

Credit Derivatives Navigator

IG Cash over Synthetics

Key takeaways

- Heavy IG supply caused an indigestion in US IG credit, with IG bond spreads widening far beyond their synthetic counterparts.
- We expect this to normalize as supply eases, and we like going long LQD on spread (rates-hedged with treasuries) vs CDX IG41.
- We also note at the single-name level there are CDS cash basis packages that widened since mid-February.

IG Cash over Synthetics

The heavy US IG bond supply combined with lower Treasury yields resulted in an indigestion in the US IG cash bond market during the second half of February. That negative technical led IG cash bond spreads to widen beyond their synthetic counterparts. As IG supply eases in the second half of March and into April (see [Credit Market Strategist: Supply off trend](#)), we expect bond spreads to instead outperform CDS.

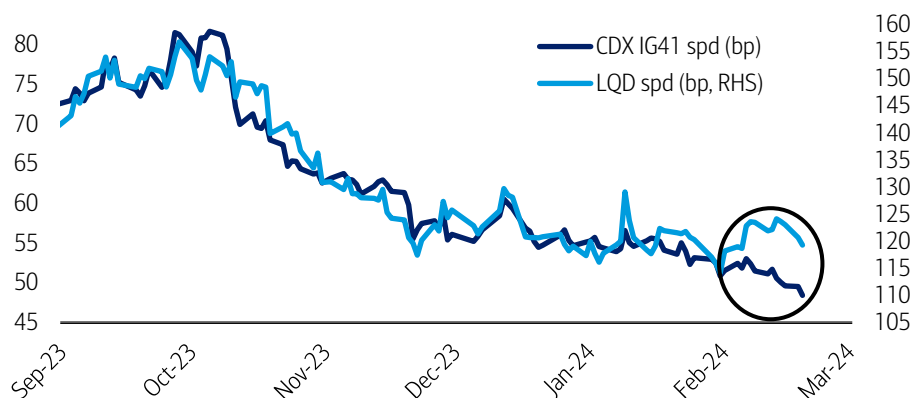
We recommend taking advantage of this technicals-driven temporary dislocation at the index level by going long LQD on spread versus CDX IG41 (Exhibit 1). We also note that at the single-name level there are CDS cash basis packages that widened since mid-February.

Long LQD on spread vs CDX IG41

One way to take advantage of the current IG indigestion is by going long LQD on spread (rates-hedge it with treasuries) versus CDX IG41. This allows to position for supply eventually getting absorbed while benefiting from greater liquidity. Risk to this trade is LQD spreads widening with CDX IG spreads grinding tighter.

Exhibit 1: Cash over CDX IG

LQD recently underperformed CDX IG on the back of an IG supply indigestion.



Source: BofA Global Research, Bloomberg

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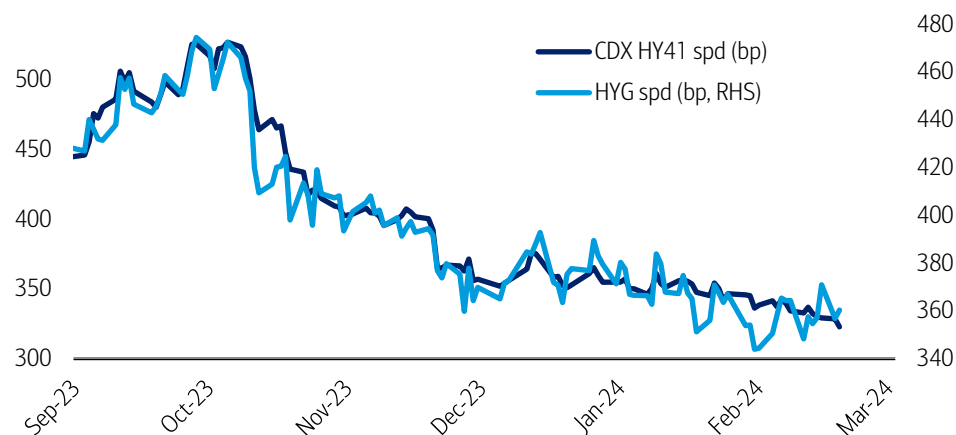
Refer to important disclosures on page 9 to 11. Analyst Certification on page 8. 12670296

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In contrast to IG, HY bond spreads remained in line with CDX spreads as issuance volumes were more benign.

