Credit Market Strategist

Tariffs vs. IG credit

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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

Tariffs vs. IG credit

One of the potential implications of the 2024 US elections is an increase use of tariffs, as discussed in our 2024 Global Macro Year Ahead. More recently former President Trump mentioned imposing a 10% universal tariff and a 60% China tariff if elected, according to news reports. Tariffs certainly matter to IG credit, as "Trade war" was by far the biggest concern for US credit investors in 2019. Below we discuss how IG sector spreads performed in 2019 when investors focused on trade tensions and which sectors have the highest share of foreign sales currently.

Sector impact

Investor concerns about trade war reached the peak in May 2019. Based on the ratio of each sector spread to the overall index, sectors that underperformed over this period included Chemicals, Tobacco, Tech, Food, Bev, & Bottling and Autos. On the other hand, sectors that generally outperformed included financials (Banks, Insurance, REITs), as well as the more domestically oriented Telecom and Utilities.

Soft landing = buy BBBs

The ratio of BBB to single-A spreads still lags the big rally in spreads. We continue to prefer BBBs over single-As.

Preliminary 4Q23 IG fundamentals: stronger

Our preliminary estimates show that US IG credit fundamentals were stronger in 4Q.

January IG ratings: balanced

The outlook calls for a steady pace of rating upgrades over the next three months.

M&A volumes were steady in January

M&A announcements decreased modestly to $184bn in Jan from $193bn in Dec.

The January Senior Loan Officer Survey: less tightening

Fewer banks were tightening lending standards in January relative to Oct. and Jul.

IG market technicals

Supply: $41.8bn of issuance this week, expect $40-45bn next week. **Flows**: +$6.03bn inflow this past week ending on February 7. **Weekly technicals**: expect $11.6bn of coupon payments, $0.3bn of calls to become effective next week. Bond maturities: $14.0bn this week, $18.3bn next week. **Dealer inventories**: +$4,351mn 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: Out of stocks and into HG funds
Situation Room	Situation Room: Soft landing = buy BBBs
Situation Room	Situation Room: Preliminary 4Q23 IG fundamentals: stronger
Situation Room	Situation Room: January IG ratings: balanced
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

Tariffs vs. IG credit

One of the potential implications of the 2024 US elections is an increase use of tariffs, as discussed in our 2024 Global Macro Year Ahead (see Exhibit 1 below). More recently former President Trump mentioned imposing a 10% universal tariff and a 60% China tariff if elected, according to news reports. Tariffs certainly matter to IG credit, as "Trade war" was by far the biggest concern for US credit investors in 2019 (Exhibit 2). Below we discuss how IG sector spreads performed in 2019 when investors focused on trade tensions and which sectors have the highest share of foreign sales currently.

Exhibit 1: The outcome of the election has different implications for key policy issues
Hypothetical US election scenarios

Key Issue	Republican Sweep	Democratic Sweep	Divided Government, Republican President	Divided Government, Democratic President
Fiscal policy	Looser (tax cuts)	Looser (spending increases)	Neutral (Gridlock)	Neutral (Gridlock)
Trade policy	Increased use of tariffs and tech restrictions	Tech restrictions	Increased use of tariffs	Ongoing restrictions tied to technology
Monetary policy/Fed	New chair, more political pressure	Possible, still independent Fed	New chair, political pressure	Possible, still independent Fed
Climate policy	Reversal of climate agenda	Expansion of climate agenda	No change (Gridlock)	No change (Gridlock)
Foreign Policy	Increased risk of isolationism	Increased engagement with US allies	Increased risk of isolationism	Increased engagement with US allies

Source: BofA Global Research, see Exhibit 19 here: Global Macro Year Ahead: Hope for the best, prepare for the worst.

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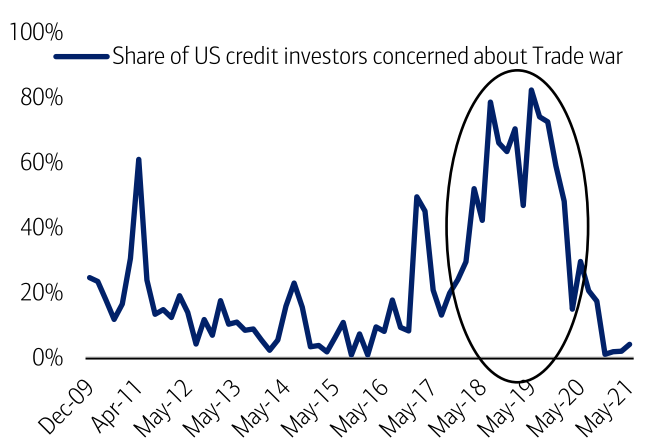
Sector impact

Based on our US Credit Investor Survey (for the latest see Credit Market Strategist: Jan '24 Credit Investor Survey), investor concerns about trade war reached the peak in May 2019 after starting at a low level in November 2016. Notably, the spread on the US IG index were little changed between these two dates at around 135bps, offering an opportunity for a relatively clean relative value comparison. Based on the ratio of each sector spread to the overall index, sectors that underperformed over this period included Chemicals, Tobacco, Tech, Food, Bev, & Bottling and Autos. On the other hand, sectors that generally outperformed included financials (Banks, Insurance, REITs), as well as the more domestically oriented Telecom and Utilities (Exhibit 4).

Exhibit 2: "Trade war" was credit investor biggest concern in 2019
The share of IG investors concerned about "Trade war" increased from 8% in November 2016 to 82% in May 2019.



Source: BofA US Credit Investor Survey

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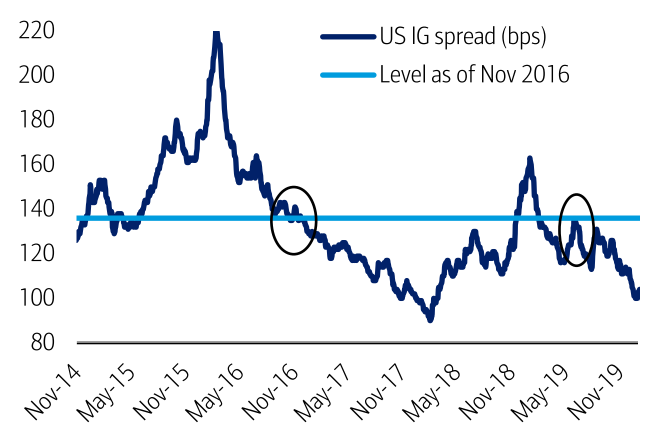
Exhibit 3: IG index spread was little changed from '16 to '19
The IG index spread was around 135bps in both Nov-2016 and May-2019.



Source: BofA US Credit Investor Survey

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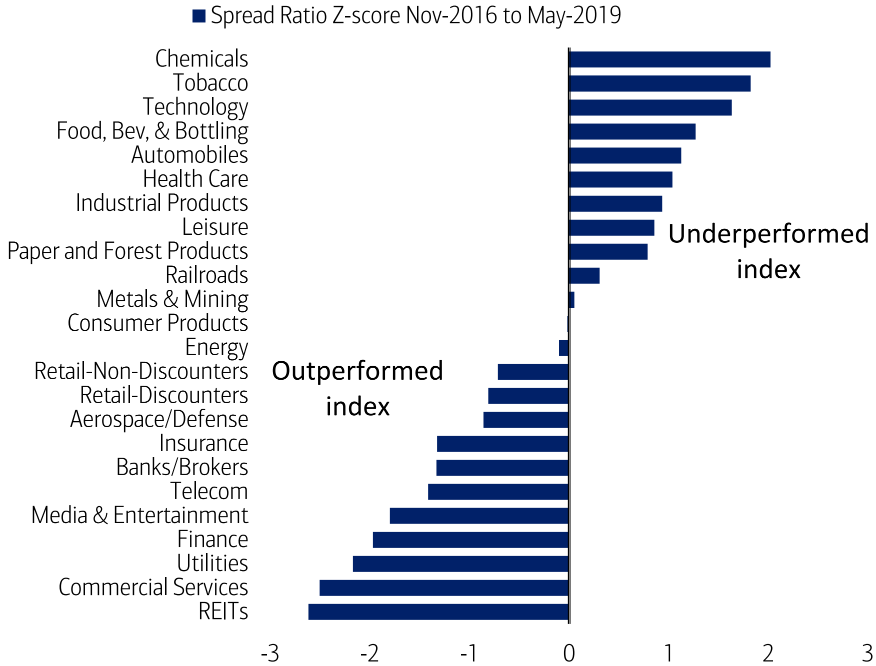
Exhibit 4: Sector relative performance: Nov-2016 to May-2019.
Note: the z-score for the ratio of sector spread to the overall index. Z-score of 2.0, for example, indicates the ratio was 2 standard deviations higher than average by May 2019.



Source: BofA Global Research, ICE Data Indices, LLC

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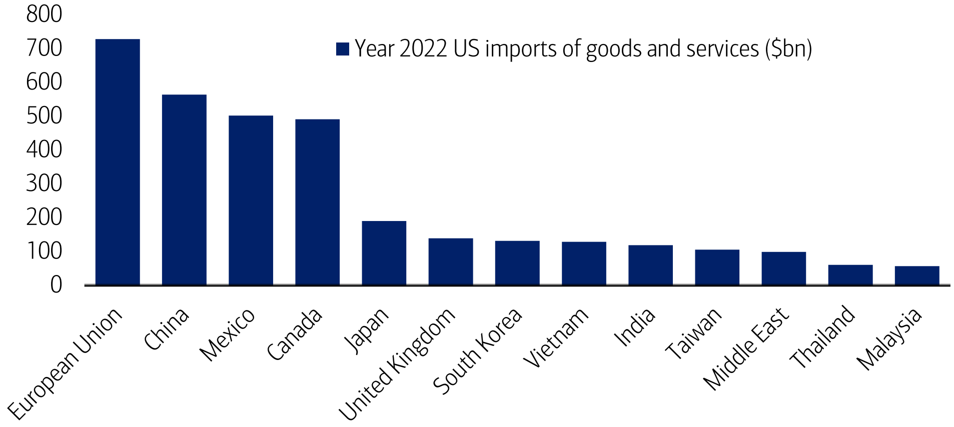
China exposure

Not surprisingly, sectors with larger exposures to China underperformed during the 2016 – 2019 period. China was a big part of the trade tensions then and is also the second largest source of imports into the US, behind only the European Union (Exhibit 5). We list IG sectors with high and low exposure to China in Exhibit 6 below, based on the analysis by our credit analyst team (see US Credit Research: China/Taiwan IG Exposure 17 March 2022). On average, sectors with high exposure to China had a z-score of 0.26 for the ratio of sector spread to the market by May 2019. In other words, these sector spreads underperformed the market by 0.26 standard deviations. In contrast, sectors with low China exposure outperformed by 0.45 standard deviations, on average (Exhibit 7).

Exhibit 5: China was the second largest source of US imports, behind only the EU.
Year 2022 imports from China were $564bn, below $728bn for EU and ahead of $502bn for Mexico.



Source: Bureau of Economic Analysis

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Exhibit 6: IG issuer sector exposure to China
The table lists sectors with high and low exposure to China, based on the analysis by our credit analyst team.

Sector	China exposure
Aerospace/Defense	High
Automobiles	High
Chemicals	High
Consumer Products	High
Energy	High
Metals & Mining	High
Retail-Discounters	High
Retail-Non-Discounters	High
Technology	High
Health Care	Low
Insurance	Low
Paper and Forest Products	Low
Railroads	Low
REITs	Low
Telecom	Low
Tobacco	Low
Utilities	Low

Source: BofA Global Research

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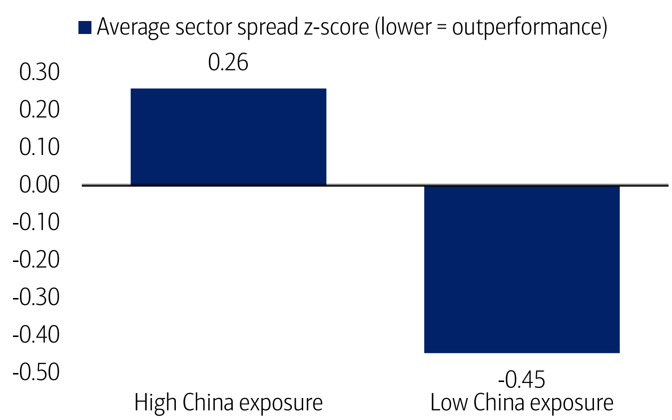
Exhibit 7: Sector with China exposure underperformed in 2019
During the period of rising trade tensions from 2016 to 2019 sectors with high China exposure underperformed those with low China exposure.



