatively quiet during the holiday-shortened week ended June 4. The index closed 1 bp wider from YTD tight levels at +85 bp. • $27 billion in new deals priced during the week, ahead of expectations of $15-20bn. Demand for new issues was not as robust as seen in the past few weeks, but the technicals remain supportive with deals 2.9x oversubscribed on average and priced with little concession. • Secondary market flows were balanced, and higher-beta issuers remain well bid. Positive momentum on flows continued during the week with a $1.7bn inflow. Overnight flows were relatively muted throughout the week. • In the week ahead, supply is expected to be $25-30 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

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	Euro IG • Euro IG and GBP IG spreads were generically 1bp tighter during the week ended June 4 with flows skewed toward better buyers. Volumes were light due to the Spring bank holiday. There was some buying of longer-dated bonds which caused modest curve flattening. • Bayer bonds were downgraded by Moody's to Baa2, with their hybrids downgraded from Baa3 to Ba1. Their hybrids underperformed, ending the week lower. • Supply was light at approximately €7 bn and £1 bn, with low book coverage between 1x and 3x, although higher demand for high-beta/high-spreads deals remains. In secondary market trading, most deals 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. • 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 uneventful during the week ended June 4. • The pace of new issuance slowed with $5.515bn pricing, half of the $11bn YTD weekly average. Demand technicals for new issues remained strong and most traded up in the secondary market. • US HY market spreads were 1 bp wider week-over-week to 297 bp. The CCC-BB spread difference was 17bp wider to 284 bp. **Euro HY** • The Euro HY market was characterized by spreads grinding tighter on light volumes during the week ended June 4. • 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. • 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. **CDX HY** • CDX HY traded better during the week ended June 4, largely tracking the positive macro tone. • Trading volumes picked up after a short week, but were still below 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.

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Asia Hard Currency

- Asia credit markets were stable during the week ended June 4 with both the index level spread and total return remaining flat over the week.
- In the primary market, $10.5bn in new issues came to market, with a mix of issuance coming from China, Korea, Indonesia and the Philippines.
- USD bonds issued by Evergrande, a major property developer in China and one of the largest borrowers in Asia high yield, plunged as local media reported the banking regulator is examining transactions between the company and its majority-owned regional bank. ChemChina's USD bonds rallied after the company was removed from the latest US Treasury sanctions list.

Asia Local Currency

- Asia local currency bond performance was mixed with each market trading along idiosyncratic drivers against the backdrop of fairly stable developed market yields
- Indonesian local government bonds rallied by 5-10bps with a flattening bias as demand for duration returned; the sukuk auction held on June 1 received IDR 44 trillion of incoming bids, the highest demand since August 2020.
- Yields in China government bonds rose by ~2 to 4bps as concerns over looming local government bond supply began to weigh on investor sentiment.

</td><td>Liquidity conditions are normal for Asia credit

Liquidity conditions are normal for Asia local currency debt</td></tr>
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CMBS

- CMBS spreads were little changed on light trading volume. Market participants appeared to await increased new issuance before deploying capital. The new issue calendar is expected to pick up, with up to 3 new deals to launch before the end of June.
- 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.
- There was a good amount of activity in CMBX, especially series 6. A combination of short covering and outright buying of risk caused the BBB- rated tranche to rally week-over-week. As trading volume rises, liquidity in CMBX generally rises. Bid/offer spreads in CMBX series 6 have, at least temporarily, retraced their post-COVID widening.

ABS

- The ABS primary market priced one transaction for the week ending June 4 totaling $0.253mn in the container loan sector. ABS year-to-date supply now stands at $103.3bn compared to $66.7bn recorded in 2020 over the same period.
- The May supply total came in at $23bn.
- ABS benchmark spreads remain at/near cyclical tights and were largely unchanged for the week ending June 4th.

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	CRTs • The week ended June 4 was a slow week in the CRT market due to the holiday. Levels were generically up 2-4 ticks on Last Cash Flow bonds. The theme of strong demand across the capital stock continues. Approximately $400 million traded in the secondary market, where $1-1.2bn is the norm. • No new issues priced during the week. Arch (BMIR) has been hosting pre-deal roadshows and timing for the deal is expected to be the week of June 7 • 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** • The new issue market remained the focus of the CLO market during the week ended June 4. • The CLO secondary market continues to trade well but levels have begun to soften, moving out closer to where the primary market is clearing. The basis between top-tier and lower-quality managers seems to be widening with this move. Demand remains strong. • Generic primary market clearing levels on the week stood roughly unchanged at 112-114 bp for AAA-rated spreads; AA-rated spreads at around 160 bp; A-rated at 190 bp; BBB-rated at 300bp; and BB around 615-625 bp/par. • 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.	
Money Market	• 1-month LIBOR set at 0.081%; 3-month LIBOR set at 0.123%, a new record low. • SOFR set at 0.01%. The Effective Federal Funds Rate set at 0.06%. Repo rates were pinned at 0%. • Usage of the Fed Reverse Repo facility (RRP) hit another record high of $486bn. • Government money market funds were flat in the 7 days ended June 4. Prime funds had $1bn of inflows over the same period.	
US Municipals	• Technicals remained strong in the municipal market during the week ended June 4, with steady flows and below-average supply. • There continues to be spread compression in mid-grade and high-yield issuers which has been driven by the robust technical backdrop and near all-time low municipal/US Treasury ratios.	

	• Odd lot discounts to round-lot bid-side evaluations are at pre-pandemic levels with discounts averaging a half point.	
Canadian Market	**Federal** • Liquidity is best in benchmark issues for block sizes of <=CAD25 million. • The BOC purchases of at least $3 billion of Canadian government bonds per week until the recovery is well underway should continue to support market liquidity in Canadian markets. The Government Bond Purchase Program (GBPP) has resulted so far in $257.8b in 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. • Most dealers will not bid aggressively on off-the-run, high coupon provincial issues, they 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. 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	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. 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.

	buyback RRB program and estimated $800m + in coupon payments on June 1. • Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	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.