Credit Market Strategist

No cut, no problem

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Credit Strategy
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BofA Data Analytics

Yuri Seliger
Credit Strategist
BofAS
+1 646 855 7209
yuri.seliger@bofa.com

Jean-Tiago Hamm
Credit Strategist
BofAS
jean-tiago.hamm@bofa.com

Srini Talagadadeevi
Credit Strategist
BofAS
sreenivasa.rao@bofa.com

No cut, no problem

The theme during the month of January was strong US data diminishing chances of a Fed rate cut in March. Hence it was a fitting end to the month with the Fed effectively ruling out a March cut (see US Watch: January FOMC report), which was then further cemented by an exceptionally strong January Payrolls report. A more hawkish Fed could be negative for stocks, but it was positive for IG spreads in January, and we expect that to continue. That is because IG market technicals should get ever stronger on more attractive yields. On the other hand, higher rates will continue creating downside risks to growth and potential for faster rate cuts down the road. We see weaker growth combined with lower rates as the biggest risk to IG spreads in 2024. On top of that investors getting more overweight credit in January creates stronger technicals now at the expense of weaker technicals later.

IG resilience vs. a more hawkish Fed

During four days in January (excluding January 2nd), a more hawkish outlook for the Fed triggered both an increase in Treasury yields and a decline in stocks. On average for these four days IG bond spreads closed 1.4bps tighter.

Bigger overweight = less room to add

IG credit investor positioning near record underweight levels in 2023 was one of the more bullish signals from our US Credit Investor Survey. However, our latest survey from January 2024 instead shows investors have started to capitulate on their bearish view on credit. That leaves less ammunition for buying more IG bonds later in 2024.

Bank risks vs the Fed

The NYCB news was likely a one-off and we continue to prefer banks over industrial despite recent outperformance. Fed was hawkish on balance.

4Q earnings update: it's complicated

We are currently tracking a +7.9% YoY earnings growth for "core" public US IG issuers, ex. Energy and Finance. Ex. Tech the expected growth drops to +3.8% YoY in 4Q.

IG February supply: setting records

We look for a record high February IG supply in $160 - $170bn range.

IG market technicals

Supply: $21.7bn of issuance this week, expect $35-40bn next week. **Flows**: +$0.84bn inflow this past week ending on January 31st. **Weekly technicals**: expect $4.7bn of coupon payments to become effective next week. Bond maturities: $21.2bn this week, $14.0bn next week. **Dealer inventories**: +$1,627mn past week ended Thu. Details inside.

We published the weekly CMS data and charts in Situation Room.

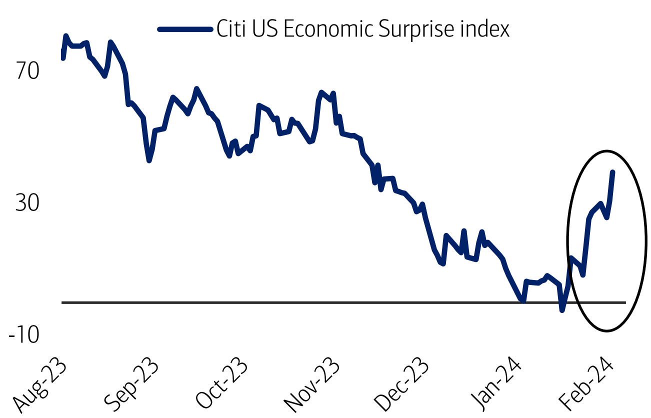
Recent credit strategy research

Publication	Name
Situation Room	Situation Room: Risk-on flows
Situation Room	Situation Room: Bank risks vs the Fed
Situation Room	Situation Room: 4Q earnings update: it's complicated
Situation Room	Situation Room: IG February supply: setting records
Monthly HG Market Review	Monthly HG Market Review: Jan '24: More goldilocks
Credit Market Strategist	Credit Market Strategist: Jan '24 Credit Investor Survey: Optimistic investors
Credit Market Strategist	Summer 2023 snapshot of US IG market

No cut, no problem

The theme during the month of January was strong US data diminishing chances of a Fed rate cut in March. Hence it was a fitting end to the month with the Fed effectively ruling out a March cut (see US Watch: January FOMC report), which was then further cemented by an exceptionally strong January Payrolls report. A more hawkish Fed could be negative for stocks, but it was positive for IG spreads in January, and we expect that to continue. That is because IG market technicals should get ever stronger on more attractive yields. On the other hand, higher rates will continue creating downside risks to growth and potential for faster rate cuts down the road. We see weaker growth combined with lower rates as the biggest risk to IG spreads in 2024. On top of that investors getting more overweight credit in January creates stronger technicals now at the expense of weaker technicals later.

Exhibit 1: US data surprised to the upside in January …
US economic surprise index rebounded from 0.4 on January 3rd to 39.5 on February 2nd.



Source: Bloomberg

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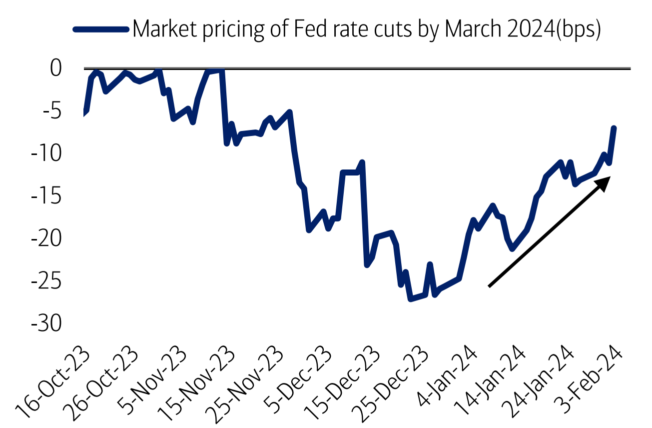
Exhibit 2: … leading markets to price fewer Fed cuts for March
Market priced a full Fed rate cut for March on December 29 and just 7bps of cuts on February 2nd.



Source: BofA Global Research, Bloomberg.

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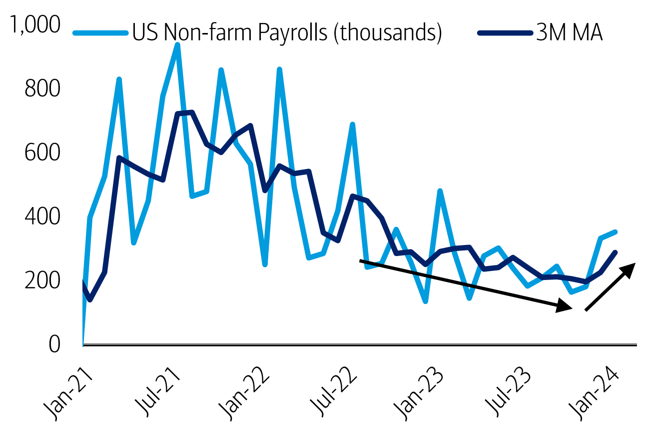
Payrolls breaking trend

As our economists highlighted (see US Watch: January employment report), the +353k jobs growth in January combined with +126k in positive revisions to the prior two months broke the trend in US Payrolls. On a three-month average basis US payrolls were steadily declining since mid-2022. The moving average reached the cyclical lows in November at +198k. It then rebounded to +289k by January – the highest since March 2023 (Exhibit 3). In line with strong Payrolls, consumer sentiment also improved strongly, based on the final January U. Michigan report released today on Friday (Exhibit 4).

Exhibit 3: US Payrolls are now trending higher
The 3M moving average for US Payrolls increased to +289k in Jan-2024 from +198k in Nov-2023.



Source: BofA Global Research, Bloomberg.
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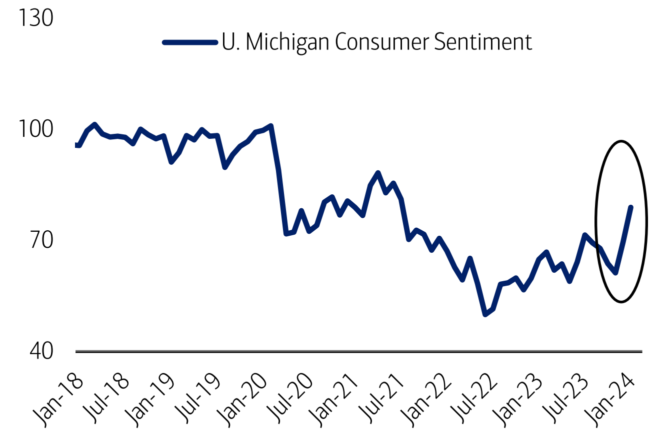
Exhibit 4: Stronger consumer sentiment
U. Michigan Consumer sentiment rebounded to 79 in Jan-2024 from 61 in Nov-2023.



Source: Bloomberg.
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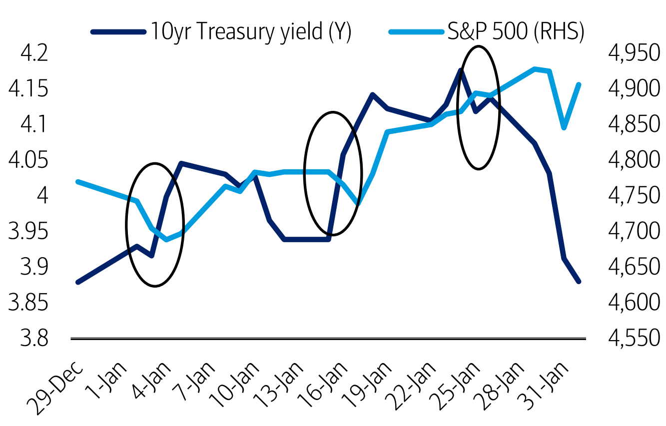
IG resilience vs. a more hawkish Fed

IG spreads were resilient to a more hawkish Fed in January, and we expect that to continue. During four days in January (excluding January 2nd), a more hawkish outlook for the Fed triggered both an increase in Treasury yields and a decline in stocks. On three of these days spreads for liquid IG bonds closed materially tighter, while they were unchanged on the fourth. On average for these four business days, a 6.6bps increase in Treasury yields triggered a -0.34% decline in the S&P 500, but a 1.4bps tightening in IG bonds spreads (Exhibit 5, Exhibit 6).

