AllianceBernstein

April 2021

Market Update – Fixed Income Trading Liquidity
For the Week Ended 9 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	• During the week ended April 9, the developed market rate complex was mixed, with German bunds selling off a couple basis points on better economic data, UK gilts rallying a couple basis points amid a holiday-shortened week, and US Treasuries outperforming with 10-year notes rallying 6bp. Volumes were 20% below recent averages with many market participants out for the Easter holidays. • The US rates market unwound some of the positive momentum of higher yields seen during the prior week with both ISM and non-farm payroll data handily beating expectations. The main catalyst of the price action was the dynamics around the market pricing in Fed rate hikes; whereby the FOMC minutes and speeches by Chair Powell and Vice Chair Clarida continued the strong dovish rhetoric despite the improved economic data, stating the Fed wants to see a string of months like March as the economy is at an "inflection point". • The other headline that generated significant interest on the week was the NY Fed's Lorie Logan's speech that mentioned "making certain minor technical adjustments" to the FOMC purchase schedule to remain in line with the outstanding nominal coupon securities and TIPs. She also mentioned a 7-20 year Fed operation that may be concentrated solely in the 20-year issue. Given some of the issues the 20-year point has faced from an end user demand standpoint in 2021 and points of episodic liquidity issues this should be a positive catalyst for the 20-year sector. • 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. • The March Treasury STRIP Data was released and showed principal STRIPS outstanding rose $10.255bn over the month. This is the second largest on record, after October 2018 when the end of pension fund tax breaks drove a $12.4bn monthly number. The	

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	addition of this March report puts the 2021 total buying of principal STRIPS at over $23bn. • 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** • It was relatively uneventful in the US investment-grade cash bond market during the week ended April 9. The market traded sideways throughout the week, with the index closing unchanged week-over-week, 1 bp away from YTD tight levels. • Supply was relatively light, as expected, with $20bn pricing during the week. New deals on average tightened modestly in the secondary market. • The positive momentum on flows continued with a $4bn inflow. Overnight flows from Asia were fairly light. • Looking ahead, supply is expected to remain steady next week at $20bn. Supply for April is expected to be $85-100bn. **Euro IG** • The euro IG market saw very light trading activity post-Easter during the week ended April 9. Light supply during the week supported the technical picture, allowing spreads to grind tighter. • New issue supply was reasonably light at ~8bn EUR and 1.3bn GBP coming to market during the week. Deals were 1.5x to 3.5x oversubscribed and generally performed well in the secondary market. • Credit Suisse reported it will take a CHF4.4bn pre-tax hit from its Archegos positions, which led their AT1 bonds to trade up 1.5-2.5 points, recovering the majority of losses from the prior week. **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.	Bid/ask conditions in the IG market are back to normal
High Yield (HY) Corporates	**US HY** • The US high yield market felt firm again during the week ended April 9 as option-adjusted spreads moved 10bp tighter to 292bp. • The secondary market was supported by positive technicals—$9bn in coupons, calls and tenders and ~$3bn in inflows—and continued interest rate stability. • The new issue market saw~$14bn price across 19 deals, outpacing the YTD weekly average of $11.8bn. Order books were largely oversubscribed (2.5-5x), most deals priced at the tight end of initial	Bid/ask spreads vary by issuer but generically: BB-rated securities: 1 point, which is in line with normal market conditions

