

# Situation Room

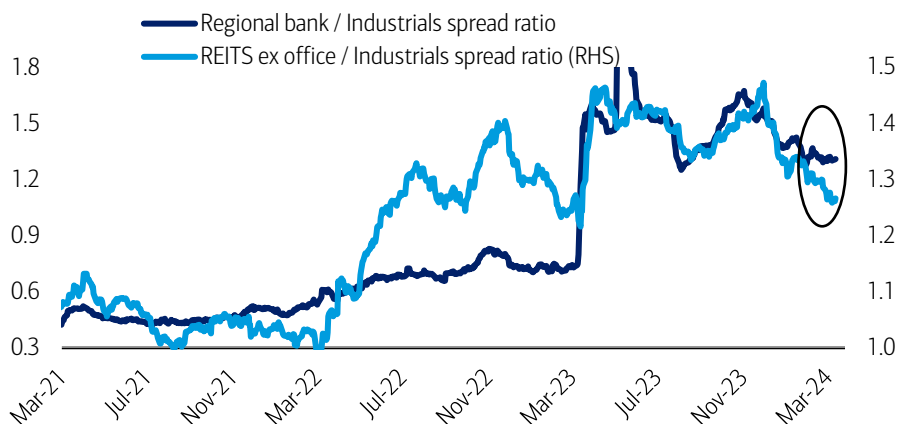
## The regional bank lag

### The regional bank lag

Regional banks have lagged in the recent outperformance in REIT and AAA CMBS spreads – other assets impacted by CRE risks. Since January 31<sup>st</sup> AAA CMBS fixed rate spreads are 9bps tighter (excluding the big -12bps February ICE BoFA CB10 index roll). REIT (ex. office) IG spreads have outperformed Industrials over the same period, on a beta-adjusted basis. In contrast, regional bank spreads have performed largely in line with Industrials, potentially on the back of the New York Community Bancorp (NYCB) news in early February (Exhibit 1, Exhibit 2). The relatively benign February CPI report and the expected start of the Fed cutting cycle in June (see report: [US Watch: February CPI Inflation](#)) should be supportive of CRE and regional bank valuations. Moreover, credit risks should be manageable for the larger regional banks with bonds in the US IG index (see report: [Banks: All eyes back on CRE](#)). We estimate that regional bank spreads closing the gap in relative value vs. REITs and CMBS could be worth about 5bps of spread outperformance.

#### Exhibit 1: Regional bank spreads have underperformed REITs

The ratio of regional bank to industrial spreads is little changed since January 31<sup>st</sup>, while it declined for REITs.



Note: regional banks include CFG, CMA, FIT, HBA, KEY, MTB, PNC, RF, TFC, USB, ZION.

Source: BoFA Global Research, ICE Data Services, LLC

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13 March 2024

Credit Strategy  
United States  
Cross Product

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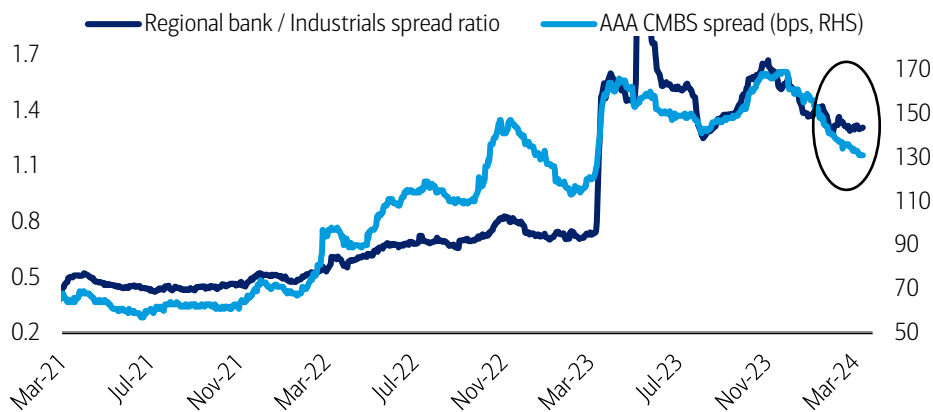
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Timestamp: 13 March 2024 06:29PM EDT

**Exhibit 2: Regional bank spreads have underperformed AAA fixed-rate CMBS**

Fixed-rate AAA CMBS spreads are 9bps tighter since January 31<sup>st</sup> (excluding the -12bps impact of the February index roll), while the ratio of regional bank to industrial spreads is little changed.



