ALLIANCEBERNSTEIN®

August 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 6 August 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 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** • Supply picked up in the US IG market during the week ended August 6, overwhelming expectations of $25-30bn with $38bn pricing. The robust supply weighed on secondary market spreads throughout the week, with the index closing 2bp wider week-over-week. • Similar to the prior week, high-beta bonds remained well bid. During the week higher-quality deals priced with larger concessions and were fewer times oversubscribed vs high-beta bonds. • Secondary market flows remained muted as many traders are on vacation and Asia investors stayed on the sidelines during the week amid interest rate volatility. • There were $363 million in outflows during the week. **Euro IG** • There was a firm tone throughout the week ended August 6 despite volatility in the US Treasury market, with extremely	Bid/ask conditions in the IG market are back to normal

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	light supply and the ECB continuing to be present in the market. • Overall flows were benign as many market participants are on summer holidays. Euro IG spreads were generically unchanged to a few bp tighter. AT1s were the outperforming segment, closing up 75 cents to 1 point, with technicals overwhelmingly strong given the number of redemptions of late. **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** • US HY bonds were quoted lower on very light secondary market volume during the week ended August 6, with index spreads ending the week 10 bp wider week-over-week to 304 bp. The CCC-BB spread difference was 18 bp wider to 306 bp. Energy underperformed the broader market as the underlying commodities traded lower. • While the secondary market remained quiet, new issuance continued to be active, with $14.325 billion pricing across 15 deals. Books continued to garner moderate oversubscription (largely 2-4x) and performance in the secondary market was mixed. **Euro HY** • In the week ended August 6, trading volumes were very light amid the August summer lull. Spreads seemed to grind slightly tighter but overall, there was minimal price action. • Bid-ask spreads remain unchanged and in line with normal market averages. **CDX HY** • CDX HY traded weaker along with the macro tone during the week ended August 6. In a reverse from the prior week, HY outperformed IG on a beta-adjusted basis. • 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** • The week ended August 6 saw EM credit index spreads grind 5bp tighter, tracking global macro risk as overall trading volumes subsided into the August lull. Corporate credit technicals were firm following another relatively quiet week of supply and a flat-to-short dealer community.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions

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	• South Africa was in focus as President Ramaphosa announced his cabinet reshuffle, which included the removal of finance minister Mboweni which was met with a backup in local government bonds (SAGBs) and a selloff in the rand. Markets calmed when Enoch Godongwana was announced as the replacement, stabilizing South African assets. CDS and the rand closed the week unchanged, and SAGBs were ~8-11bp wider.	
Asia	**Asia Hard Currency** • During the week ended August 6, Asia credit spreads tightened 6 bp against a relatively steady US Treasury curve resulting in a total return gain of 0.3%. The strong US payroll number released on Friday had no impact on Asia credit performance for the week. • Primary market issuance slowed materially with only USD 3.1 billion pricing vs 9 bn the previous week. • Asia IG bonds traded firmer, led by Indonesian sovereign and quasi sovereign bonds, which tightened by 10-15bp on the week as local pandemic conditions showed signs of stabilizing. • China high yield property bonds staged a meaningful recovery, rising 1-2 points on the week (about 60bp tighter in spread), even as negative headlines pushed Evergrande bonds weaker – with longer-maturity bond prices in the low $40 price range. **Asia Local Currency** • Asia local currency bond yields were generally higher following the upward movement of global interest rates. • The outcome of the Reserve Bank of India's monetary policy meeting was taken to be slightly hawkish as one member dissented from keeping the accommodative monetary stance, inflation forecasts were revised materially higher and variable reverse repo rate auctions were expanded in size. Indian Government bonds sold off ~2-6bp in a bear flattening move.	Liquidity conditions are normal for Asia credit. Liquidity conditions are normal for Asia local currency debt
Securitized	**ABS** • The ABS primary market priced six transactions for the week ending August 6 totaling $3.5bn across FFELP, container, whole business, and prime and non-prime auto loans sectors. ABS year-to-date supply now stands at $158.2bn compared to $103.1bn and $142.6bn recorded over the same period in 2020 and 2019, respectively. • Despite the abundance of supply, indicative benchmark spreads remain at or near cyclical tights and largely unchanged on the week, with the exception in the MPL sector, which saw 5bp of tightening down the capital stack under the AAAs.	

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CMBS

During the week ended August 6, two new CMBS issues priced, one single asset/single borrower (SASB) and one conduit. While the SASB deal was easily placed, the conduit bonds needed to be widened to complete the transaction.
Secondary market CMBS spreads widened in sympathy. By the end of the week, AAA through A rated tranches were 2-10bp wider and BBB-rated classes widened by 20bp. Secondary market activity remained quiet with the most notable flows coming from hedge fund investors taking profits on seasoned mezzanine debt.
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 was mostly wider week-over-week. However, some classes tightened despite macro volatility and the widening displayed in CMBS, particularly in AA and A-rated tranches. Flows continue to be very light. Bid/offer spreads in CMBX have retraced their post-COVID widening.

CRTs

During the week ended August 6, the secondary market for CRTs continued to benefit from the lack of new issuance. Spreads tightened marginally across the board. There are reports of Genworth potentially bringing an MI deal prior to Labor Day.
Secondary market liquidity is robust, particularly considering it is August, when volumes typically drop off. 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 112-119 bp for AAA-rated spreads; AA-rated spreads at around 160-165 bp; A-rated at 200-210 bp; BBB-rated at 295-310 bp; and BB at 600-635 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.

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Money Market	• The Fed Reverse Repo facility (RRP) usage was around $1 trillion. • 1-month LIBOR set at 0.095%; 3-month LIBOR set at 0.127%. • SOFR set at 0.05%. The Effective Federal Funds Rate set at 0.10%. • The T-bill curve remains flat, hovering around the 0.05% floor • Government money market funds had $12 billion of outflows in the week ended August 6. Prime funds had $8bn of outflows over the same period.	
US Municipals	• In the week ended August 6, municipal bonds were modestly wider, but outperformed taxable interest rates. The technical backdrop for municipal bonds remained strong with significant investor cash balances and heavy coupon and principal payments. Adding to these cash balances, a large (7.2bn) note will not be rolled in 2 weeks, which was a surprise to the market. • Beta compression continued with most high yield deals performing well. • Odd lot liquidity remains robust, with low concessions to round lot bid side levels on average.	
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 August 4). • The Government Bond Purchase Program (GBPP) has resulted so far in $258.1 bn 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. Looking ahead, the central bank may go into silent mode if a federal election is called for September as expected, providing limited feedback to investors on Canadian capital market liquidity. **Provincial** • Liquidity is best in benchmark bonds from Quebec, Ontario, and British Columbia.	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

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	• 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) in May 2021. Lower corporate supply in summer months could lead to reduced secondary market liquidity. **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.	risk-off markets, liquidity is drying up and spreads can widen depending on market tone. BBB- corporates are generally 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 and activity is rare. Dealers do not hold these securities on their balance sheet. Bid-ask is not a reliable indicator for trading.

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