Exhibit 5: Episodes of higher rates / lower storks in January
A more hawkish outlook for the Fed caused four days of higher rates / lower stocks in January.



Source: Bloomberg
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Exhibit 6: Resilient IG spreads
On the days when stocks declined due to higher rates, IG bonds spreads closed 1.4bps tighter, on average.

Date	10yr Treasury yield change (bps)	S&P 500 change (%)	IG spread change (bps)
4-Jan-2024	8.3	-0.34%	-2.0
16-Jan-2024	11.9	-0.37%	0.0
17-Jan-2024	4.4	-0.56%	-2.0
26-Jan-2024	1.9	-0.07%	-1.5
Average	**6.6**	**-0.34%**	**-1.4**

Source: BofA Global Research, Bloomberg
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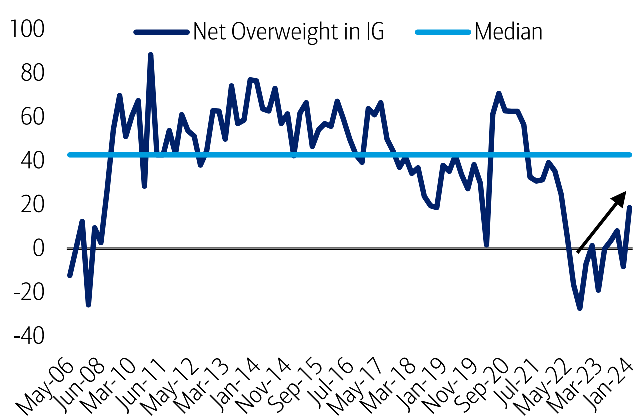
Bigger overweight = less room to add

IG credit investor positioning near record underweight levels in 2023 was one of the more bullish signals from our US Credit Investor Survey. However, our latest survey from January 2024 instead shows investors have started to capitulate on their bearish view on credit (see [Credit Market Strategist: Jan '24 Credit Investor Survey](#) report). That means higher IG credit overweight positioning (Exhibit 7) and lower cash balances (Exhibit 8). Adding to credit exposer and deploying cash clearly added to the very strong IG market technicals in January. However, that leaves less ammunition for buying more IG bonds later in 2024.

Exhibit 7: IG investors increased their credit positioning in January
Net IG positioning (shore overweight less share underweight) increased to 19% in Jan-2024 from 4% in Jul-2023.



Source: BofA US Credit Investor Survey

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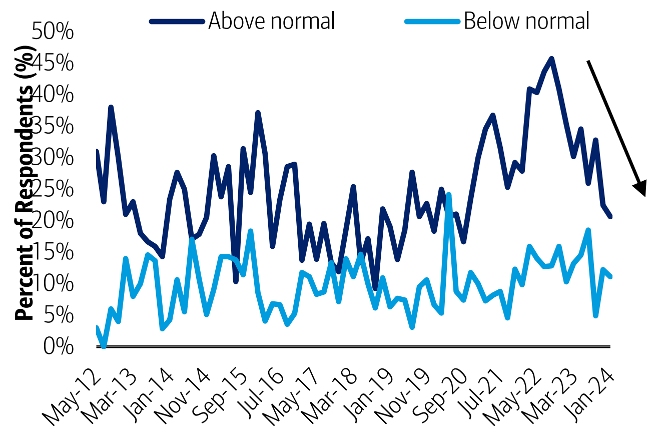
Exhibit 8: IG investors put cash to work
The share of IG investors reporting above normal cash levels dropped to 21% in Jan-2024 – the lowest level since Sep-2020.



Source: BofA US Credit Investor Survey

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Previously published here
Situation Room: Bank risks vs the Fed

Bank risks vs the Fed

Unexpected losses reported by a smaller regional bank NYCB (see New York Community Bancorp: 4Q loss, FY24 guide and dividend-cut to weigh on stock report) more than offset a somewhat hawkish FOMC, leading to a big bull-flattening of the Treasury yield curve. The combination of potentially higher CRE (commercial real estate) risks and a less accommodating Fed led to the largest drop in the S&P 500 YtD (-1.6%) and a 2-5bps widening in liquid IG bond spreads. Today's market action illustrates our biggest risk to IG spreads in 2024: higher US growth risks and less attractive yields. At the same time the NYCB headline does not impact our bullish view on banks, as the issue appears to be one-off and 2024 Fed cuts should benefit bank credit valuations relative to industrials.

Asymmetric risk to IG spreads

We can group US risks for IG spreads broadly into two categories: 1) sticky inflation, strong growth, hawkish Fed, higher long-term rates and 2) lower growth, lower inflation, dovish Fed, lower long-term rates. IG spreads should be resilient to risk #1, as lower stocks / potentially higher rates vol are offset by more attractive yields and potentially less supply on higher borrowing costs (see Situation Room: Fed vs. credit report). However, in scenario #2 lower yields instead amplify the negative impact of higher US growth risks on IG spreads, as happened today.

Banks over industrials

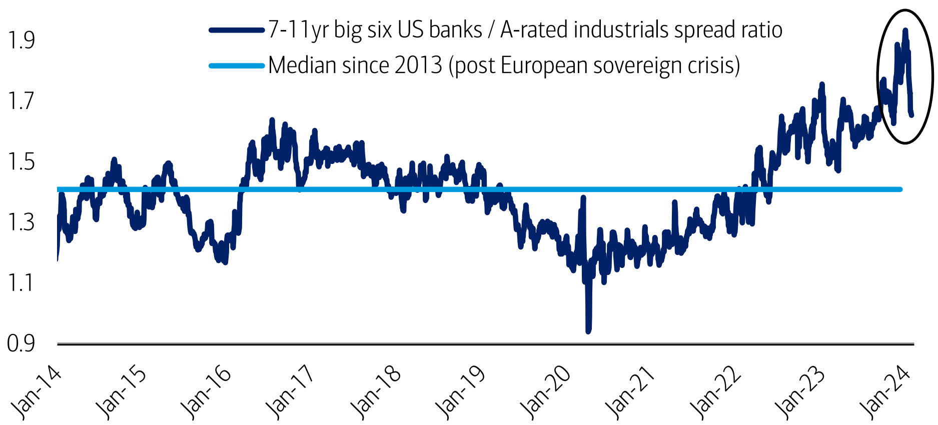
Despite recent outperformance we continue to prefer big sig and large regional US banks over industrials (Exhibit 9). First, unlike for NYCB, the 4Q results for the big six US banks as well as large regionals were constructive on credit quality (see Banks: Constructive tone on credit continues report). That suggests the NYCB surprise was likely a one-off and not an indicator of a wider problem. Second, larger banks have strong capital buffers against credit losses. Third, tail risk related to the Fed hiking cycle – which we think is the key reason for bank spread underperformance post SVB last year – should decline in 2024 as the Fed cuts rates.

A two-handed Fed

Economists famously do not take a firm position on issues, instead saying "but on the other hand." The January FOMC was similarly two-handed. The key hawkish message was Chair Powell stating that he did not think it "likely" that the Committee would be ready to cut rates in March. As a result, the chance of a Fed cut in March based on market pricing dropped to 35% today on Jan 31st from 42% on January 30th. On the other hand, the Fed acknowledged the progress on inflation and is now more focused on the dual mandate rather than just price stability, hence tilting more dovish. Hence Chair Powel stated during the press conference that a weaker US labor market could be a reason to accelerate the pace of expected rate cuts in 2024.

Exhibit 9: Bank spreads have outperformed A-rated industries in January

The ratio of 10yr big six US bank spreads to A-rated industrials declined to 1.66 on Jan 30 from 1.94 on Jan 4. Industrial spreads are unchanged while bank spreads are 21bsp tighter over the same period.



Source: BofA Global Research, ICE Data Indices, LLC

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Previously published here
Situation Room: 4Q earnings update: it's complicated

4Q earnings update: it's complicated

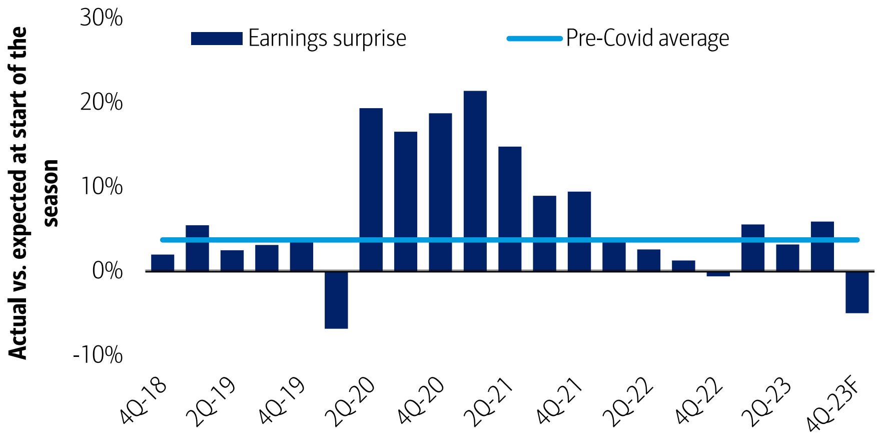
Here we provide an early peek at the 4Q earnings reporting season. This and next week will be the heaviest in terms of reporting. By now 26% of IG public issuers have released results, accounting for 30% of the total aggregate expected earnings. The key takeaway is that we are currently tracking a +7.9% YoY earnings growth for "core" public US IG issuers, ex. Energy and Finance (based on actual results when available and the latest bottom-up consensus estimates otherwise). However, a lot of that growth is driven by big Tech. Excluding Tech the expected growth drops to +3.8% YoY in 4Q.

Earnings are better than expected ex. Financials

Based on the full sample of issuers, and using GAAP EPS (rather than adjusted EPS), 4Q earnings have come in -5.0% below expectations. However, most of that negative surprise is drive by banks. Excluding Financials earnings so far came in 5.3% above expectations. That's better than +3.7% positive average surprise pre-Covid. Revenues so far have been 1.1% above expectations, also better than +0.7% pre-Covid average. Finally, earnings surprises have been stronger for more global "core" IG issuers (+12.7%) compared to more domestic issuers (+0.6%, Exhibit 17).

Exhibit 10: A negative earnings surprise in 4Q, driven entirely by Banks

4Q earnings reported so far were -5.0% below expectations. This negative surprise was entirely due to Financials. Ex. Financials the surprise was a positive +5.3%.