Note: we adjust the AAA CMBS spread for the big -12bps index roll on Jan 31 2024.

Source: BofA Global Research, ICE Data Services, LLC

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## Daily credit snapshot

US IG issuance totaled \$4.0bn across 4 deals today, \$31.0bn WTD and \$83.0bn MTD. The average new issue concession was 4.0bps today, while the average break performance was 5.0bps tighter today. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed -0.19%, 10-year Treasury yields +4bps, CDX IG -0.3bps, CDX HY +\$0.04pts, and cash bond spreads quoted -1/-4bp today, LQD closed 1.74bps 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)
2024-03-11	AEP	AEP Transmission Co LLC	10	450	A2/BBB+	5.15	105	n.a.	-4	99
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	2	1,250	Aa2/AA-	FRN	SOFR+56	n.a.	n.a.	n.a.
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd/New York	2	1,250	Aa2/AA-	5	47	n.a.	n.a.	45
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	11NC6	1,000	A3/BBB+	5.731	165	n.a.	n.a.	163
2024-03-11	DUK	Duke Energy Progress LLC	10	500	Aa3/A	5.1	103	3	-3	99
2024-03-11	DUK	Duke Energy Ohio Inc	30	425	A2/A	5.55	130	11	-3	126
2024-03-11	HNDA	American Honda Finance Corp	3	300	A3/A-	FRN	SOFR+77	n.a.	n.a.	74
2024-03-11	HNDA	American Honda Finance Corp	3	700	A3/A-	4.9	63	14	n.a.	58
2024-03-11	HNDA	American Honda Finance Corp	5	750	A3/A-	4.9	83	n.a.	n.a.	77
2024-03-11	HUM	Humana Inc	7	1,250	Baa2/BBB	5.375	127	n.a.	-7	117
2024-03-11	HUM	Humana Inc	30	1,000	Baa2/BBB	5.75	147	14	-4	100
2024-03-11	INTNED	ING Groep NV	6NC5	1,500	Baa1/A-	5.335	125	24	-3	123
2024-03-11	INTNED	ING Groep NV	11NC10	1,500	Baa1/A-	5.55	145	11	-1	145
2024-03-11	LHX	L3Harris Technologies Inc	5	750	Baa2/BBB	5.05	100	14	n.a.	96
2024-03-11	LHX	L3Harris Technologies Inc	7	750	Baa2/BBB	5.25	115	16	-3	111
2024-03-11	LHX	L3Harris Technologies Inc	10	750	Baa2/BBB	5.35	125	14	-5	119
2024-03-11	LNC	Lincoln National Corp	10	350	Baa2/BBB+	5.852	175	n.a.	n.a.	n.a.
2024-03-11	MSI	Motorola Solutions Inc	5	400	Baa2/BBB	5	95	n.a.	-2	92
2024-03-11	MSI	Motorola Solutions Inc	10	900	Baa2/BBB	5.4	130	4	n.a.	128
2024-03-11	MTB	M&T Bank Corp	8NC7	850	Baa1/BBB+	6.082	198	-9	-6	193
2024-03-11	NI	NiSource Inc	10	650	Baa2/BBB+	5.35	128	7	n.a.	126