Source: BofA Global Research

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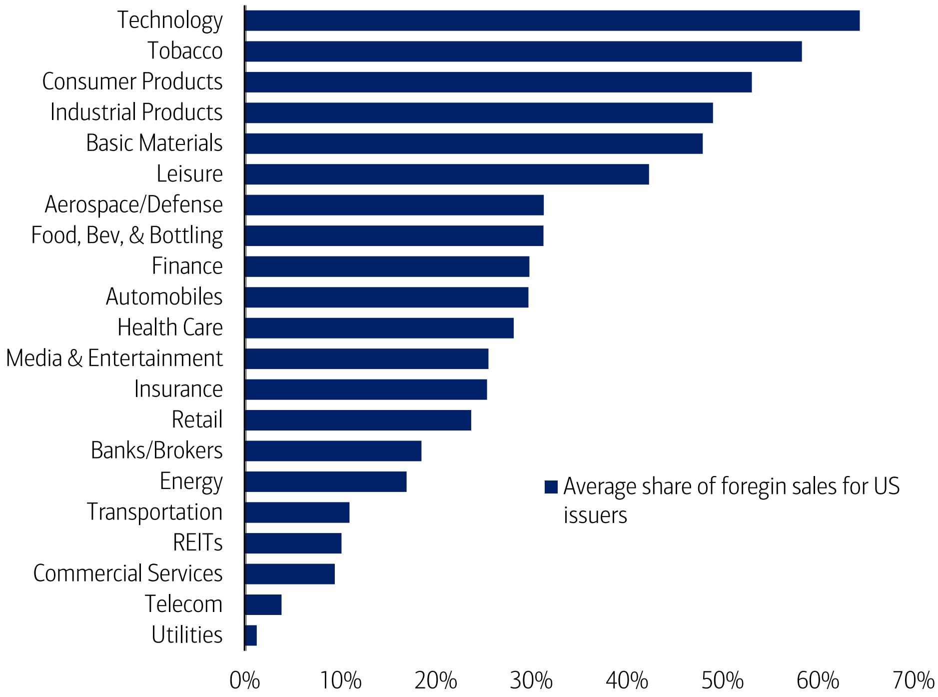
Foreign sales

The more domestically oriented sectors should be less impacted by potential trade tensions. In Exhibit 8 below we rank IG sectors by the share of foreign sales for US issuers (Yankee issuers are excluded). Not surprisingly, Tech, Consumer Products, and Industrial Products rank high on that list (Exhibit 8). However, the risk to IG spreads is limited by the fact that many of these sectors trade relatively tight (Exhibit 9).

Exhibit 8: IG sectors by US issuer share of foreign sales

US issuers have the highest average foreign sales in Tech, Tobacco, Consumer Products and Industrial Products.



Source: BofA Global Research, ICE Data Indices, LLC

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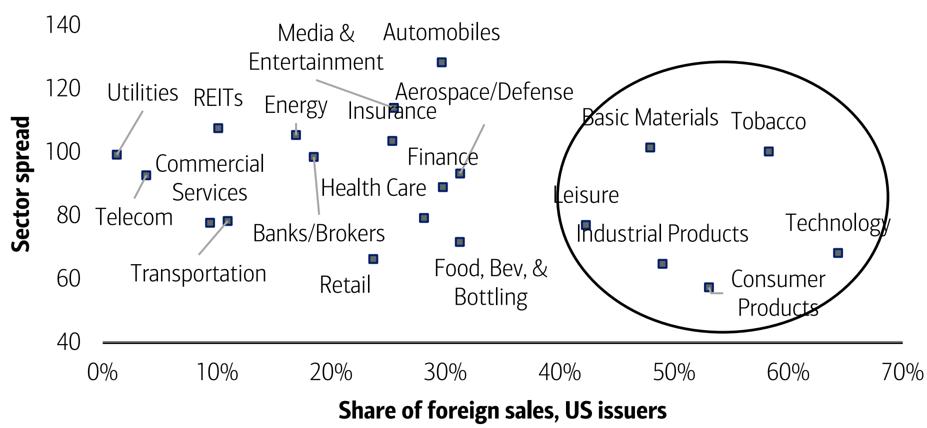
Exhibit 9: Higher foreign sales -> tighter spreads

Many IG sectors with higher foreign exposure have higher credit quality (tight spreads).



Source: BofA Global Research, ICE Data Indices, LLC

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Previously published here

[Situation Room: Soft landing = buy BBBs]

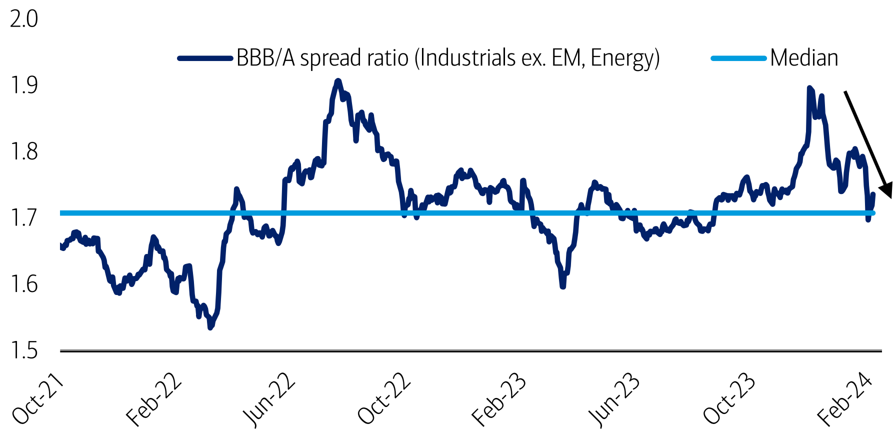
Soft landing = buy BBBs

After reaching some of the cheapest levels in December 2023, BBBs industrials have compressed to single-As so far in 2024. That's likely a result of fading recession fears as US data surprised significantly to the upside (Exhibit 12). Hence, for example, we see IG portfolio trades skewed heavily towards buying BBBs over the past 10 days (Exhibit 11). Despite the big move YtD, the ratio of BBB to single-A spreads still lags the big rally in spreads since October. As a result, BBBs continue to offer attractive relative value and we continue to prefer BBB industrials over higher quality issuers, especially as expect re-leveraging risk among higher quality industrials to increase in 2024 (see Credit Market Strategist: The return of re-leveraging).

BBBs are still screening cheap

The ratio of BBB to single-A spreads tends to track spreads with about a two-month lag. That means, for example, that BBB industrial spreads tend to tighten by a larger percent in a bull market. By that metric BBB spreads continue to screen cheap relative to the big rally in IG spreads since October. The ratio of the spreads is about unchanged since October 2023, while the IG industrial spread is 28bps tighter (Exhibit 13, Exhibit 14).

Exhibit 10: BBB industrials have compressed to single-As
The ratio of BBB to single-A industrials declined to 1.74 currently from 1.90 on December 1st 2023.



Source: BofA Global Research, ICE Data Indices, LLC

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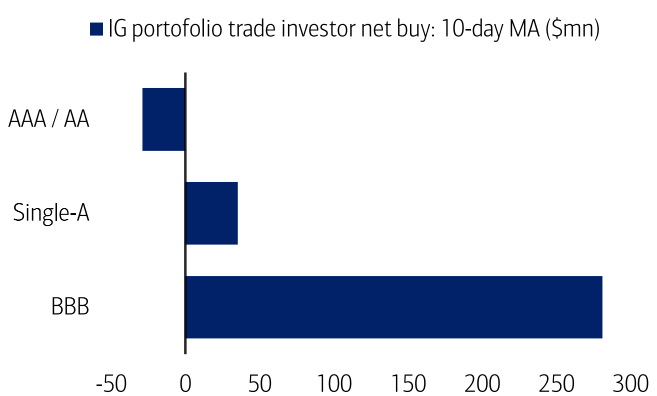
Exhibit 11: Investors are buying BBBs in portfolio trades
Over the past 10 days investors mostly bought BBBs in portfolio trades.



Source: BofA Global Research, FINRA TRACE.

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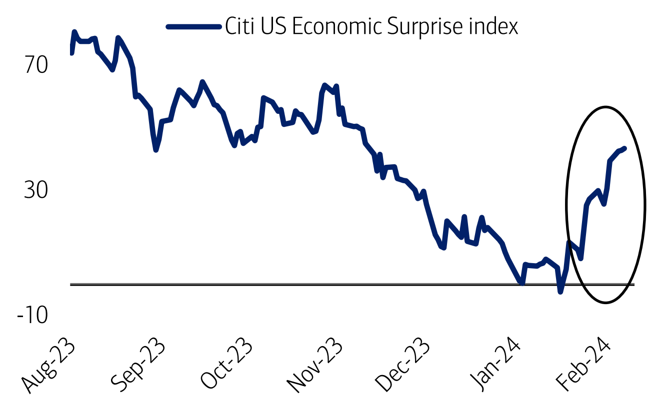
Exhibit 12: US data has surprised to the upside in 2024
Citi US Economic surprise index rose from close to zero to start the year to 44 currently.



Source: Bloomberg.

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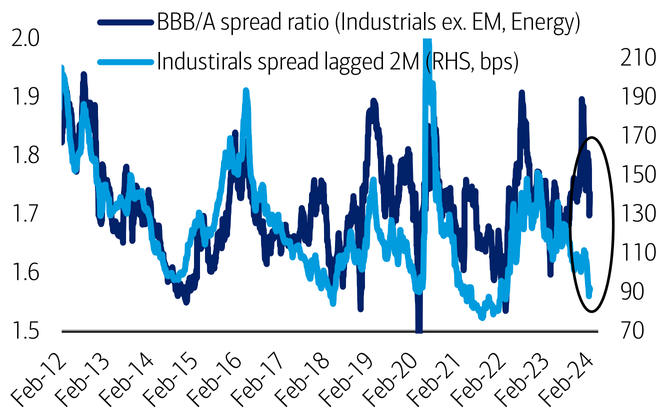
Exhibit 13: BBB/A spread ratio has lagged the rally in spreads
IG industrial spreads tightened 28bps since October, while the BBB/A spread ratio is about unchanged.



Source: BofA Global Research, ICE Data Indices, LLC
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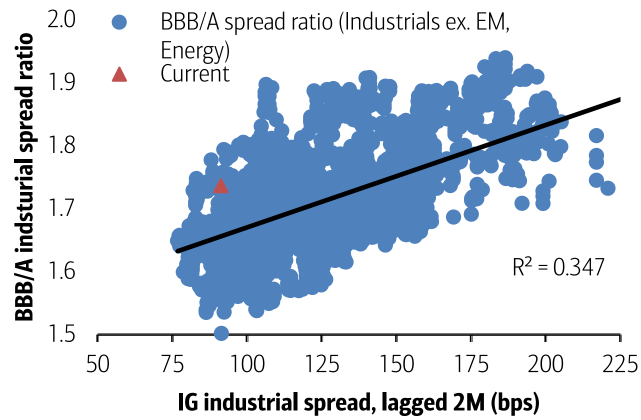
Exhibit 14: BBBs are screening cheap
The ratio of industrial BBB/A spreads is high relative to the current levels of spreads (lagged by 2M).



