

# Situation Room

## New frontier in flatness

### New frontier in flatness

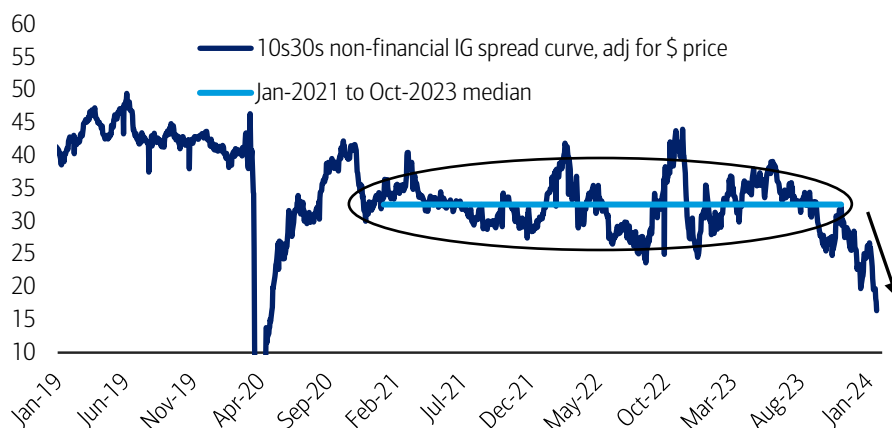
In January IG non-financial spread curves have reached the flattest level since the Global Financial Crisis, away from the Covid period in 2020 (Exhibit 2). Moreover, after adjusting for bond dollar prices, the 10s30s non-financial spread curve has in fact been relatively stable at around 32bps between Jan-2021 and Nov-2023. Then the big drop in back-end supply in 2H-2023 (Exhibit 3), the rally in spreads in 4Q-2023 and higher yields in January 2024 have pushed the curve to new cyclical lows (Exhibit 1). Finally, note that not adjusting for dollar prices shows the curve was near the current level in late 2022, when very low 30yr bond prices disproportionally tightened back-end spreads (Exhibit 4).

### A lack of back-end value

The record-flat IG 10s30s spread curves mean the value in 30yr bond spreads is poor. We suggest investors rotate out of 30yr and into 10yr bonds for issuers where the curve has flattened the most since November for better relative value. We screen for such issuers in Exhibit 5 inside. However, barring a substantial drop in interest rates and a significant pickup in 30yr supply, which we do not expect over the next few months, 10s30s IG spread curves should remain flat for now.

#### Exhibit 1: 10s30s IG spread curve has been stable post-Covid until late 2023, adj. for \$ price

When adjusted for bond \$ prices, the 10s30s IG spread curve has been relatively stable post Covid at around 32bps, until flattening sharply since Nov-2023 to just 16bps currently.



Note: the curve is based on on-the-run 10 and 30yr bonds, outstanding for no more than 2yr, on an issuer-matched basis.

Source: BofA Global Research, ICE Data Indices, LLC

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22 January 2024

Credit Strategy  
United States  
Cross Product

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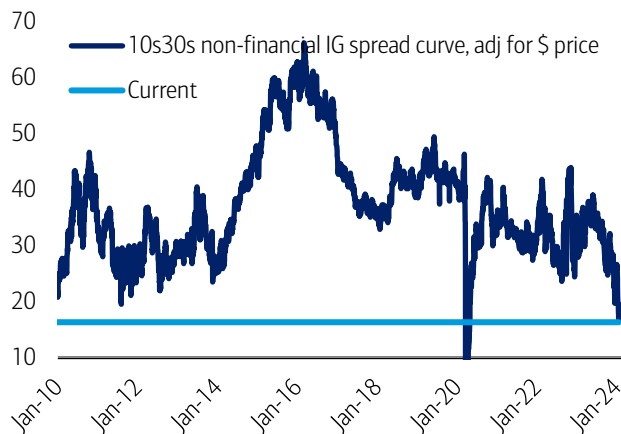
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12649185

Timestamp: 22 January 2024 06:33PM EST

**Exhibit 2: 10s30s IG spread curve is the flattest since the GFC**

After adjusting for \$ prices the IG spread curve is at the flattest level since the Global Financial Crisis (GFC), outside of the Covid crisis period in 2020.