Source: BofA Global Research, FactSet

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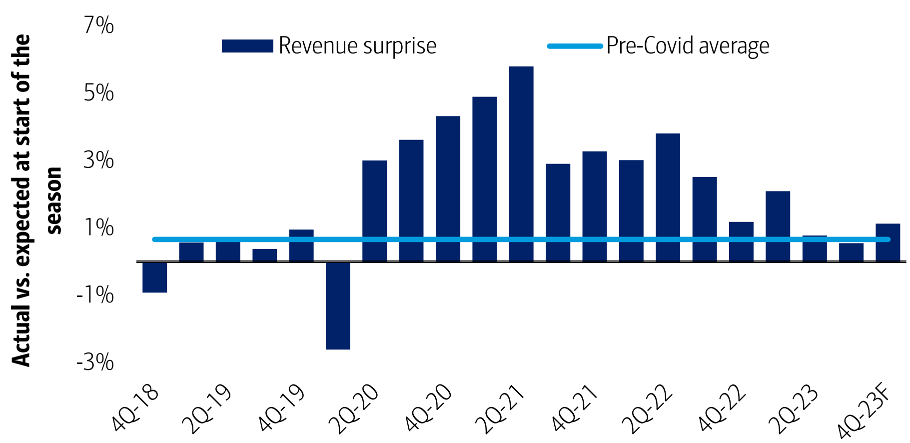
Exhibit 11: 4Q revenue surprise so far has been above average levels

4Q revenues surprised to the upside by +1.1%, up from +0.5% surprise in 3Q-2023 and above +0.7% pre-Covid average.



Source: BofA Global Research, FactSet

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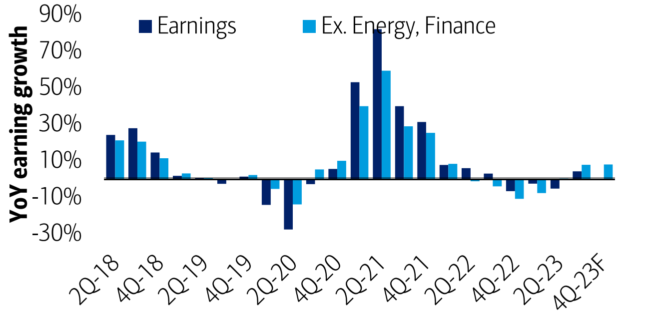
Exhibit 12: Earnings growth for US IG issuers
We are tracking 4Q-23 earnings growth of +7.9%, ex. Energy and Finance.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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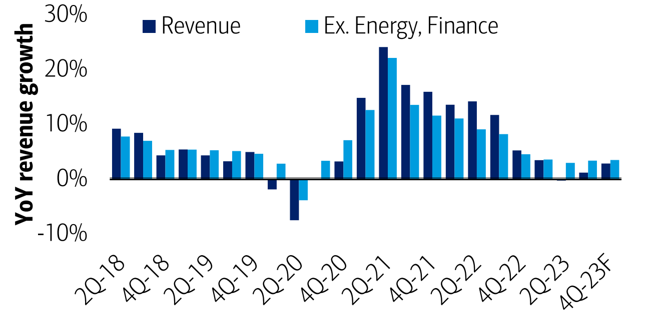
Exhibit 13: Revenue growth for US IG issuers
Revenue growth is bottomed in 2Q-2023.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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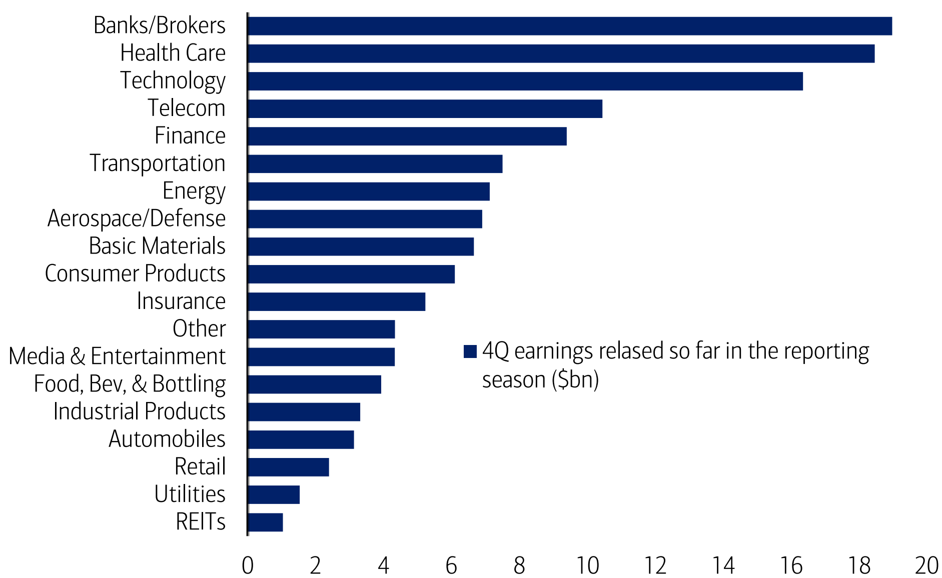
Exhibit 14: Most 4Q earnings reported so far were from Banks, Health Care and Tech
The top sectors in terms of the aggregate 4Q-23 earnings amount released so far in the reporting season.



Source: BofA Global Research, FactSet

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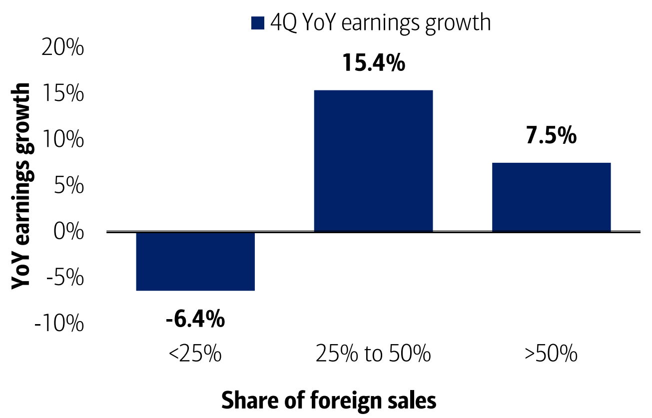
Domestic versus foreign

We are tracking the strongest 4Q earnings growth for the intermediately global IG issuers, and the weakest for the more domestic issuers (Exhibit 15, Exhibit 16). Earnings surprise has been strongest for the more global issuers (Exhibit 17, Exhibit 18).

Exhibit 15: 4Q-23 consensus earnings growth by foreign sales
4Q earnings growth is tracking -6.4% YoY for the more domestic issuers, but +15.4% YoY for the intermediately 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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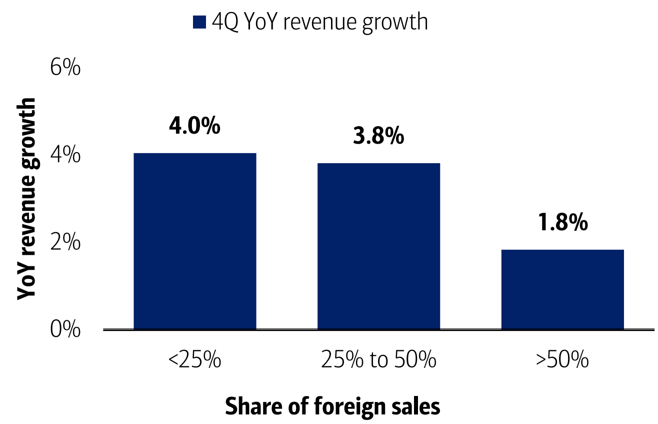
Exhibit 16: 4Q-23 consensus sales growth by foreign sales
4Q sales growth is tracking +4.0% for the more domestic issuers and 1.8% for the more global issuers.



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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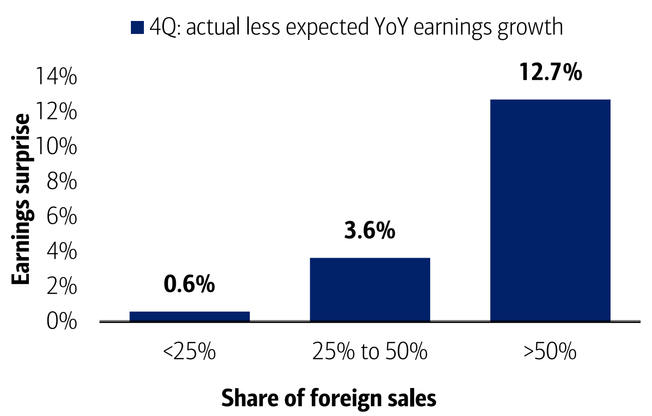
Exhibit 17: 4Q-23 earnings surprise by foreign sales
Earnings surprise was the strongest for the most global issuers.



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

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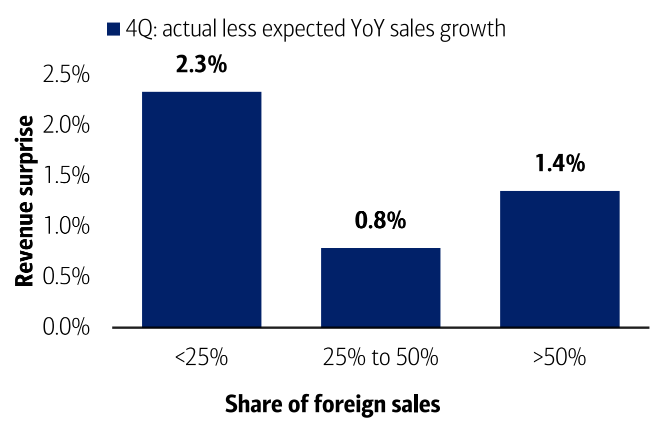
Exhibit 18: 4Q-23 sales surprise by foreign sales
Sales surprise was the strongest for the more domestic issuers.



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

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Results by sector

We are tracking the weakest 4Q YoY earnings growth for Banks/Brokers (-51%), Automobiles (-33%) and Energy (-29%). On the flip side we are tracking the strongest YoY earnings growth in 4Q for Media & Entertainment (+65%), Utilities (+36%) and Retail (+34%, Exhibit 19).