Source: BofA Global Research, ICE Data Indices, LLC
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Situation Room: Preliminary 4Q23 IG fundamentals: stronger

Preliminary 4Q23 IG fundamentals: stronger

Our preliminary estimates show that US IG credit fundamentals were stronger across multiple metrics in 4Q. Currently the results are based on data for 44% of issuers in our sample that tracks public US IG issuers ex. Financials and Utilities. Based on these preliminary data we are tracking lower leverage, higher coverage (for a change), lower gross and net debt on a YoY basis and stronger EBITDA and sales growth. The improvement in IG fundamentals in 2022 and 2023 were driven by recession fears in addition to higher borrowing costs. With the outlook shifting to a soft landing, re-leveraging by higher rated IG issuers should re-start in 2024, see Credit Market Strategist: The return of re-leveraging.

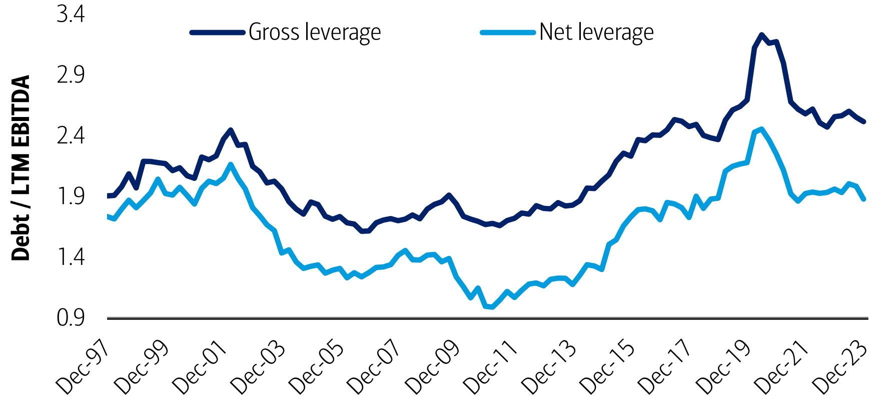
Growing earnings, shrinking debt

We estimate median gross leverage declined to 2.52x in 4Q from 2.55x in 3Q, while net leverage improved to 1.88x in 4Q from 1.99x in 3Q (Exhibit 15). All of the improvement was driven by BBBs (Exhibit 17, Exhibit 18). On a YoY basis both gross (down -0.6% YoY in 4Q, from +0.2% in 3Q, Exhibit 28) and net (to -4.4% in 4Q from -1.2% in 3Q, Exhibit 29) debt declined. The median YoY EBITDA growth Improved to +6.8% in 4Q from +1.1% in 3Q on higher margins (Exhibit 25).

Higher coverage

The coverage ratio stopped declining for the first time since 2Q-2022, increasing to 11.0x in 4Q from a two year low of 10.7x in 3Q (Exhibit 19).

Exhibit 15: Median leverage: non-financial non-utility US IG issuers
Gross leverage decreased to 2.52x, net leverage decreased to 1.88x in 4Q-23.



Note: based on medians for US investment grade non-financial non-utility issuers. 4Q23 values are preliminary. Net debt is gross debt minus cash and marketable securities.
Source: BofA Global Research

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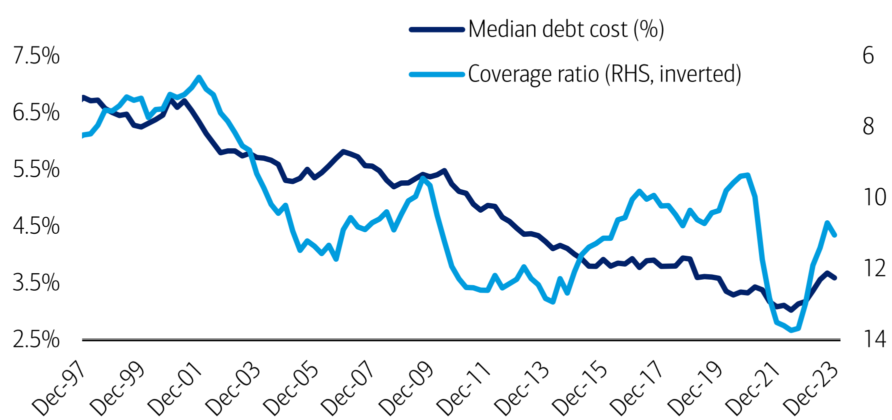
Exhibit 16: Moderating debt costs and coverage in 4Q
The median debt cost (LTM interest expense / gross debt) in 4Q decreased from a five year high in 3Q.



Note: Median debt cost is defined as LTM interest expense / current gross debt. 4Q23 values are preliminary.
Source: BofA Global Research

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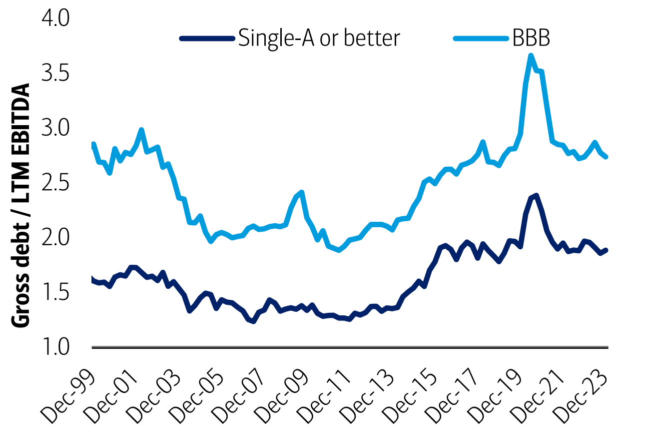
Exhibit 17: Lower 4Q gross leverage for BBB issuers
Gross leverage decreased in 4Q to 2.74x for BBBs and increased modestly to1.89x for A-rated issuers.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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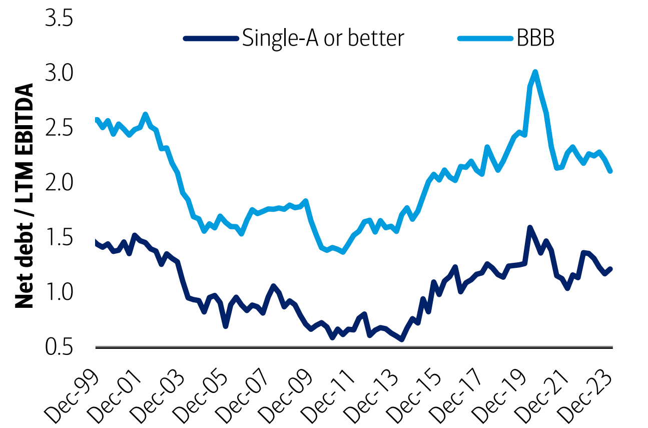
Exhibit 18: Lower net leverage for BBBs
Net leverage improved for BBBs in 4Q at 2.11x while increasing modestly for A-rated issuers at 1.22x.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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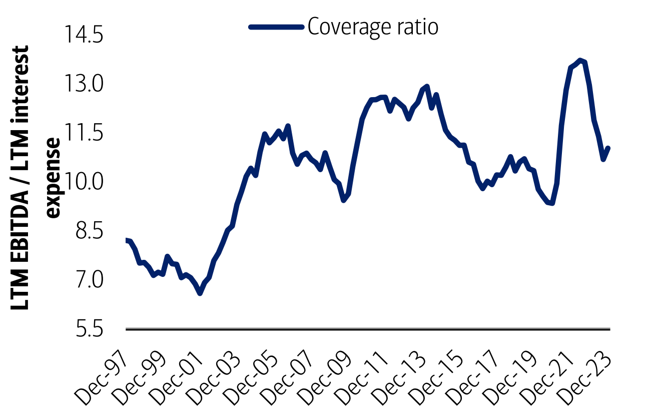
Liquidity metrics

Based on our preliminary estimates interest coverage ratio rose to 11.04 in 4Q after reaching a two year low of 10.70 in 3Q and the highest level on record of 13.73x in 2Q-2022 (Exhibit 19). Liquidity metrics results were mixed, with cash as % of assets rising to 6.11% in 4Q from 5.70% in 3Q while the share of long-term debt decreased to 92.9% in 4Q from 93.3% in 3Q (Exhibit 20).

Exhibit 19: Median coverage: non-financial non-utility US issuers
Coverage ratio rose to 11.04 in 4Q after reaching a two year low of 10.70 in 3Q based on preliminary estimates.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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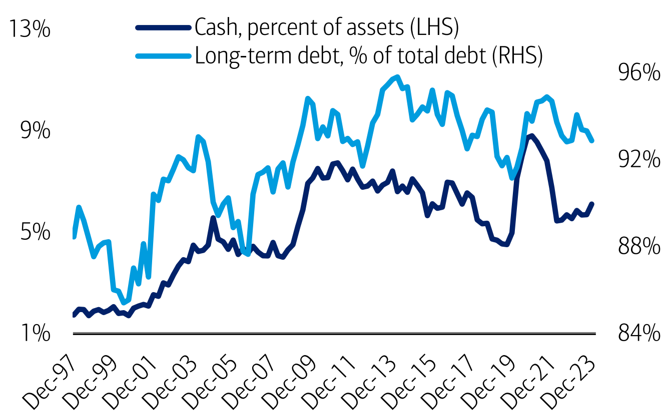
Exhibit 20: Liquidity metrics: non-financial non-utility US issuers
Cash as % of assets rose in 4Q relatively to 3Q while the share of long-term debt decreased.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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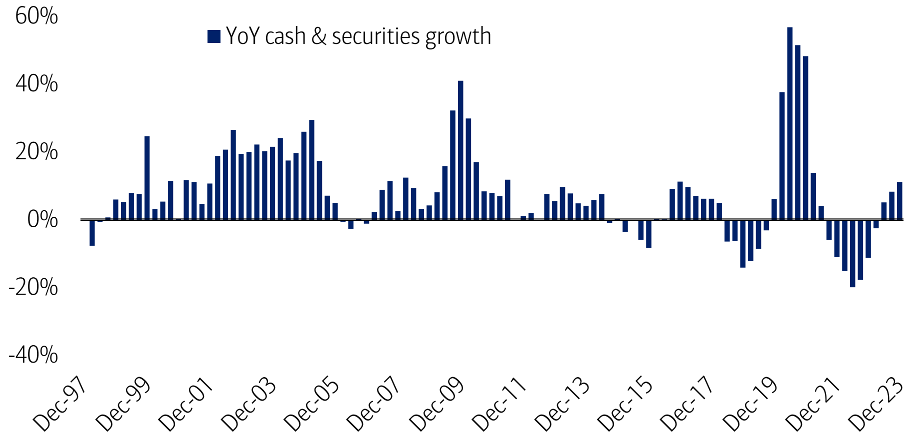
Cash and securities

The YoY change in cash & securities increased to +11.2% in 4Q from +8.3% in 3Q-2023 (Exhibit 21). On a QoQ basis cash balanced grew +3.8%, notably below the +4.7% seasonal 4Q trend (Exhibit 22, Exhibit 23).

