

# Situation Room

## Back to pre-March levels for REITs

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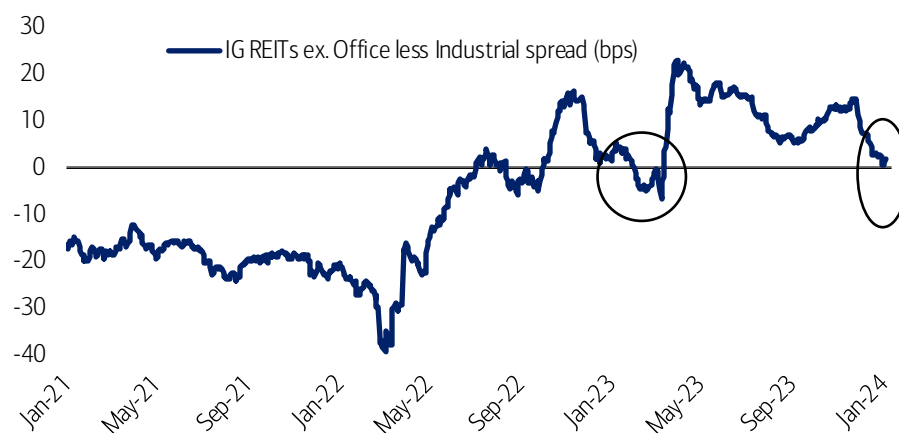
Spreads for IG non-office REITs are now trading about flat to Industrials. That's similar to where they were in Jan-Feb 2023, prior to the regional bank stress in March, and about 15bps tighter since Nov-2023 (Exhibit 1). Hence greater investor concerns about commercial real estate (CRE) post the SVB collapse have by now been offset by the outlook for more Fed cuts in 2024. We think there is more room for REIT spreads to outperform, this time driven by supply.

### Benign supply

Not surprisingly, lower yields and tighter spreads are resulting in more REIT supply. REIT issuance has reached \$3.7bn so far in January from seven deals, which is the highest monthly volume since Apr-2022 (Exhibit 2). Given that the REIT sector is illiquid, in a tightening spread environment supply could counterintuitively be positive for secondary spreads. That's because new issues pricing at tighter levels could help re-price illiquid secondary bond spreads tighter as well.

#### Exhibit 1: REITs spread premium vs industrials has compressed to pre-SVB levels

IG REITs (ex. Office) less industrial spreads is 2bps currently, down from 15bps in November 2023 and similar to the about flat level in Jan/Feb 2023.



Note: excluding downgrades to HY.

Source: BofA Global Research

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09 January 2024

Credit Strategy  
United States  
Cross Product

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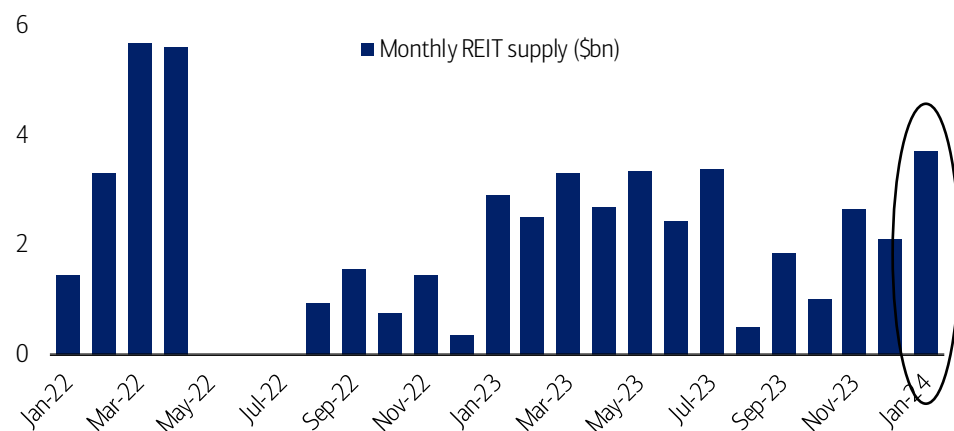
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Timestamp: 09 January 2024 07:06PM EST

**Exhibit 2: Jan-2024 MtD REIT supply is the highest since the full month of Apr-2022.**

The MtD REIT supply has reached \$3.7bn. The last time monthly REIT issuance was higher was in April 2022.



