

# Situation Room

## Bond fund inflows are coming

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Following a weaker than expected ISM Services report for March interest rates dropped further on Wednesday April 5<sup>th</sup>. 10yr Treasury yield reached some of the lowest levels since September of last year. The rapid decline in interest rate is negative for IG spreads due to 1) less attractive yields, which could also encourage more supply and 2) elevated rates vol. However, currently those negatives are offset by 1) a relatively smaller decline in 30yr yields where yield-sensitive demand tends to dominate and 2) a potential acceleration in bond fund inflows.

HG bond fund flows tend to follow returns with about a month lag. That means the big rally in bond prices during March should generate a significant acceleration in inflows during April. We have already seen an improvement in daily flows data over the past week, and March returns imply inflows accelerating to some of the highest pace in over a year. That is consistent with IG investors continuing to expect inflows into the asset class in our latest US Credit Investor Survey (see [Credit Market Strategist: Mar '23 Credit Investor Survey: Lightning up on credit](#)).

### Daily credit snapshot

US IG issuance totaled \$2.5bn across 2 deals today, \$9.8bn WTD and \$9.8bn MTD. The average new issue concession was 42.0 today from -18.0bps yesterday. This week's new issues are trading 4bps tighter on average from pricing. S&P 500 closed -0.25%, 10-year Treasury yields -3bps, CDX IG +2.4bps, CDX HY -\$0.54pts, and cash bond spreads quoted from Unched to +2bps today, LQD closed 1.05bps wider today.

### Daily dealer inventories update

\$63mn (notional), \$108,000 (DV01) today. Maturities and sectors inside.

### Daily foreign demand tracker

We track dealer-to-affiliate volumes on Trace that are correlated with foreign buying.

05 April 2023

Credit Strategy  
United States  
Cross Product

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# Research Overview — The Situation

## Bond fund inflows are coming

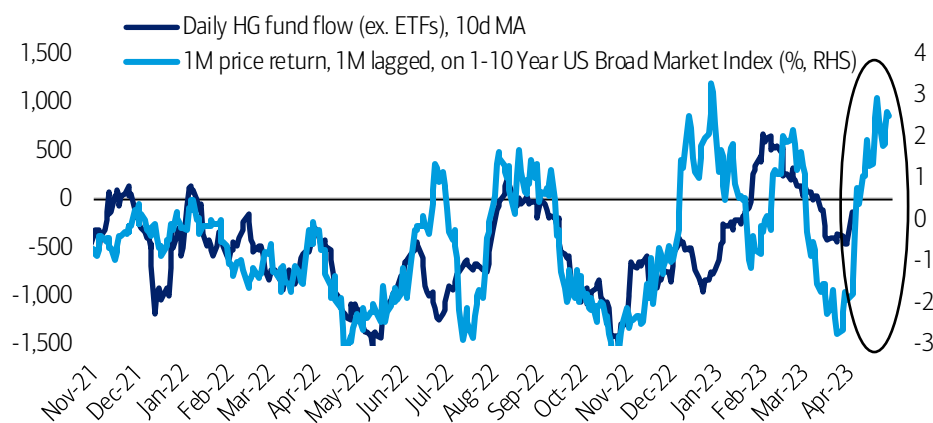
Following a weaker than expected ISM Services report for March interest rates dropped further on Wednesday April 5<sup>th</sup>. 10yr Treasury yield reached some of the lowest levels since September of last year (Figure 4). The rapid decline in interest rate is negative for IG spreads due to 1) less attractive yields, which could also encourage more supply and 2) elevated rates vol. However, currently those negatives are offset by 1) a relatively smaller decline in 30yr yields where yield-sensitive demand tends to dominate (Figure 5) and 2) a potential acceleration in bond fund inflows.

HG bond fund flows tend to follow returns with about a month lag. That means the big rally in bond prices during March should generate a significant acceleration in inflows during April. We have already seen an improvement in daily flows data over the past week, and March returns imply inflows accelerating to some of the highest pace in over a year (Figure 1). That is consistent with IG investors continuing to expect inflows into the asset class in our latest US Credit Investor Survey (see [Credit Market Strategist: Mar '23 Credit Investor Survey: Lightning up on credit](#), Figure 2, Figure 3).

Finally, the data-dependent Fed means rates volatility should remain elevated. In contrast the outlook for a mild recession is more stable as the Fed has room to either keep policy rates higher for longer or cut rates as necessary. Hence, interest rates should be a bigger driver of IG spreads this year, including through a jump in fund inflows that we expect in April.

**Figure 1: The March decline in interest rates should attract April inflows to HG bond funds**

HG bond fund flows tend to follow returns with about a month lag.

