US High Grade Credit Research

Top US High Grade Ideas – March 2024 edition

Credit Analysis

01 March 2024

High Grade Credit
United States
Cross-Industry

Our Top High Grade ideas list

This report is our Top US High Grade (HG) Ideas list comprising corporate bond and/or loan recommendations. As selected by the Head of BofA US Credit Research, these recommendations are a collection of our best investment ideas from the universe of bonds and loans covered by BofA Global Research US fundamental HG credit research analysts. We expect the picks to outperform or underperform their relevant benchmarks, and they could be based on particularly attractive or unattractive expected total return due to potential market and/or business-related catalysts, interest carry, yield-to-redemption, and/or value based on spread and/or yield relative to credit quality. BofA Global Research credit ratings reflect a three-month time horizon. While the list is not a model portfolio, we strive to provide a diversified group of debt instruments from a range of sectors. Sectors and instruments not under research coverage cannot be included. The technology sector is currently not under coverage.

5 Overweights & 3 Underweights

Our March 2024 list consists of 8 issuer recommendations and is comprised of 3 Underweight (UW) and 5 Overweight (OW) ratings. The Underweight issuer recommendations are Ally, Sherwin-Williams Company, and Tyson Foods. The Overweight bond issuer recommendations are Abbvie, AutoNation, CVS Health Corp, Diamondback Energy Inc, and Pacific Gas.

Exhibit 1: Top US High Grade Ideas List – March 2024 – Representative Issues [1]
Our top High Grade ideas consist of 3 Underweights and 5 Overweight recommendation(s)

							As of 2/29/2024			
BofA Rec	Company	Issue	Interest Rate (%)	Maturity	Out $MM	Mdy / S&P	Bid Price	YTW [2] (%)	Sprd/ DM (bp)	Rec Type [3]
OW	AbbVie	Sr. Notes	5.400	3/15/54	3,000	A3/A-	100.23	5.38	95	ISR
UW	Ally Financial	Sr. Notes	8.000	11/01/31	1,995	Baa3/BBB-	108.96	6.44	218	ISR
OW	AutoNation	Sr. Notes	4.750	6/01/30	500	Baa3/BBB-	95.11	5.69	141	ISR
OW	CVS Health Corp	Sr. Notes	5.875	6/01/53	1,250	Baa2/BBB	99.07	5.94	151	ISR
OW	Diamondback Energy	Sr. Notes	6.250	3/15/33	1,100	Baa2/BBB	104.70	5.57	126	ISR
OW	Pacific Gas	1st Mtge	3.500	8/1/50	1,925	Baa3/BBB-	67.27	5.98	146	ISR
UW	Sherwin-Williams	Sr. Notes	2.200	3/15/32	500	Baa2 / BBB	80.21	5.25	94	ISR
UW	Tyson Foods	Sr. Notes	5.100	9/28/48	1,500	Baa2/BBB	88.08	6.05	165	ISR

(1) Additional representative issues may be listed later in report
(2) YTW for loans is with the swap curve per Bloomberg
(3) ISR denotes issuer recommendation, SP denotes bond- or loan-specific issue recommendation
Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

We refresh our top ideas list each month

We update and publish this list at the beginning of each month to ensure that it continues to represent our best current ideas for the next three months (in line with the three-month time horizon for BofA Global Research credit ratings). We further explain how this list is maintained in this report.

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Larry Bland
Research Analyst
BofAS
+1 646 855 6502
larry.bland@bofa.com

US High Grade Research

See Team Page for List of Analysts

AbbVie Inc (ABBV)

Andrew Kaplan
Research Analyst
BofAS
+1 646 855 8748
andrew.kaplan@bofa.com

Overweight

Exhibit 2: AbbVie – Representative Issues
We believe that ABBV will outperform in the near term

BofA Rec	Issue	Coupon %	Maturity	Out $MM	Mdy/S&P	As of 2/29/2024 Bid Price	YTW %	Sprd bp
OW	Senior Notes	5.050	3/15/2034	3,000	A3/A-	100.17	5.03	72
OW	Senior Notes	5.400	3/15/2054	3,000	A3/A-	100.23	5.38	95

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

The acquisition of Allergan for $84 billion brought in a leading medical aesthetics portfolio and significant cash flow generation. Key pipeline assets Venclexta, Rinvoq and Skyrizi will likely provide an offset to the patent loss on Humira which began in January 2023 in the United States. We see ABBV having the ability to fill the Humira gap both through pipeline development and M&A capacity if need be. We expect ABBV to trade 7-10 bps behind pharma peer AstraZeneca.