Source: BofA Global Research

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## Daily credit snapshot

US IG issuance totaled \$7.6bn across 10 deals today, \$24.8bn WTD and \$81.6bn MTD. The average new issue concession was 2.1bps today, while the average break performance was 4.0bps tighter today. This week's new issues are trading 3.0bps tighter on average from pricing.

S&P 500 closed -0.15%, 10-year Treasury yields -2bps, CDX IG -0.4bps, CDX HY - \$0.02pts, and cash bond spreads quoted -2-4bps today, LQD closed 4.04bps tighter today.

**Exhibit 3: 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)
2024-01-08	ANZ	Australia & New Zealand Banking Group Ltd	3	800	Aa3/AA-	FRN	SOFR+81	n.a.	n.a.	n.a.
2024-01-08	ANZ	Australia & New Zealand Banking Group Ltd/New York	3	1,200	Aa3/AA-	4.75	63	n.a.	n.a.	62
2024-01-08	BPCEGP	BPCE SA	3	650	A1/A	5.203	108	-4	n.a.	n.a.
2024-01-08	BPCEGP	BPCE SA	6NC5	1,000	A1/A	5.716	175	n.a.	n.a.	n.a.
2024-01-08	BPCEGP	BPCE SA	11NC10	900	A1/A	6.508	250	n.a.	n.a.	249
2024-01-08	EIX	Southern California Edison Co	3	500	A2/A-	4.875	75	5	n.a.	74
2024-01-08	EIX	Southern California Edison Co	10	900	A2/A-	5.2	120	9	-3	119
2024-01-08	HNDA	American Honda Finance Corp	2	400	A3/A-	FRN	SOFR+71	n.a.	n.a.	n.a.
2024-01-08	HNDA	American Honda Finance Corp	2	850	A3/A-	4.95	60	n.a.	n.a.	55
2024-01-08	HNDA	American Honda Finance Corp	10	750	A3/A-	4.9	93	n.a.	n.a.	89
2024-01-08	HYUELE	SK Hynix Inc	3	500	Baa2/BBB-	5.5	145	n.a.	n.a.	n.a.
2024-01-08	HYUELE	SK Hynix Inc	5	1,000	Baa2/BBB-	5.5	167	n.a.	n.a.	n.a.
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	2	650	A2/A	FRN	SOFR+67	n.a.	n.a.	n.a.
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	2	700	A2/A	4.9	55	n.a.	n.a.	51
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	3	800	A2/A	4.8	70	n.a.	n.a.	66
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	5	850	A2/A	4.85	90	n.a.	n.a.	n.a.
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	10	750	A2/A	5	100	16	n.a.	n.a.
2024-01-08	NGGLN	National Grid PLC	10	750	Baa2/BBB	5.418	142	n.a.	n.a.	139
2024-01-08	O	Realty Income Corp	5	450	A3/A-	4.75	95	n.a.	n.a.	94
2024-01-08	O	Realty Income Corp	10	800	A3/A-	5.125	125	8	n.a.	124
2024-01-08	PFG	Principal Life Global Funding II	3	500	A1/A+	5	90	n.a.	n.a.	89