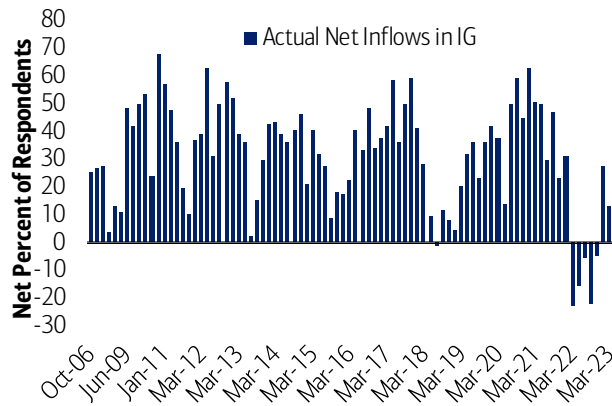


Source: EPFR Global, Bloomberg.

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**Figure 2: IG investors: Over the last three months, have you seen net inflows/outflows to the credit funds that you manage?**

On net 13% of IG investors reported inflows in Mar 2023.

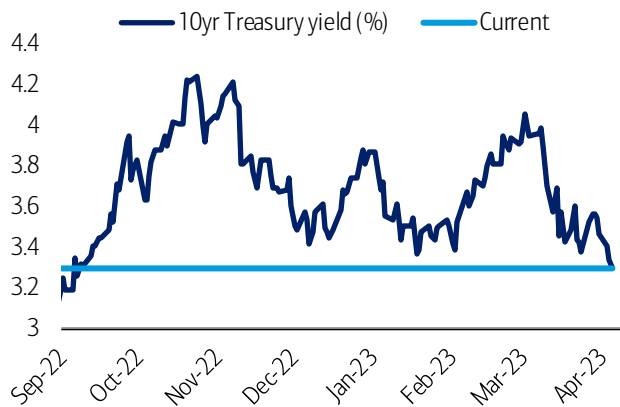


Source: BofA US Credit Investor Survey

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**Figure 4: 10yr Treasury yield has dropped to Sep 2022 levels**

10yr Treasury yield is down 76bps from the peak in March.

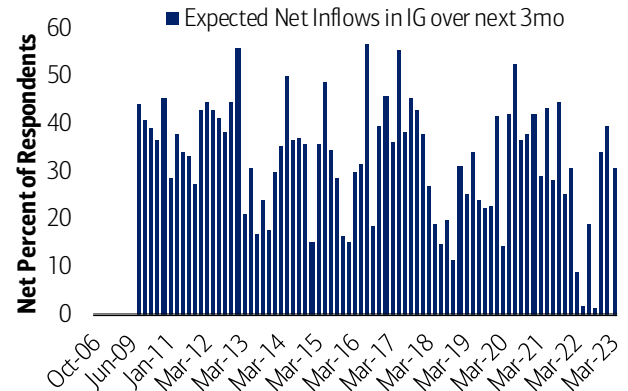


Source: Bloomberg.

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**Figure 3: Investment Grade: expect net inflows over the next three months.**

IG investors expected considerable inflows over the next three months in Nov, Jan and Mar surveys.

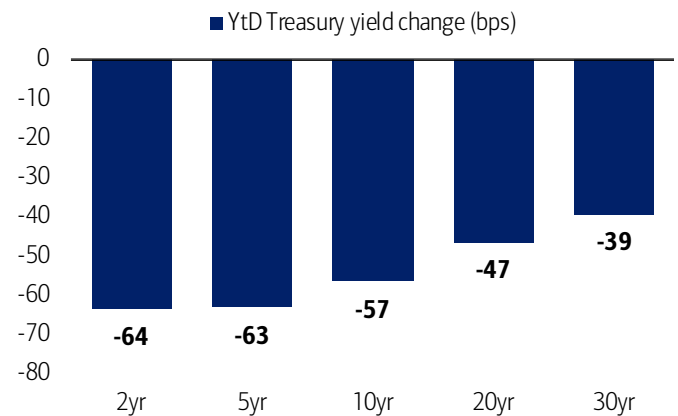


Source: BofA US Credit Investor Survey

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**Figure 5: 30yr Treasury yields have declined the least YtD**

30yr Treasury yield is down 39bps so far in 2023, below 57bps decline for 10yr and 63bps decline for 5yr Treasury yields.



Source: Bloomberg.

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## Credit Strategy

### Daily credit snapshot

US IG issuance totaled \$2.5bn across 2 deals today, \$9.8bn WTD and \$9.8bn MTD. The average new issue concession was 42.0 today from -18.0bps yesterday. This week's new issues are trading 4bps tighter on average from pricing.

