

Situation Room

4Q-23 earnings preview: strong ex energy

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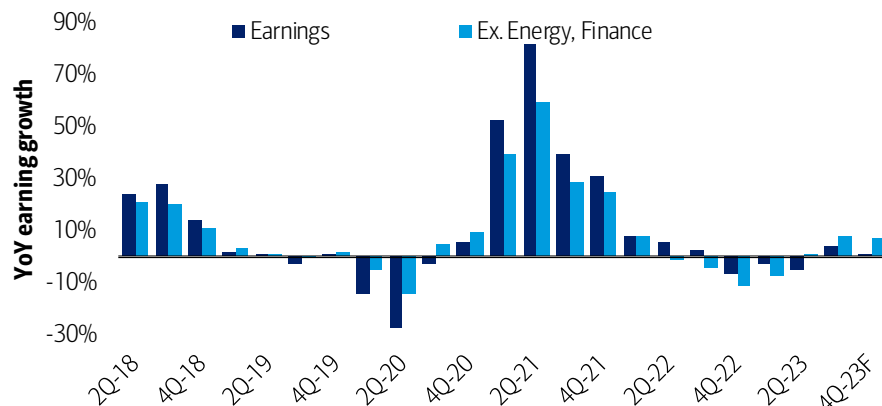
The big six US banks / brokers will kick off the 4Q reporting season this Friday, January 12th. Bottom-up consensus calls for US HG public issuer earnings to grow +1.3% YoY in 4Q, following a +4.2% YoY increase in the prior 3Q-2023 quarter. As in the previous quarter, much of the weakness is driven by tough comps for commodity sectors during 2022. Hence excluding the more volatile Energy and Finance sectors, earnings growth is expected to remain strong, increasing +7.2% YoY in 4Q-23, similar to the +7.7% YoY reading in 3Q-23 and up from +0.2% YoY in 2Q-2023. Note that actual results typically surprise to the upside. Consensus is calling for YoY revenue growth to strengthen for the full universe (to +2.4% YoY in 4Q from +1.2% YoY in 3Q), but less so ex. Energy and Finance (to +2.8% YoY in 4Q from +3.3% YoY in 3Q).

Positive surprises

Actual results tend to come in better than expectations by +3.7% for earnings and +0.7% for revenues, on average. For the prior 3Q-2023 earnings season, earnings surprise was stronger than average, while revenue surprise was slightly below the average (Figure 3, Figure 4).

Exhibit 1: Earnings growth for US IG issuers

YoY earnings growth is expected to moderate in 4Q vs. 3Q ex. Energy, Finance.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet

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08 January 2024

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Cross Product

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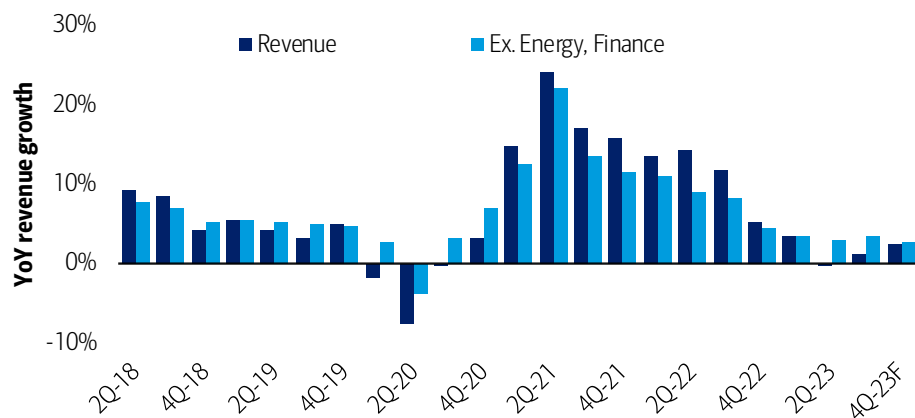
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Timestamp: 08 January 2024 07:20PM EST

Exhibit 2: Revenue growth for US IG issuers

Consensus is calling for YoY revenue growth to strengthen for the full universe (to +2.4% YoY in 4Q from +1.2% YoY in 3Q), while remaining robust ex. Energy and Finance (to +2.8% YoY in 4Q from +3.3% YoY in 3Q).