**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)
2024-03-11	SANTAN	Banco Santander SA	4NC3	400	Baa1/A-	FRN	SOFR+138	n.a.	n.a.	134
2024-03-11	SANTAN	Banco Santander SA	4NC3	1,100	Baa1/A-	5.552	125	16	-1	123
2024-03-11	SANTAN	Banco Santander SA	6NC5	1,250	Baa1/A-	5.538	145	23	0	142
2024-03-11	SANTAN	Banco Santander SA	10	1,250	Baa1/A-	6.35	225	n.a.	0	222
2024-03-11	SRE	Sempra	31NC5	600	Baa3/BBB-	6.875	156	n.a.	n.a.	269
2024-03-12	CEG	Constellation Energy Generation LLC	30	900	Baa2/BBB+	5.75	145	n.a.	n.a.	144
2024-03-12	GBLATL	Global Atlantic Fin Co	30	750	Baa2/BBB-	6.75	250	n.a.	n.a.	233
2024-03-12	GS	Goldman Sachs Bank USA/New York NY	3NC2	750	A1/A+	FRN	SOFR+77	n.a.	n.a.	n.a.
2024-03-12	GS	Goldman Sachs Bank USA/New York NY	3NC2	2,250	A1/A+	5.283	68	n.a.	-1	67
2024-03-12	SRE	Southern California Gas Co	30	500	Aa3/A+	5.6	133	7	n.a.	132
2024-03-13	BKIR	Bank of Ireland Group PLC	6	1,000	A3/BBB	5.601	142	n.a.	-8	134
2024-03-13	NDAFH	Nordea Bank Abp	3	500	Aa3/AA-	FRN	SOFR+74	n.a.	n.a.	n.a.
2024-03-13	NDAFH	Nordea Bank Abp	3	500	Aa3/AA-	5	62	n.a.	n.a.	n.a.
2024-03-13	SNLN	Smith & Nephew PLC	3	350	Baa2/BBB+	5.15	80	n.a.	n.a.	n.a.
2024-03-13	SNLN	Smith & Nephew PLC	10	650	Baa2/BBB+	5.4	125	n.a.	n.a.	n.a.
2024-03-13	STT	State Street Corp	3	1,000	A1/A	4.993	60	4	-2	58

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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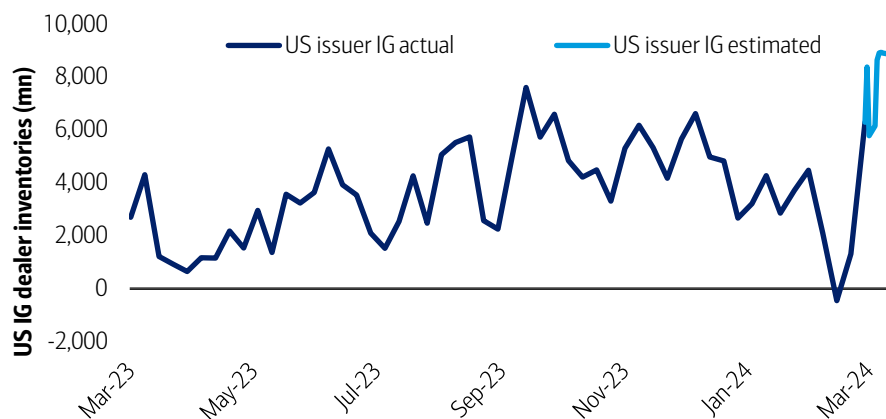
## Daily dealer inventories update

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 DV01 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 \$8.5bn currently from \$6.3bn on Feb-28.