Exhibit 2: HY unaffected

In contrast, CDX HY shows no sign of dislocation to cash.



Source: BofA Global Research, Bloomberg

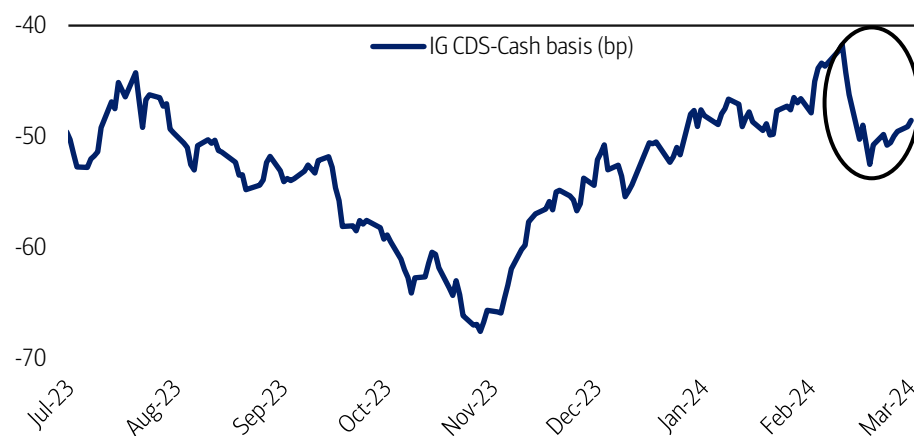
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Single-name cash over CDS

The average IG CDS-Cash basis widened to YtD wide of -53bp on Feb 29. This constitutes an 11bps of widening from the tight on Feb 21, with only 4bp of that retraced so far (Exhibit 3). We include a screen of IG bonds for which the basis widened the most since Feb 21 in Exhibit 4.

Exhibit 3: IG CDS-Cash basis recently widened on the back of an IG supply indigestion

IG Basis recently widened 11bp to as much as -53bp and has only retraced a fraction of this move.



Source: BofA Global Research, Markit

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Exhibit 4: Single-name screen

We include names whose bases widened the most since the tight of Feb 21.

Basis on Mar 12 (bp)	Basis on Feb 21 (bp)	Basis widening (bp)	5y CDS spd (bp)	ISIN	Ticker	Issued over the last month
-7.8	64.7	-72.5	258	US124857AZ68	PARA	.
-95.6	-72.5	-23.1	61	US093662AJ37	HRB	.

Exhibit 4: Single-name screen

We include names whose bases widened the most since the tights of Feb 21.