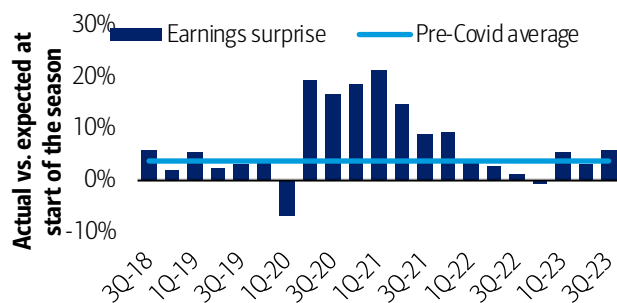
Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet

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Exhibit 3: Earnings surprise for US IG issuers

Earnings surprise was above the +3.7% pre-Covid average in 3Q-2023.

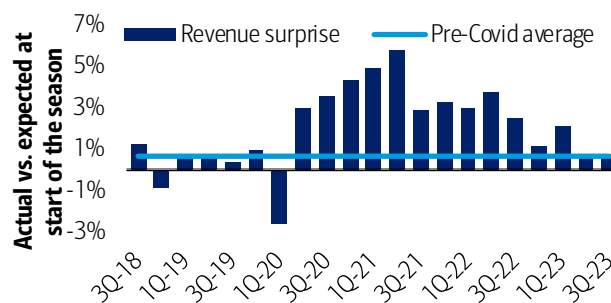


Source: BofA Global Research, FactSet

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Exhibit 4: Revenue surprise for US IG issuers

Sales beat expectations by only 0.5% in 3Q-2023.



Source: BofA Global Research, FactSet

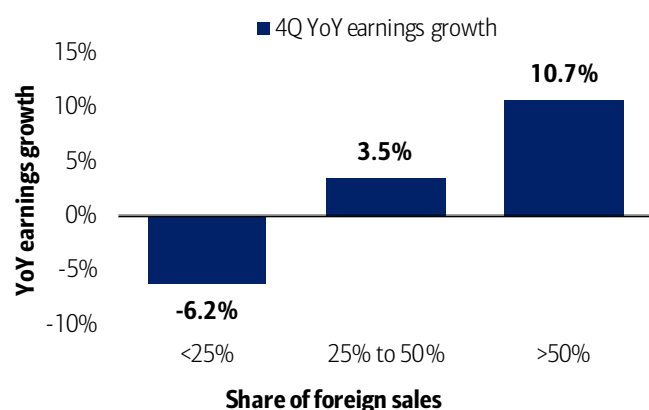
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Foreign over domestic

The strongest earnings growth in 4Q-23 (+10.7%) is expected for the more global issuers (>50% share of foreign sales, ex. Finance, Energy, Utilities), while the biggest earnings decline (-6.2%) is expected for the more domestic issuers (<25% foreign sales, Exhibit 5, Exhibit 6).

Exhibit 5: 4Q-23 consensus earnings growth by foreign sales

Expected 4Q earnings growth is expected to drop the most for more domestic issuers (-6.2%).



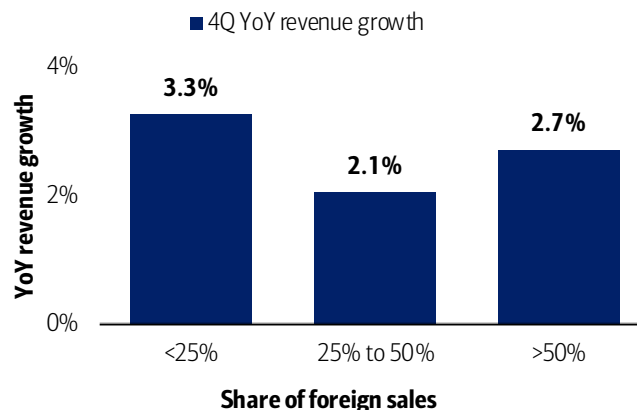
Note: 4Q-23 based on the actual results when available and consensus estimates otherwise. Excluding Finance, Energy, Utilities.

Source: BofA Global Research, FactSet.

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Exhibit 6: 4Q-23 consensus sales growth by foreign sales

Expected 4Q sales growth is 3.3% YoY for the more domestic issuers, 2.1% for issuers with intermediate foreign exposure, 2.7% for more global issuers.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.

Excluding Finance, Energy, Utilities. **Source:** BofA Global Research, FactSet.

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Results by sector

Sectors with the weakest expected YoY earnings growth in 4Q include Autos (-39%), Energy (-28%), and Basic Materials (-22%). The strongest YoY earnings growth is expected for Media & Entertainment (+66%), Utilities (+41%) and Retail (+34%, Exhibit 7).