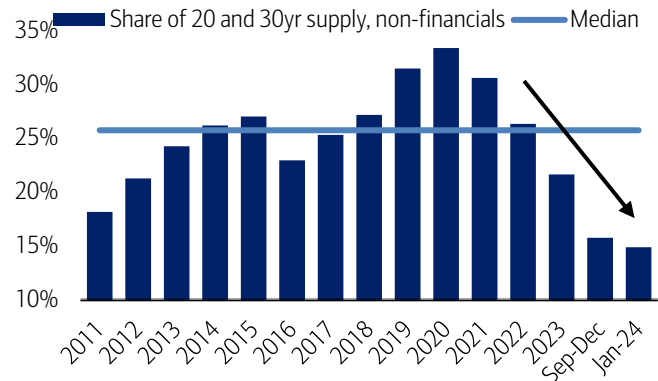
**Note:** the curve is based on on-the-run 10 and 30yr bonds, outstanding for no more than 2yr, on an issuer-matched basis.

**Source:** BofA Global Research, ICE Data Indices, LLC

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**Exhibit 3: IG 30yr supply has been very low since 4Q-2023**

The share of 30yr supply for non-financials has dropped to just 16% in Sep-Dec 2023 and 15% so far in January.

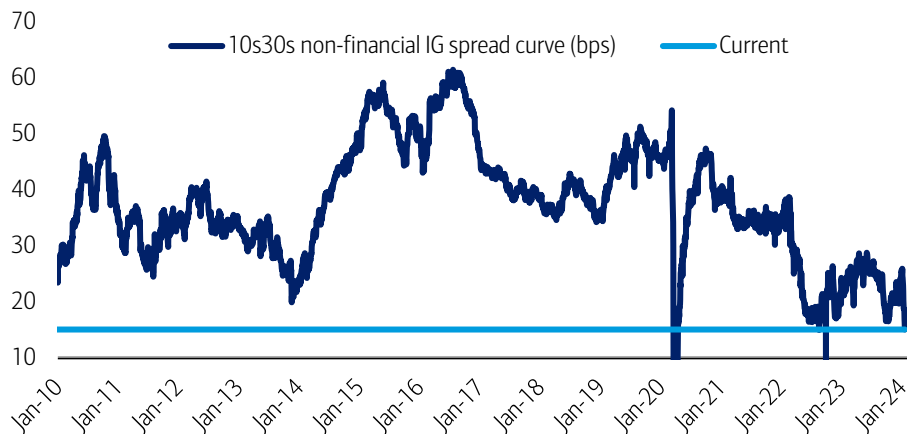


**Source:** BofA Global Research, ICE Data Indices, LLC

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**Exhibit 4: IG 10s30s non-financial spread curve, not adjusted for \$ prices**

When not adjusting for \$ prices the 10s30s IG spread curve is near the flattest levels since Oct-2022, when very low dollar prices of 30yr bonds tightened spreads in the back-end.



**Note:** the curve is based on on-the-run 10 and 30yr bonds, outstanding for no more than 2yr, on an issuer-matched basis.

**Source:** BofA Global Research, ICE Data Indices, LLC

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**Exhibit 5: IG spread curves that have flattened the most since November 2023**

We screen for 10s30s IG spread curves that flattened the most since Nov 1 2023, and a \$ price adjusted basis.

Issuer	10yr bond	30yr bond	Index rating	Sector	10yr g-spread (bps)	30yr g-spread (bps)	10s30s curve, \$ adj. (bps)	Curve on Nov 1, \$ adj. (bps)	Curve change	10yr notional (\$mn)	30yr notional (\$mn)
WARNERMEDIA HLDG	WBD 4.279 03/15/32	WBD 5.141 03/15/52	BBB3	Media & Entertainment	171	198	35	66	-31	4,993	6,998
ELEC DE FRANCE	EDF 6 1/4 05/23/33	EDF 6.9 05/23/53	BBB1	Utilities	124	173	43	73	-29	1,000	1,001
COX COMMUN INC	COXENT 5.7 06/15/33	COXENT 3.6 06/15/51	BBB2	Media & Entertainment	130	125	16	43	-27	500	700
JBS USA LUX/F/LU	JBSSBZ 6 3/4 03/15/34	JBSSBZ 7 1/4 11/15/53	BBB3	Food, Bev, & Bottling	202	226	19	45	-26	1,600	900

**Exhibit 5: IG spread curves that have flattened the most since November 2023**

We screen for 10s30s IG spread curves that flattened the most since Nov 1 2023, and a \$ price adjusted basis.