Basis on Mar 12 (bp)	Basis on Feb 21 (bp)	Basis widening (bp)	5y CDS spd (bp)	ISIN	Ticker	Issued over the last month
-44.0	-24.3	-19.8	143	US02005NBP42	ALLY	.
-21.9	-7.2	-14.7	110	US37045XEG79	GM	.
-52.6	-38.0	-14.5	46	US24703TAG13	DELL	Yes
-15.7	-1.9	-13.9	110	US37045VAY65	GM	.
-70.2	-56.6	-13.6	35	US842587DS35	SO	Yes
-28.5	-15.1	-13.3	110	US37045XEN21	GM	.
-33.9	-20.9	-13.0	66	US74153WCS61	PRU	Yes
-11.0	1.8	-12.8	66	US341081GN15	NEE	Yes
-61.9	-49.2	-12.7	57	US902494BK88	TSN	Yes
-37.7	-25.0	-12.7	69	US00206RGQ92	T	.
-1.5	10.6	-12.1	110	US37045VAS97	GM	.
-39.6	-27.7	-12.0	36	US91324PEU21	UNH	.
-63.6	-52.4	-11.2	35	US842587DQ78	SO	Yes
-33.7	-22.5	-11.2	82	US25179MBF95	DVN	.
-29.3	-18.2	-11.1	110	US37045XDH61	GM	.
-62.7	-51.7	-11.0	38	US68389XCH61	ORCL	.
-33.9	-23.2	-10.7	34	US24422EWE57	DE	Yes
-47.6	-37.0	-10.6	63	US277432AW04	EMN	Yes
-29.8	-19.5	-10.3	110	US37045XEHS2	GM	.
-28.1	-17.9	-10.2	110	US37045XCS36	GM	.
-78.7	-68.8	-10.0	32	US845437BR25	AEP	Yes
-22.1	-12.5	-9.7	110	US37045XDV55	GM	.
-64.9	-55.3	-9.6	19	US655844BZ09	NSC	.
-57.5	-48.0	-9.5	33	US548661ED58	LOW	.
-32.6	-23.3	-9.3	25	US911312BR66	UPS	.
-65.1	-56.0	-9.1	34	US370334CW20	GIS	.
-79.8	-71.0	-8.9	32	US025537AM37	AEP	Yes
-60.7	-51.9	-8.9	38	US416515BE33	HIG	.
-23.7	-15.0	-8.7	110	US37045XDP87	GM	.
-54.5	-45.8	-8.7	23	US58013MFF68	MCD	.
-21.8	-13.3	-8.5	34	US244199BD66	DE	Yes
-36.6	-28.0	-8.5	34	US24422EUY30	DE	Yes
-39.2	-30.7	-8.5	34	US24422EXH79	DE	Yes
-78.5	-70.1	-8.4	79	US44107TAY29	HST	.
-65.9	-57.5	-8.4	19	US26442UAH77	DUK	Yes
-52.9	-44.6	-8.3	33	US548661DR53	LOW	.
-59.9	-51.7	-8.2	47	US571903BL69	MAR	Yes

Source: BofA Global Research, Markit

This screen is not a recommended list, either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

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IG42 Roll update

Markit released a provisional list of expected changes to the CDX IG index, which are expected to roll to the new series 42 on Wednesday, March 20. The expected additions are Ford Motor Company, MGIC Investment Corp and Capital One Financial Corp, while the expected removals are ConocoPhillips, EIDP Inc and Capital One National Association.

Intrinsic roll estimate: FV of 7.4 bp for 5Y, 3.9 bp for 10Y

Based on this provisional list, we estimate that the fair value of the IG42 5Y roll will be 7.4 bp, driven by 1.5 bp for constituent changes and 5.9 bp for the six-month maturity extension. Similarly, we see fair value of the IG42 10Y roll at 3.9 bp, of which 2.3 bp result from name changes and 1.6 bp from maturity extension (Exhibit 5).

Exhibit 5: CDX IG Series 42 fair value estimates

We now estimate a fair value roll of 7.4bp for 5Y and of 3.9bp for 10Y

5Y	FV Spread (bp)	10Y	FV Spread (bp)
IG41	53.4	IG41	89.3
+ Constituents change	1.5	+ Constituents change	2.3
+ 6M Extension	5.9	+ 6M Extension	1.6
IG42	60.8	IG42	93.2
Roll	7.4	Roll	3.9

Source: Markit, BofA Global Research

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As we discussed in our “Credit Derivatives Navigator: CDX IG42 Roll: Early view”, we expect the IG42 5Y roll to trade 1.5bp flat to FV on roll day at 5.9bp, driven by index arb activity and an increase in client long risk positioning.