Exhibit 7: Bottom-up consensus estimates for 4Q-23, public US IG issuers

Expected YoY earnings and sales growth by sector.

Sector	Earnings growth (YoY)	Sales growth (YoY)	Share of bond index value	Share of the sector that has reported
Aerospace/Defense	3.6%	4.8%	1.7%	0%
Automobiles	-39.2%	-4.3%	1.3%	0%
Banks/Brokers	-18.9%	2.8%	11.6%	0%
Basic Materials	-21.6%	-4.0%	1.9%	2%
Consumer Products	-1.8%	1.0%	0.7%	0%
Energy	-28.0%	-5.7%	4.2%	0%
Finance	3.4%	8.8%	2.3%	0%
Food, Bev, & Bottling	0.3%	0.9%	2.0%	18%
Health Care	-19.2%	4.5%	7.5%	0%
Industrial Products	1.8%	-0.6%	1.9%	0%
Insurance	20.4%	9.7%	2.5%	0%
Media & Entertainment	65.5%	7.4%	3.2%	0%
REITs	19.6%	6.3%	3.0%	0%
Retail	34.0%	4.4%	3.3%	6%
Technology	17.0%	6.3%	5.6%	18%
Telecom	-0.1%	-1.3%	2.6%	0%
Transportation	-13.3%	-1.7%	1.3%	14%
Utilities	41.4%	-2.2%	6.5%	0%
Other	-3.1%	1.8%	2.2%	1%
Total USHG public co's	1.3%	2.4%	65.0%	3%
Total ex. Financials	2.0%	1.8%	45.6%	4%
Total ex. Energy	5.2%	3.4%	60.8%	3%
Total ex. Fin. & Energy	7.2%	2.8%	41.4%	4%
Yankee and private co's	n.a.	n.a.	35.0%	n.a.
HQ ex. Financials, Utilities	8.0%	3.3%	14.9%	1%
BBB ex. Financials, Utilities	-10.2%	0.6%	23.7%	7%

Note: 4Q-23 values are based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet

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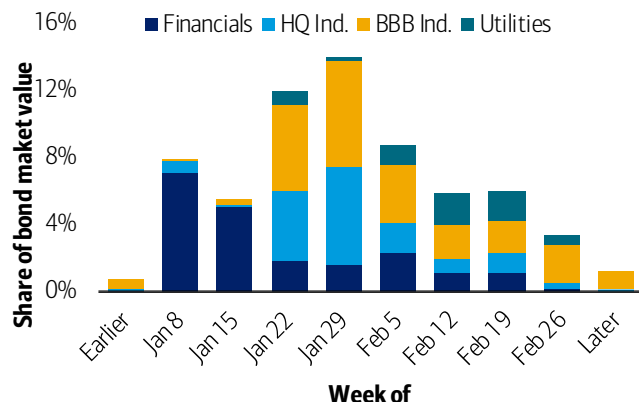


Timing of the earnings season

This week 11 issuers accounting for 7.9% of the US IG corporate bond index market value are scheduled to release 4Q results. The pace then accelerates to 29 issuers (but only 5.5% of the bond index) during the week of Jan 15, 80 issuers (11.9% of the index) during the week of Jan 22 and the peak 128 issuers (13.9% of the index) during the week of Jan 29. In terms of sectors, reporting will be skewed early in the season for financials, late for utilities, and mid-season for high quality industrials. The earnings season will be mostly over following the week of Feb 26th (Exhibit 8, Exhibit 9).

Exhibit 8: Weekly reporting: by the share of IG corp. bond index

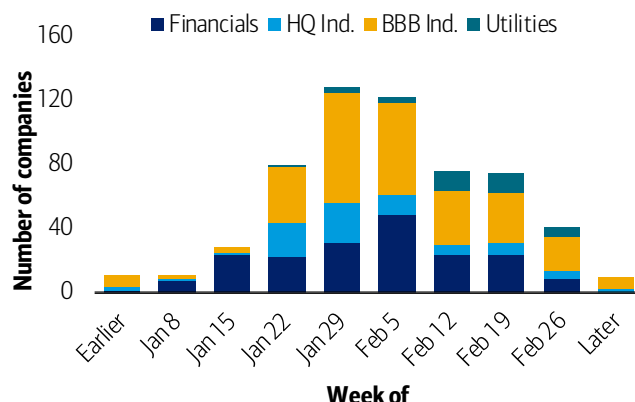
The heaviest weeks for reporting are the last two weeks of January.