Exhibit 19: 4Q-2023 results by sector for US public IG issuers
The table lists 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	5.9%	6.0%	1.7%	62%
Automobiles	-32.9%	0.5%	1.3%	50%
Banks/Brokers	-51.4%	1.5%	11.6%	100%

Exhibit 19: 4Q-2023 results by sector for US public IG issuers
The table lists 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
Basic Materials	-21.7%	-4.0%	1.9%	30%
Consumer Products	2.4%	1.2%	0.7%	53%
Energy	-28.9%	-6.2%	4.2%	22%
Finance	8.5%	9.4%	2.6%	38%
Food, Bev, & Bottling	0.9%	0.5%	2.0%	26%
Health Care	-18.5%	5.2%	7.5%	35%
Industrial Products	3.4%	0.4%	1.9%	15%
Insurance	23.3%	8.8%	2.5%	16%
Media & Entertainment	64.9%	7.8%	3.2%	32%
REITs	18.3%	6.1%	3.0%	17%
Retail	34.3%	4.4%	3.3%	6%
Technology	18.4%	6.5%	5.6%	42%
Telecom	-3.7%	0.8%	2.6%	100%
Transportation	-10.6%	-1.9%	1.3%	93%
Utilities	35.7%	0.7%	6.9%	11%
Other	-4.1%	1.9%	2.2%	31%
Total US HG public co's	**-0.7%**	**2.8%**	**65.7%**	**44%**
Total ex. Financials	2.5%	2.3%	46.0%	34%
Total ex. Energy	3.0%	3.9%	61.5%	46%
Total ex. Fin. & Energy	7.9%	3.4%	41.8%	35%
Yankee and private co's	n.a.	n.a.	34.3%	n.a.
HQ ex. Financials, Utilities	9.0%	3.5%	14.9%	37%
BBB ex. Financials, Utilities	-10.1%	1.2%	23.7%	39%

Note: based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet.

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Surprises by sector

Earnings surprised to the upside the most for Autos (+17% surprise), Energy (+14% surprise), and Insurance (+11% surprise). On the other hand, earnings came in the weakest relative to expectations at the start of the season for Banks/Brokers (-40% surprise), REITs (-6% surprise), and Telecom (-4% surprise, Exhibit 20).

Exhibit 20: 4Q-2023 earnings / sales surprises by sector for public US IG issuers
The table summarizes earnings and revenue surprises by sector.

Sector	Expected earnings growth (YoY)	Actual earnings growth (YoY)	Earnings surprise	Expected sales growth (YoY)	Actual sales growth (YoY)	Sales surprise	Percentage of the sector that has reported
Aerospace/Defense	-6.4%	-3.6%	2.9%	4.7%	6.0%	1.2%	62%
Automobiles	-32.0%	-20.8%	16.5%	-7.7%	1.4%	9.9%	50%
Banks/Brokers	-19.2%	-51.8%	-40.4%	2.8%	1.4%	-1.3%	100%
Basic Materials	-22.5%	-20.7%	2.3%	-4.2%	-3.6%	0.7%	30%
Consumer Products	4.3%	10.4%	5.8%	2.6%	2.8%	0.2%	53%
Energy	-37.6%	-28.7%	14.2%	-7.7%	-7.3%	0.5%	22%
Finance	1.7%	2.0%	0.3%	5.1%	7.5%	2.2%	38%
Food, Bev, & Bottling	9.9%	10.5%	0.5%	4.7%	4.6%	-0.1%	26%
Health Care	-32.5%	-24.1%	12.5%	0.4%	2.7%	2.3%	35%
Industrial Products	-11.1%	-3.7%	8.4%	-9.9%	-6.4%	3.9%	15%
Insurance	29.7%	44.6%	11.4%	13.3%	12.8%	-0.5%	16%
Media & Entertainment	16.4%	21.2%	4.2%	1.9%	4.4%	2.4%	32%
REITs	-13.1%	-18.5%	-6.2%	4.0%	1.8%	-2.1%	17%
Retail	16.0%	16.0%	0.0%	2.6%	2.6%	0.0%	6%
Technology	0.0%	6.1%	6.1%	0.4%	1.1%	0.7%	42%
Telecom	0.5%	-3.7%	-4.1%	-1.3%	0.8%	2.2%	100%
Transportation	-12.9%	-9.8%	3.7%	-1.3%	-1.5%	-0.2%	93%
Utilities	7.3%	9.5%	2.1%	-3.6%	1.0%	4.8%	11%
Other	-7.5%	-10.5%	-3.3%	2.8%	3.0%	0.2%	31%
Total US HG public co's	**-13.2%**	**-17.5%**	**-5.0%**	**0.1%**	**1.2%**	**1.1%**	**44%**
Total ex. Financials	-13.7%	-9.1%	5.3%	-0.9%	0.6%	1.6%	34%

Exhibit 20: 4Q-2023 earnings / sales surprises by sector for public US IG issuers
The table summarizes earnings and revenue surprises by sector.

Sector	Expected earnings growth (YoY)	Actual earnings growth (YoY)	Earnings surprise	Expected sales growth (YoY)	Actual sales growth (YoY)	Sales surprise	Percentage of the sector that has reported
Total ex. Energy	-11.6%	-16.8%	-5.9%	0.8%	2.0%	1.2%	46%
Total ex. Fin. & Energy	-11.4%	-7.2%	4.7%	-0.2%	1.5%	1.7%	35%
HQ ex. Financials, Utilities	-14.4%	-7.5%	8.1%	-0.2%	0.9%	1.1%	37%
BBB ex. Financials, Utilities	-14.6%	-12.2%	2.8%	-1.7%	0.2%	2.0%	39%

Note: based only on companies that have released 4Q-2023 results. Earnings surprise is [Actual $ earnings] / [Expected $ earnings] - 1
Source: BofA Global Research, FactSet.

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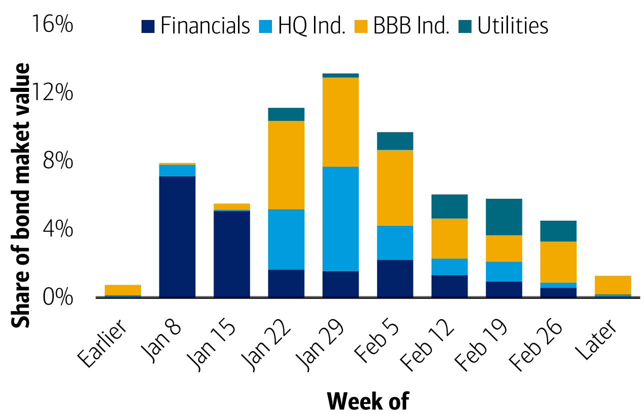
Timing of the earnings season

4Q reporting season peaks during the weeks of January 22nd and January 29th. The pace of reporting slows substantially during the week of February 12th and the season is virtually after February 26th (Exhibit 21, Exhibit 22).

For the remainder of the season reporting will be concentrated in terms of the IG bond index share in BBB industrials (15.0% of index value) and high quality industrials (9.2% of index value, Exhibit 23, Exhibit 24).

Exhibit 21: Weekly reporting: by the share of the US IG bond index
The week of Jan 22nd and Jan 29th are the busiest of the season.



Source: BofA Global Research, Bloomberg.

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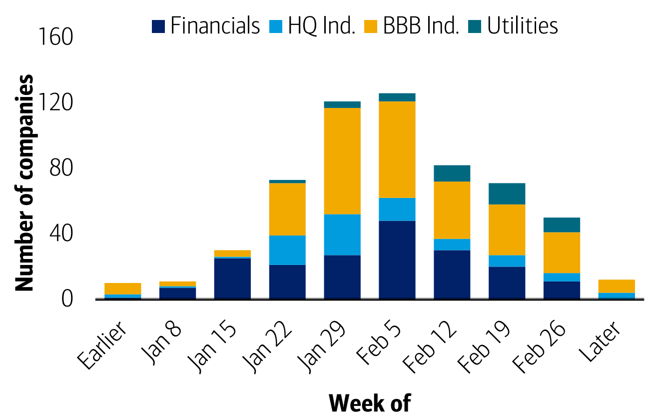
Exhibit 22: Weekly reporting: by the number of companies
The number of companies reporting peaks for the week of Feb 5th.



Source: BofA Global Research, Bloomberg.

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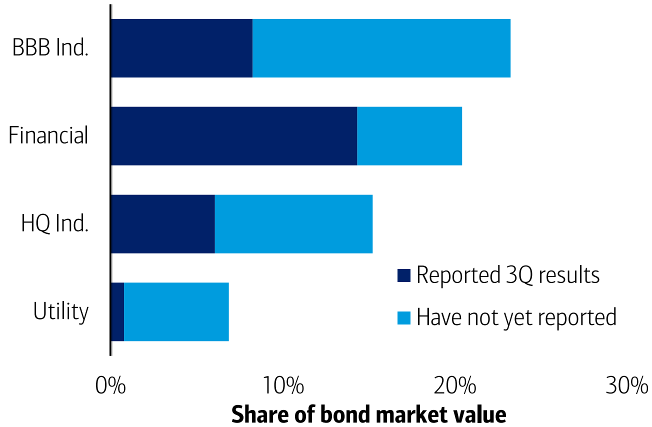
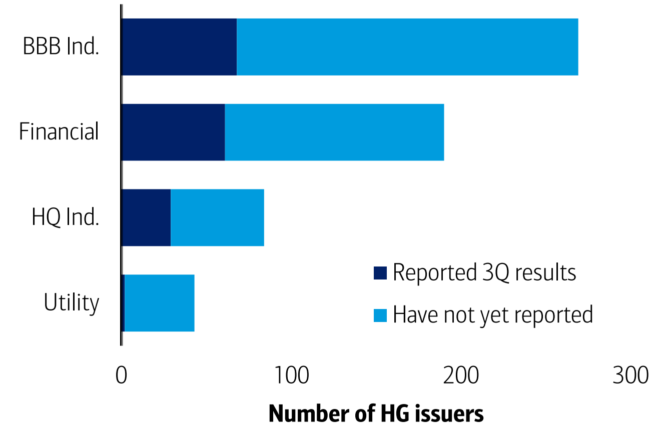
Exhibit 23: 4Q reporting season progress by bond market value
By issuer bond market value reporting going forward is concentrated in BBB and high-quality industrials.