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	price guidance, and deals were well-supported in the secondary market, trading up 1-3 points. • The spread between CCC and BB-rated bonds was 2bp tighter to 304 bp. **Euro HY** • Overall it was a muted week in Euro HY during the week ended April 9. The primary market was active, but below the weekly average of 3.3bn with just 1.85bn printing across 2 deals. Thematically, the market was similar with deals well oversubscribed, printing through initial price guidance and trading well on the break. • Secondary markets moved higher as investors looked to spend cash. Buying was broad-based, but there was a focus on higher-spread, more positively-convex names. Beta compression was a theme in the index. • Overall liquidity remains good and technicals solid with a focus on the primary market. **CDX HY** • CDX HY traded better along with the macro tone during the week ended April 9. Strong macro tone helped CDX HY outperform CDX IG. Non-dealer positioning in the old series (HY35) was net long, leading to continued strong performance of the new series—HY36—at the beginning of the roll period. • Trading volumes were high amid the roll period. • Bid/ask spreads have declined to pre-crisis levels.	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** • EM credit traded firm during the week ended April 9 as market participants welcomed the stabilization in core interest rates and the steady tone in global macro risk. Under the hood, high yield compressed ~10bps vs. investment-grade as large "real money" inflows into the asset class were put to work in the high yield sovereign space. • El Salvador outperformed, trading up 4 points following reports of progress on their potential IMF program as well as developments on anti-corruption policies. • Asian investors continued to favor low-/mid-beta Latin America bonds even with spreads hovering around multi- year tights, extending the most consistent period of demand in over a year from the life-insurance investor base. • Supply was easily digested as Mexico priced a 20-year deal which was the first EM deal to price vs. the 20-year US Treasury, following the recent US investment-grade corporate convention change. The book was 4x covered and traded up 0.5 point on the break as investors took advantage of the relative flatness in the Mexican 20-year/30-year curve.	EM IG and HY sovereigns and EM IG and HY corporates are back to normal market conditions

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	• In the week ahead, Peru and Ecuador will be in focus amid uncertain presidential elections being held over the weekend. **Local Currency EM** • The local EM rates market mostly tracked US Treasuries. Liquidity remains adequate but volatility is to be expected.	
Asia	**Asia Hard Currency** • Asia credit spreads widened 6bp during the week ended April 9, but the sector posted a total return gain of 0.1% amid a move lower in US Treasury yields. • Trading volumes were relatively light coming out of the Easter holidays but normalized towards the end of the week. • Primary market issuance slowed, with only $2.6bn coming to market as market sentiment turned cautious on the back of the developing situation surrounding Huarong. Huarong bonds plunged ~3 to 20 points across the curve as a lack of communication from the company stoked fears of a debt restructuring. Spillover to the broader China investment-grade sector was largely contained even as Huarong's asset management company peers widened ~20 to 40bp. **Asia Local Currency** • Asian local currency bond yields were stable thanks to the consolidation of US Treasury rates. • Indonesia government bonds rallied ~15 to 25bp during the week despite a poor result in Tuesday's sukuk auction, as the debt management office revealed the 2Q issuance calendar, showing a materially reduced supply compared to 1Q. • In India, the RBI held the policy rate unchanged but announced an explicit quantitative easing under the Secondary Market G-sec Acquisition Program. The Indian government bond yield curve bull-flattened as much as 10bp.	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 Asia local currency debt is ~1 to 1.5x wider vs. normal market conditions
Securitized	**CMBS** • During the week ended April 9, robust insurance company and asset manager demand for CMBS continued to drive valuations tighter across the capital stack. Forecast issuance remains low, leaving investors scrambling to fill asset allocations in secondary markets. After a brief pause in positive momentum near the end of March, spreads levels—particularly for higher-quality tranches—are again trading at or near all-time tight levels. Liquidity is more than adequate and bid/offer spreads have narrowed somewhat, 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	