Source: BofA Global Research

Exhibit 9: Weekly reporting: by the number of issuers

The number of companies reporting will peak.



Source: BofA Global Research

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Daily credit snapshot

US IG issuance totaled \$15.7bn across 11 deals today, \$15.7bn WTD and \$74.0bn MTD. The average new issue concession was 7.2bps today, while the average break performance was 3.0bps tighter today. This week's new issues are trading 3.0bps tighter on average from pricing.

S&P 500 closed +1.41%, 10-year Treasury yields -2bps, CDX IG -2.5bps, CDX HY +\$0.53pts, and cash bond spreads quoted -1-4bps today, LQD closed 3.53bps tighter today.

Exhibit 10: 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.	n.a.
2024-01-08	BPCEGP	BPCE SA	3	650	A1/A	5.203	108	-2	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.	n.a.
2024-01-08	EIX	Southern California Edison Co	3	500	A2/A-	4.875	75	5	n.a.	n.a.
2024-01-08	EIX	Southern California Edison Co	10	900	A2/A-	5.2	120	9	-3	117
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.	n.a.

Exhibit 10: 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	HNDA	American Honda Finance Corp	10	750	A3/A-	4.9	93	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.	n.a.
2024-01-08	MBGGR	Mercedes-Benz Finance North America LLC	3	800	A2/A	4.8	70	n.a.	n.a.	n.a.
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.	n.a.
2024-01-08	O	Realty Income Corp	5	450	A3/A-	4.75	95	n.a.	n.a.	n.a.
2024-01-08	O	Realty Income Corp	10	800	A3/A-	5.125	125	8	n.a.	n.a.
2024-01-08	PFG	Principal Life Global Funding II	3	500	A1/A+	5	90	n.a.	n.a.	n.a.
2024-01-08	REG	Regency Centers Corp	10	400	Baa1/BBB+	5.25	130	n.a.	n.a.	n.a.
2024-01-08	RGA	RGA Global Funding	7	700	A1/AA-	5.5	160	n.a.	n.a.	n.a.
2024-01-08	TSLX	Sixth Street Specialty Lending Inc	5	350	Baa3/BBB-	6.125	240	n.a.	n.a.	n.a.

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

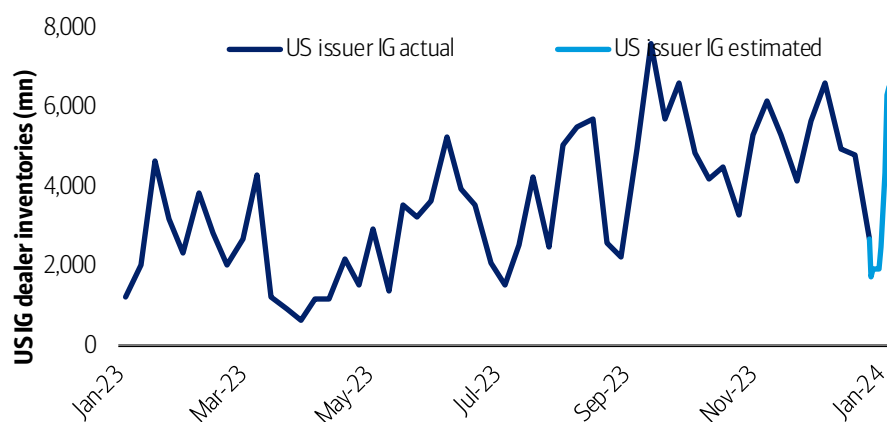
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Daily dealer inventories update

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 11. We estimate the corresponding DV01 equivalent in Exhibit 12. More details by sector and maturity are available in Exhibit 13 and Exhibit 14. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 11: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$6.8bn currently from \$2.7bn on Dec-27.