**Exhibit 3: 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)
2024-01-08	REG	Regency Centers Corp	10	400	Baa1/BBB+	5.25	130	n.a.	n.a.	123
2024-01-08	RGA	RGA Global Funding	7	700	A1/AA-	5.5	160	n.a.	n.a.	159
2024-01-08	TSLX	Sixth Street Specialty Lending Inc	5	350	Baa3/BBB-	6.125	240	n.a.	n.a.	239
2024-01-09	AQNCN	Liberty Utilities Co	5	500	Baa2/BBB	5.577	160	n.a.	n.a.	n.a.
2024-01-09	AQNCN	Liberty Utilities Co	10	350	Baa2/BBB	5.869	185	n.a.	n.a.	n.a.
2024-01-09	BRX	Brixmor Operating Partnership LP	10	400	Baa3/BBB	5.5	150	n.a.	n.a.	n.a.
2024-01-09	CRBG	Corebridge Global Funding	5	600	A2/A+	5.2	123	5	-3	120
2024-01-09	KRC	Kilroy Realty Corp	12	400	Baa2/BBB	6.25	238	n.a.	n.a.	n.a.
2024-01-09	MASSMU	MassMutual Global Funding II	5	650	Aa3/AA+	4.85	88	-2	n.a.	n.a.
2024-01-09	MUTOMA	Mutual of Omaha Insurance Co	40	300	A3/A-	6.144	195	n.a.	n.a.	n.a.
2024-01-09	PENSKE	Penske Truck Leasing Co Lp / PTL Finance Corp	3	500	Baa2/BBB	5.35	125	2	-7	118
2024-01-09	PL	Protective Life Global Funding	3	500	A1/AA-	4.992	85	7	n.a.	n.a.
2024-01-09	STZ	Constellation Brands Inc	5	400	Baa3/BBB	4.8	85	-5	-6	79
2024-01-09	TMUS	T-Mobile USA Inc	5	1,000	Baa2/BBB	4.85	90	1	-1	89
2024-01-09	TMUS	T-Mobile USA Inc	10	1,250	Baa2/BBB	5.15	117	4	-2	115
2024-01-09	TMUS	T-Mobile USA Inc	31	750	Baa2/BBB	5.5	130	5	-5	125

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

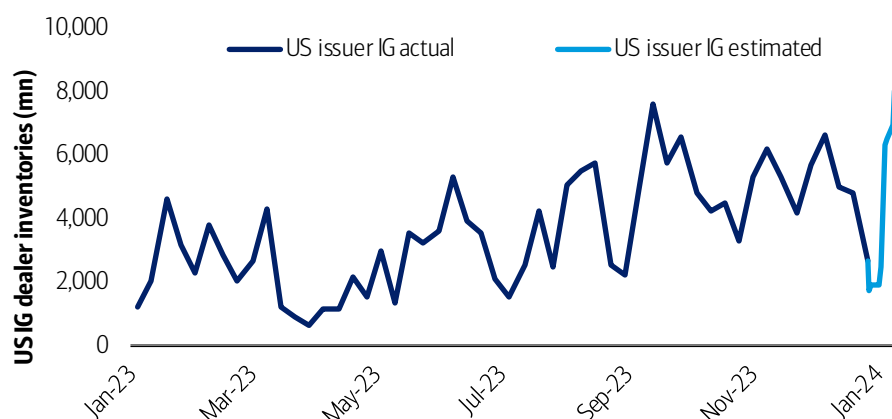
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## Daily dealer inventories update

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 4. We estimate the corresponding DVO1 equivalent in Exhibit 5. More details by sector and maturity are available in Exhibit 6 and Exhibit 7. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

**Exhibit 4: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds increased to \$8.0bn currently from \$2.7bn on Dec-27.



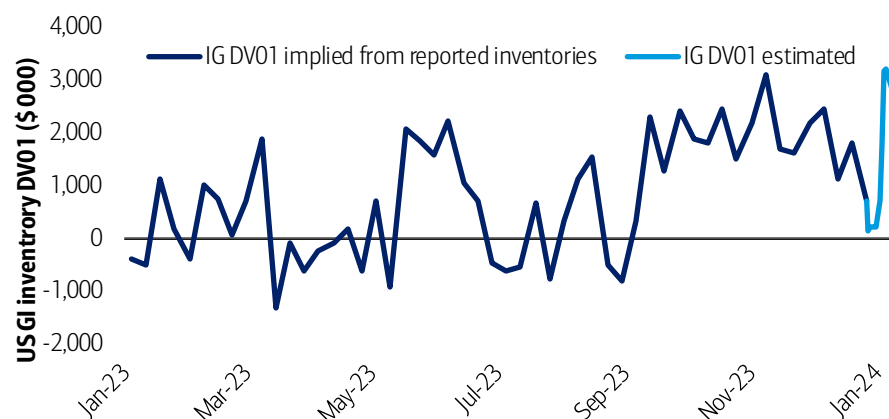
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Exhibit 5: Estimated dealer inventory DV01 for IG corporate bonds.**

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$3.3mn currently from \$0.7bn on Dec-27.