Exhibit 21: YoY change in cash and securities increased further in 4Q
YoY cash & securities growth increased further to +11.2% YoY in 4Q from +8.3% in 3Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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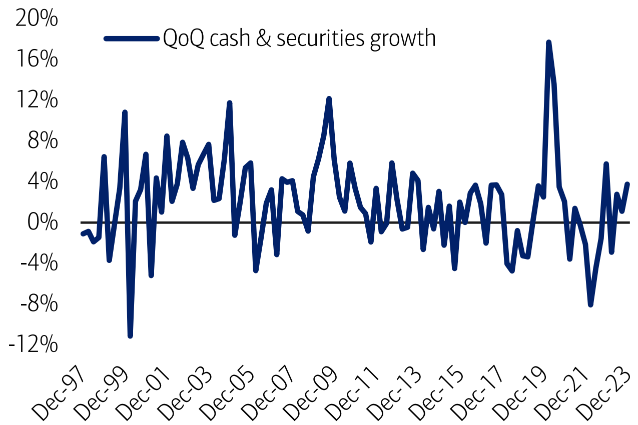
Exhibit 22: Cash increased QoQ in 4Q
Cash and securities increased to +3.8% QoQ in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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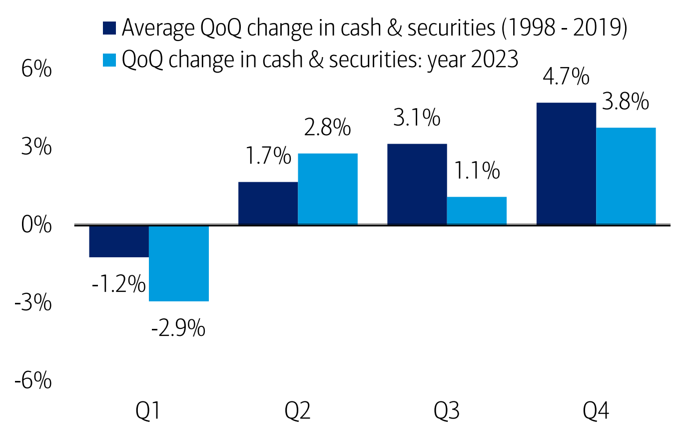
Exhibit 23: 4Q-23 QoQ cash growth was below seasonal averages
Cash typically declines in 1Q and increases in 2Q through 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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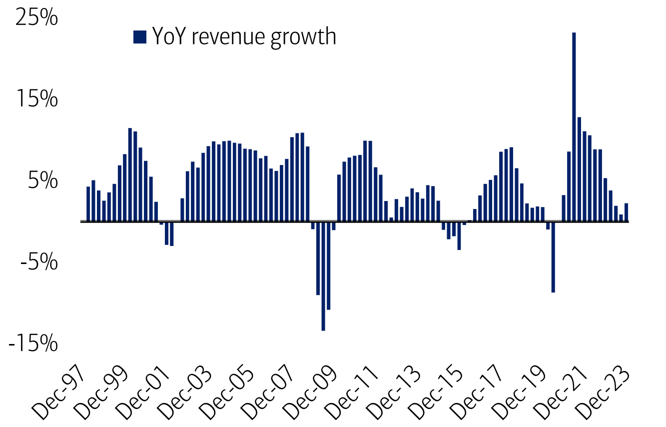
Revenue and EBITDA growth

Median YoY revenue growth increased to +2.2% in 4Q from +0.9% in 3Q. The median YoY EBITDA growth jumped to 6.8% in 4Q (Exhibit 24, Exhibit 25). Similarly LTM revenues growth rose to +0.6% QoQ in 4Q from +0.3% QoQ in 3Q, while LTM EBITDA growth jumped to +1.9% QoQ in 4Q (Exhibit 26, Exhibit 27).

Exhibit 24: Median YoY change in revenues
YoY revenue growth increased in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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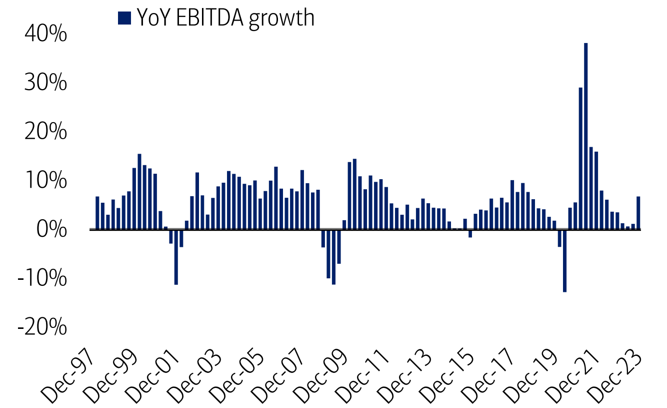
Exhibit 25: Median YoY change in EBITDA
YoY EBITDA growth jumped to 6.8% in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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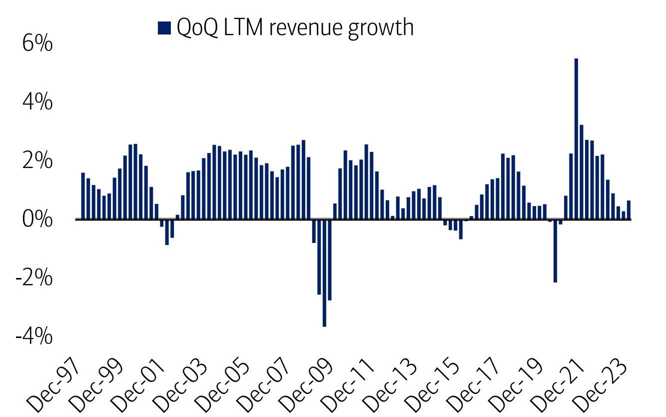
Exhibit 26: Median QoQ change in LTM revenues
Median QoQ growth in LTM revenues increased in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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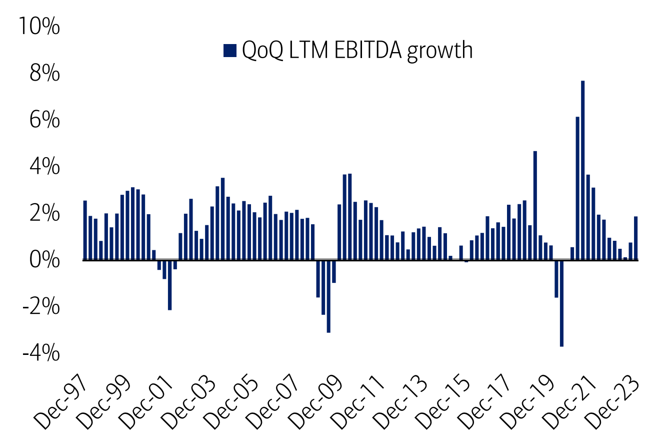
Exhibit 27: Median QoQ change in LTM EBITDA
Median QoQ growth in LTM EBITDA strongly increased in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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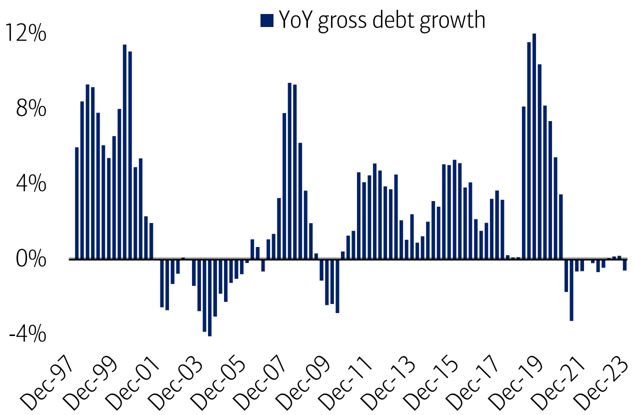
Debt growth

On a YoY basis gross debt was down -0.6% YoY in 4Q from +0.2% in 3Q (Exhibit 28). In contrast net debt growth dropped to -4.4% YoY in 4Q from +1.2% YoY in 3Q (Exhibit 29).

Exhibit 28: YoY median change in gross debt
Gross debt decreased by -0.6% on a YoY basis in 4Q-2023



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate. Including leases in debt due to accounting rule ASC 842 inflated YoY debt growth values in 2019.
Source: BofA Global Research

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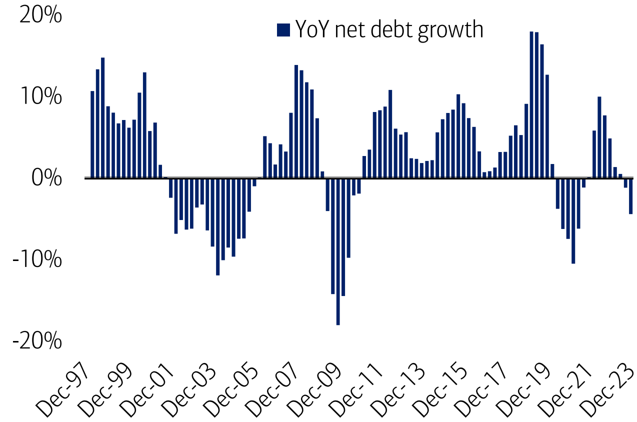
Exhibit 29: YoY median change in net debt
YoY change in net debt fell to -4.4% in 4Q-2023.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate. Including leases in debt due to accounting rule ASC 842 inflated YoY debt growth values in 2019.
Source: BofA Global Research

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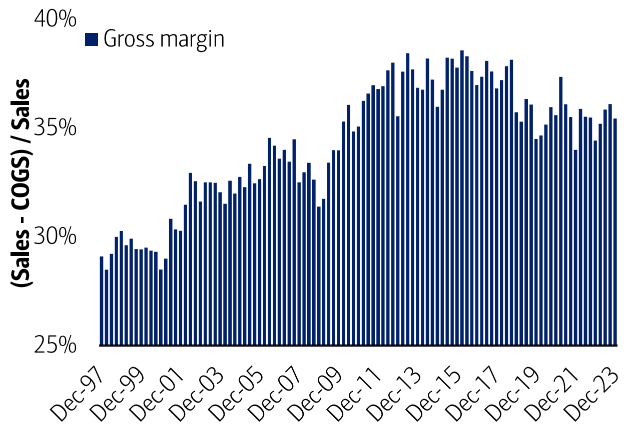
Profitability

The median gross margin decreased to 35.4% in 4Q from 36.1% in 3Q. On the other hand, EBITDA margin rose to 19.0% in 4Q from 18.6% in 3Q (Exhibit 30, Exhibit 31).

Exhibit 30: Median gross margin
Gross margin weakened in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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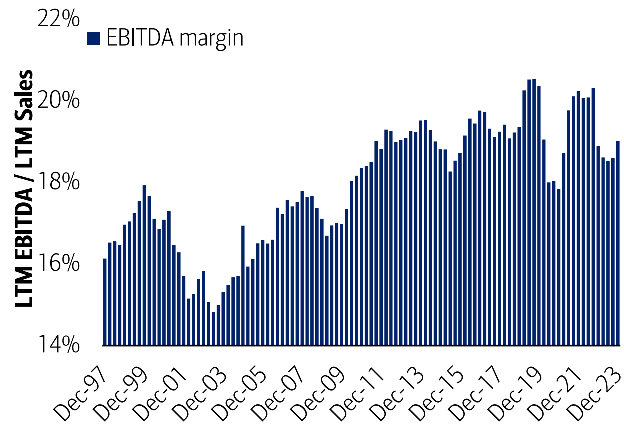
Exhibit 31: Median EBITDA margin
EBITDA margin strengthened in 3Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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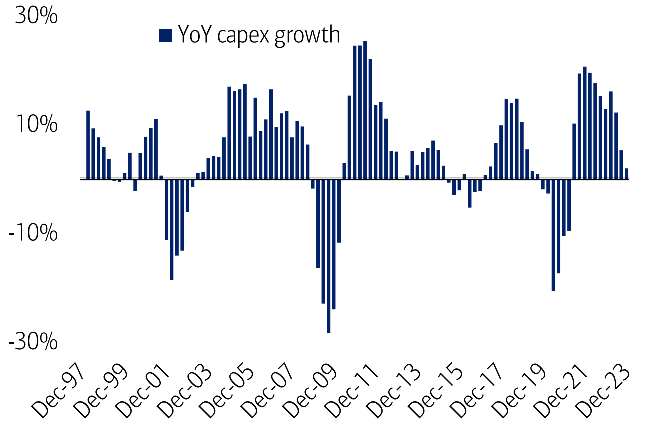
Capital spending

The median YoY capex spending growth moderated to +2.0% YoY in 4Q, down from +5.3% YoY in 3Q and down from the recent peak of +20.7% in 4Q-2021 (Exhibit 32). LTM capex as a share of EBITDA remained steady at 23.5% in 4Q from 23.6% in 3Q (Exhibit 33).

