

Industrial Weekly

The Nuts and Bolts

Industry Overview

Fitch revised Boeing's outlook to Stable from Positive

Fitch revised Boeing (BA)'s rating outlook to Stable from Positive and affirmed Boeing's senior unsecured ratings at 'BBB-'. The outlook revision reflects Fitch's view that Boeing's path to reach its positive triggers (including sub-3.0x leverage, high-single-digit billion FCF, and greater-than-\$15bn of debt repayment) will likely be delayed by around 12 months from Fitch's prior expectations, to 2026 from 2025.

Boeing failed 33 out of 89 audits during an FAA examination

Quality problems at Boeing (BA) continued throughout the week. Starting on Monday, the New York Times reported that Boeing failed 33 of 89 audits during an examination conducted by the Federal Aviation Administration (FAA) after a panel blew off an Alaska Airlines jet in January.

Southwest Airlines is reevaluating its FY24 guidance

Southwest Airlines (LUV) provided updated selected guidance for 1Q24: revenue per available seat mile (RASM) flat to +2% (previous +2.5%-4.5%); available seat miles (ASMs) +11% YoY (previous +10%); and cost per available seat mile (CASM-X) +6% YoY (previous +5%-6%). Southwest is reevaluating its FY24 guidance, citing uncertainty related to challenges at Boeing that are delaying aircraft deliveries; Southwest expects 46 737 MAX deliveries this year, down from a prior expectation of 79 737 MAX.

Market news

For the week ended March 14, IG and HY spreads were 7bps and 13bps tighter, respectively. The 5-year treasury, 10-year treasury, and 30-year treasury yields were all 21bps, 19bps, and 17bps wider, respectively. The S&P 500 was -0.1% on the week and +8.0% YTD.

Exhibit 3: Weekly Bond Movers, March 14, 2024

RTX 30s were 19bps tighter; BA 30s were 21bps wider

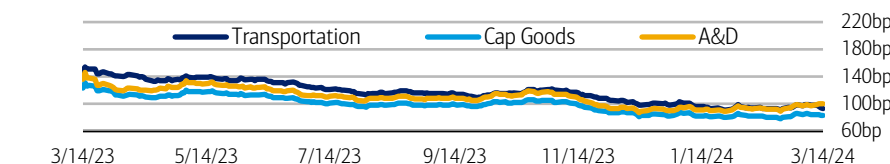
Leaders			Laggards		
Bond		Spread Change	Bond		Spread Change
RTX 2.150 05/18/30		(19)	BA 5.150 05/01/30		+ 21
BNSF 6.875 12/01/27		(15)	PENSKE 3.350 11/01/29		+ 9
ETN 7.650 11/15/29		(15)	NOC 7.750 02/15/31		+ 6
MGCN 5.980 03/21/26		(14)	LHX 4.400 06/15/28		+ 1
NSC 5.640 05/17/29		(12)	JBHT 3.875 03/01/26		(0.4)

Source: Bloomberg

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Exhibit 4: Weekly Bond Movers, March 14, 2024

Cap Goods trade through both Transportation & A&D by 10-17bps



Source: Bloomberg

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15 March 2024

High Grade Credit
United States
Aerospace/Defense, Autos, Capital Goods, Transportation

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Exhibit 1: U.S. Mutual Fund Flows

Changes in mutual fund flows

\$ MN	Week	% Ch.	YTD	% Ch.
High Grade	+4,167	+0.2%	+69,379	+1.7%
High Yield	+299	+0.1%	+5,811	+1.6%
Bank Loans	+348	+0.4%	+2,754	+2.3%
EM Debt	(251)	(0.1%)	(4,771)	(0.7%)
Money Markets	+37,089	+0.6%	+186,104	+2.9%
Equities	+54,260	+0.5%	+63,299	+0.3%

Source: BofA Global Research, EPFR Global. Note: Week Ended 3/13/24. Ch = change.

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Exhibit 2: Markets Monitor (as of 3/14/24)

Macro data and indices snapshots

Market	Value	Week Δ
ICE BofA IG Index (spread)	95	(7)
ICE BofA IG Index (yield)	5.44	+12
ICE BofA HY Index (spread)	333	(13)
ICE BofA HY Index (yield)	7.78	+5
ICE BofA BBB Index (spread)	120	(7)
ICE BofA BB Index (spread)	215	(12)
ICE BofA CCC Index (yield)	12.82	(1)
CDX IG 5yr (spread)	49	(1)
CDX HY 5yr (spread)	330	(1)
5yr Treasury (yield)	4.30	+21
10yr Treasury (yield)	4.29	+19
30yr Treasury (yield)	4.41	+17
S&P 500 (index)	5,150	-0.1%
Dow Jones (index)	38,906	0.3%
Gold (\$/oz)	2,167	0.3%
Crude Oil (WTI \$/barrel)	80.85	2.4%

Source: BofA Global Research; ICE Data Indices, LLC
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Exhibit 5: Relative Value by Sector (\$ million, unless otherwise noted)

Relative value for A&D, Industrials & Transportation sectors.