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

We estimate IG dealer inventories increased \$1,089mn today and increased \$7,562mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 9-Jan-24 (\$mn)			
	9-Jan	8-Jan	1 W	2 W	4 W	9-Jan	8-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>1,089</b>	<b>946</b>	<b>7,562</b>	<b>6,977</b>	<b>10,307</b>	<b>601</b>	<b>-213</b>	<b>3,753</b>	<b>3,431</b>	<b>9,015</b>	<b>12,589</b>	<b>11,500</b>	<b>9,953</b>	<b>34,042</b>
<3yr	-87	256	35	-201	-1,373	-29	35	-32	-113	-339	1,950	2,036	1,624	5,610
3-5yr	567	512	2,254	1,607	1,276	207	186	830	606	473	2,234	1,667	1,788	5,689
5-11yr	764	1,084	5,450	6,074	5,627	551	636	3,289	3,790	3,367	4,488	3,724	3,460	11,672
11+yr	-156	-906	-176	-504	4,777	-127	-1,070	-335	-853	5,515	3,917	4,073	3,081	11,071
Fin	-53	751	2,329	2,563	3,059	-62	126	887	925	2,456	4,211	4,264	3,563	12,038
Non-Fin	1,141	195	5,234	4,414	7,247	663	-339	2,865	2,506	6,559	8,378	7,236	6,390	22,004
Fixed	1,173	986	7,866	7,459	11,083	623	-216	3,827	3,559	9,268	12,484	11,311	9,796	33,591
Floating	-84	-40	-303	-482	-776	-22	3	-75	-128	-253	105	189	157	451
US issuers	1,109	406	5,540	4,641	7,767	506	-402	2,622	2,146	7,169	9,883	8,774	7,983	26,640
DM Yankees	-138	507	1,885	2,242	2,323	24	175	1,067	1,221	1,717	2,331	2,469	1,851	6,651
EM Yankees	118	33	138	93	216	71	14	64	64	129	375	257	119	751

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 7: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories declined -\$256mn for Banks/Brokers and increased \$122mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 9-Jan-24 (\$mn)			
	9-Jan	8-Jan	1 W	2 W	4 W	9-Jan	8-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-86	-195	-227	-314	-76	-111	-157	-251	-343	-75	277	362	180	819
Automobiles	11	68	489	676	623	7	45	227	316	304	494	484	474	1,452
Banks/Brokers	-256	565	873	1,201	1,673	-73	78	241	313	1,342	2,644	2,900	2,356	7,899
Basic Materials	-19	1	321	291	311	-29	-6	122	140	257	371	390	281	1,042
Commercial Services	-28	-11	34	45	169	-29	5	36	51	172	110	138	87	335
Energy	122	125	506	356	238	113	35	263	215	338	857	735	543	2,135
Finance	35	88	632	623	402	-29	35	250	245	320	760	725	702	2,187
Food, Bev. & Bottling	92	-20	448	399	779	61	-67	287	283	720	550	458	353	1,361
Health Care	255	159	634	438	1,278	238	31	322	292	1,344	1,507	1,252	1,254	4,014
Industrial Products	8	10	301	411	453	-26	9	144	187	298	206	198	211	615
Insurance	-44	-17	136	137	451	-56	-33	28	26	424	272	316	222	810
Media & Entertainment	-25	-77	-51	-234	-71	-19	-87	-92	-237	100	532	557	422	1,511
REITs	213	115	688	601	533	95	47	368	342	370	536	323	282	1,141
Retail	77	89	284	152	408	56	73	250	165	458	367	290	437	1,095

**Exhibit 7: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories declined-\$256mn for Banks/Brokers and increased \$122mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 9-Jan-24 (\$mn)			
Technology	105	49	480	281	618	70	-95	139	-1	540	724	619	671	2,014
Telecom	237	45	633	647	853	89	27	354	422	645	762	526	363	1,651
Tobacco	24	60	187	127	55	20	42	119	84	62	172	148	146	466
Transportation	30	-72	27	-18	140	18	-86	52	47	195	179	149	220	549
Utilities	262	-83	953	996	1,350	147	-137	818	840	1,181	1,127	865	628	2,620
Other	78	46	213	159	122	58	28	75	44	21	141	63	120	325

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

Source: BofA Global Research, FINRA, TRACE.