Source: BofA Global Research, Bloomberg.
BofA GLOBAL RESEARCH

Exhibit 24: 4Q reporting season progress by issuer count
By issuer count reporting going forward is concentrated in BBB industrials and Financials.



Source: BofA Global Research, Bloomberg.
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Previously published here
[Situation Room: IG February supply: setting records]

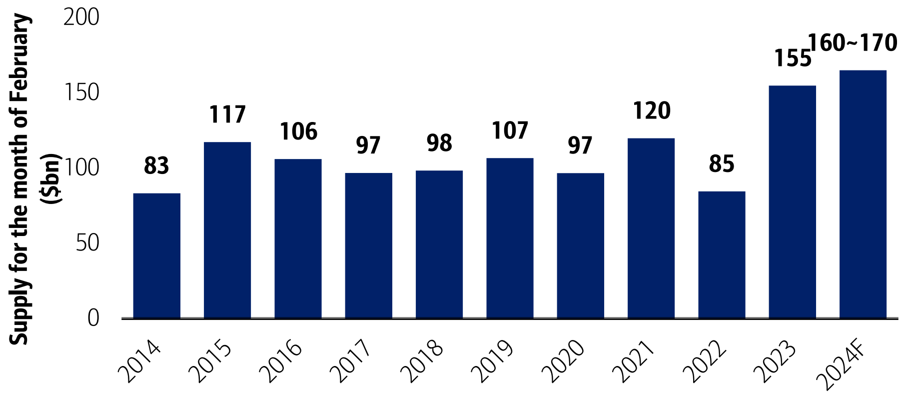
IG February supply: setting records

We look for February IG supply in $160 - $170bn range. That would be a record high for the calendar month, about 7% above the prior record of $155bn from February of 2023. A number of factors should support heavy issuance volumes in February. First, we look for heavy M&A-related supply in February, potentially exceeding $30bn. Second, investor demand is very strong, encouraging issuers to come to market now while conditions are unusually favorable. For example, the average IG new issue concession was close to zero last week (Exhibit 26). Third, borrowing costs are relatively attractive. IG index yield is about unchanged relative to a year ago, but is near the lower end of the range over the past 18 months, while spreads are much tighter (Exhibit 27, Exhibit 28).

January supply is smaller than it appears

Issuance has reached $192bn so far in January. That would be the highest on record for the calendar month, ahead of the prior record of $176bn for January 2017 (Exhibit 29). However, the IG index notional has increased 53% over the past seven years since 2017. Hence, adjusting for market size the MtD January 2024 supply was 2.21% as a share of the IG index, well below 3.09% in January 2017 and only 43rd percentile since 2010 (Exhibit 30). Still, January 2024 IG supply as a share of the index was about 20% above the average over the prior three years.

Exhibit 25: We expect February supply in $160 - $170bn range
That would be higher than the prior record for the calendar month of $155bn set in 2023.



Source: BofA Global Research

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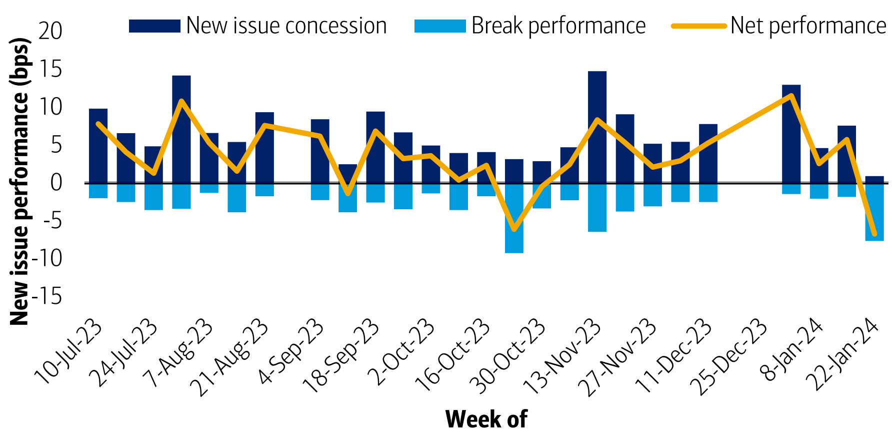
Exhibit 26: IG new issue concessions collapsed towards the end of January
The average new issue concession was less than 1bps for the week of January 22, while the average break performance was a strong 7.6bps tighter.



Source: BofA Global Research

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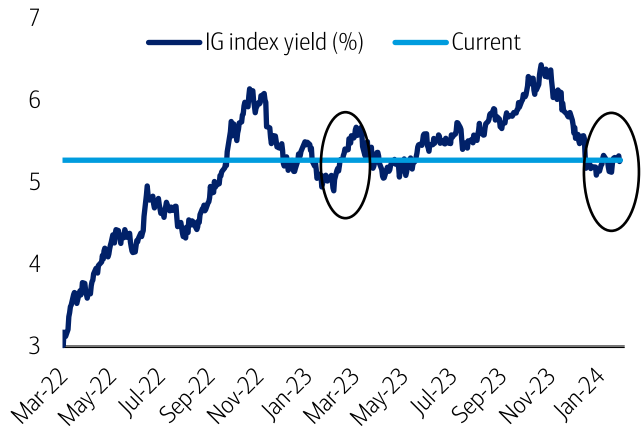
Exhibit 27: Yields are currently unchanged from Feb 2023
The US IG index yield averaged 5.31% in Feb 2023 – similar to 5.27% currently as of Jan 26, 2024.



Source: ICE Data Indices, LLC
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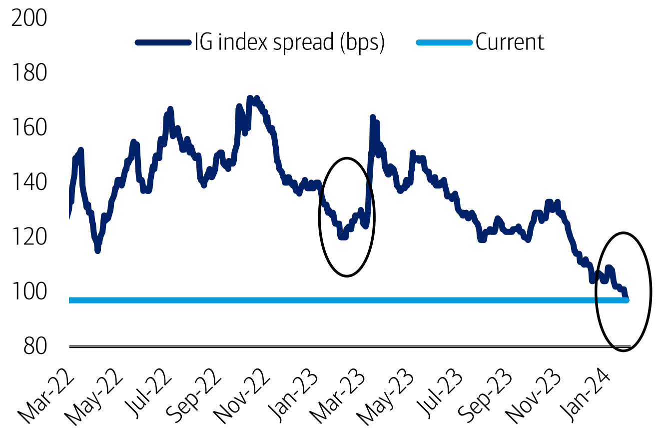
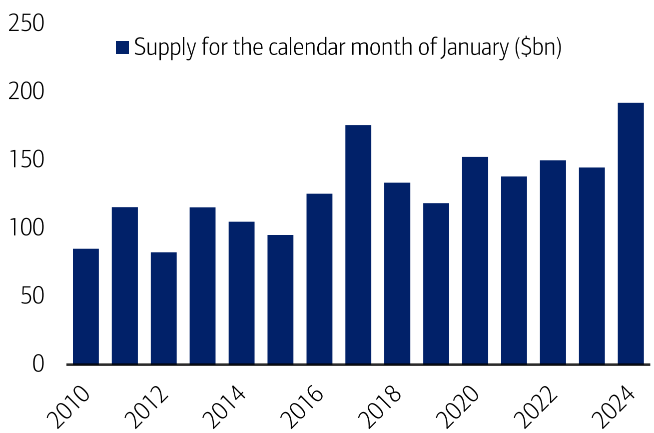
Exhibit 28: IG spreads are currently tighter than in Feb 2023
The US IG index spread averaged 124bps in Feb 2023, wider than 97bps as of Jan 26, 2024.



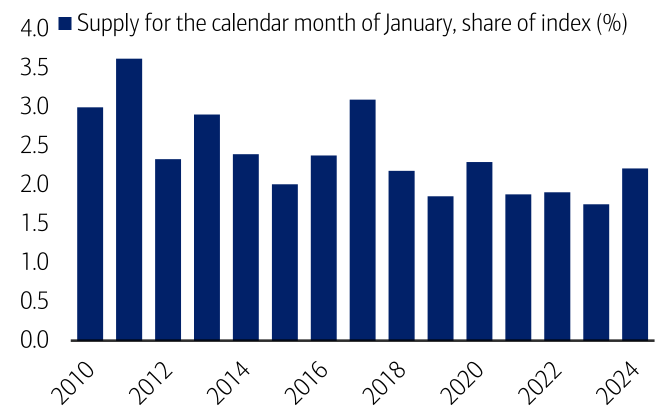
Source: ICE Data Indices, LLC
BofA GLOBAL RESEARCH

Exhibit 29: MtD January supply of $192bn is record high
The MtD IG supply is the record high for the month of January, above the prior record of $176 from January 2017.



Source: BofA Global Research
BofA GLOBAL RESEARCH

Exhibit 30: MtD January supply of 2.21% of the index is typical
MtD IG supply is just 43rd percentile since 2010, below 3.09% for January 2017, but 20% above the average over the past three years.



Source: BofA Global Research
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Situation Room: Risk-on flows

Flows

Risk-on flows

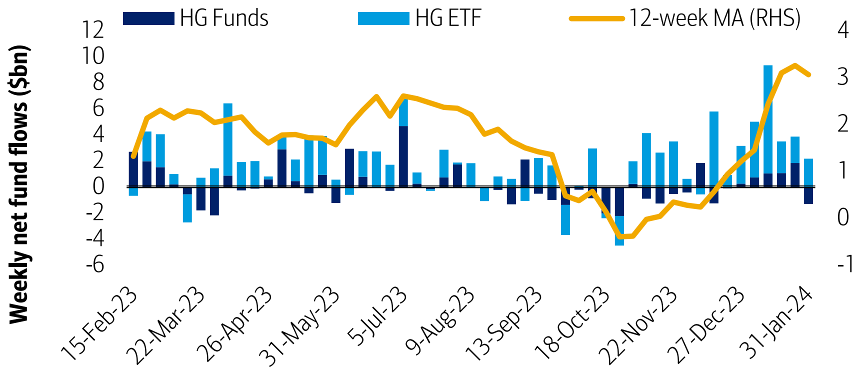
Flows to US HG bond funds and ETFs weakened this past week ending on January 31st with a modest +0.84bn inflow, down from +$3.86bn in the prior week. This inflow was mostly due to HG ETFs (to +$2.16bn from +$2.02bn the prior week), while flows turned negative for HG funds (to -$1.32bn from +$1.83bn). Short-term HG reported an outflow (to -$1.14bn from +$0.10bn), while inflows moderated ex. short-term (to +$1.98bn from +$3.75bn).