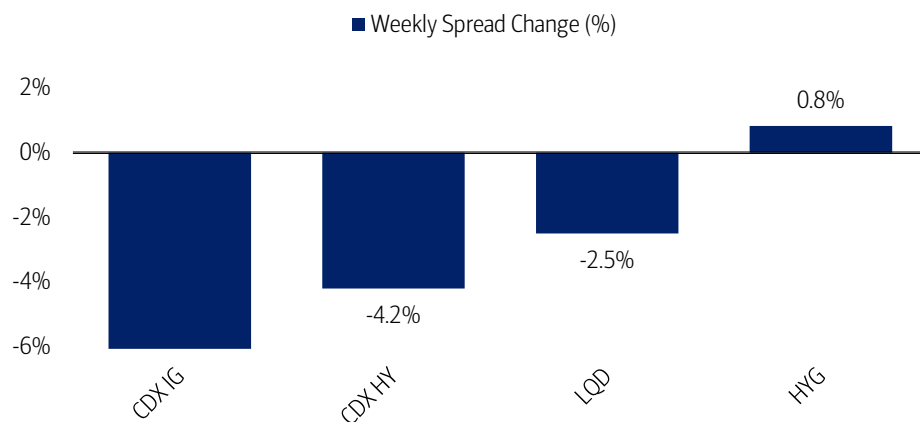
Weekly Data and Charts

- IG CDS-Cash Basis reached YtD wides of -53bp on Feb 29, and has retraced 4bp since then (Exhibit 9, Exhibit 10)
- Synthetic cash still trades rich to cash, with most value in BBs (Exhibit 13)

Performance Dashboard

Exhibit 6: Weekly Spread Change (%), 03/05 to 03/12

CDX IG was the biggest % spread mover this week with a -6.4% move



Source: BofA Global Research, Markit, Bloomberg

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Exhibit 7: Weekly IG snapshot

This week in IG Realized Vol CDX IG (1M %) sits at a low 3-month %ile while IG CDS-Cash basis (bp) sits at a high 3-month %ile

IG	Level	1W change	3M %ile
Realized Vol CDX IG (1M %)	26.1	-11%	0%
Implied Vol CDX IG (1M %)	44.2	-5%	43%
CDX IG 5y spd (bp)	48.4	-6%	0%
IG Cash 5y spd (bp)	87.4	-5%	13%
LQD spd (bp)	109.4	-2%	51%
LQD Implied Vol (1M)	7.2	-5%	0%
IG CDS-Cash basis (bp)	-48.6	-4%	57%
CDX IG index skew (bp)	-4.7	43%	13%

Source: Bloomberg, Markit, BofA Global Research

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Exhibit 8: Weekly HY snapshot

In HY 1M Realized Vol CDX HY (1M %) sits at a low 3-month %ile while CDX HY index skew (bp) sits at a high 3-month %ile

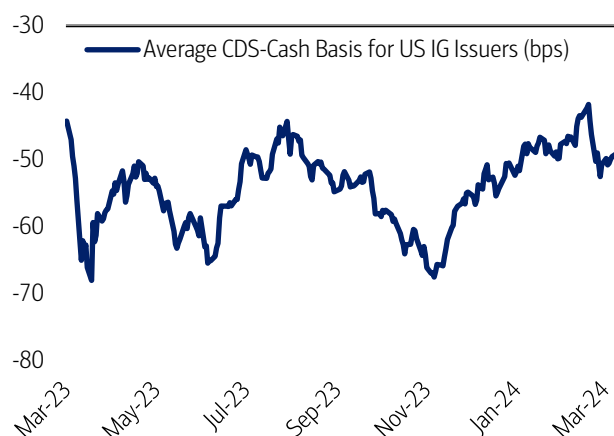
HY	Level	1W change	3M %ile
1M Realized Vol CDX HY (1M %)	20.7	-12%	0%
Implied Vol CDX HY (1M %)	36.2	-4%	32%
CDX HY 5y spd (bp)	323.0	-4%	0%
HY Cash 5y spd (bp)	341.0	-3%	0%
HYG spd (bp)	356.0	1%	23%
HYG Implied Vol (1M)	5.5	6%	10%
HY CDS-Cash basis (bp)	-60.2	-4%	20%
CDX HY index skew (bp)	-23.3	71%	43%

Source: Bloomberg, Markit, BofA Global Research

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CDS-Cash Basis**Exhibit 9: LTM US IG CDS-Cash Basis**

On Mar 12, 2024, spread was 48.5 bps.