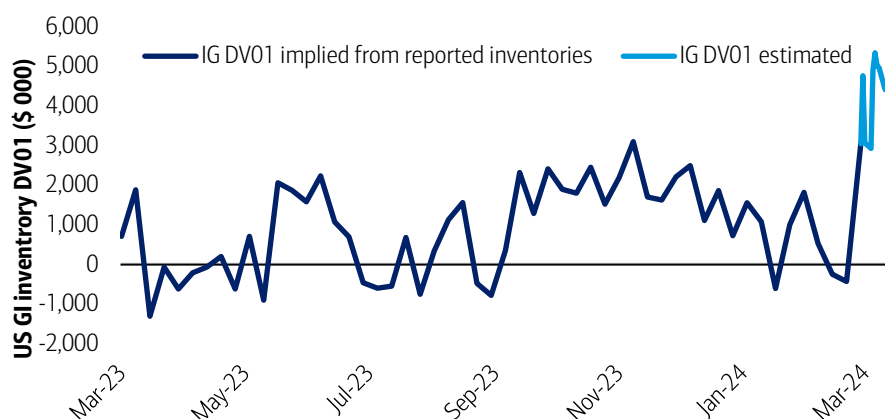
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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 \$4.2mn currently from \$3.0bn on Feb-28.



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 declined -\$1,107mn today and declined -\$965mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 13-Mar-24 (\$mn)			
	13-Mar	12-Mar	1 W	2 W	4 W	13-Mar	12-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>-1,107</b>	<b>211</b>	<b>-965</b>	<b>1,779</b>	<b>14,130</b>	<b>-461</b>	<b>175</b>	<b>-1,675</b>	<b>506</b>	<b>7,090</b>	<b>13,695</b>	<b>14,803</b>	<b>10,238</b>	<b>38,735</b>
<3yr	-491	-90	33	-136	3,606	-99	-42	-46	-150	469	2,059	2,550	1,384	5,992
3-5yr	-234	-62	166	751	3,023	-51	-10	90	303	1,080	2,462	2,697	1,948	7,107
5-11yr	-289	526	244	698	3,175	-136	298	44	224	1,505	4,966	5,255	3,779	14,000
11+yr	-93	-163	-1,408	466	4,326	-176	-71	-1,762	129	4,035	4,208	4,301	3,126	11,636
Fin	-322	150	563	864	5,462	-133	41	-33	430	2,355	5,579	5,901	3,506	14,986
Non-Fin	-785	61	-1,528	915	8,667	-329	134	-1,642	77	4,735	8,116	8,901	6,732	23,749
Fixed	-1,189	72	-1,208	1,626	13,778	-493	142	-1,775	309	6,964	13,461	14,649	10,150	38,260
Floating	81	139	243	153	352	31	33	100	198	126	235	153	87	475
US issuers	-608	198	-472	2,132	11,409	-300	83	-1,158	1,127	6,166	10,578	11,186	7,880	29,644
DM Yankees	-297	-71	-363	-397	2,056	19	23	-294	-543	528	2,713	3,009	2,000	7,722
EM Yankees	-202	85	-129	44	664	-180	69	-223	-78	395	405	607	357	1,369

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 -\$192mn for Banks/Brokers and increased \$17mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 13-Mar-24 (\$mn)			
	13-Mar	12-Mar	1 W	2 W	4 W	13-Mar	12-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-157	-23	-67	-231	-14	-189	-97	-243	-384	-274	237	393	243	874
Automobiles	-143	-33	-206	-140	626	-66	-32	-148	-155	168	250	393	402	1,045
Banks/Brokers	-192	87	236	-80	3,618	5	-21	-44	-140	1,100	3,862	4,054	2,304	10,220
Basic Materials	-63	71	-78	109	726	-29	55	-100	65	377	377	440	261	1,078
Commercial Services	-34	-51	-63	-118	-129	-20	-45	12	10	56	191	225	126	542
Energy	17	-44	-148	299	1,438	-3	-62	-292	-72	687	763	746	675	2,183
Finance	-96	71	223	166	675	-37	9	26	67	345	919	1,015	607	2,542
Food, Bev, & Bottling	-77	-5	-320	133	662	8	-14	-295	40	406	543	621	574	1,738
Health Care	-204	195	-330	-311	125	-98	369	-142	-185	-279	1,519	1,723	1,394	4,636
Industrial Products	-236	-29	-310	-339	344	-99	12	-203	-247	326	168	404	254	827
Insurance	-59	64	43	272	662	-119	61	-4	262	626	464	523	343	1,331
Media & Entertainment	62	-50	-135	182	621	120	-101	-114	216	477	560	498	413	1,471
REITs	25	-73	61	505	508	19	-8	-10	241	284	334	309	251	894
Retail	-54	49	-147	-123	72	-63	14	-260	-230	-49	345	399	303	1,048