Key drivers and/or catalysts

Humira patent cliff: Humira began facing biosimilar competition in the U.S. in 2023. For 2024, management has achieved parity access for the majority of U.S. covered lives and expects erosion of 36%. While we expect sales will continue to decline, we see a sustainable tail for years to come as Humira only lost 2% volume share in 2023.

Upward ratings momentum: With recent upgrades from Moody's and S&P to A- and a consistent leverage policy, we still see ABBV benefitting from ratings upgrades overtime as the company drives growth post Humira.

Pipeline: Estimates for Imbruvica sales are $1.9 bn in 2025, Venclexta sales of $2.7 bn, Rinvoq sales of $7.0 bn, and Skyrizi sales of $12.8 bn in 2025.

Leverage commitment: Following $34 billion of debt paydown post the Allergan acquisition, ABBV maintains a long term net leverage target of 2x.

M&A: Following the acquisitions of ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn), we expect the focus for M&A will be on smaller sized, early stage deals. Any additional M&A would be viewed in the context of the goal to get back to 2x net leverage in 2-3 years post close.

Risks

1) Large debt funded acquisitions, 2) more rapid Humira erosion curve than expected, 3) pipeline failures, and 4) drug price reform legislation.

Company description

ABBV is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care.

Latest report: Healthcare 2024 Year Ahead

Ally Financial (ALLY)

Tom Curcuruto
Research Analyst
BofAS
+1 646 855 6870
tom.curcuruto@bofa.com

Underweight

Exhibit 3: Ally – Representative Issues
We believe ALLY bonds will underperform going forward

BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	As of 2/29/2024 Bid Price	YTW %	Sprd Bp
UW	Senior Notes	8.000	11/01/2031	1,995	Baa3/BBB-	108.96	6.44	218
UW	Jr. Sub Notes	6.700	2/14/2033	500	Baa3/BB+	98.31	6.92	266

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

ALLY bonds trade near the tights (since YE'21) relative to historical relationships with COF (peer) and USB (high quality super regional) despite seeing auto loan delinquencies rise to the highest levels since at least 2012 with the most recent vintages (2022-2023) seasoning at over 2x the 2019-2020 vintages. We believe we are in the early innings of a consumer credit cycle, particularly for consumers with lower credit scores, which could be compounded by lower used car prices (-13.8% yoy in Feb per Manheim index). About ~30% of ALLY's consumer auto loan portfolio has a FICO score below 660 and used vehicle loans represent 68% of the portfolio. The market rally since October has resulted in ALLY compressing vs. higher quality banks (ALLY is ~130 bp tighter vs. super regional banks 65-85 bp tighter since late October), which we believe is unwarranted.

Key drivers and/or catalysts

Higher credit losses and/or provisions, particularly in consumer auto loans. Auto delinquencies continued to rise in 4Q and with greatest deterioration in recent vintages. Lower used car prices as indicated by the Manheim index could exacerbate losses if recovery values on collateral are weaker. COF (peer) auto delinquencies remained high in the month of January and losses ticked up another 18 bp qoq (+50bp yoy).

Lower profitability leaves less room for error. ALLY has one of the lowest ROAs (~0.5%) among large banks (~1.1%) per Bloomberg consensus estimates, which limits ALLY's organic capital generation capability or to absorb credit losses.

Risks

Risks to our rating are a more benign credit cycle, particularly in non-prime auto loans, that results in lower provisions than currently expected, improvement in used car auto values, favorable moves in interest rates than enable ALLY to grow net interest margin and net interest income, and lower long-term interest rates that improve ALLY's unrealized losses on securities.

Company description

Ally Financial is a category IV bank with the nation's largest full-service auto lending platform. Its other businesses include mortgage lending, insurance, online savings, credit cards, point-of-sale lending, and corporate finance/middle markets lending. Ally has total assets of $196B and total deposits of $155B as of 4Q23.

Latest report: Banks: Constructive tone on credit continues 31 January 2024

AutoNation (AN)

Douglas Karson
Research Analyst
BofAS
+1 646 855 7405

Overweight

Exhibit 4: AutoNation – Representative Issues
We believe that AN bonds will outperform going forward.