S&P 500 closed -0.25%, 10-year Treasury yields -3bps, CDX IG +2.4bps, CDX HY - \$0.54pts, and cash bond spreads quoted from Unched to +2bps today, LQD closed 1.05bps wider today.

**Figure 6: 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)
2023-04-03	EVRG	Evergy Metro Inc	10	300	A2/A+	4.95	153	n.a.	n.a.	n.a.
2023-04-03	GM	General Motors Financial Co Inc	3	1,250	Baa2/BBB	5.4	170	18	-7	163
2023-04-03	GM	General Motors Financial Co Inc	7	1,000	Baa2/BBB	5.85	240	25	-6	234
2023-04-03	MKC	McCormick & Co Inc/MD	10	500	Baa2/BBB	4.95	153	n.a.	-5	148
2023-04-03	RECLIN	REC Ltd	76	750	Baa3/NA	5.625	n.a.	n.a.	n.a.	n.a.
2023-04-04	CNHI	CNH Industrial Capital LLC	5	600	Baa2/BBB	4.55	140	n.a.	n.a.	n.a.
2023-04-04	PPC	Pilgrims Pride Corp	10	1,000	Ba3/BBB-	6.25	300	n.a.	-4	296
2023-04-04	WEC	WEC Energy Group Inc	3	350	Baa1/BBB+	4.75	85	-18	n.a.	n.a.
2023-04-05	MU	Micron Technology Inc	5	600	Baa3/BBB-	5.375	205	46	n.a.	n.a.
2023-04-05	MU	Micron Technology Inc	10	900	Baa3/BBB-	5.875	265	38	n.a.	n.a.
2023-04-05	O	Realty Income Corp	6	400	A3/A-	4.7	155	n.a.	n.a.	n.a.
2023-04-05	O	Realty Income Corp	10	600	A3/A-	4.9	185	n.a.	n.a.	n.a.

Note: We calculate new issue concessions by estimating the difference between new issue bond spread and interpolated G spread from comparable liquid secondary bonds of the same issuer prior to the new issue deal announcement, adjusted for the spread impact of dollar prices deviating from par. Break performance is computed as the difference between new issue pricing and secondary closing spread on the first day of trading.

Source: BofA Global Research, Bloomberg

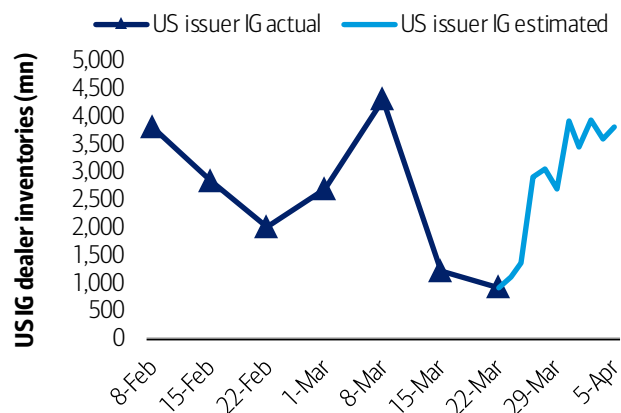
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**Daily dealer inventories update**

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Figure 7 and Figure 8. We estimate the corresponding DVO1 equivalent in Figure 8. More details by sector and maturity are available in Figure 9 and Figure 10. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

**Figure 7: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds increased to \$3.8bn currently from \$0.9bn on Mar-22.



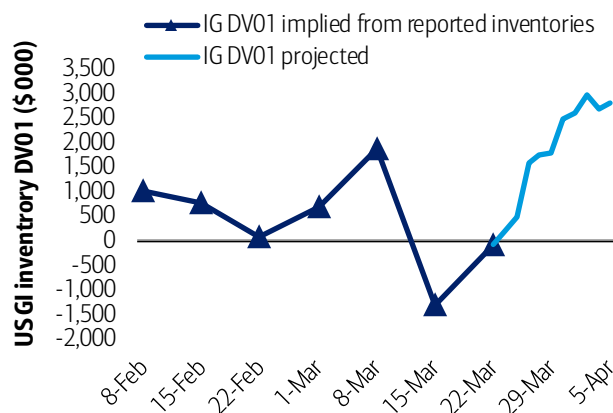
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Figure 8: Estimated dealer inventory DVO1 for IG corporate bonds.**

We estimate IG dealer inventory DVO1 of US issuer bonds increased to \$2.8mn currently from -\$0.1bn on Mar-22.