Exhibit 32: Median YoY growth in capex
YoY capex growth has been relatively strong since 3Q-2021.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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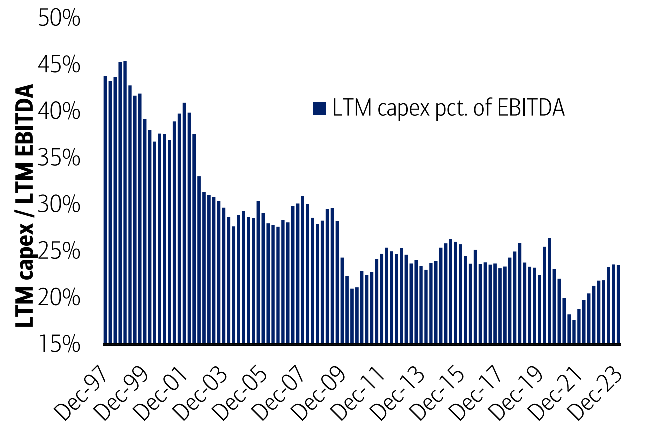
Exhibit 33: Median LTM capex as percent of LTM EBITDA
LTM capex as a share of EBITDA declined to a record low level in 3Q-21 and have rebounded since then.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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Methodology
The estimates in this report are for US non-financial issuers in benchmark ICE BofA US Corporate Index C0A0 with balance sheet data available on Bloomberg. We exclude companies with large captive finance subsidiaries (CAT, DE, F, GE, and GM) and high yield issuers with secured bonds in the IG index (DELL, CHTR). We further restrict the scope of the analysis in this report to issuers excluding Utilities, which tend to have higher leverage, especially for their rating. For these US non-financial non-utility issuers actual results are currently available for 44% of the total 344 issuers. All market fundamentals are median values using GAAP measures, based on actual results when available and estimates otherwise (estimated by applying the median QoQ change for the companies with available data to the prior quarter levels of companies where data is not yet available). We use a dynamic – as opposed to static – universe of issuers in our analysis based on the constituents in ICE BofA US IG index (C0A0) at the end of each calendar quarter.

This is an excerpt from previously published here
Situation Room: January IG ratings: balanced

January IG ratings: balanced

Net ratings change for IG bonds turned slightly positive in January at +$9bn (upgrades less downgrades, notional * notches), up from a -$45bn net downgrade in December. Sectors with most upgrades in January included Health Care, Technology and Transportation, while sectors with most net downgrades were REITs, Utilities and Food, Bev, & Bottling.

A January break for rating agencies

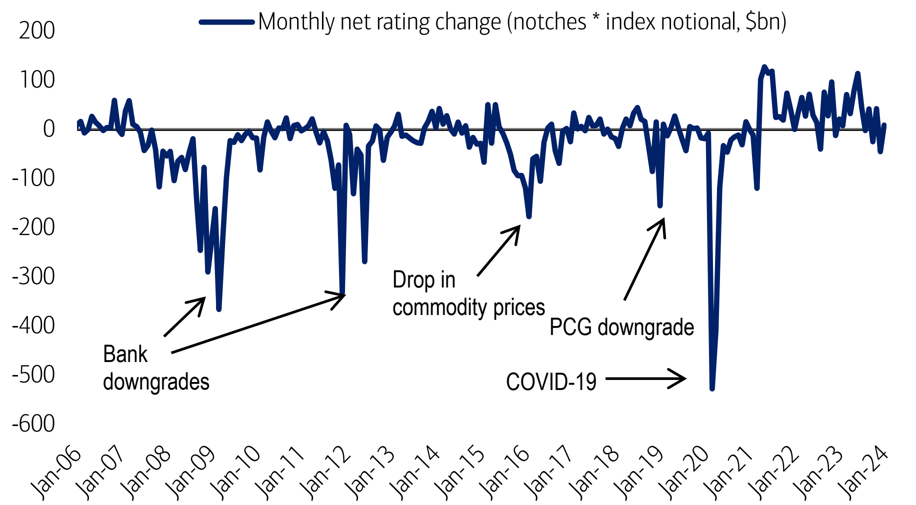
Gross rating activity for IG corporate issuers (upgrades + downgrades) declined in January to $65bn, notably below the $138bn median over the prior 12 months (Exhibit

38). The share of rating upgrades rose closer to a neutral of 57% level in January, up from from a mere 34% in December and closer to the 62% LTM median (Exhibit 39).

Outlook: expect upgrades

The outlook calls for a steady pace of rating upgrades over the next three months relative to the prior three months. The share of IG index bonds on a positive outlook or watch remained at 1.7% at the end of January, still above 1.5% median since 2010 (Exhibit 40). The share on a negative outlook / watch remained at historically low levels.

Exhibit 34: The pace of net rating upgrades turned slightly positive in January
US IG net upgrades improved in January from a two-year low in December.



Note: net rating change equals upgrades less downgrades. Based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0.
Source: BofA Global Research, Bloomberg.

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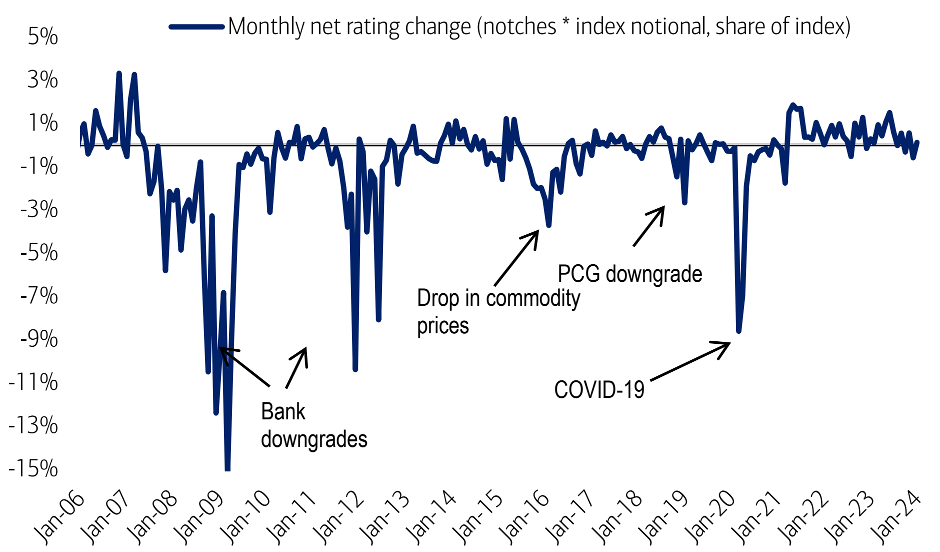
Exhibit 35: Net upgrades improved to +0.1% of index notional in January
Net monthly upgrades have averaged +0.4% of the index notional over the prior 12 months.



Note: net rating change equals upgrades less downgrades. Based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0.
Source: BofA Global Research, Bloomberg.

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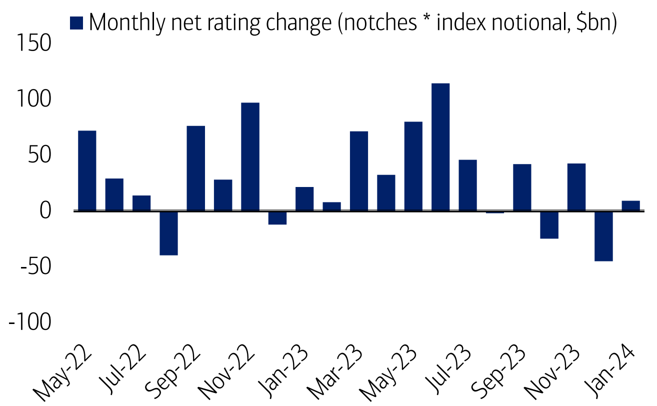
Exhibit 36: Upgrades exceeded downgrades in January
Net upgrades rose to +$9bn in January from -$45bn in December, with $37bn being the monthly median over the past 12 months.



Note: based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0
Source: BofA Global Research

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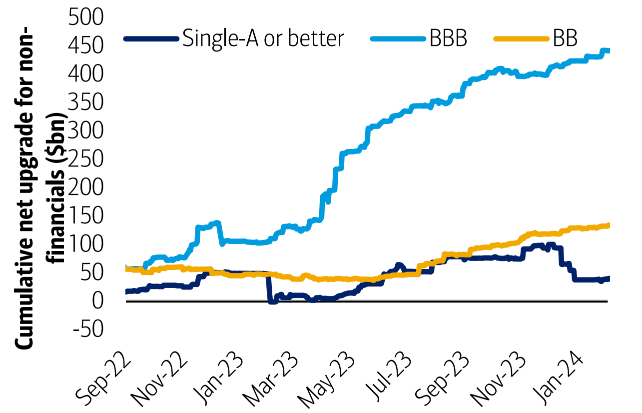
Exhibit 37: Cumulative net upgrade for non-financials by rating ($bn)
Non-financials BBBs have experienced strong net upgrades in 2023 and so far in 2024



Source: BofA Global Research, Bloomberg.

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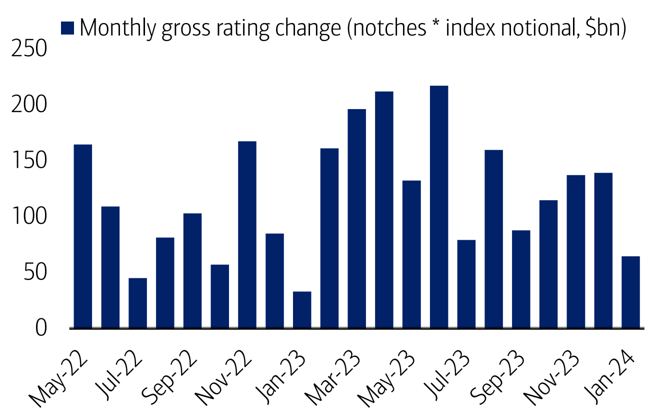
Exhibit 38: Gross rating actions moderated in January
Gross rating decreased to $65bn in January from $139bn in December.



Note: based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0
Source: BofA Global Research

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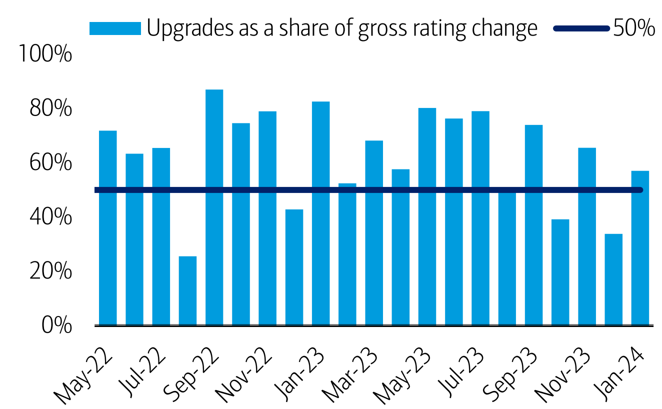
Exhibit 39: Slightly more upgrades in January
Upgrades accounted for 57% of total rating actions in January, up from 34% in December and 62% LTM median.



Note: based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0
Source: BofA Global Research

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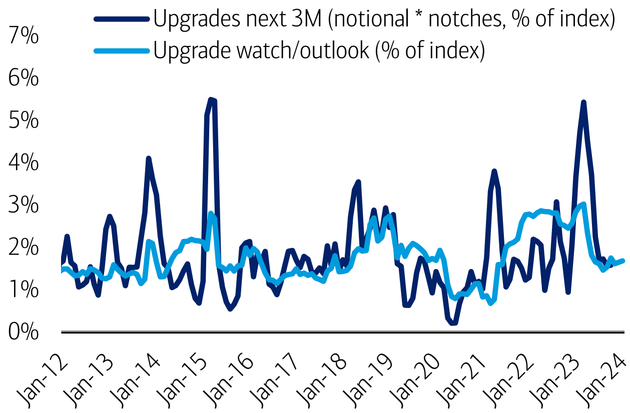
Rating watches/outlooks point to more upgrades

Our tracker for IG corporate bonds on a positive watch or outlook was at 1.7% of the index in January ($137bn), flat from 1.7% in December ($134bn). The current level is slightly above the historical median, suggesting rating agencies are signaling moderately stronger than usual pace of upgrades over the next three months (Exhibit 40). The tracker for IG corporate bonds on a negative watch / outlook remains at a very low levels of 2.1% ($175bn), but above the record low of 1.8% of the index notional ($145bn) in July (Exhibit 41).

Exhibit 40: Positive watch/outlook is now back to normal levels
The volume of IG corporate bonds on positive watch/outlook remained stable in January.