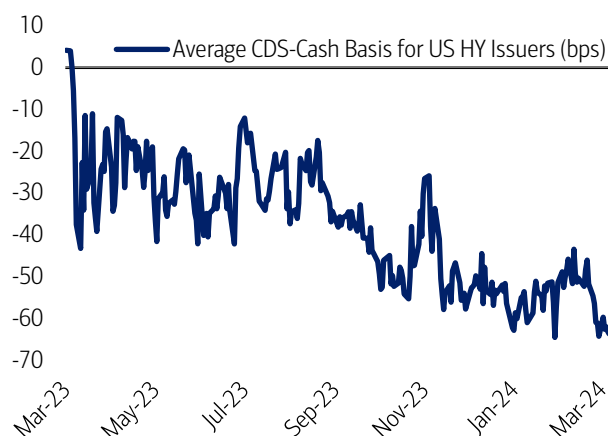


Source: BofA Global Research, Markit

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Exhibit 10: LTM US HY CDS-Cash Basis

...versus -60.2bps for US HY Issuers



Note: A more negative basis indicates bonds trading cheap to synthetic cash

Source: BofA Global Research, Markit

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Exhibit 11: CDS-Cash Basis by sector for US IG Issuers

IG Sectors ranked higher have CDS levels currently trading tightest relative to bonds.

Sector	Current Basis (bp)	1W Basis	1M Basis	Current %ile
Utilities	-61	-62	-57	80%
Aerospace/Defense	-60	-63	-53	34%
Food, Bev, & Bottling	-60	-63	-58	89%
REITs	-58	-58	-53	36%
Health Care	-55	-58	-53	40%
Basic Materials	-51	-52	-56	58%
Technology	-50	-53	-49	54%
Transportation	-48	-50	-44	77%
Finance	-47	-47	-43	91%
Industrial Products	-46	-46	-37	36%
Retail	-45	-49	-43	47%
Energy	-41	-45	-45	98%
Other	-40	-42	-38	50%
Media & Entertainment	-39	-42	-38	84%
Banks/Brokers	-39	-42	-47	99%

Note: The Other category includes IG sectors with less than 3 names. It is currently composed of Automobiles, Commercial Services, Consumer Products, Leisure, Telecom, Tobacco

Source: BofA Global Research, Markit

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Exhibit 12: CDS-Cash Basis by sector for US HY Issuers

HY Sectors ranked higher have CDS levels currently trading tightest relative to bonds.

Sector	Current Basis (bp)	1W Basis	1M Basis	Current %ile
Health Care	-96	-105	-75	6%
Basic Materials	-95	-97	-81	22%
Energy	-73	-69	-52	12%
Media & Entertainment	-72	-70	-61	9%
Other	-70	-73	-53	36%
Utilities	-63	-64	-45	15%
Commercial Services	-57	-66	-57	50%
Leisure	-55	-52	-29	2%
Retail	5	-5	18	7%
Automobiles	13	8	18	5%

Note: The Other category includes IG sectors with less than 3 names. It is currently composed of Aerospace/Defense, Consumer Products, Finance, Food, Bev, & Bottling, Insurance, REITs, Transportation

Source: BofA Global Research, Markit

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Exhibit 13: CDS-Cash Basis by rating

A low basis or low percentile are indicative of synthetic cash trading expensive to cash.

Rating	Current Basis (bp)	1W Basis	1M Basis	Current %ile
A or higher	-42		-45	-41 62%
BBB	-53		-55	-50 82%
BB	-70		-74	-57 11%
B	-37		-38	-21 5%

Source: BofA Global Research, Markit

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Exhibit 14: Top 10 richest US IG synthetic cash to cash

IG Issuers with synthetic cash trading richest to cash currently include HRB (-96bps), AEP (-83bps), and WY (-82bps).

Rank	Ticker	Rating	Sector	Current Basis (bp)	Current %ile	1M %ile
1	HRB	BBB3	Commercial Services	-96	83%	95%
2	AEP	BBB2	Utilities	-83	35%	87%
3	WY	BBB2	REITs	-82	65%	91%
4	EXC	BBB2	Utilities	-79	88%	n.a.
5	HST	BBB3	REITs	-79	17%	88%
6	DUK	BBB2	Utilities	-78	99%	82%
7	MSI	BBB3	Technology	-77	66%	92%
8	AZO	BBB2	Retail	-76	89%	76%
9	CAH	BBB2	Health Care	-73	100%	n.a.
10	NOC	BBB1	Aerospace/Defense	-72	88%	n.a.