Issuer	10yr bond	30yr bond	Index rating	Sector	10yr g-spread (bps)	30yr g-spread (bps)	10s30s curve, \$ adj. (bps)	Curve on Nov 1, \$ adj. (bps)	Curve change	10yr notional (\$mn)	30yr notional (\$mn)
BAT CAPITAL CORP	BATSLN 6.421 08/02/33	BATSLN 7.081 08/02/53	BBB2	Tobacco	183	231	46	67	-20	1,250	1,000
LEAR CORP	LEA 2.6 01/15/32	LEA 3.55 01/15/52	BBB2	Automobiles	163	159	6	26	-20	350	350
COLUMBIA PIPE OC	CPGX 6.036 11/15/33	CPGX 6.544 11/15/53	BBB1	Energy	141	160	15	35	-20	1,500	1,250
META PLATFORMS	META 4.95 05/15/33	META 5.6 05/15/53	A1	Media & Entertainment	67	84	15	35	-20	1,750	2,500
ADVANCED MICRO	AMD 3.924 06/01/32	AMD 4.393 06/01/52	A3	Technology	59	59	2	22	-20	500	500
MOODY'S CORP	MCO 4 1/4 08/08/32	MCO 3 3/4 02/25/52	BBB1	Finance	79	78	6	25	-19	500	500
ENEL FIN INTL NV	ENELIM 7 1/2 10/14/32	ENELIM 7 3/4 10/14/52	BBB1	Utilities	151	176	14	33	-19	1,250	1,000
WELLS FARGO CO	WFC 6.491 10/23/34	WFC 4.611 04/25/53	A2	Banks/Brokers	137	106	-18	0	-18	3,250	3,250
GEORGIA POWER	SO 4.95 05/17/33	SO 5 1/8 05/15/52	BBB1	Utilities	103	94	-8	10	-18	1,000	800
INTEL CORP	INTC 5.2 02/10/33	INTC 5.7 02/10/53	A2	Technology	77	100	21	39	-18	2,250	2,000
KKR GROUP FINANC	KKR 4.85 05/17/32	KKR 3 1/4 12/15/51	A2	Finance	131	129	17	35	-18	750	750
HCA INC	HCA 5 1/2 06/01/33	HCA 5.9 06/01/53	BBB3	Health Care	130	146	16	33	-17	1,250	1,000
JPMORGAN CHASE	JPM 6.254 10/23/34	JPM 3.328 04/22/52	A1	Banks/Brokers	119	77	-26	-11	-15	3,000	3,500
AMGEN INC	AMGN 5 1/4 03/02/33	AMGN 5.65 03/02/53	BBB1	Health Care	101	113	11	26	-15	4,250	4,250
DOW CHEMICAL CO	DOW 6.3 03/15/33	DOW 6.9 05/15/53	BBB1	Basic Materials	92	131	31	46	-15	600	900
MPLX LP	MPLX 5 03/01/33	MPLX 5.65 03/01/53	BBB2	Energy	133	152	19	34	-15	1,100	500

**Source:** BofA Global Research, ICE Data Indices, LLC. This is a screen and not a recommended list either individually or as a group of stocks and options. Investors should consider the fundamentals of the companies and their own individual circumstances / objectives before making any investment decisions.

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## Daily credit snapshot

US IG issuance totaled \$6.7bn across 5 deals today, \$6.7bn WTD and \$157.7bn MTD. The average new issue concession was -3.3bps today, while the average break performance was 3.6bps tighter today. This week's new issues are trading 4.0bps tighter on average from pricing.

S&P 500 closed +0.22%, 10-year Treasury yields -2bps, CDX IG +0.5bps, CDX HY - \$0.02pts, and cash bond spreads quoted +/- 1bp today, LQD closed 0.01bps wider today.

**Exhibit 6: Recent new issue pricing and new issue concessions**

List of new issues in the IG corporate bond market today along with performance metrics.

Date	Ticker	Name	Tenor	Size (\$mm)	Moody's/S&P Rating	Coupon (%)	Px Spread (bps)	New Issue Conc. (bps)	* Break performance	Current spread (bps)
2024-01-22	BRKHCE	MidAmerican Energy Co	31	600	Aa2/A	5.3	98	-1	-3	95
2024-01-22	CCDJ	Federation des Caisses Desjardins du Quebec	5	1,000	A1/A-	5.25	125	n.a.	-6	119
2024-01-22	FITB	Fifth Third Bancorp	8NC7	1,000	Baa1/BBB+	5.631	155	-10	n.a.	n.a.
2024-01-22	TFC	Truist Financial Corp	6NC5	1,500	A3/A-	5.435	142	n.a.	-5	137
2024-01-22	TFC	Truist Financial Corp	11NC10	2,000	A3/A-	5.711	162	n.a.	-3	159

Note: We calculate new issue concessions by estimating the difference between new issue bond spread and interpolated G spread from comparable liquid secondary bonds of the same issuer prior to the new issue deal announcement, adjusted for the spread impact of dollar prices deviating from par. Break performance is computed as the difference between new issue pricing and secondary closing spread on the first day of trading.