Note: watch/outlook is computed as 0.66 * notional for a watch and 0.33 * notional for an outlook. Upgrades are tracking rating changes only (ignoring outlook and watch changes).
Source: BofA Global Research

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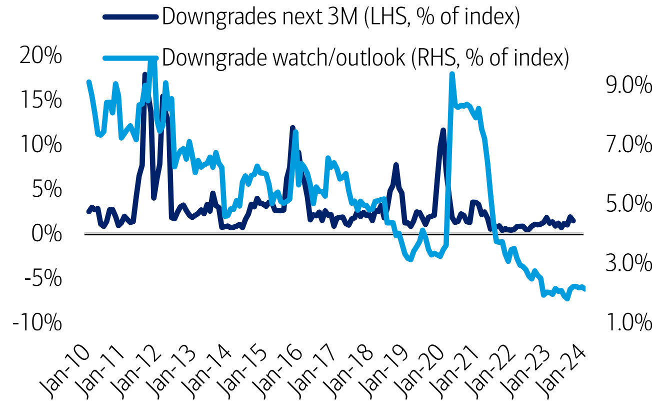
Exhibit 41: Negative watch/outlook remains low
The volume of IG corporate bonds on negative watch/outlook remained low in January 2024.



Note: watch/outlook is computed as 0.66 * notional for a watch and 0.33 * notional for an outlook. Downgrades are tracking rating changes only (ignoring outlook and watch changes).
Source: BofA Global Research

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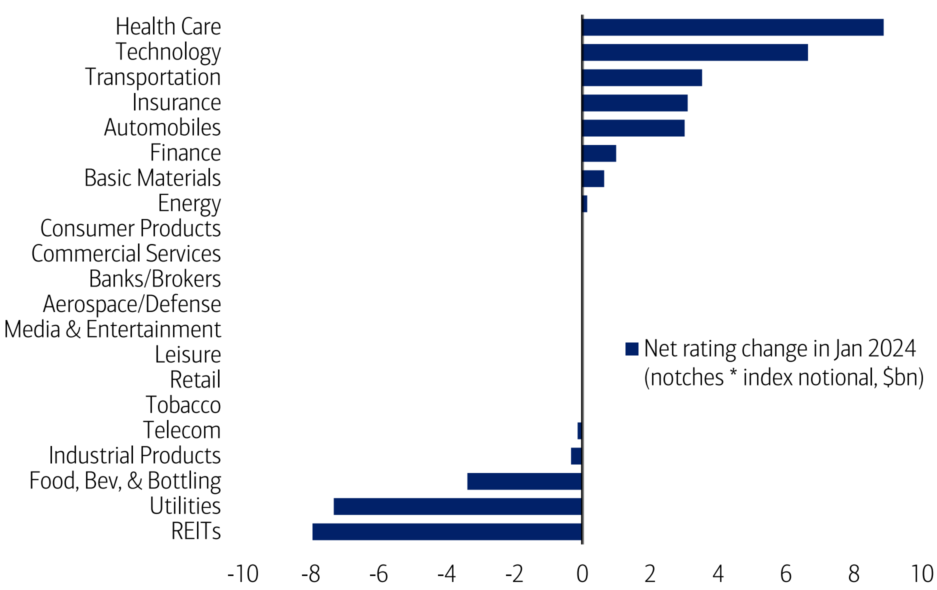
Sector/issuer level

Sectors with most upgrades in January included Health Care (+$8.9bn), Technology (+$6.6bn) and Transportation (+$3.5bn). Sectors with most net downgrades in January were REITs (-$8.0bn), Utilities (-$7.3bn) and Food, Bev, & Bottling (-$3.4bn). We list issuers with the biggest November upgrades and downgrades below.

Exhibit 42: January 2024 net rating changes by sector (notional * notches, $bn)
January upgrades were dominated by the Health Care sector (+$8.9bn).



Note: based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0
Source: BofA Global Research

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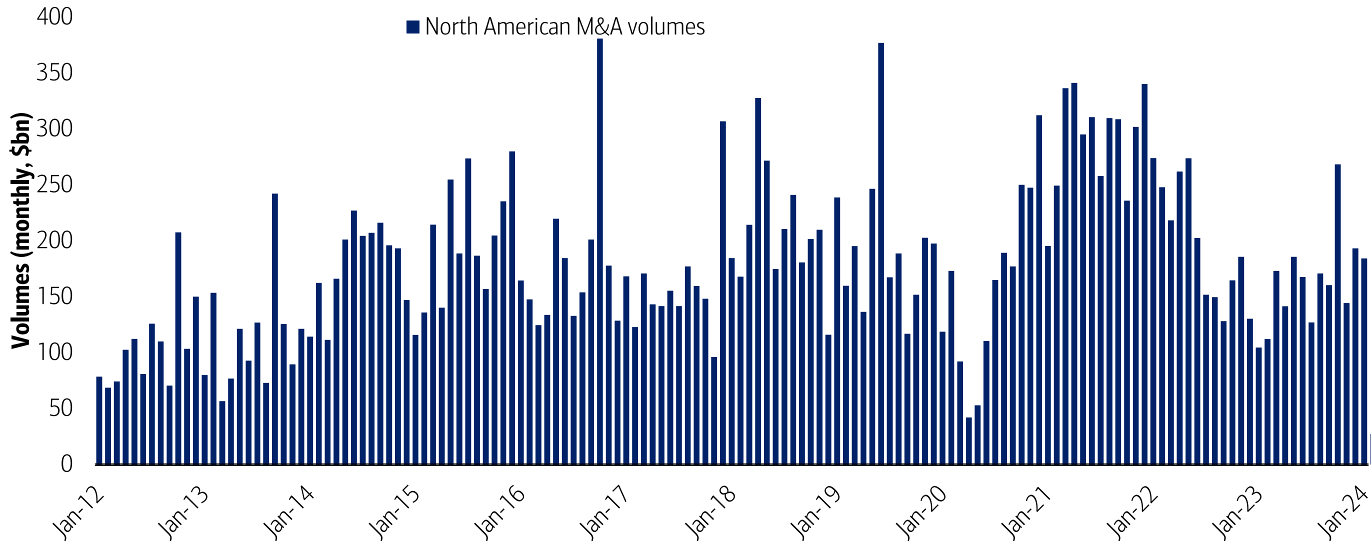
This is an excerpt from previously published here
Situation Room: January IG ratings: balanced

M&A volumes were steady in January

North American M&A announcements decreased modestly to $184bn in January from $193bn in December (Exhibit 43). At the same time the pipeline of announced deals with potential IG funding implications increased to $403bn, up from $331bn in December (deal NAV, Exhibit 44). There was $2.3bn of M&A-related IG issuance in January, up from zero in December (Exhibit 45).

Exhibit 43: Monthly North American M&A volumes
North American M&A announcement volume decreased to $184bn in January from $193bn in December.



Note: limited to pending and closed deals only. Cancelled deals are excluded.
Source: Bloomberg

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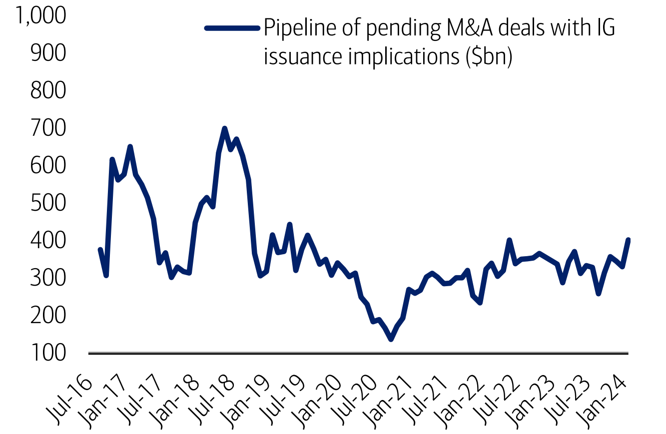
Exhibit 44: Pipeline of pending M&A deals with IG funding implications
The pipeline of pending M&A deals with US IG funding implications increased to $403bn in January.



Source: BofA Global Research, Bloomberg

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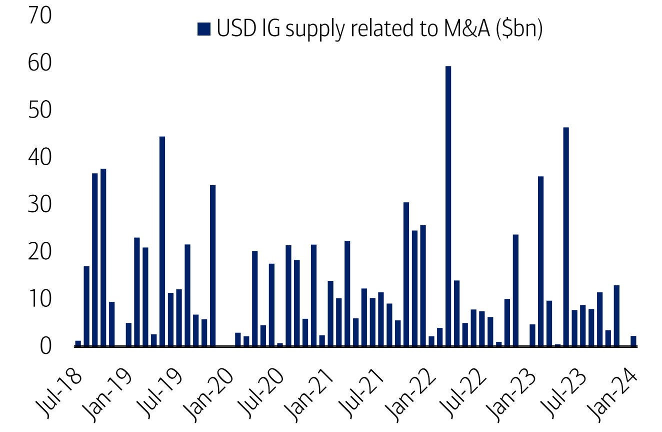
Exhibit 45: US IG M&A related supply
US IG M&A-related supply totaled $2.3bn in January, up from to $0bn in December.



Source: BofA Global Research

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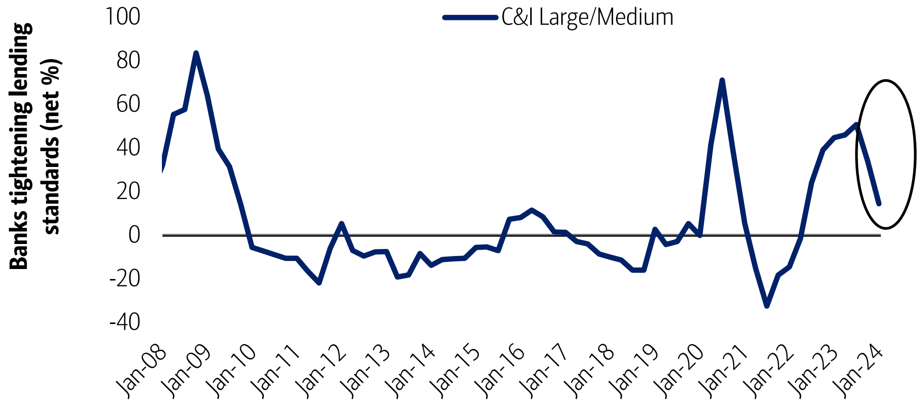
This is an excerpt from previously published here
[Situation Room: January IG ratings: balanced]

The January Senior Loan Officer Survey: less tightening

The Fed's January Senior Loan Officer survey released today shows that a lower net share of banks were tightening lending standards for C&I loans relative to the prior surveys in October and July. The net share tightening standards is now the lowest since April 2022 (Exhibit 46). In addition, a smaller net share of banks reported weaker demand for C&I loans. Similarly fewer banks are tightening standards for consumer loans (Autor, credit cards), while demand trends are less negative. Finally, the net share tightening standards for CRE loans also declined while demand continued to weaken.

Exhibit 46: Net share reporting tighter C&I lending standards decreased in January
A lower net share of banks reported tighter lending standards in January (net 14.5%) compared to October (net 33.9%).



Source: Federal Reserve

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Previously published here
Situation Room: Out of stocks and into HG funds

Flows

Into HG funds

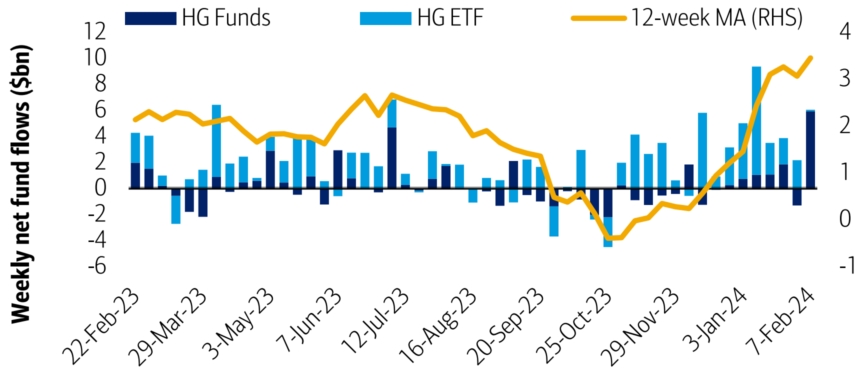
Flows to US HG bond funds and ETFs strengthened considerably this past week ending on February 7 with a +6.03bn inflow, up from +$0.84bn in the prior week. Contrary to the trend in recent months, inflow was exclusively due to HG funds (to +$5.92bn, the strongest weekly inflow since February 2021, from -$1.32bn the prior week), while flows were close to flat for HG ETFs (to +$0.11bn from +$2.16bn). Short-term HG flows were also near flat (to +$0.04bn from -$1.14bn), while inflows accelerated ex. short-term (to +$5.99bn from +$1.98bn).