Inflows to stocks and HY

This past week inflows accelerated for equities (to +$8.84bn from +$4.85bn), as well as for HY (to +$2.17bn from +$0.62bn) and for munis (to +$0.70bn from +$0.44bn). Flows to loans turned slightly negative this week (to -$0.06bn from +$0.06bn), while outflows from global EM bonds moderated (to -$0.24bn from -$0.89bn). Finally, money markets reported a +$29.70bn inflow this past week, following a +$10.47bn inflow a week earlier.

Exhibit 31: Weekly high grade fund flows, $bn

HG ETF +$2.16bn, HG Funds -$1.32



EPFR Global. Note: data are for US-domiciled funds only.

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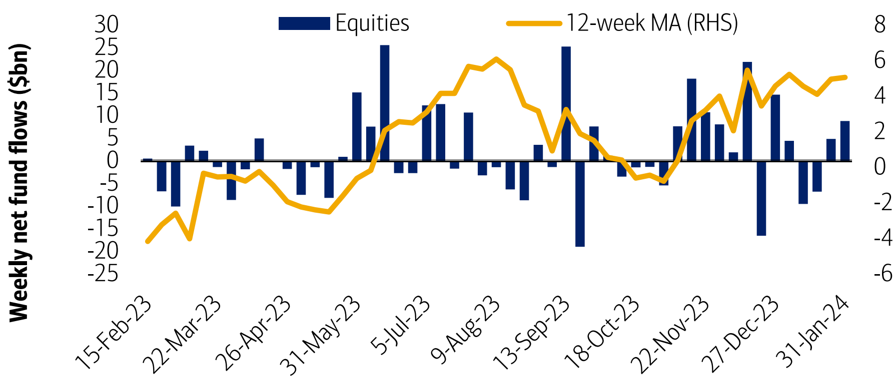
Exhibit 32: Weekly equity fund flows, $bn

Equities +$8.84bn



EPFR Global. Note: data are for US-domiciled funds only.

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Exhibit 33: Fund flows summary
YTD fund flows summary by asset class

Asset class	Last week (% of AUM for weekly reporting funds/ETFs)	YTD (% of AUM for all funds/ETFs)	YTD ($bn)
High grade: total	0.04%	0.6%	22.5
High grade: ex short-term	0.12%	0.7%	23.5
High yield: total	0.86%	1.1%	3.8
High yield: ETFs only	2.77%	3.7%	2.7
Loans	-0.07%	0.3%	0.4
EM	-0.05%	-0.4%	-2.4
Munis	0.13%	0.2%	1.6
All fixed income	-0.05%	0.4%	29.2
Money markets	0.46%	1.8%	114.1
Equities	0.08%	0.0%	1.8

Note: Last week flow as % of AUM is based on AUM for weekly reporting funds / ETFs only. YTD flow as % of AUM is based on AUM for the full fund/ ETF universe as of December 31 2020. Global EM funds, US-domiciled funds only for other fund types.
Source: EPFR Global, BofA Global Research

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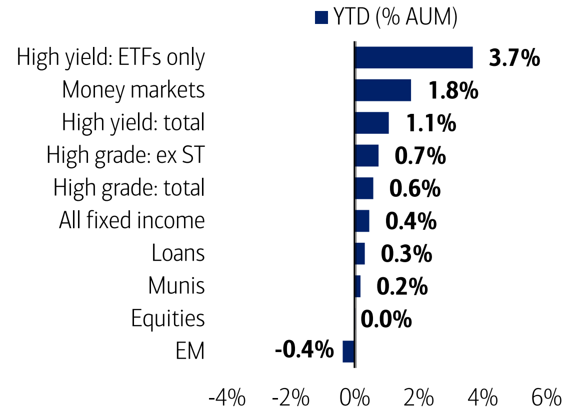
Exhibit 34: Year to date fund flows, % of AUM
EM has had the biggest outflows so far in 2023.



Note: Global EM funds, US-domiciled funds only for other fund types.
Source: EPFR Global, BofA Global Research

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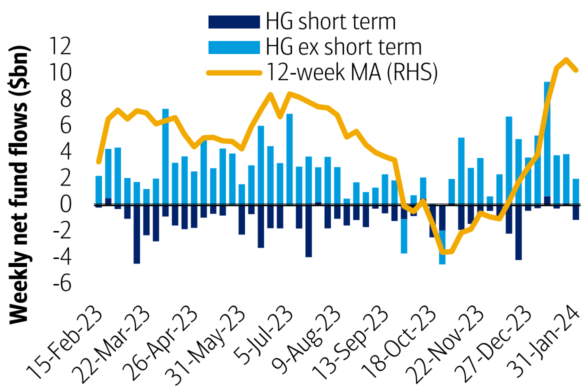
Exhibit 35: Weekly high grade fund flows, $bn
HG short-term -$1.14bn, HG ex short-term +$1.98



EPFR Global. Note: data are for US-domiciled funds only.

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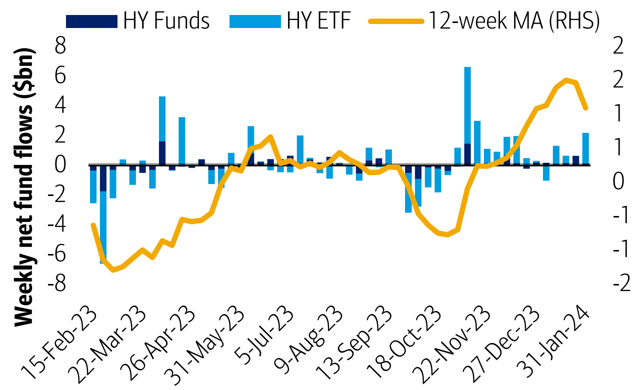
Exhibit 36: Weekly high yield fund flows, $bn
HY ETFs +$2.07bn, HY funds +$0.09



EPFR Global. Note: data are for US-domiciled funds only.

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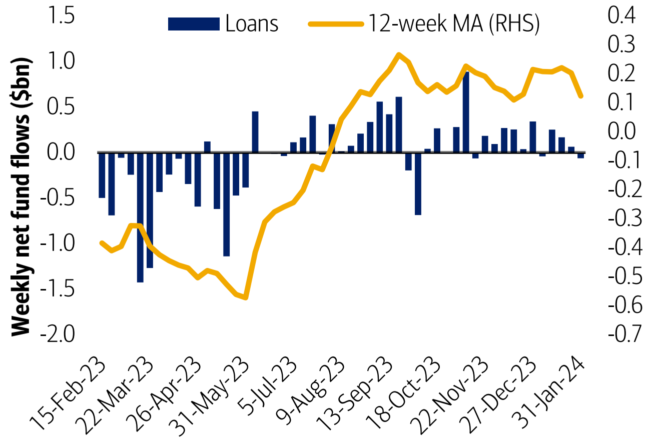
Exhibit 37: Weekly loan fund flows, $bn
Leveraged loans -$0.06bn



EPFR Global. Note: data are for US-domiciled funds only.

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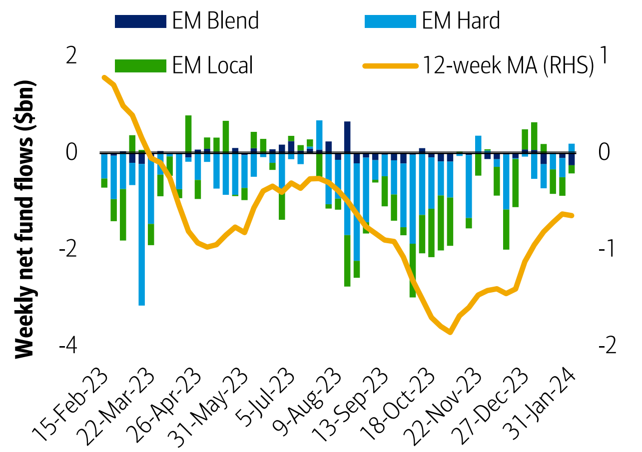
Exhibit 38: Weekly EM fund flows, $bn
Global EM bonds -$0.24bn



EPFR Global. Note: data are for US-domiciled funds only.

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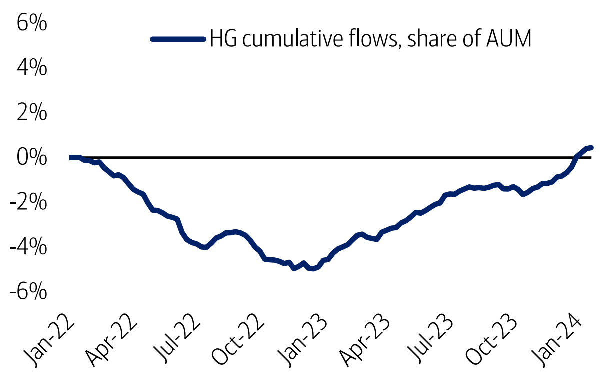
Exhibit 39: Cumulative % flows in HG over the last 2 years
Following large outflows in 2022, HG flows turn positive in 2023



Source: EPFR Global, BofA Global Research

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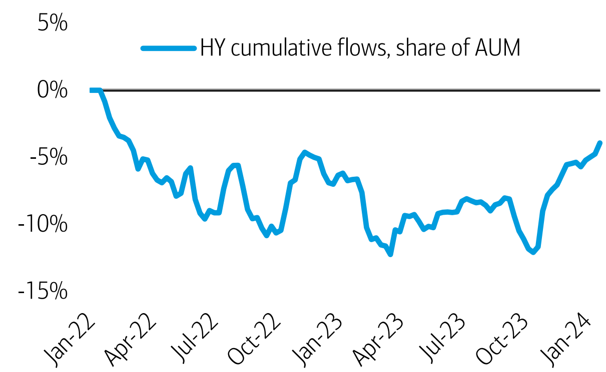
Exhibit 40: Cumulative % flows in HY over the last 2 years
2022 and 2023 have seen consequent outflows in HY