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

We estimate today IG dealer inventories declined -\$192mn for Banks/Brokers and increased \$17mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 13-Mar-24 (\$mn)			
Technology	-43	-137	-4	141	1,266	7	-37	136	286	933	890	933	797	2,620
Telecom	11	98	194	585	208	-55	79	59	418	51	485	473	312	1,270
Tobacco	-4	3	-115	-67	-49	-12	-2	-116	-28	-46	145	149	65	359
Transportation	-25	-29	-17	48	376	-21	-24	-8	31	307	184	209	126	519
Utilities	166	63	265	755	2,341	171	42	108	338	1,648	1,283	1,117	657	3,057
Other	-3	-16	-48	-11	53	19	-24	-35	-26	-53	174	177	130	481

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

Source: BofA Global Research, FINRA, TRACE.

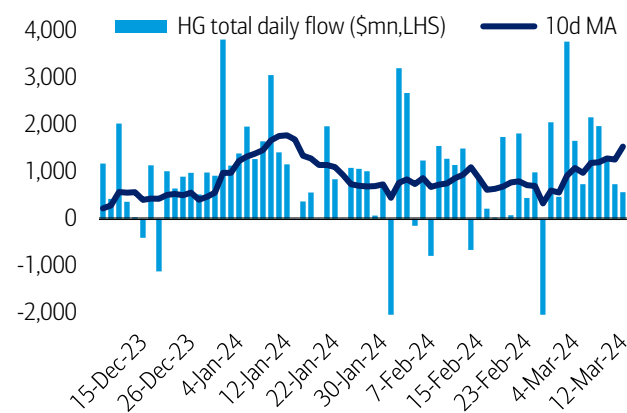
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## Daily HG fund flows

We define our high grade flows as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" category refers to the broad high grade market, which includes Treasuries, mortgages and agencies in addition to corporate bonds. This category accounts for the majority of AUM and flows.

**Exhibit 8: Daily HG fund flows**

The chart plots daily HG fund flows as well as a 10-day average trend.

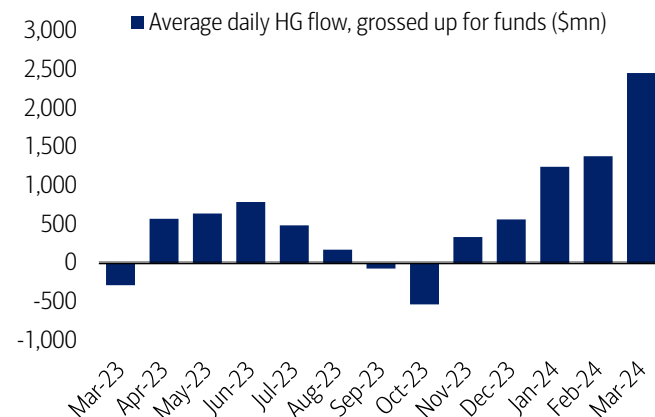


Source: EPFR Global, BofA Global Research

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**Exhibit 9: Average daily HG flows by month**

The chart plots the average daily ETF flows plus double the average daily fund flow, as only about half of funds report flows daily.