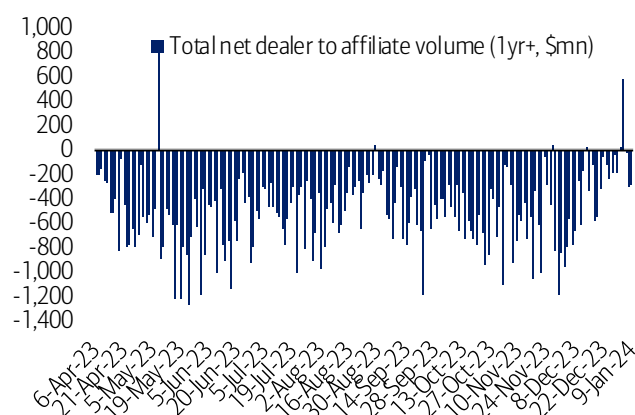
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## Daily foreign demand tracker

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 8 shows the overall daily dealer-to-affiliate volumes while Exhibit 9, Exhibit 10 and Exhibit 11 show subsets of this data. In particular Exhibit 9 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 10 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 11 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Exhibit 8: Net dealer buying from affiliate (1yr+)**

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



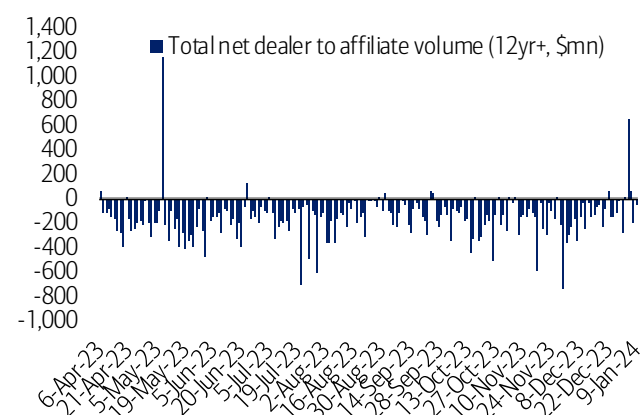
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 9: Net dealer buying from affiliate (12yr+)**

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



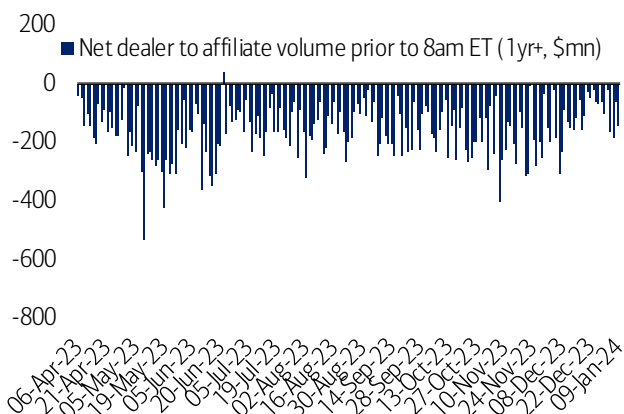
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 10: 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



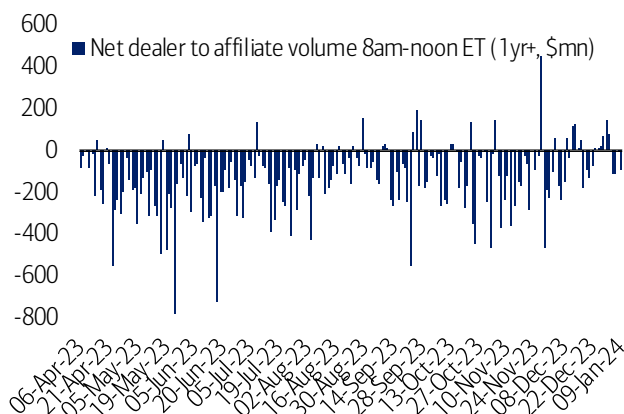
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Exhibit 11: 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

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