Source: EPFR Global, BofA Global Research

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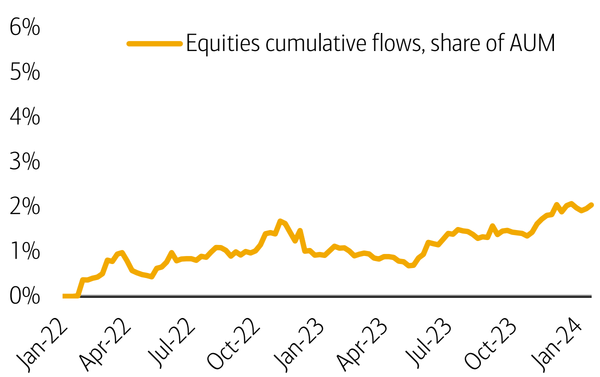
Exhibit 41: Cumulative % flows in equities over the last 2 years
Flows moderate in equities after two years of inflows



Source: EPFR Global, BofA Global Research

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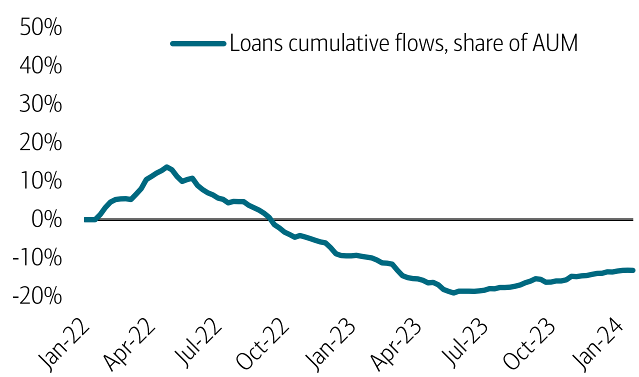
Exhibit 42: Cumulative % flows in loans over the last 2 years
After large inflows until mid-2021, loans subject to large outflows ever since



Source: EPFR Global, BofA Global Research

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Appendix: defining high grade

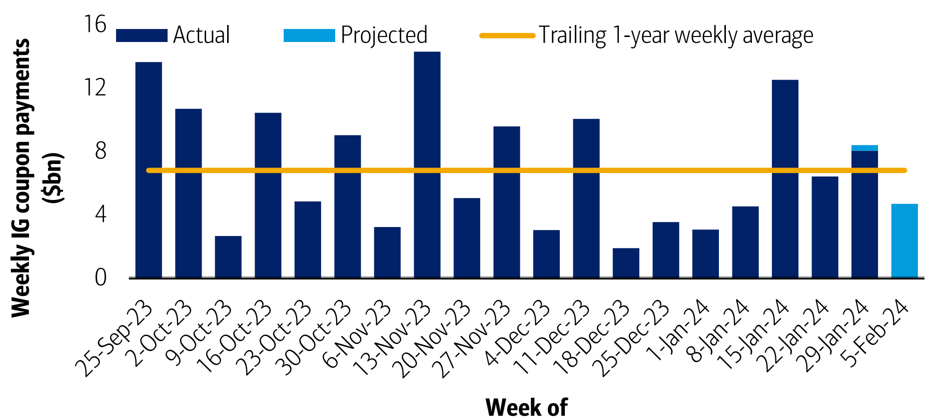
We define our high grade flows metric as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" 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. On the other hand the dedicated corporate bond funds and ETFs are much smaller in terms of assets under management. We also include the "total return" bond category in our tracking of high grade flows. Finally note that "short-term" maturity refers to duration of 0 to 4 years.

Weekly technicals

The US IG corporate bond market is expected to generate $4.7bn in coupon payments next week, below the trailing 1-year weekly average of $6.8bn (Exhibit 43). In addition, $1.2bn of calls were settled and paid this week. Bond maturities: $21.2bn this week, $14.0bn next week.

Exhibit 43: Weekly US IG coupon payments

Expect $4.7bn of coupon payments next week, below the $6.8bn trailing 1-year weekly average.



Source: ICE Data Indices, LLC, BofA Global Research

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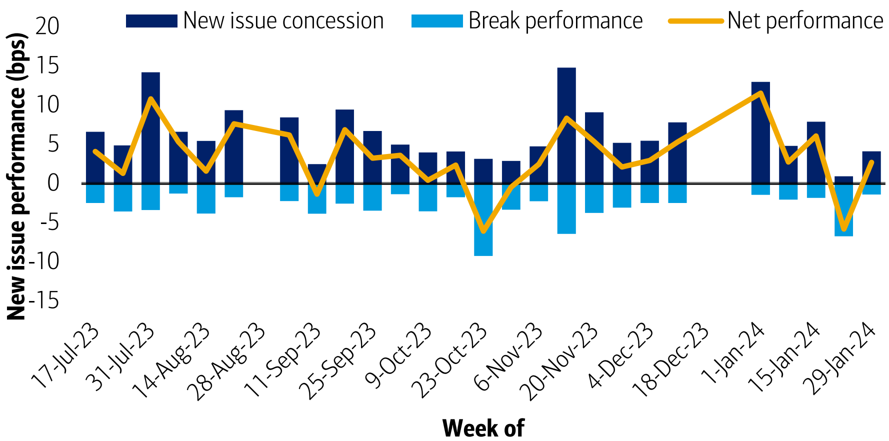
Supply

US IG gross issuance totaled $21.7bn this week, consisted of $4.8bn financials, $6.8bn high-quality industrials and $10.2bn BBB industrials. Given $194.2bn of gross issuance, $82.0bn of maturities and $3.4bn of additional redemptions, net issuance is tracking $108.8bn YTD. More companies are coming out of earnings-related issuance blackouts and investor demand remains strong. On the other hand, the increase in Treasury yields post the strong Jobs report could weigh on supply volumes next week. Still, we for a busy pace of IG supply to continue into February, with issuance next week in the $35-$40bn range.

New issue performance weakened this week. The average new issue concession increased to 4.1bps from 0.9bps last week, while the average break performance increased to 1.4bps tighter this week from 6.8bps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, widened to +2.7bps this week vs. -5.8bps last week (Exhibit 44). This week's new issues are trading 6bps tighter on average from pricing.

Exhibit 44: Weekly new issue supply performance

For the week of Jan 29 2024: new issue concession = 4.1bps; break performance = -1.4bps; net performance = 2.7bps.



Source: BofA Global Research

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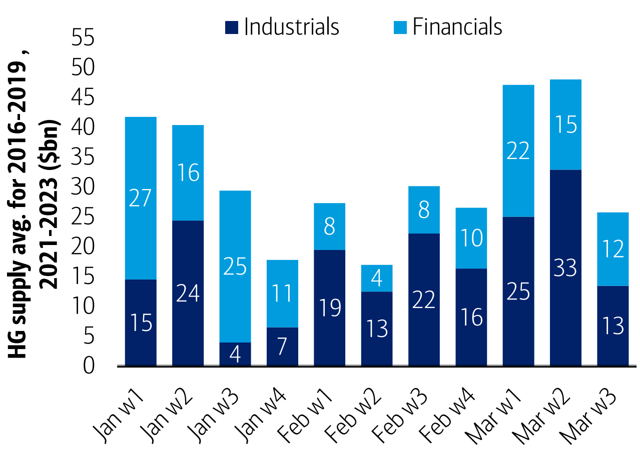
Exhibit 45: Weekly Supply seasonality

Supply volumes pick tend to pick up 1st week of Mar.



Source: Bloomberg, BofA Global Research

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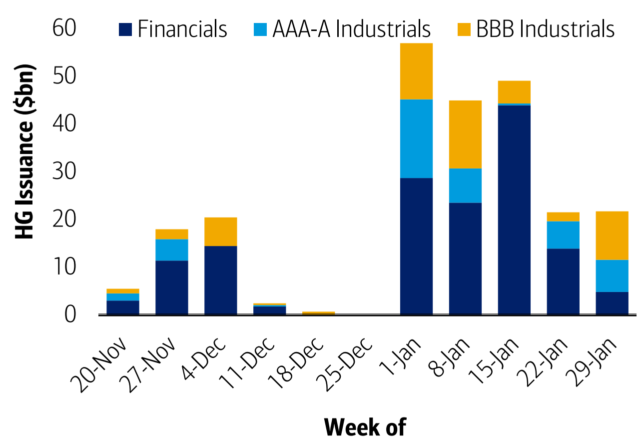
Exhibit 46: Weekly Supply

This week's supply consisted of $4.8bn financials, $6.8bn high-quality industrials and $10.2bn BBB industrials.



Bloomberg, BofA Global Research

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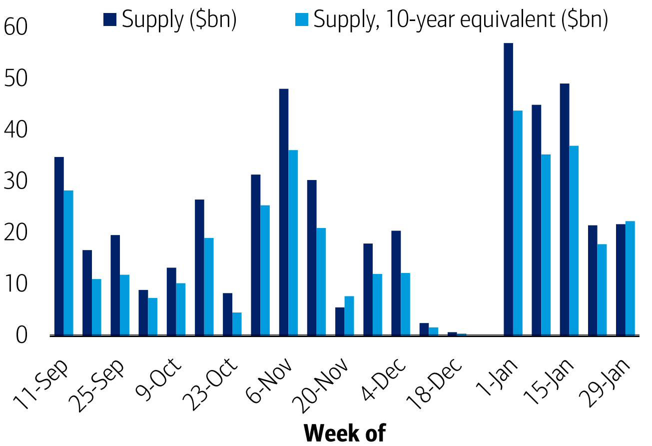
Exhibit 47: Weekly gross and 10-year equivalent supply volumes
10-year equivalent supply = $22.3bn WTD



BofA Global Research, Bloomberg

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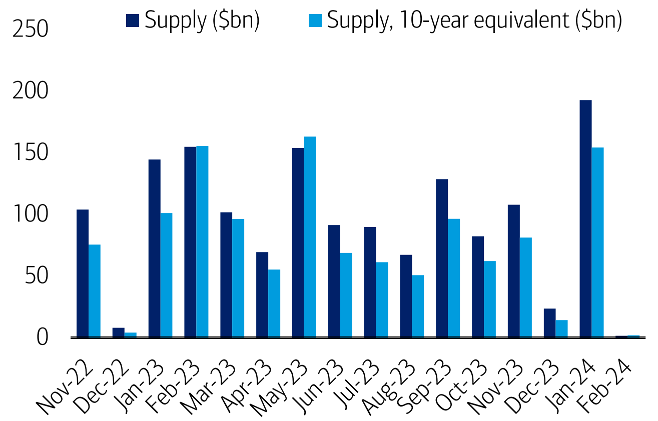
Exhibit 48: Monthly gross and 10-year equivalent supply volumes
10-year equivalent supply = $1.9bn in February