**Source:** BofA Global Research, Bloomberg

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## Daily dealer inventories update

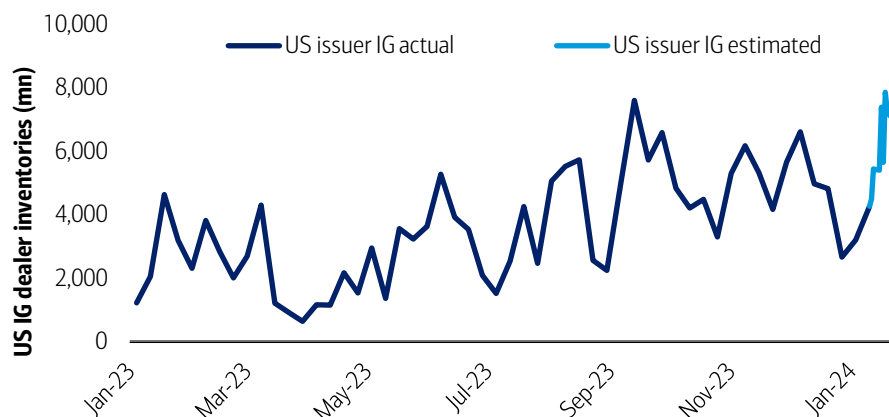
Below we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Exhibit 7. We estimate the corresponding DV01 equivalent in Exhibit 8. More details by sector and maturity are



available in Exhibit 9 and Exhibit 10. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

#### Exhibit 7: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$7.0bn currently from \$4.3bn on Jan-10.



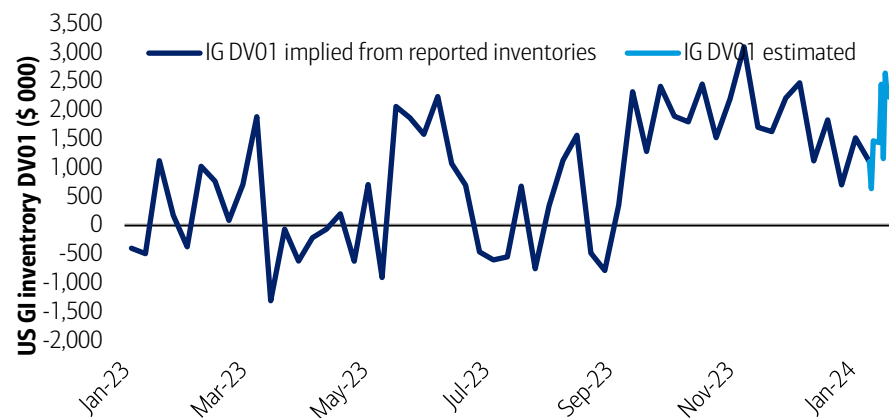
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE, Federal Reserve

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#### Exhibit 8: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$2.2mn currently from \$1.1bn on Jan-10.



Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE, Federal Reserve

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#### Exhibit 9: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories declined -\$33mn today and increased \$909mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 22-Jan-24 (\$mn)			
	22-Jan	19-Jan	1 W	2 W	4 W	22-Jan	19-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-33	-1,087	909	6,538	12,236	182	-590	754	4,094	6,811	11,175	11,208	6,976	29,358
<3yr	-405	-229	-874	-1,010	-1,134	-50	-36	-103	-137	-234	1,716	2,121	1,239	5,077
3-5yr	356	-304	-6	1,952	2,833	142	-118	-14	689	1,034	2,415	2,060	1,479	5,954
5-11yr	-289	-457	2,024	6,256	11,539	-230	-296	1,208	4,091	7,299	3,693	3,983	2,370	10,047
11+yr	306	-98	-236	-660	-1,001	320	-139	-337	-549	-1,287	3,350	3,044	1,887	8,280
Fin	-154	-898	-665	1,445	4,029	66	-352	126	1,116	2,055	4,743	4,897	2,713	12,354
Non-Fin	121	-189	1,573	5,093	8,206	116	-238	629	2,979	4,757	6,432	6,311	4,262	17,004