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	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 9, totaling $5.7bn across unsecured consumer loan, tax liens, SBL, whole business, equipment and prime auto loan loans sectors. ABS year-to-date supply now stands at $66bn compared to $47bn recorded over the same period in 2020. • Demand appeared solid once again during the week, as evidenced by oversubscription levels and upsized deals. While the auto sector continued to lead the way, sponsors across asset types have been tapping ABS funding as demand remained healthy and all-in yields remain at or near record lows. Indicative benchmark spreads widened 1-5bp across prime auto loan ABS and tightened 10bp across the private credit student loan space, reflecting new issue prints. • In the week ahead, there are eight deals pre-marketing totaling $5.3bn across the equipment, non-prime auto loan, prime auto loan and lease, student loan and time share ABS sectors.	
	CRTs • The week ended April 9 was a busy week in the CRT market. Several new issues were announced, and a couple priced, catching up for the quiet previous weeks. Genworth and Radian both issued deals at levels that were tight to where secondary markets were trading. The Radian deal in particular was broadly oversubscribed and tightened 10-15% from initial price guidance. Arch is expected to come to market in the coming week but not before Freddie Mac issues another STACR deal. • Spread levels in CRTs were tighter across the board. The rally started at the beginning of the week in last cash flow bonds – especially shorter-maturity, investment-grade bonds – and quickly spread to B1 and MI bonds. • S&P upgraded more than a dozen bonds from below investment grade to investment grade on Friday, April 2. This kicked off a search for these bonds by money managers that drove prices up. • Secondary market liquidity improved markedly with the rally as the second quarter began. • Bid/ask spreads came back in marginally and 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.	

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	CLOs • The CLO market during the week ended April 9 was busy with the secondary market and new issue market both firing on all cylinders. Supply in the CLO secondary market, especially lower in the capital stack – such as BB-rated – seemed to beget demand with several lists trading very well. Investor demand is particularly strong for bonds that still trade with a discount dollar price. New issue markets were also quite active with several new issues including refinancings and resets. Looking ahead, new issue announcements remain robust • Levels on the week stood at 112-115bp for AAA-rated spreads; AA-rated spreads at around 165-170bp; A-rated are 175-180bp; BBB-rated are 305-310bp; and BB around 650-675bp (most issued with original issue discount). • 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 9. Current coupon bonds are trading at 0.5-1 tick wide and the rest of the coupon stack is wider by 2-3 ticks.	
Money Market	• During the week ended April 9, SOFR continued to set at 0.01%. The Effective Federal Funds Rate set at 0.07%. 1-month LIBOR set at 0.112%; 3-month LIBOR set at 0.186% • Within the Fed minutes, Chair Powell noted, "…It might be appropriate to implement adjustments to administrated rates at upcoming meetings or even between meetings…" referring to a potential tweak to the Reverse Repurchase (RRP) or Interest on Excess Reserves (IOER) rates. • The Fed also announced that it will expand the RRP facility to additional counterparties, specifically targeting smaller money market funds. This is another move to firm up the floor at 0%. • Government money market funds had $45bn of inflows in the 7 days ended April 9. Prime funds had $18bn of inflows over the same period.	
US Municipals	• The week ended April 9 in the municipal market saw the continuation of a pattern seen over the past several weeks—inflows continued with lower-than-expected issuance. Even with a heavier week of issuance, demand was quite strong and secondary market bid-wanted lists were lower than historical averages. Odd-lot concessions remain relatively low and benchmark yields continued to grind tighter while interest rates remained volatile. High yield continues to see spreads move tighter, a trend seen all year. This time of year would typically see a seasonal jump in selling with tax-loss harvesting, but with the US government postponing tax deadlines and most bonds trading with gains, these	

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	flows have been reduced. Discussion of potential corporate and individual tax increases could add to the positive technical in the market.	
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$237.8 billion to support liquidity in Government of Canada markets through April 7. 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$17.4 billion in par value year to date through April 7 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. • A continued rise in crude oil prices from current levels could help liquidity in provinces where oil revenues will be pushed upward – Alberta, Saskatchewan and Newfoundland. **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. • 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 7), indicating the impact is limited. The BOC has announced that they will cut the maximum size of their tenders	Federal: bid/ask was at 3 to 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 reduced and

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	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 to be in the late April-June time frame so supply remains limited in RRB markets in 2021. Liquidity remains challenging as dealers hold very limited inventories in RRB securities.	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.