BofA Global Research, Bloomberg

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Exhibit 49: 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)
2024-01-29	BRKHEC	Northern Natural Gas Co	30	500	A2/A-	5.625	127	n.a.	-5	124
2024-01-29	COF	Capital One Financial Corp	6NC5	1,000	Baa1/BBB	5.7	170	0	-8	161
2024-01-29	COF	Capital One Financial Corp	11NC10	1,000	Baa1/BBB	6.051	195	-0	-7	189
2024-01-29	GBDC	Golub Capital BDC Inc	5	600	Baa3/BBB-	6	225	13	n.a.	n.a.
2024-01-29	HYUCAP	Hyundai Capital Services Inc	3	500	Baa1/BBB+	5.125	110	n.a.	n.a.	n.a.
2024-01-29	HYUCAP	Hyundai Capital Services Inc	5	500	Baa1/BBB+	5.125	120	n.a.	n.a.	n.a.
2024-01-29	IBM	IBM International Capital Pte Ltd	2	600	A3/A-	4.7	45	4	-1	46
2024-01-29	IBM	IBM International Capital Pte Ltd	3	500	A3/A-	4.6	55	6	0	59
2024-01-29	IBM	IBM International Capital Pte Ltd	5	500	A3/A-	4.6	65	n.a.	0	71
2024-01-29	IBM	IBM International Capital Pte Ltd	7	500	A3/A-	4.75	75	5	2	83
2024-01-29	IBM	IBM International Capital Pte Ltd	10	1,000	A3/A-	4.9	85	n.a.	2	93
2024-01-29	IBM	IBM International Capital Pte Ltd	20	1,000	A3/A-	5.25	85	n.a.	1	94
2024-01-29	IBM	IBM International Capital Pte Ltd	30	1,400	A3/A-	5.3	100	17	-2	104
2024-01-29	KMI	Kinder Morgan Inc	5	1,250	Baa2/BBB	5	105	n.a.	n.a.	n.a.
2024-01-29	KMI	Kinder Morgan Inc	10	1,000	Baa2/BBB	5.4	135	-4	2	140
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	2	600	Baa1/BBB+	FRN	SOFR+76	n.a.	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	2	1,000	Baa1/BBB+	4.95	65	-3	n.a.	70
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	5	900	Baa1/BBB+	4.9	95	-12	n.a.	99
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	10	1,100	Baa1/BBB+	5.25	120	4	n.a.	121
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	30	800	Baa1/BBB+	5.55	125	-4	n.a.	132
2024-01-29	NOC	Northrop Grumman Corp	5	500	Baa1/BBB+	4.6	65	n.a.	n.a.	68
2024-01-29	NOC	Northrop Grumman Corp	10	850	Baa1/BBB+	4.9	85	12	n.a.	88
2024-01-29	NOC	Northrop Grumman Corp	30	1,150	Baa1/BBB+	5.2	90	9	n.a.	94
2024-01-29	OCINCC	Blue Owl Credit Income Corp	7	750	Baa3/BBB-	6.65	290	n.a.	n.a.	n.a.
2024-01-30	KLAC	KLA Corp	10	500	A2/A-	4.7	72	14	n.a.	76
2024-01-30	KLAC	KLA Corp	28	250	A2/A-	4.95	80	6	n.a.	0
2024-02-01	ANTHOL	Antares Holdings LP	5	450	Baa2/BBB-	6.5	285	n.a.	n.a.	n.a.
2024-02-01	ARE	Alexandria Real Estate Equities Inc	12	400	Baa1/BBB+	5.25	140	n.a.	n.a.	n.a.
2024-02-01	ARE	Alexandria Real Estate Equities Inc	30	600	Baa1/BBB+	5.625	150	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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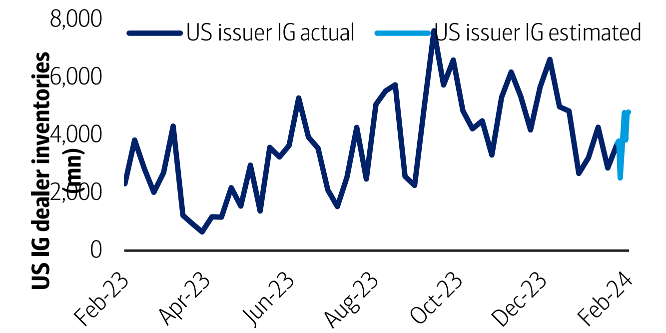
Dealer inventories

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 50 and Exhibit 51. We estimate the corresponding DV01 equivalent in Exhibit 51. More details by sector and maturity are available in Exhibit 52 and Exhibit 53. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 50: Estimated dealer inventories of IG corporate bonds.
We estimate IG dealer inventories of US issuer bonds increased to $4.8bn currently from $3.7bn on Jan-24.



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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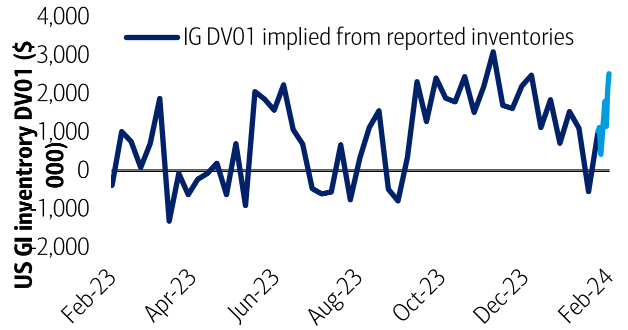
Exhibit 51: Estimated dealer inventory DV01 for IG corporate bonds.
We estimate IG dealer inventory DV01 of US issuer bonds increased to $2.5mn currently from $1.0bn on Jan-24.



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 52: Estimated changes in IG dealer inventories by maturity and broad sector.
We estimate IG dealer inventories increased $33mn today and increased $1,627mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 1-Feb-24 ($mn)			
Sector	1-Feb	31-Jan	1 W	2 W	4 W	1-Feb	31-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	**33**	**998**	**1,627**	**-865**	**8,157**	**600**	**916**	**1,844**	**1,949**	**6,434**	**15,665**	**15,632**	**11,206**	**42,503**
<3yr	-51	300	1,244	105	-275	-38	31	130	-69	-134	2,323	2,373	1,660	6,356
3-5yr	-56	173	209	-1,393	1,248	-47	94	125	-428	499	2,441	2,497	2,060	6,998
5-11yr	-975	-69	-2,717	-4,314	4,150	-646	12	-1,851	-2,940	2,507	5,068	6,042	3,596	14,706
11+yr	1,114	594	2,891	4,737	3,033	1,332	778	3,440	5,386	3,562	5,834	4,720	3,890	14,444
Fin	-383	152	-711	-3,403	-30	-181	102	-306	-676	844	6,278	6,660	4,061	16,999
Non-Fin	415	847	2,338	2,538	8,187	781	814	2,149	2,625	5,590	9,387	8,972	7,145	25,504
Fixed	103	1,014	1,804	-501	8,687	626	910	1,874	1,998	6,421	15,544	15,440	11,113	42,097
Floating	-70	-16	-177	-364	-530	-26	6	-30	-49	13	121	192	93	406
US issuers	37	933	981	-650	6,350	445	925	1,374	1,633	4,712	12,602	12,564	9,170	34,336
DM Yankees	-77	41	452	-490	1,365	100	-18	309	111	1,386	2,685	2,761	1,864	7,310
EM Yankees	72	24	193	275	441	56	9	160	206	336	379	307	172	858

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 53: Estimated changes in IG dealer inventories by sector.
We estimate today IG dealer inventories declined -$320mn for Banks/Brokers and increased $56mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 1-Feb-24 ($mn)			
Sector	1-Feb	31-Jan	1 W	2 W	4 W	1-Feb	31-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-28	12	217	497	195	4	-55	216	470	113	400	428	346	1,174
Automobiles	-57	-125	-173	-222	-198	-11	-71	-134	-117	-76	406	463	414	1,283
Banks/Brokers	-320	192	-1,048	-3,611	-1,974	-161	114	-684	-1,161	-226	4,738	5,058	2,970	12,767

Exhibit 53: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -$320mn for Banks/Brokers and increased $56mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 1-Feb-24 ($mn)			
Sector	**1-Feb**	**31-Jan**	**1 W**	**2 W**	**4 W**	**1-Feb**	**31-Jan**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Basic Materials	-116	-16	7	442	1,005	-56	-36	38	380	781	365	481	344	1,190
Commercial Services	26	-61	-8	-26	-73	31	-4	72	53	-24	179	152	79	409
Energy	56	74	204	17	23	43	53	136	190	18	1,097	1,041	935	3,073
Finance	-88	82	231	-183	624	-62	79	137	99	401	707	795	583	2,085
Food, Bev, & Bottling	34	-35	-56	-212	29	36	3	-54	-129	59	472	438	349	1,259
Health Care	85	8	473	737	1,604	208	73	528	570	938	1,618	1,533	1,159	4,310
Industrial Products	-53	-106	31	-37	196	-57	-58	69	52	269	451	505	352	1,308
Insurance	-2	-70	172	201	119	7	-66	209	297	135	331	333	243	907
Media & Entertainment	170	140	10	223	734	207	128	25	251	661	759	590	547	1,896
REITs	27	-53	-66	190	1,200	35	-25	32	89	534	502	474	265	1,241
Retail	90	18	257	407	817	107	61	225	361	699	526	436	454	1,415
Technology	257	323	748	774	1,880	206	223	637	669	1,223	970	713	692	2,375
Telecom	11	162	-161	-388	354	77	93	-211	-273	68	539	528	343	1,409
Tobacco	29	-26	-15	-95	225	6	-7	18	-9	220	149	120	145	414
Transportation	68	15	142	51	141	69	24	129	3	47	282	214	157	653
Utilities	-105	497	638	304	828	-68	405	431	137	321	1,054	1,159	694	2,908
Other	-51	-33	25	66	427	-20	-19	25	16	273	121	172	134	427

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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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
CPI: Consumer Price Index
FOMC: The Federal Open Market Committee

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