**Exhibit 9: Estimated changes in IG dealer inventories by maturity and broad sector.**

We estimate IG dealer inventories declined -\$33mn today and increased \$909mn over the prior week.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 22-Jan-24 (\$mn)			
	15	-1,053	965	6,676	12,800	185	-589	707	4,030	6,865	11,102	11,087	6,902	29,091
Fixed	15	-1,053	965	6,676	12,800	185	-589	707	4,030	6,865	11,102	11,087	6,902	29,091
Floating	-48	-34	-56	-138	-565	-3	-1	47	65	-54	73	121	73	267
US issuers	-237	-627	1,596	5,517	8,909	-47	-399	761	3,000	4,574	8,549	8,785	5,804	23,138
DM Yankees	81	-417	-789	798	3,134	160	-160	-45	938	2,092	2,251	2,170	1,094	5,515
EM Yankees	123	-43	101	223	192	69	-31	38	157	145	375	252	77	705

Note: data for maturities 13M or longer. Changes in inventories are estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE.

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**Exhibit 10: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories declined -\$322mn for Banks/Brokers and declined -\$23mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 22-Jan-24 (\$mn)			
	22-Jan	19-Jan	1 W	2 W	4 W	22-Jan	19-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-31	-32	-114	-161	-390	-52	5	-196	-245	-480	177	208	148	533
Automobiles	-65	-64	-94	-167	574	-20	-2	60	3	354	303	368	235	906
Banks/Brokers	-322	-766	-1,140	125	1,547	-56	-275	123	655	1,001	3,299	3,621	1,825	8,745
Basic Materials	38	-7	407	489	771	33	-14	285	369	516	464	426	279	1,169
Commercial Services	-1	-12	14	-68	4	-1	19	46	-58	19	89	91	64	243
Energy	-23	-79	-256	-216	-61	24	-58	-226	-281	-207	659	682	374	1,715
Finance	115	-78	381	675	1,307	44	-67	37	199	485	817	702	525	2,044
Food, Bev, & Bottling	-82	-43	-126	11	311	-51	-7	-10	93	326	426	507	212	1,145
Health Care	112	74	430	882	996	82	-78	45	382	394	1,034	923	788	2,746
Industrial Products	21	-142	-48	55	428	27	-45	69	153	335	170	149	139	458
Insurance	62	-55	-191	-154	-13	61	21	-144	-95	-45	307	245	207	760
Media & Entertainment	98	31	474	716	474	92	-15	399	576	344	408	309	279	996
REITs	-8	1	285	798	1,188	16	-32	111	356	613	320	328	157	805
Retail	71	48	199	539	660	48	28	179	409	564	331	260	266	857
Technology	77	38	474	1,154	1,374	75	20	211	773	750	728	651	449	1,827
Telecom	59	-141	27	581	954	53	-166	-90	196	502	568	509	256	1,333
Tobacco	12	-2	0	169	281	0	-1	15	112	180	132	120	131	384
Transportation	-39	-5	103	130	58	-51	-20	46	30	43	121	160	78	359
Utilities	-114	145	-22	721	1,413	-125	105	-270	286	937	668	782	454	1,904
Other	-12	3	104	258	360	-18	-6	65	182	179	154	166	109	428

Note: data for maturities 13M or longer. Changes in inventories are estimated based on TRACE.

Source: BofA Global Research, FINRA, TRACE.

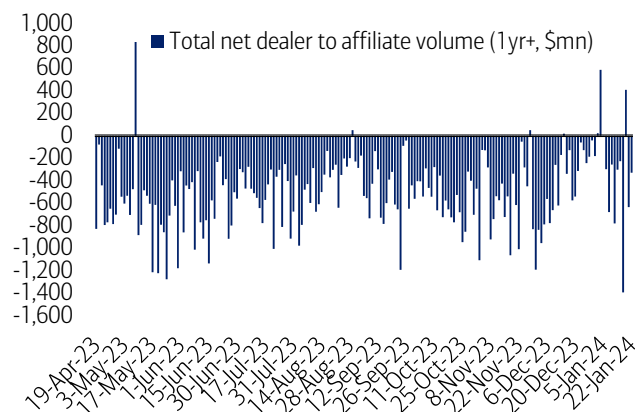
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## Daily foreign demand tracker

We believe net dealer-to-affiliate volumes from Trace are correlated with foreign buying of US HG corporate bonds - i.e., negative numbers mean foreign investor buying (US dealers taking down inventory in favor of foreign affiliates). For supporting material see our "primer" on tracking foreign inflows. Exhibit 11 shows the overall daily dealer-to-affiliate volumes while Exhibit 12, Exhibit 13 and Exhibit 14 show subsets of this data. In particular Exhibit 12 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 13 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 14 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Exhibit 11: Net dealer buying from affiliate (1yr+)**

Exhibit shows inconsistent overall foreign buying of US IG corporate bonds for some time.



