

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 nonfarm 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	US IG	Bid/ask
Grade (IG)	It was relatively uneventful in the US investment-grade cash bond	conditions in the
Corporates	market during the week ended April 9. The market traded sideways	IG market are
·	throughout the week, with the index closing unchanged week-over-	back to normal
	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.	
High Yield	US HY	Bid/ask spreads
(HY)	The US high yield market felt firm again during the week ended	vary by issuer but
Corporates	April 9 as option-adjusted spreads moved 10bp tighter to 292bp.	generically:
	The secondary market was supported by positive technicals—\$9bn	
	in coupons, calls and tenders and ~\$3bn in inflows—and continued	BB-rated
	interest rate stability.	securities: 1
	The new issue market saw~\$14bn price across 19 deals, outpacing the VTD was also says as a f \$11.0km. Order to a leave to a says to a says.	point, which is in
	the YTD weekly average of \$11.8bn. Order books were largely	line with normal
	oversubscribed (2.5-5x), most deals priced at the tight end of initial	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.	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
	 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. 	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 IG credit is ~1
	Asia credit spreads widened 6bp during the week ended April 9, but	to 1.5x wider vs.
	the sector posted a total return gain of 0.1% amid a move lower in	normal market
	US Treasury yields.	conditions
	Trading volumes were relatively light coming out of the Easter	00110110110
	holidays but normalized towards the end of the week.	Asia HY credit is
	Primary market issuance slowed, with only \$2.6bn coming to	~1 to 1.5x wider
	market as market sentiment turned cautious on the back of the	vs. normal market
	developing situation surrounding Huarong. Huarong bonds plunged	conditions
	~3 to 20 points across the curve as a lack of communication from	Conditions
	the company stoked fears of a debt restructuring. Spillover to the	Asia local
	broader China investment-grade sector was largely contained even	currency debt is
	as Huarong's asset management company peers widened ~20 to	~1 to 1.5x wider
	40bp.	vs. normal market
	400β.	conditions
	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.	
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, BBB6, 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.	
		1

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	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	Federal	Federal: bid/ask
Market	 Liquidity is best in benchmark issues for block sizes of <=CAD25 	was at 3 to 5
	million. Comments by central bank Governor Macklem that the BOC	cents in the 10-
	will buy at least \$4 billion of Canadian government bonds per week	year area, but for
	until the recovery is well underway should continue to support	the long end of
	market liquidity. The fact that the BOC will buy more bonds at the	the curve, it
	long end of the curve should support liquidity at the 30-year part of	remains relatively
	the yield curve.	wider at up to 15
	The BOC has purchased C\$237.8 billion to support liquidity in	cents given the
	Government of Canada markets through April 7. Many dealers are	recent higher
	expecting the Canada buying program could be reduced to \$3bn	volatility. Off the
	per week at the next BOC meeting on April 21. According to the	run, high coupon
	latest BOC research, Federal debt is the most liquid sector within	Canadas were
	the Canadian fixed income markets.	reported to have
	Don't state	limited liquidity in
	Provincial	this high volatility
	Liquidity is best in benchmark bonds from Quebec, Ontario and Dittick Columbia	period with much
	British Columbia.	wider bid-ask given small
	 Depending on market tone, concessions may be requested in order for dealers to take less-liquid positions. 	outstanding size
	Most dealers will not bid aggressively on off-the-run, high coupon	in these
	provincial issues, they will do agency trades, even with the Bank of	securities.
	Canada's buying program of provincial debt.	securities.
	The BOC has purchased C\$17.4 billion in par value year to date	Provincial:
	through April 7 within their provincial buying program to support	concession
	liquidity. The BOC has cut their maximum weekly take out to	reported to be
	\$350mn from \$500mn and the buying program is done only once	above average on
	per week. Dealers expect this purchase program to mature on May	size > CAD 25
	7. 2021.	million.
	A continued rise in crude oil prices from current levels could help	particularly at the
	liquidity in provinces where oil revenues will be pushed upward –	longer end. In
	Alberta, Saskatchewan and Newfoundland.	risk-off markets,
		liquidity is drying
	IG Corporates	up and spreads
	The latest Bank of Canada research highlights the lack of liquidity in	can widen
	Canadian corporate bond markets, which can impact pricing; many	depending on
	dealers are maintaining low balance sheet inventories, so will not	market tone.
	provide bids in many sectors.	
	 Trading on an agency basis for high-beta issuers. 	BBB- corporates
	The Bank of Canada's \$10bn buying program (focused on securities)	are trading by
	of 5-years or less) should support liquidity for corporate bonds	appointment,
	rated BBB and higher. However, the central bank has bought a	particularly in the
	relatively small amount of corporate securities to date (C\$240	energy sector.
	million par as of April 7), indicating the impact is limited. The BOC	Inventories are
	has announced that they will cut the maximum size of their tenders	reduced and

Sector	Liquidity Trading Comment	Bid-Ask Spreads
	under the purchase program, reducing the max amount to C\$50mn	dealers are not
	from C\$100mn previously	looking to
	Based on lack of intervention and BOC comments it is expected the	increase their
	program will be cancelled on May 7, 2021.	BBB- exposure.
		Dealers may
	Real Return Bonds (RRBs)	refuse to bid in a
	The program to purchase Government of Canada securities in the	risk off market
	secondary market – the Government Bond Purchase Program or	with gaps in
	GBPP – should help liquidity since it includes RRBs.	spreads.
	 Trading in Canada RRBs continues to show a lack of liquidity. 	
	Trading a block can only be done on an appointment basis.	Provincial RRBs
	 Of note, the last \$300mn auction of RRB 0.5% Dec 2050 was done 	trading by
	on February 10. On that day the central bank was not able to buy	appointment
	its maximum of 6 Canada RRBs for a total of \$450mn with a target	only. Dealers do
	of \$75mn per line item (from 2026 to 2047 maturities). In	not hold these
	December, the BOC bought net \$34mn in RRBs compared with	securities on their
	\$122mn in February (BOC buying program less new supply).	balance sheet.
	The next RRB auction is expected to be in the late April-June time	Bid-ask is not a
	frame so supply remains limited in RRB markets in 2021. Liquidity	reliable indicator
	remains challenging as dealers hold very limited inventories in RRB	for trading.
	securities.	

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