								Credit Metrics (LTM 6/30/23)					
Issuer	Moody's / S&P / F	Outlook	Coupon	Maturity	STW	G-Spread	5yr CDS	Revenue	Adj. EBITDA	Debt/ EBITDA	EBITDA/ Int. Exp	FCF	TEV/ 2023E EBITDA
Aerospace & Defense													
BAE Systems (BA) (E)*	Baa1/BBB+/BBB+	S/S/S	3.850%	12/15/2025	67	59	32	22,516	3,204	2.1x	10.7x	2,977	11.1x
Boeing (BA) ¹	Baa2/BBB-/BBB-	S/S/P	2.950%	2/1/2030	115	115	91	73,608	4,258	12.3x	1.7x	7,830	25.9x
General Dynamics (GD)	A3/A-/WD	P/P/#	2.250%	6/1/2031	60	58	38	40,859	6,004	1.6x	17.1x	3,023	14.5x
Honeywell (HON)	A2/A/A	P/S/S	1.950%	6/1/2030	54	54	25	36,147	9,234	2.3x	15.4x	4,174	13.7x
L3Harris Technologies (LHX)	Baa2/BBB/BBB+	N/N/N	2.900%	12/15/2029	90	90	38	17,988	3,006	3.2x	8.4x	1,446	13.9x
Lockheed Martin (LMT)	A2/A-/A-	S/S/S	1.850%	6/15/2030	63	65	21	67,393	7,909	1.8x	10.2x	6,004	13.0x
Northrop Grumman (NOC)	Baa1/BBB+/BBB+	S/S/S	3.250%	1/15/2028	31	21	38	37,881	5,292	2.2x	10.2x	2,262	14.3x
RTX (RTX)	Baa1/BBB+	N/N	2.250%	7/1/2030	79	79	38	70,573	12,502	3.0x	0.1x	2,846	12.8x
Textron (TXT) ²	Baa2/BBB	S/S	2.450%	3/15/2031	101	99	38	13,162	1,450	2.2x	14.6x	954	10.2x
1 Boeing financials exclude Boeing Capital. 2 Textron financials exclude Textron Financial. *Reports Semi-Annually													
Industrials													
ABB (ABBN)	A3/A-/WD	S/S/#	3.800%	4/3/2028	21	13	64	31,252	5,476	1.5x	33.8x	1,800	15.4x
Aptiv (APTIV)	Baa2/BBB/BBB	S/S/S	4.350%	3/15/2029	86	86	NA	19,272	2,698	2.5x	10.2x	1,015	8.1x
AutoNation (AN)	Baa3/BBB-/BBB-	S/S/S	2.400%	8/1/2031	152	151	170	26,652	1,971	2.1x	8.5x	896	9.4x
BorgWarner (BWA)	Baa1/BBB/BBB+	S/S/S	2.650%	7/1/2027	70	75	170	16,868	2,668	1.6x	50.3x	593	5.1x
Caterpillar (CAT)	A2/A/A+	S/S/S	2.600%	4/9/2030	41	40	30	61,793	11,492	0.8x	23.8x	8,343	11.5x
Cat Financial (CAT) ¹	A2/A/A+	S/S/S	1.700%	1/8/2027	28	26	38	61,793	11,492	0.8x	23.8x	8,343	11.5x
Cummins (CMI)	A2/A	S/S	1.500%	9/1/2030	62	62	38	32,194	4,654	1.7x	13.9x	1,098	8.8x
Mercedes-Benz (MBG) (E) ²	A2/A/Au	S/S/S	3.450%	1/6/2027	51	50	46	154,476	26,462	4.4x	89.4x	12,798	2.3x
Deere (DE)	A1/A	S/S	3.100%	4/15/2030	49	51	38	56,404	13,346	0.7x	17.0x	9,282	10.5x
John Deere Capital (DE) ¹	(P)A1/A	S/S	2.450%	1/9/2030	51	51	38	56,404	13,346	0.7x	17.0x	9,282	10.5x
Eaton (ETN)	A3/A-/WD	S/S/#	7.650%	11/15/2029	62	61	38	22,046	4,344	2.1x	25.1x	2,706	22.8x
Ford (F) ^{2,3}	Ba1/BBB-/BBB-	S/S/S	7.450%	7/16/2031	181	180	146	160,462	15,359	1.3x	12.3x	1,300	2.8x
Ford Credit (F) ^{1,2,3}	Ba1/BBB-/BBB-	S/S/S	4.000%	11/13/2030	177	177	170	160,462	15,359	1.3x	12.3x	1,300	2.8x