Note: 95 issuers are included in our analysis

Source: BofA Global Research, Markit

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Exhibit 15: Top 10 richest US HY synthetic cash to cash

HY Issuers with synthetic cash trading richest to cash currently include AVNT (-146bps), VST (-139bps), and DVA (-135bps).

Rank	Ticker	Rating	Sector	Current Basis (bp)	Current %ile	1M %ile
1	AVNT	BB3	Basic Materials	-146	13%	52%
2	VST	BB2	Utilities	-139	40%	97%
3	DVA	B1	Health Care	-135	46%	82%
4	CHK	BB2	Energy	-133	3%	73%
5	MTG	BBB3	Insurance	-128	9%	48%
6	TGNA	BB2	Media & Entertainment	-124	0%	17%
7	BMCAUS	BB3	Basic Materials	-123	67%	100%
8	LW	BB2	Food, Bev, & Bottling	-115	24%	51%
9	LPX	BB1	Basic Materials	-114	73%	86%
10	MUR	BB1	Energy	-110	8%	22%

Note: 56 issuers are included in our analysis

Source: BofA Global Research, Markit

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Exhibit 16: Top 10 cheapest US IG synthetic cash to cash

IG Issuers with synthetic cash trading cheapest to cash currently include WHR (27bps), LNC (5bps), and PARA (-8bps).

Rank	Ticker	Rating	Sector	Current Basis (bp)	Current %ile	1M %ile
1	WHR	BBB2	Consumer Products	27	86%	25%
2	LNC	BBB1	Insurance	5	89%	n.a.
3	PARA	BBB3	Media & Entertainment	-8	11%	n.a.
4	WMT	AA2	Retail	-12	73%	46%
5	DXC	BBB2	Technology	-19	62%	46%
6	PG	AA3	Consumer Products	-24	82%	43%
7	AES	BBB3	Utilities	-27	82%	99%
8	GM	BBB2	Automobiles	-28	12%	33%
9	ENBCN	BBB1	Energy	-30	91%	90%
10	BBY	BBB1	Retail	-30	48%	79%

Note: 95 issuers are included in our analysis

Source: BofA Global Research, Markit

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Exhibit 17: Top 10 cheapest US HY synthetic cash to cash

HY Issuers with synthetic cash trading cheapest to cash currently include M (191bps), JWN (158bps), and AXL (54bps).

Rank	Ticker	Rating	Sector	Current Basis (bp)	Current %ile	1M %ile
1	M	BB1	Retail	191	100%	96%
2	JWN	BB1	Retail	158	22%	66%
3	AXL	B2	Automobiles	54	27%	23%
4	NBR	B1	Energy	47	15%	51%
5	CAR	B1	Commercial Services	42	52%	51%
6	GT	B1	Automobiles	16	10%	13%
7	DAL	BB1	Transportation	10	18%	55%
8	CCL	B2	Leisure	-2	10%	n.a.
9	CPN	B1	Utilities	-5	13%	37%
10	NWL	BB3	Consumer Products	-20	2%	39%

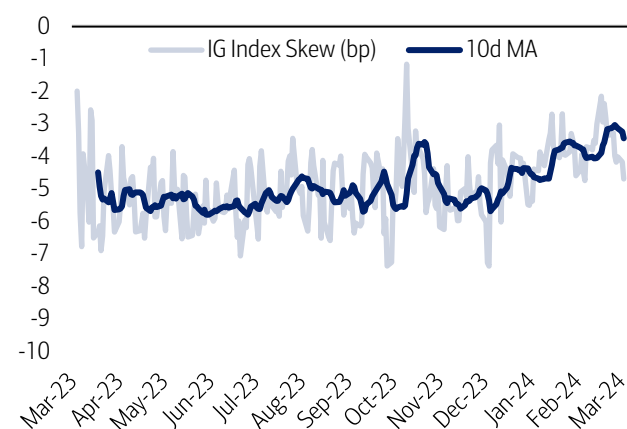
Note: 56 issuers are included in our analysis

Source: BofA Global Research, Markit

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CDX Index Skew**Exhibit 18: CDX IG Index Skew (bp)**

CDX IG spread skew has on average compressed over the last year but widened since the tights of Feb 26. On Mar 12, 2024, skew was -4.7 bps.