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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**Figure 9: Estimated changes in IG dealer inventories by maturity and broad sector.**

We estimate IG dealer inventories increased \$63mn today and increased \$1,419mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 5-Apr-23 (\$mn)			
	5-Apr	4-Apr	1 W	2 W	4 W	5-Apr	4-Apr	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>63</b>	<b>-222</b>	<b>1,419</b>	<b>2,919</b>	<b>-24</b>	<b>108</b>	<b>-221</b>	<b>1,357</b>	<b>3,070</b>	<b>2,343</b>	<b>9,899</b>	<b>9,835</b>	<b>5,685</b>	<b>25,418</b>
<3yr	-94	-120	-529	-525	-1,174	-23	-22	-149	-193	-406	1,483	1,577	1,162	4,222
3-5yr	-264	2	-362	-639	-2,772	-77	9	-52	-130	-949	1,890	2,154	1,254	5,298
5-11yr	425	61	1,575	1,833	773	235	11	947	1,069	329	3,947	3,522	2,025	9,494
11+yr	-3	-165	736	2,250	3,148	-26	-219	611	2,324	3,369	2,578	2,581	1,244	6,404
Fin	136	-106	171	387	732	206	-58	278	554	619	3,963	3,827	2,271	10,061
Non-Fin	-73	-116	1,248	2,532	-756	-97	-163	1,079	2,516	1,724	5,936	6,008	3,414	15,358
Fixed	88	-183	1,506	3,185	313	120	-217	1,435	3,175	2,430	9,776	9,688	5,614	25,079
Floating	-25	-39	-87	-267	-338	-11	-4	-78	-105	-87	122	147	70	339
US issuers	223	-350	1,126	2,905	-466	134	-300	999	2,890	2,039	7,839	7,615	4,535	19,989
DM Yankees	-155	7	296	-113	237	-22	0	380	72	134	1,836	1,991	1,025	4,852
EM Yankees	-5	121	-3	126	205	-3	80	-21	108	169	224	229	125	577

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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**Figure 10: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories increased \$48mn for Banks/Brokers and increased \$60mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 5-Apr-23 (\$mn)			
	5-Apr	4-Apr	1 W	2 W	4 W	5-Apr	4-Apr	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	73	0	158	149	75	66	-4	172	183	244	225	152	123	500
Automobiles	-45	50	140	332	190	-25	41	63	158	70	157	202	118	478
Banks/Brokers	48	-58	19	-279	629	171	39	281	155	626	2,951	2,902	1,642	7,495
Basic Materials	-106	129	179	-65	-401	-94	107	110	-135	-122	196	301	198	696
Commercial Services	-35	23	-47	-17	-55	-14	16	-5	24	-41	133	168	74	375
Energy	60	69	467	284	420	67	69	444	365	465	654	594	434	1,681
Finance	140	50	371	316	-195	82	23	199	47	-191	517	376	351	1,244
Food, Bev. & Bottling	-21	-85	126	255	24	-10	-94	139	339	326	437	458	318	1,213
Health Care	130	-106	498	853	219	46	-152	317	654	303	1,174	1,044	558	2,776
Industrial Products	-5	-20	-30	36	133	-15	-38	-27	69	145	165	170	112	447
Insurance	-97	-39	-109	361	692	-72	-63	-188	311	433	202	300	161	663
Media & Entertainment	4	-26	36	444	46	-23	-22	22	408	272	360	356	268	984
REITs	45	-59	-110	-12	-394	24	-57	-14	42	-248	293	248	118	659
Retail	-48	-31	-149	52	-652	-28	-9	26	370	84	329	377	165	872
Technology	-18	-65	51	317	-38	-84	-65	-36	172	152	768	786	421	1,974
Telecom	-39	-64	58	305	90	-29	-67	84	206	142	360	400	120	880
Tobacco	25	19	50	63	38	13	17	65	71	48	66	41	41	148
Transportation	-14	-77	-152	-209	-167	30	-29	-25	-16	164	208	222	82	511
Utilities	-24	21	-216	-338	-496	14	49	-310	-398	-414	610	635	295	1,540
Other	-8	46	81	71	-182	-11	19	39	45	-113	95	103	84	282

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

Source: BofA Global Research, FINRA, TRACE.