Out of stocks

This past week flows turned negative for equities (to -$16.67bn from +$8.84bn), and near flat for HY (to +$0.22bn from +$2.17bn). Flows moderated for munis this week (to +$0.43bn from +$0.70bn), while they turned positive for loans (to +$0.24bn from -$0.06bn) and for global EM bonds (to +$0.43bn from -$0.24bn). Finally, money markets reported a +$9.86bn inflow this past week, following a +$29.70bn inflow a week earlier.

Exhibit 47: Weekly high grade fund flows, $bn

HG ETF +$0.11bn, HG Funds +$5.92



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

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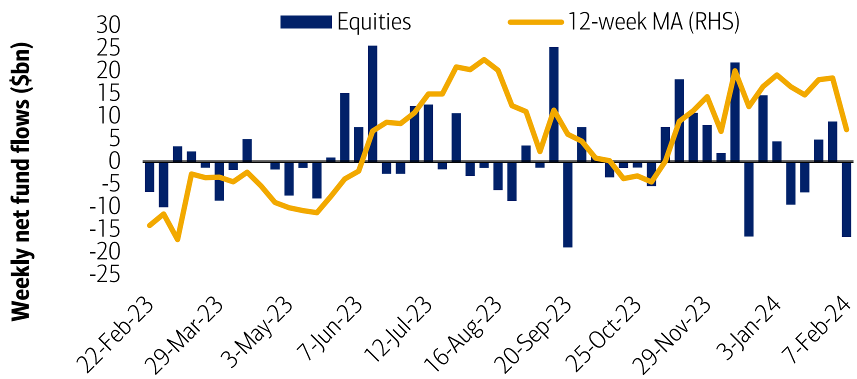
Exhibit 48: Weekly equity fund flows, $bn

Equities -$16.67bn



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

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Exhibit 49: 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	0.28%	0.7%	28.6
High grade: ex short-term	0.37%	0.9%	29.4
High yield: total	0.08%	1.1%	4.0
High yield: ETFs only	-1.06%	2.6%	1.9
Loans	0.27%	0.5%	0.6
EM	0.09%	-0.3%	-2.0
Munis	0.08%	0.2%	2.1
All fixed income	0.19%	0.6%	36.3
Money markets	0.15%	1.9%	124.0
Equities	-0.15%	-0.1%	-14.8

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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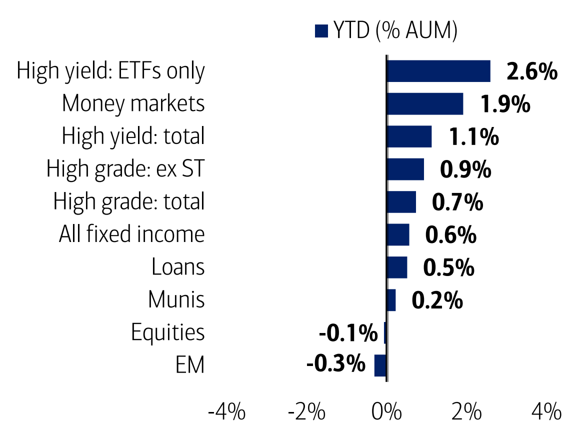
Exhibit 50: Year to date fund flows, % of AUM

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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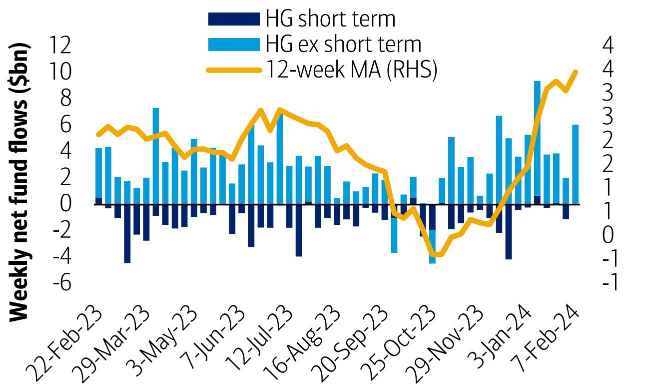
Exhibit 51: Weekly high grade fund flows, $bn
HG short-term +$0.04bn, HG ex short-term +$5.99



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

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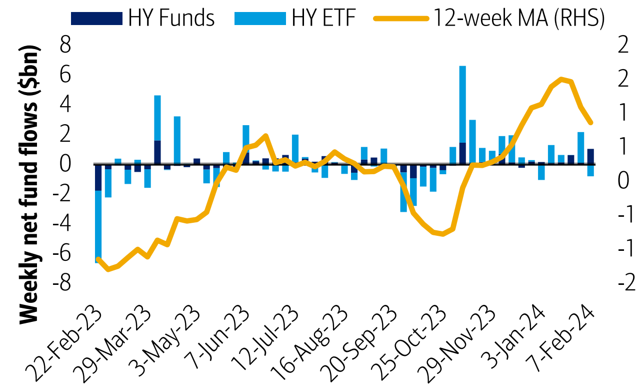
Exhibit 52: Weekly high yield fund flows, $bn
HY ETFs -$0.81bn, HY funds +$1.03



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

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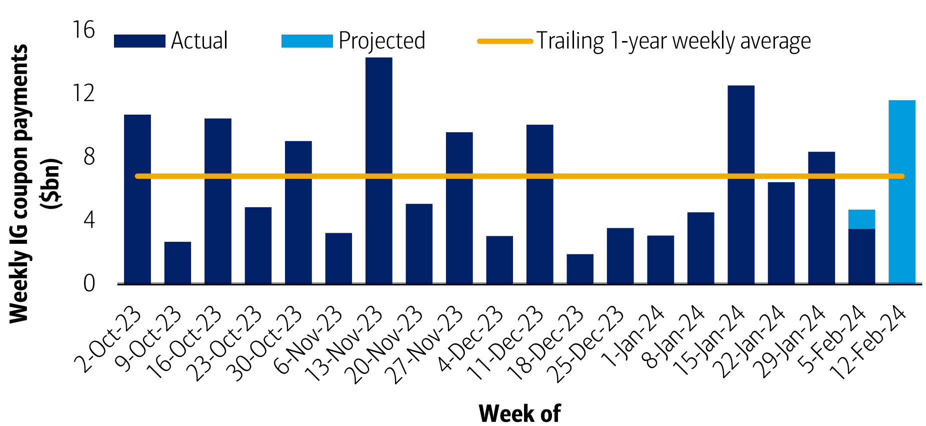
Appendix: defining high grade

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 $11.6bn in coupon payments next week, above the trailing 1-year weekly average of $6.8bn (Exhibit 53). In addition, $2.0bn tender offer are expected to become effective next week. Bond maturities: $14.0bn this week, $18.3bn next week.

Exhibit 53: Weekly US IG coupon payments
Expect $11.6bn of coupon payments next week, above the $6.8bn trailing 1-year weekly average.



Source: ICE Data Indices, LLC, BofA Global Research

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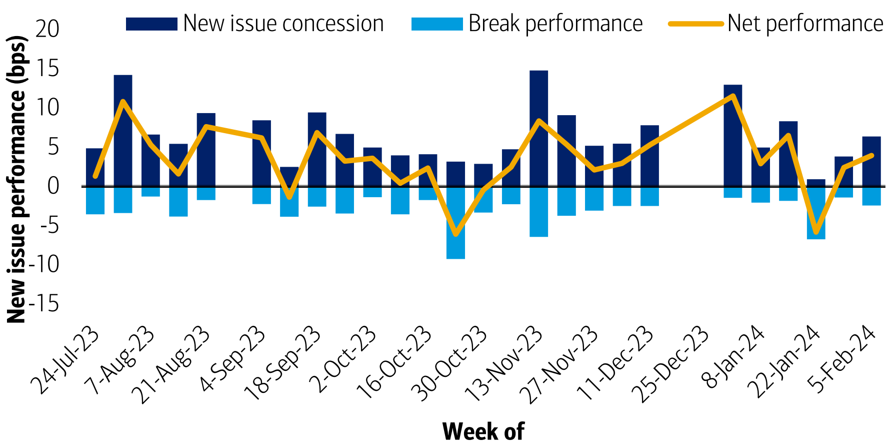
Supply

US IG gross issuance totaled $46.6bn this week, consisted of $10.4bn financials, $16.6bn high-quality industrials and $19.7bn BBB industrials. Given $43.3bn of gross issuance, $24.7bn of maturities and $0.7bn of additional redemptions, net issuance is tracking $22.6bn MTD. Despite the CPI report on Tuesday February 13, we look for the strong issuance momentum to continue next week, coming in $40-$45bn range, as more issuers are coming out of earnings-related blackouts.

New issue performance weakened this week. The average new issue concession increased to 6.4bps from 3.8bps last week, while the average break performance improved to 2.4bps tighter this week from 1.4bps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, weakened to 3.9bps wider this week from 2.4bps wider last week (Exhibit 54). This week's new issues are trading 5bps tighter on average from pricing.

Exhibit 54: Weekly new issue supply performance

For the week of Feb 5 2024: new issue concession = 6.4bps; break performance = -2.4bps; net performance = 3.9bps.



Source: BofA Global Research

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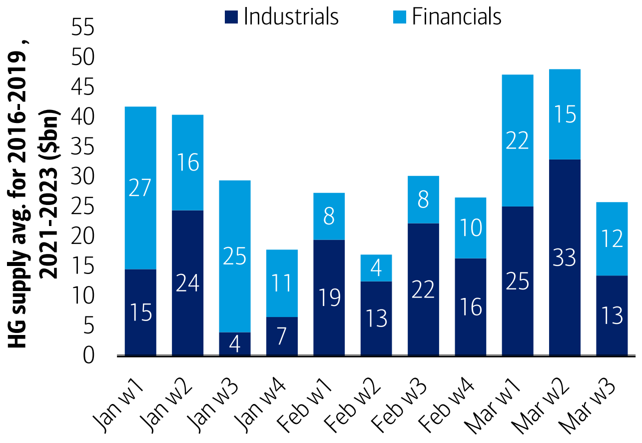
Exhibit 55: Weekly Supply seasonality
Supply volumes pick tend to pick up after the last week of Feb.



Source: Bloomberg, BofA Global Research

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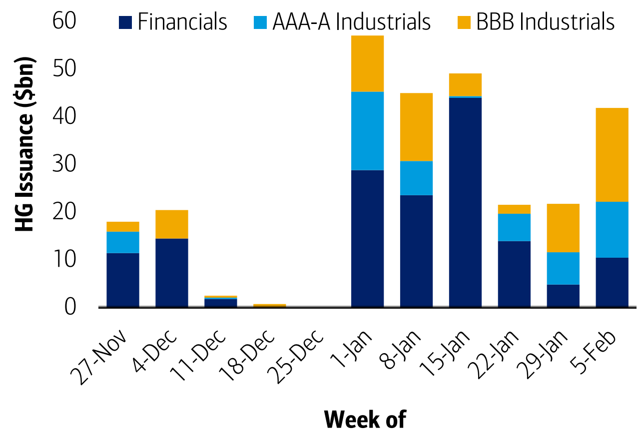
Exhibit 56: Weekly Supply
This week's supply consisted of $10.4bn financials, $11.8bn high-quality industrials and $19.7bn BBB industrials.