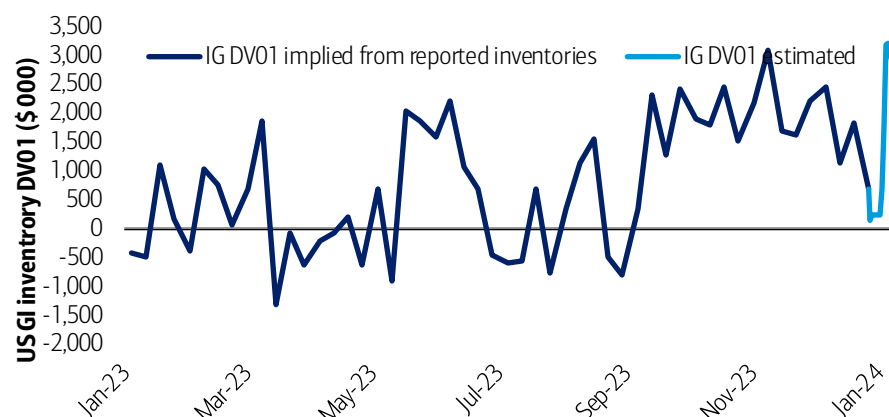
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 12: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$2.8mn 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 13: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$639mn today and increased \$7,113mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 8-Jan-24 (\$mn)			
	8-Jan	5-Jan	1 W	2 W	4 W	8-Jan	5-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	639	431	7,113	5,395	7,481	-374	205	3,727	2,557	7,073	10,040	9,401	8,051	27,492
<3yr	223	-256	233	-154	-1,667	28	-48	15	-103	-369	1,672	1,448	1,127	4,247
3-5yr	466	231	1,423	836	509	167	75	539	326	199	1,807	1,340	1,415	4,562
5-11yr	818	378	5,260	5,017	4,468	443	194	3,171	3,014	2,502	3,844	3,026	2,494	9,365
11+yr	-869	78	197	-304	4,170	-1,011	-16	1	-679	4,741	2,717	3,586	3,015	9,319
Fin	602	129	2,735	2,439	2,593	12	-7	1,144	825	2,188	3,689	3,087	2,578	9,354
Non-Fin	37	302	4,378	2,957	4,888	-386	212	2,583	1,732	4,885	6,351	6,314	5,473	18,139
Fixed	671	501	7,367	5,815	8,193	-379	215	3,789	2,673	7,311	9,925	9,254	7,982	27,160
Floating	-32	-70	-254	-419	-712	6	-10	-62	-116	-238	115	148	69	332
US issuers	249	215	4,833	3,236	5,343	-460	37	2,523	1,515	5,619	7,791	7,542	6,817	22,150
DM Yankees	373	217	2,317	2,205	2,053	76	163	1,220	1,056	1,400	1,887	1,514	1,104	4,505
EM Yankees	17	-2	-37	-45	85	11	5	-16	-14	54	362	346	130	838

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 14: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$459mn for Banks/Brokers and increased \$104mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 8-Jan-24 (\$mn)			
	8-Jan	5-Jan	1 W	2 W	4 W	8-Jan	5-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-230	-8	-213	-264	-58	-174	-1	-197	-251	-12	409	639	222	1,270
Automobiles	70	-5	695	743	446	44	-28	315	350	238	344	274	318	936
Banks/Brokers	459	-139	1,471	1,318	1,549	10	-129	502	278	1,259	2,661	2,202	1,750	6,612
Basic Materials	-9	104	413	273	260	-13	56	235	140	224	348	356	263	967
Commercial Services	-26	18	39	57	165	-2	-7	56	70	178	115	141	152	408
Energy	104	-5	386	134	29	18	40	164	57	39	648	545	590	1,783
Finance	58	82	639	602	210	4	47	272	256	209	537	479	430	1,445
Food, Bev. & Bottling	-21	126	423	299	612	-65	105	304	236	566	423	445	286	1,154
Health Care	173	12	326	128	905	46	-42	143	27	1,045	1,154	981	956	3,091
Industrial Products	3	48	444	366	399	3	36	234	175	319	131	128	168	427
Insurance	-43	95	194	116	468	-54	48	93	30	446	164	207	198	569
Media & Entertainment	-101	1	-42	-267	-101	-109	-3	-103	-254	82	350	451	344	1,145
REITs	128	90	431	403	366	51	27	277	262	274	327	200	201	728
Retail	85	-99	192	117	356	70	-68	195	153	417	329	244	329	903

Exhibit 14: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$459mn for Banks/Brokers and increased \$104mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 8-Jan-24 (\$mn)			
Technology	60	19	190	231	311	-57	-30	-51	14	321	700	639	561	1,900
Telecom	45	33	412	373	636	28	4	315	307	565	305	260	227	793
Tobacco	64	102	135	116	64	46	73	82	72	72	145	81	148	373
Transportation	-76	-12	-7	-77	41	-89	29	58	10	111	130	206	173	508
Utilities	-138	-78	881	637	789	-158	22	822	630	778	678	816	635	2,128
Other	35	47	106	90	34	25	24	10	-7	-59	143	109	100	352

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

Source: BofA Global Research, FINRA, TRACE.