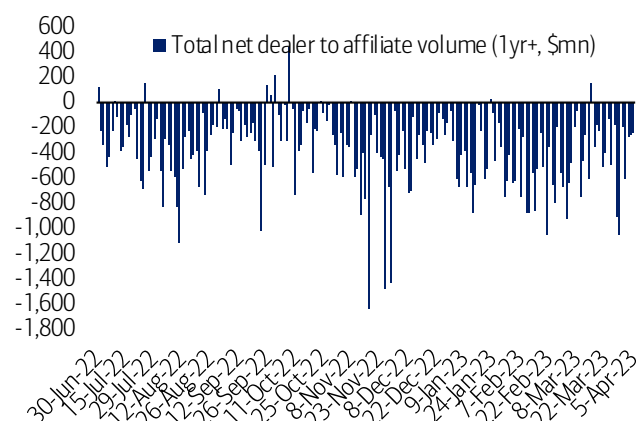
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**Daily foreign demand tracker**

We believe net dealer-to-affiliate volumes from Trace are correlated with foreign buying of US HG corporate bonds - i.e., negative numbers mean foreign investor buying (US dealers taking down inventory in favor of foreign affiliates). For supporting material see our "primer" on tracking foreign inflows (See report: [Credit Market Strategist: One year round-trip in spreads 15 July 2016](#)). Figure 11 shows the overall daily dealer-to-affiliate volumes while Figure 12, Figure 13 and Figure 14 show subsets of this data. In particular Figure 12 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 13 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 14 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Figure 11: Net dealer buying from affiliate (1yr+)**

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



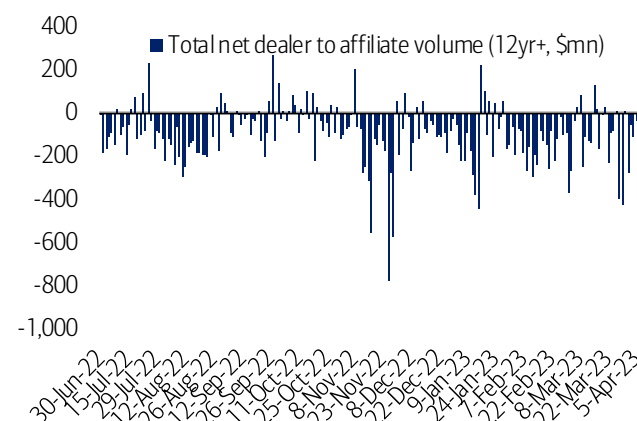
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



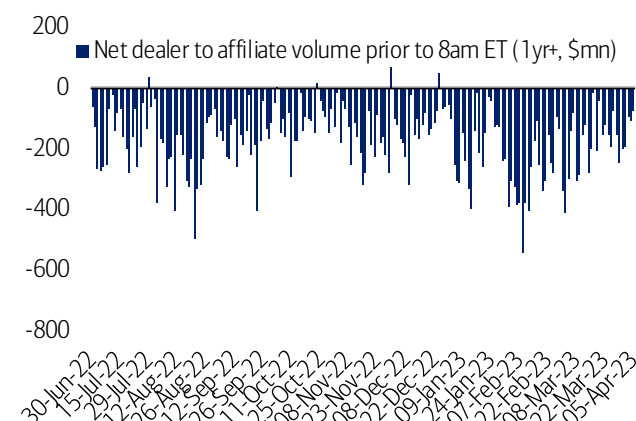
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Figure 13: Net dealer-to-affiliate trading volumes before 8am ET**

Foreign buying before 8am NY time is dominated by Asia and has been consistent this year



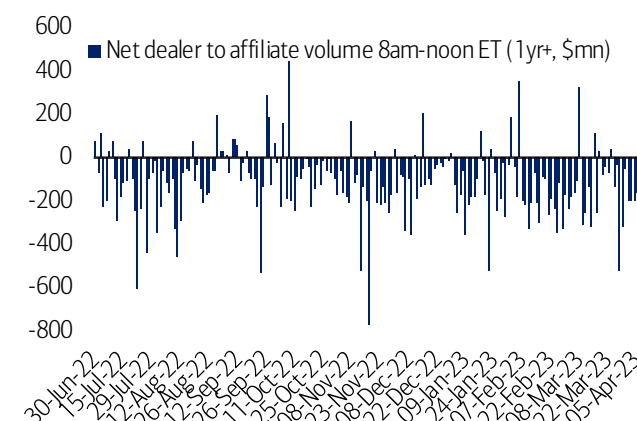
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Figure 14: Net dealer-to-affiliate trading volumes 8am - noon ET**

Foreign buying 8am-noon NY time is dominated by Europe and has been inconsistent this year



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

Source: BofA Global Research, TRACE

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**Common abbreviations:**

IG: Investment Grade

HG: High Grade

LQD: iShares iBoxx \$ Investment Grade Corporate Bond ETF

DV01: Dollar value of a basis point

CDX IG: The Markit CDX North America Investment Grade Index

CDX HY: Markit CDX North America High Yield Index

ECB: European Central Bank

QE: Quantitative Easing

CSPP: corporate sector purchase programme

Unched: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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