Bloomberg, BofA Global Research

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Exhibit 57: 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)
2024-02-05	BDX	Becton Dickinson & Co	5	625	Baa2/BBB	4.874	75	n.a.	3	78
2024-02-05	BDX	Becton Dickinson & Co	10	550	Baa2/BBB	5.11	95	n.a.	n.a.	98
2024-02-05	CI	Cigna Group/The	5	1,000	Baa1/A-	5	90	4	n.a.	90
2024-02-05	CI	Cigna Group/The	7	750	Baa1/A-	5.125	100	8	0	100
2024-02-05	CI	Cigna Group/The	10	1,250	Baa1/A-	5.25	110	11	0	110
2024-02-05	CI	Cigna Group/The	30	1,500	Baa1/A-	5.6	125	9	0	125
2024-02-05	COR	Cencora Inc	10	500	Baa2/BBB+	5.125	98	n.a.	-2	98
2024-02-05	DB	Deutsche Bank AG/New York NY	4NC3	1,000	Baa1/BBB	5.706	145	3	-5	150
2024-02-05	ENTERP	ERAC USA Finance LLC	5	750	A3/A-	5	90	n.a.	-2	88
2024-02-05	ENTERP	ERAC USA Finance LLC	11	750	A3/A-	5.2	105	n.a.	-2	103
2024-02-05	GM	General Motors Financial Co Inc	3	350	Baa2/BBB	FRN	SOFR+135	n.a.	n.a.	n.a.
2024-02-05	GM	General Motors Financial Co Inc	3	1,200	Baa2/BBB	5.4	115	12	n.a.	100
2024-02-05	GM	General Motors Financial Co Inc	7	1,000	Baa2/BBB	5.75	165	17	-7	153
2024-02-05	MS	Morgan Stanley	15	1,500	Baa1/BBB+	5.942	180	10	n.a.	183
2024-02-05	SBUX	Starbucks Corp	3	1,000	Baa1/BBB+	4.85	60	n.a.	-2	58
2024-02-05	SBUX	Starbucks Corp	7	500	Baa1/BBB+	4.9	80	1	-2	79
2024-02-05	SBUX	Starbucks Corp	10	500	Baa1/BBB+	5	90	8	-2	89
2024-02-05	SR	Spire Inc	2	350	Baa2/BBB+	5.3	85	n.a.	n.a.	n.a.
2024-02-05	TXN	Texas Instruments Inc	3	650	Aa3/A+	4.6	35	n.a.	n.a.	32
2024-02-05	TXN	Texas Instruments Inc	5	650	Aa3/A+	4.6	50	3	n.a.	48
2024-02-05	TXN	Texas Instruments Inc	10	600	Aa3/A+	4.85	70	10	n.a.	65
2024-02-05	TXN	Texas Instruments Inc	30	750	Aa3/A+	5.15	85	5	n.a.	84
2024-02-05	TXN	Texas Instruments Inc	39	350	Aa3/A+	5.05	137	n.a.	n.a.	91
2024-02-06	APD	Air Products and Chemicals Inc	5	750	A2/A	4.6	60	n.a.	3	63
2024-02-06	APD	Air Products and Chemicals Inc	7	600	Baa2/A-	4.75	70	n.a.	n.a.	66
2024-02-06	APD	Air Products and Chemicals Inc	10	1,150	Baa2/A-	4.85	80	n.a.	n.a.	77
2024-02-06	ATDBCN	Alimentation Couche-Tard Inc	10	900	Baa1/BBB+	5.267	118	n.a.	-5	113
2024-02-06	ATDBCN	Alimentation Couche-Tard Inc	30	600	Baa1/BBB+	5.617	130	n.a.	-7	123
2024-02-06	C	Citigroup Inc	6NC5	3,000	A3/BBB+	5.174	115	-5	-3	112
2024-02-06	C	Citigroup Inc	11NC10	2,500	Baa2/BBB	5.827	175	13	n.a.	179
2024-02-06	CNA	CNA Financial Corp	10	500	Baa2/A-	5.125	120	n.a.	-3	117
2024-02-07	BBDC	Barings BDC Inc	5	300	Baa3/NA	7	320	n.a.	n.a.	319
2024-02-07	CSUCN	Constellation Software Inc/Canada	5	500	NA/BBB	5.158	110	n.a.	-14	96
2024-02-07	CSUCN	Constellation Software Inc/Canada	10	500	NA/BBB	5.461	135	n.a.	-17	118

Exhibit 57: 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)
2024-02-07	DOW	Dow Chemical Co/The	10	600	Baa1/BBB	5.15	105	9	4	109
2024-02-07	DOW	Dow Chemical Co/The	30	650	Baa1/BBB	5.6	130	7	4	134
2024-02-07	FUNOTR	Trust Fibra Uno	10	600	Baa2/NA	7.375	n.a.	n.a.	n.a.	n.a.
2024-02-07	LLY	Eli Lilly & Co	3	1,000	A1/A+	4.5	30	n.a.	-2	29
2024-02-07	LLY	Eli Lilly & Co	5	1,000	A1/A+	4.5	45	n.a.	-2	44
2024-02-07	LLY	Eli Lilly & Co	10	1,500	A1/A+	4.7	60	10	-2	58
2024-02-07	LLY	Eli Lilly & Co	30	1,500	A1/A+	5	70	11	-1	69
2024-02-07	LLY	Eli Lilly & Co	40	1,500	A1/A+	5.1	77	5	1	78
2024-02-07	RCICN	Rogers Communications Inc	5	1,250	Baa3/BBB-	5	100	-2	n.a.	98
2024-02-07	RCICN	Rogers Communications Inc	10	1,250	Baa3/BBB-	5.3	130	-5	n.a.	130
2024-02-07	UBS	UBS Group AG	PERP NC7	1,000	Baa3/BB	7.75	n.a.	n.a.	n.a.	323
2024-02-08	BWP	Boardwalk Pipelines LP	176	600	Baa2/BBB-	5.625	148	2	-1	147

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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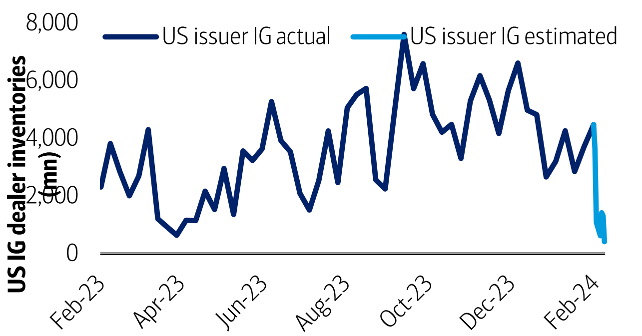
Dealer inventories

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 58 and Exhibit 59. We estimate the corresponding DV01 equivalent in Exhibit 59. More details by sector and maturity are available below. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 58: Estimated dealer inventories of IG corporate bonds.
We estimate IG dealer inventories of US issuer bonds declined to $0.4bn currently from $4.5bn on Jan-31.



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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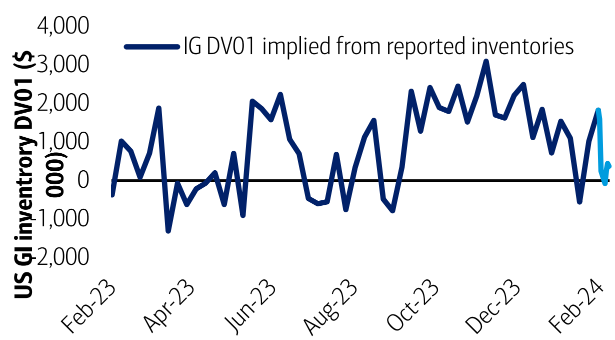
Exhibit 59: Estimated dealer inventory DV01 for IG corporate bonds.
We estimate IG dealer inventory DV01 of US issuer bonds declined to $0.4mn currently from $1.8bn on Jan-31.



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 60: Estimated changes in IG dealer inventories by maturity and broad sector.
We estimate IG dealer inventories declined -$950mn today and declined -$4,351mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 8-Feb-24 ($mn)			
Sector	8-Feb	7-Feb	1 W	2 W	4 W	8-Feb	7-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-950	-340	-4,351	-3,709	-2,631	102	112	-1,430	-340	2,145	12,571	13,521	8,259	34,351

Exhibit 60: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories declined -$950mn today and declined -$4,351mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 8-Feb-24 ($mn)			
<3yr	-499	-414	-2,280	-1,174	-2,560	-89	-75	-429	-323	-539	1,709	2,208	1,458	5,376
3-5yr	-306	-55	-400	-283	-1,428	-132	-18	-174	-81	-479	2,541	2,847	1,594	6,982
5-11yr	-761	-112	-1,865	-5,002	-3,408	-505	-106	-1,084	-3,211	-2,320	4,064	4,826	3,018	11,908
11+yr	616	242	194	2,749	4,765	828	312	256	3,275	5,483	4,256	3,640	2,189	10,085
Fin	-754	-704	-2,087	-3,256	-4,998	-216	-277	-757	-1,333	-977	4,514	5,268	2,931	12,712
Non-Fin	-197	364	-2,264	-453	2,367	318	389	-673	994	3,122	8,057	8,253	5,328	21,638
Fixed	-882	-342	-4,179	-3,350	-2,164	113	114	-1,405	-282	2,126	12,465	13,347	8,196	34,008
Floating	-68	2	-172	-358	-467	-11	-1	-25	-57	19	106	174	63	343
US issuers	-896	-109	-3,282	-3,167	-1,429	-70	194	-1,264	-564	1,700	9,649	10,545	6,677	26,871
DM Yankees	-48	-352	-1,325	-985	-1,795	156	-142	-318	-82	25	2,495	2,543	1,470	6,508
EM Yankees	-6	121	257	443	593	16	61	152	307	421	427	433	112	972

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 61: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -$413mn for Banks/Brokers and declined -$257mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 8-Feb-24 ($mn)			
Sector	**8-Feb**	**7-Feb**	**1 W**	**2 W**	**4 W**	**8-Feb**	**7-Feb**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Aerospace/Defense	85	20	-1	183	438	53	60	88	267	402	243	158	102	504
Automobiles	-199	148	-272	-466	-419	-109	69	-202	-345	-220	342	541	297	1,181
Banks/Brokers	-413	-477	-1,208	-2,639	-4,863	-110	-230	-412	-1,317	-1,099	3,242	3,656	2,024	8,922
Basic Materials	2	101	-91	-94	707	-15	11	-116	-89	526	488	486	350	1,324
Commercial Services	-28	-46	-57	-69	-79	-13	-40	-47	21	5	71	99	70	240
Energy	-257	-37	-652	-516	-836	-130	-54	-347	-271	-361	805	1,062	600	2,467
Finance	-123	-169	-402	-204	-271	-44	-67	-250	-132	-132	724	847	491	2,061
Food, Bev, & Bottling	-58	45	-301	-389	-482	-6	20	-232	-315	-281	295	353	232	880
Health Care	124	-60	100	447	1,148	253	2	517	920	1,174	1,799	1,675	1,159	4,633
Industrial Products	-65	34	-195	-172	-108	-49	53	-103	-37	57	281	346	252	879
Insurance	-188	-101	-354	-190	-294	-70	-31	-98	107	3	263	451	206	920
Media & Entertainment	121	89	-111	-139	524	116	110	-51	-62	527	692	571	405	1,668
REITs	-30	43	-123	-223	429	8	51	3	8	252	285	315	209	809
Retail	-18	93	92	325	618	9	100	78	281	577	527	546	346	1,419
Technology	-41	51	-372	342	1,012	21	102	-47	557	985	591	632	426	1,649
Telecom	112	3	-249	-445	-565	110	24	-104	-344	-367	526	414	264	1,203
Tobacco	25	13	-10	-33	-72	8	-7	-62	-51	-46	91	65	64	220
Transportation	35	-17	72	198	265	38	-27	99	212	240	244	209	110	562
Utilities	55	-18	-178	391	54	91	-27	-143	228	-213	923	868	471	2,262
Other	-91	-55	-38	-16	164	-59	-7	0	23	118	138	229	180	546

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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