Source: EPFR Global, BofA Global Research

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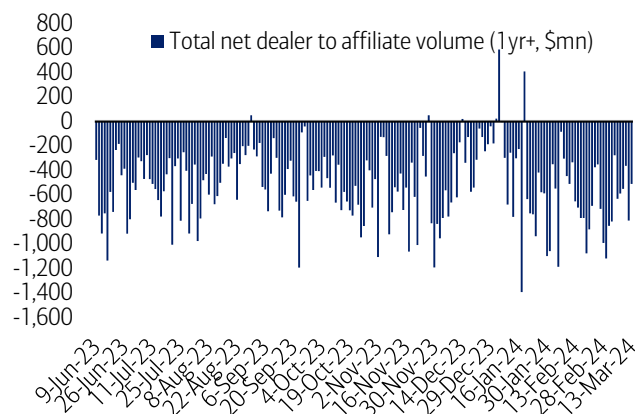
## Daily foreign demand tracker

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 10 shows the overall daily dealer-to-affiliate volumes while Exhibit 11, Exhibit 12 and Exhibit 13 show subsets of this data. In particular Exhibit 11 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 12 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 13 shows the subset of net trades reported between 8am and noon (biased toward European buying).



**Exhibit 10: Net dealer buying from affiliate (1yr+)**

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



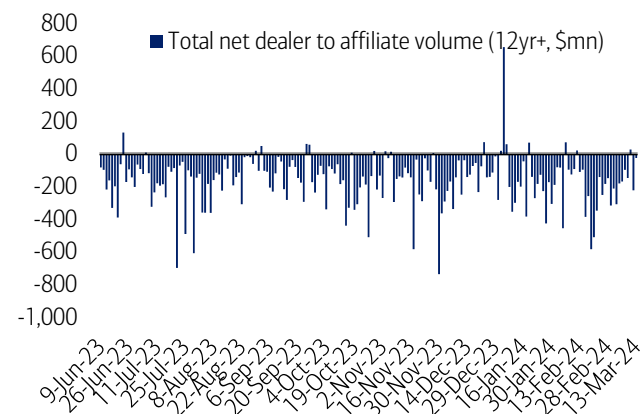
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 11: Net dealer buying from affiliate (12yr+)**

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



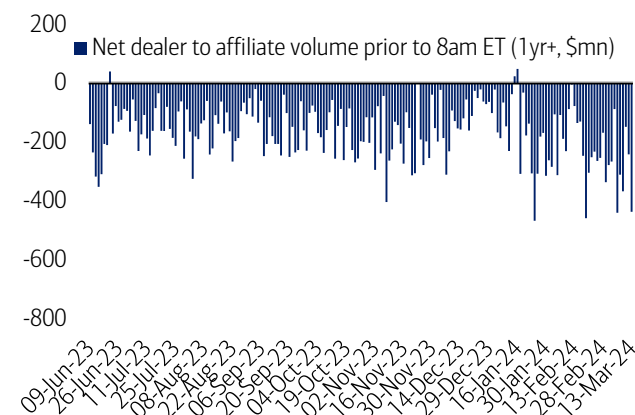
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 12: 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



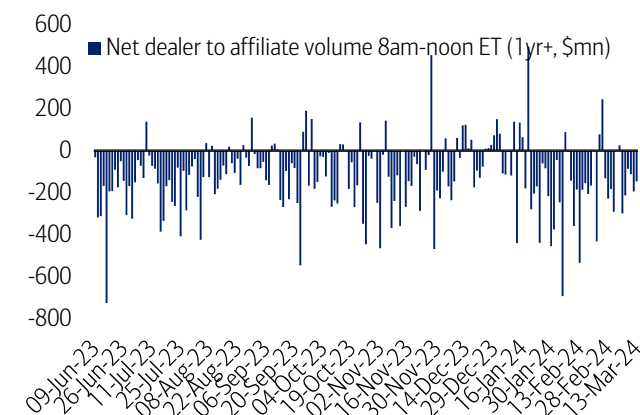
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Exhibit 13: 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  
 Unchd: Unchanged  
 CPI: Consumer Price Index  
 FOMC: The Federal Open Market Committee

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