BofA Rec	Issue	Coupon %	Maturity	Out $MM	Mdy/S&P	As of 2/29/2024 Bid Price	YTW %	Sprd bp
OW	Senior Notes	4.500	10/01/2025	450	Baa3/BBB-	98.30	5.64	84
OW	Senior Notes	4.750	6/01/2030	500	Baa3/BBB-	95.11	5.69	141

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

AutoNation has a strong business profile that is resilient to economic downturns. This is largely due to its economies of scale and high degree of variable costs, as well as its diversity in revenue from its profitable parts & services business that compliments new and used vehicle sales. As of December 31, 2023, AN had $1.5bn of liquidity, including $61mn in cash and $1.46bn of availability under its revolving credit facility, net of commercial paper borrowings. Free cash flow for the full year was $969mn, and cash conversion sat at 94% of net income. AutoNation had approximately $4.0bn of non-vehicle debt outstanding as of 12/31/23 compared to $3.9bn at 9/30/23. Its covenant leverage ratio was 2.2x at the end of 4Q23, up sequentially from 2.0x in 3Q23. Management remains committed to maintaining a leverage ratio between 2x-3x, and moving forward plans to allocate capital to maximizing shareholder value. We remain Overweight because bonds look cheap against IG and BBB names, and although pricing is falling/moderating, the credit profile is still very strong. Auto retailers also benefit from their stable parts and services businesses which should continue to perform in the face of an uncertain macro environment, serving as a hedge to the new and used vehicle segments. On a relative value basis, the AN 4.75% 30s are being offered at $95.11 or a g-spread of 141bps, 17bps wide to the ICE BofA BBB index with a g-spread of 124bps.

Key drivers and/or catalysts

We see several key drivers of outperformance for AN. 1) Strong margins and cash flows given elevated pricing 2) the continuation of a solid balance and low leverage 3) a negative catalyst could be the potential for a recession and normalization in new and used pricing.

Company description

AN is a leading automotive retailer in the US. The Company offers cars, trucks, pre-owned vehicles, auto parts, and accessories, as well as provides service contracts, auto financing, and repairing services.

Latest report: [4Q23 EPS Beat, New Vehicle Sales +8%]

CVS Health (CVS)

Andrew Kaplan
Research Analyst
BofAS
+1 646 855 8748
andrew.kaplan@bofa.com

Overweight

Exhibit 5: CVS Health – Representative Issues
We believe that CVS will outperform in the near term

						As of 2/29/2024		
BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	Bid Price	YTW %	Sprd bp
OW	Senior Notes	5.300	6/01/33	1,250	Baa2/BBB	98.67	5.48	118
OW	Senior Notes	5.875	6/01/53	1,250	Baa2/BBB	99.07	5.94	151

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term leverage target range of low 3x. We expect CVS to trade 10 bps behind managed care peer Cigna.

Key drivers and/or catalysts

M&A: CVS completed the acquisition of Signify (home health) in March 2023, funding the transaction with $6 bn of new debt. In May 2023, CVS closed the acquisition of Oak Street Health (primary care) for $10.6 bn, funding with $5 bn of new debt. We expect the company to remain acquisitive going forward, however with a focus on smaller sized deals while integration is underway.

Primary care/home health strategy: At its investor day, CVS highlighted primary care as a key growth pillar for the company going forward. CVS is looking to build out a network of physician-led primary care centers with integrated virtual and home health assets. We see this as a positive strategic focus due to the continued success of Optum's OptumCare unit.

2024 headwinds: Going into 2024 CVS faces four key headwinds: loss of 4 star position, the Centene (CNC) pharmacy benefit manager (PBM) contract loss, changes to the 340B program, and a more rapid decline in the covid contribution. While previously pointing to buybacks to offset these headwinds, CVS has laid out a new plan to mitigate the headwinds. The components include G&A savings ($400-$500 mn), Oak Street and Signify growth (adding 10-15 cents to earnings), biosimilars, and the expanded exchange business.

Risks

1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and 4) slower than expected integration.

Company description

CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products including Medicare Advantage and Medicare Part D prescription drug plans.