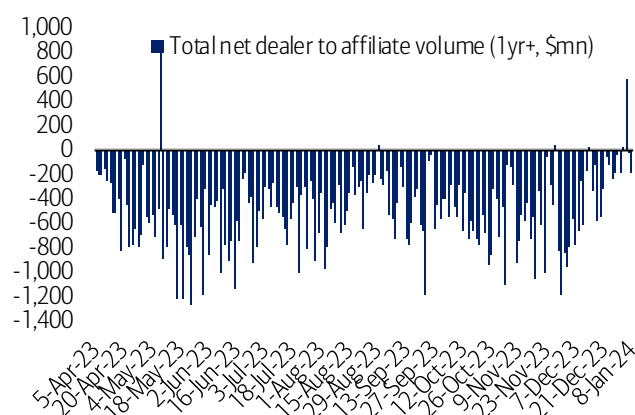
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Daily foreign demand tracker

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 15 shows the overall daily dealer-to-affiliate volumes while Exhibit 16, Exhibit 17 and Exhibit 18 show subsets of this data. In particular Exhibit 16 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 17 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 18 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 15: Net dealer buying from affiliate (1yr+)

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



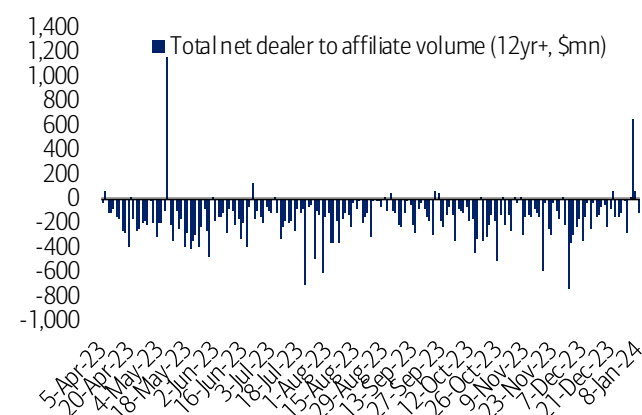
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 16: Net dealer buying from affiliate (12yr+)

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



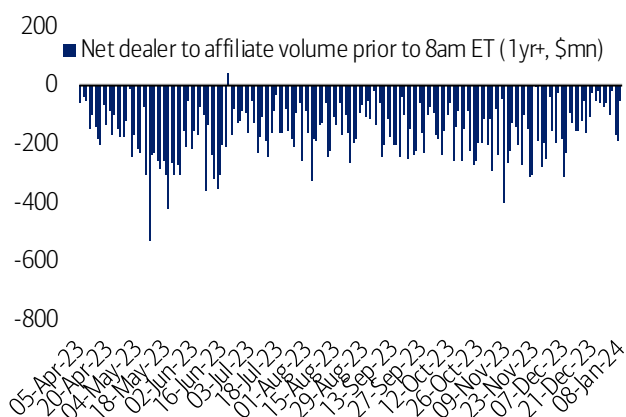
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 17: 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



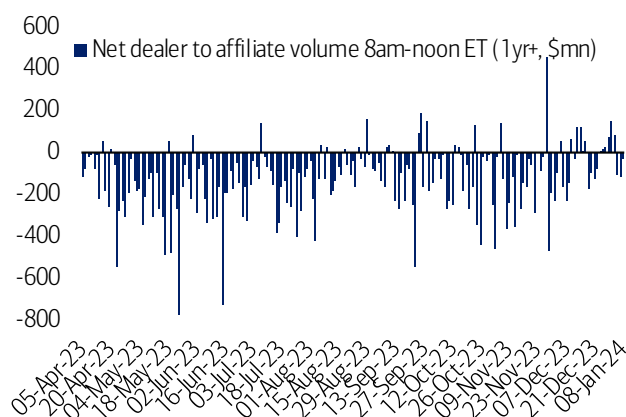
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 18: 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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Buy Protection: Buy CDS, therefore going short credit risk.

Neutral: No purchase or sale of CDS is recommended.

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