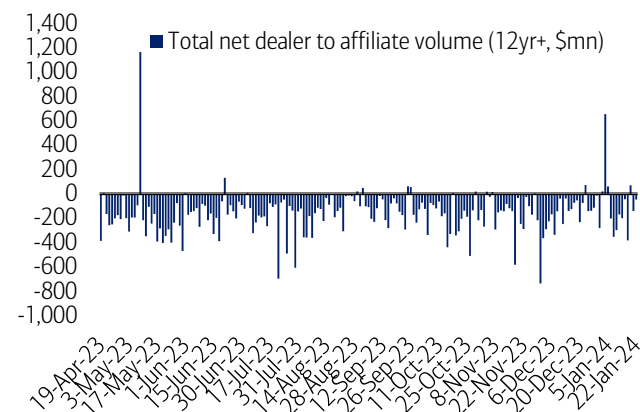
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 12: Net dealer buying from affiliate (12yr+)**

Foreign buying of longer maturity US IG corporate bonds has been consistent this year



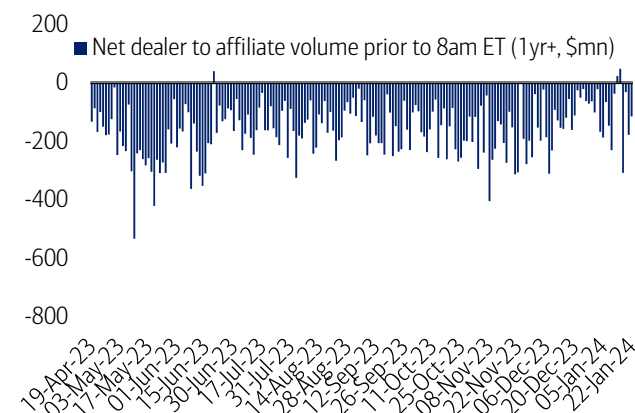
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 13: Net dealer-to-affiliate trading volumes before 8am ET**

Foreign buying before 8am NY time is dominated by Asia and has been consistent this year



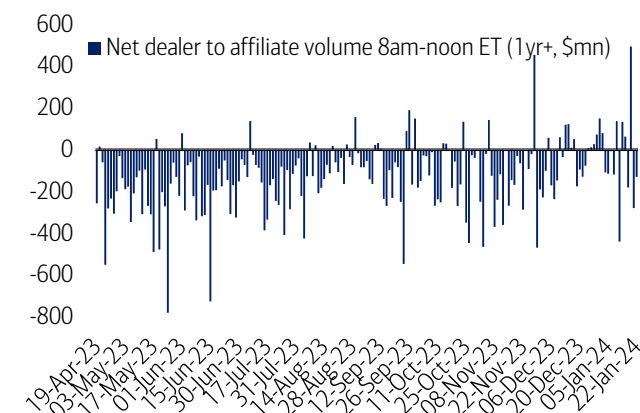
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Exhibit 14: Net dealer-to-affiliate trading volumes 8am - noon ET**

Foreign buying 8am-noon NY time is dominated by Europe and has been inconsistent this year



Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Common abbreviations:**

IG: Investment Grade

HG: High Grade

LQD: iShares iBoxx \$ Investment Grade Corporate Bond ETF

DV01: Dollar value of a basis point

CDX IG: The Markit CDX North America Investment Grade Index

CDX HY: Markit CDX North America High Yield Index

ECB: European Central Bank

QE: Quantitative Easing

CSPP: corporate sector purchase programme

Unched: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

# Disclosures

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BofA Global Research credit recommendations are assigned using a three-month time horizon:

**Overweight:** Spreads and /or excess returns are likely to outperform the relevant and comparable market over the next three months.

**Marketweight:** Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.

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**Neutral:** No purchase or sale of CDS is recommended.

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