General Electric (GE) ²	Baa1/BBB+/BBB+	P/S/S	4.418%	11/15/2035	94	90	38	72,057	9,383	2.3x	7.0x	2,848	8.9x
General Motors (GM) ^{2,3}	Baa2/BBB/BBB	S/S/S	5.000%	4/9/2027	85	88	113	156,437	20,408	0.8x	120.8x	14,568	3.2x
GM Financial (GM) ^{1,2}	Baa2/BBB/BBB	S/S/S	2.350%	1/8/2031	125	123	152	156,437	20,408	0.8x	120.8x	14,568	3.2x
Hubbell (HUBB)	Baa1/BBB+/A-	S/S/S	2.300%	3/15/2031	97	95	NA	5,187	1,064	1.4x	24.9x	647	18.0x
Illinois Tool Works (ITW)	A1/A+	S/S	2.650%	11/15/2026	-14	1	38	16,075	4,351	1.9x	18.4x	2,587	18.6x
Johnson Controls (JCI)	Baa2/BBB+/WD	P/S/#	1.750%	9/15/2030	81	81	82	26,612	4,807	2.0x	17.3x	1,482	15.2x
Lear Corp (LEA)	Baa2/BBB	S/S	3.500%	5/30/2030	125	124	NA	22,457	1,667	1.7x	14.9x	449	5.6x
Magna (MGA)	A3/A-	S/S	2.450%	6/15/2030	82	82	83	40,491	3,258	1.8x	36.6x	(279)	5.1x
Paccar (PCAR) ²	WR/A+	S/S	2.000%	2/4/2027	31	30	NA	30,913	4,802	0.0x	9.5x	3,025	9.6x
Pentair (PNR)	WR/BBB-	#/S	4.500%	7/1/2029	95	95	NA	4,169	958	2.2x	8.6x	448	15.1x
Republic Services (RSG)	Baa1/BBB+/A-	S/S/S	1.450%	2/15/2031	76	74	38	14,436	4,172	2.9x	8.9x	1,872	14.8x
Roper Technologies (ROP)	Baa2/BBB+	S/S	2.000%	6/30/2030	85	85	NA	5,535	2,299	2.9x	13.7x	1,056	23.5x
Waste Management (WM)	A3/A-/A-	S/S/S	1.500%	3/15/2031	67	65	38	20,021	5,597	2.7x	12.6x	1,506	15.7x
1 Parent company credit metrics are used for captive industrial finance companies. 2 Caterpillar, Deere, Ford, Mercedes, GE, GM, Paccar financials exclude financial businesses. 3 FCF = Automotive operating cash flow													
Transportation													
Burlington Northern (BNI)	A3/AA-	P/S	3.250%	6/15/2027	-1	3	38	25,127	10,427	2.3x	10.1x	4,319	Private
Canadian National (CNR) (CAD)	A2/A-	S/S	2.750%	3/1/2026	25	25	38	17,425	8,889	1.9x	14.1x	4,424	14.3x
Canadian Pacific (CP) (CAD)	Baa2/BBB+	S/S	2.050%	3/5/2030	79	81	38	13,735	6,732	3.5x	8.5x	3,013	18.3x
CSX (CSX)	A3/BBB+	S/S	2.400%	2/15/2030	64	64	20	15,030	7,550	2.4x	9.5x	3,235	12.2x
GATX (GATX)	Baa2/BBB	S/S	1.900%	6/1/2031	106	104	38	1,326	879	7.7x	3.8x	(868)	11.5x
Norfolk Southern (NSC)	Baa1/BBB+	S/S	2.550%	11/1/2029	73	73	19	12,732	5,424	2.8x	7.8x	1,998	13.3x
Penske Truck Leasing	Baa2/BBB/BBB+	S/S/S	3.350%	11/1/2029	135	135	NA	Private					
Ryder (R)	Baa2/BBB+/BBB+	S/S/P	2.850%	3/1/2027	76	77	69	11,959	2,958	2.2x	11.5x	382	4.4x
Southwest (LUV)	Baa1/BBB/BBB+	S/S/S	5.125%	6/15/2027	80	84	79	25,135	1,955	4.1x	6.9x	(1,463)	5.5x
Union Pacific (UNP)	A3/A-	S/S	2.400%	2/5/2030	64	64	20	24,765	11,824	2.8x	8.9x	5,471	14.9x

Source: Company Filings, Bloomberg. STW = spread to worst.



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