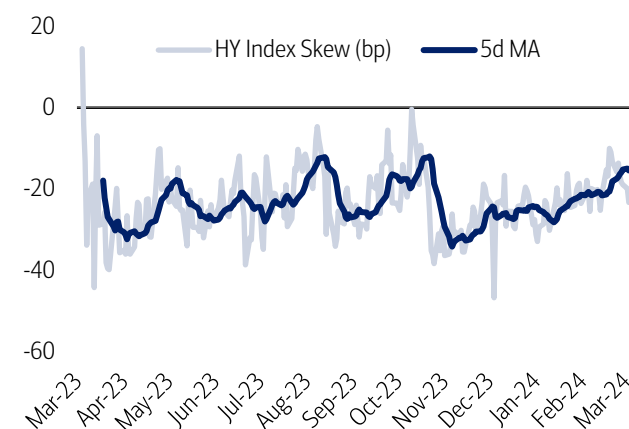
Note: Skew = Traded index - Fair value of the constituents. Negative skew (in spread) points to the index trading rich to FV.

Source: BofA Global Research, Markit

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Exhibit 19: CDX HY Index Skew (bp)

CDX HY spread skew has also on average compressed over the last year but widened since the tights of Feb 29. On Mar 12, 2024, skew was -23.3 bps.



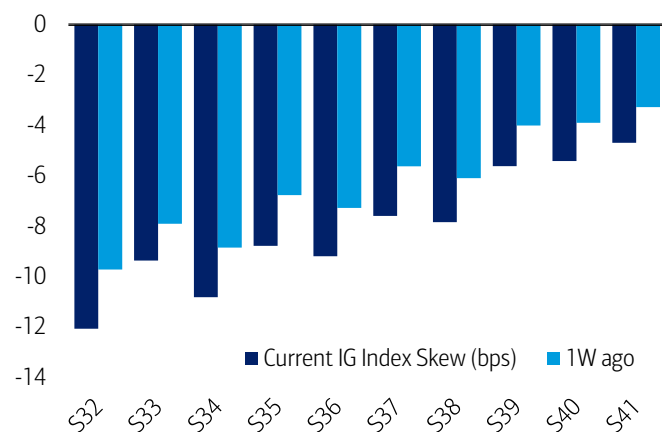
Note: Skew = Traded index - Fair value of the constituents. Negative skew (in spread) points to the index trading rich to FV.

Source: BofA Global Research, Markit

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Exhibit 20: CDX IG Roll Skew

IG Roll Skew is the difference between each series' skew and IG41 skew

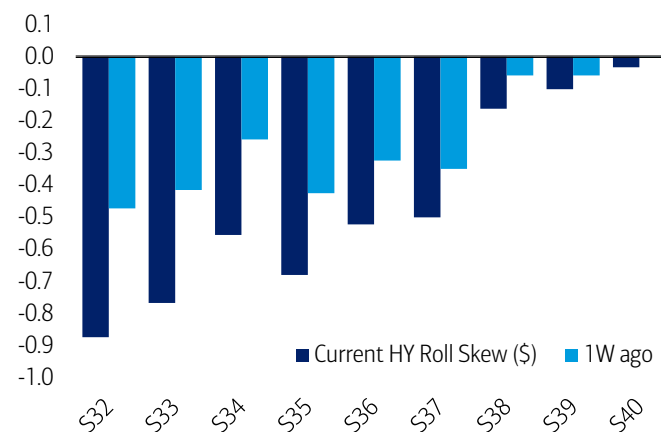


Source: BofA Global Research, Markit

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Exhibit 21: CDX HY Roll Skew

HY Roll Skew is the difference between each series' skew and HY41 skew



Source: BofA Global Research, Markit

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