Latest report: Healthcare 2024 Year Ahead

Diamondback Energy Inc (FANG)

Daniel Lungo
Research Analyst
BofAS
+1 646 855 9965
daniel.e.lungo@bofa.com

Overweight

Exhibit 6: Diamondback Energy Inc – Representative Issues
We believe FANG's bonds will outperform going forward

BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	As of 2/29/2024 Bid Price	YTW %	Sprd bp
OW	Senior Notes	6.250	3/15/2033	1,100	Baa2 / BBB -*	104.70	5.57	126
OW	Senior Notes	6.250	3/15/2053	650	Baa2 / BBB -*	104.49	104.49	149

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

Pro-forma (PF) for the acquisition of Endeavor, we maintain our positive fundamental view of FANG. In our view, ENDENR is a good strategic fit for FANG and further strengthens its significant size / scale in the Permian basin. We acknowledge that FANG plans to issue $5-6b of new debt to fund the deal but note that management's explicit commitment to de-leveraging (post-acquisition) should help support the company's credit story. Compared to peers, we think FANG could eventually trade well inside similar sized Canadian peers and flat to inside the BBB Index. We also think FANG bonds should trade at a significant premium to Occidental Petroleum (OXY), which has substantially higher risk involved with its approximate 5-year de-leveraging plan post its recent M&A deal. We therefore see upside to FANG's spreads and provide an OW rec on the name.

Key drivers and/or catalysts

Transformational M&A: On 2/12, FANG announced plans to buy Endeavor Energy (ENDENR) with stock & cash and plans to issue $5-6b of new debt to fund the deal. The PF entity would operate 838k net acres across the Permian with production of ~816 mboe/d (~430 mboe/d standalone), making it one of the largest producers in the basin.

Manageable de-leveraging outlook: FANG plans to reduce PF net debt below $10b by mid-2025. The company expects to reduce shareholder returns from 75% of free cash flow to 50% (starting in 1Q24) and plans to evaluate non-core asset sales to support deleveraging. We expect FANG to reach $10b net debt in 2025 and do not expect leverage of the PF entity to spike above 2.0x, even under $55/WTI.

Attractive relative value: We think FANG should trade flat / inside the BBB index (currently flat), with the potential for additional tightening after it brings the bond deal to finance the Endeavor purchase. We also believe that FANG should trade at a large premium to OXY as FANG's <2-yr debt reduction plan carries significantly less risk compared to OXY's multiyear debt reduction plans, in our view.

Risks

Pending Endeavor deal not closing, M&A, a change in lev. targets, a shift in FCF priorities, changes in commodity prices and competitors taking market share.

Company description

FANG is an independent, oil & gas producer focused on the Permian Basin.

Latest report: FANG to acquire ENDENR, creating a Permian powerhouse; upgrade to OW

Pacific Gas and Electric Co (PCG)

Antoine Aurimond, CFA
Research Analyst
BofAS
+1 646 855 8284
antoine.aurimond@bofa.com

Overweight

Exhibit 7: Pacific Gas & Electric – Representative Issues
We believe that the PG&E first mortgage bonds (FMBs) will outperform going forward

						As of 2/29/2024		
BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	Bid Price	YTW %	Sprd Bp
OW	First Mortgage Bonds	3.500	08/01/2050	1,925	Baa3/BBB-	67.27	5.98	146

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

PCG has made substantial and persistent progress mitigating wildfire exposure, as exemplified by the now three seasons in a row with manageable utility-caused damages. After receiving a satisfactory decision on its GRC, the company will be able to embark on its undergrounding program, which we expect will dramatically reduce the company's business risk profile medium term. We believe the recent upgrade at Moody's to high-BB and retention on positive outlook provides a line of sight back to investment grade at which point we think the discount to Southern California Edison should continue to compress from ~35 bps currently. Of note, S&P also recently raised the CFR to mid-BB. We believe these positive rating actions are signaling to investors that PCG is investable again and that wildfire risk can be effectively managed.

Key drivers and/or catalysts

- **2024 Wildfire season:** The 2024 wildfire season is upcoming, with the core typically running from July to October. While the company has made considerable progress mitigating wildfires, substantial risk remains, and we continue to expect seasonal pressure.

- **Pathway back to IG**: Given the retention on positive outlook, we think Moody's is likely to raise PCG's CFR to low-BBB if 2024 turns out to be another mild wildfire season. We believe Fitch (BB+ CFR) would also follow with an upward rating action in addition to S&P (BB CFR).

Risks

Risks are 1) new evidence indicating that destructive wildfires were caused by PCG equipment, which could increase the company's liabilities and lead to a faster-than-anticipated exhaustion of the AB1054 wildfire fund; 2) Unfavorable future regulatory outcomes

Company description

PCG engages in the sale and delivery of electricity and natural gas to approximately 16 million people throughout a 70,000-square-mile service area in northern and central California.

Latest report: 2023 California Wildfire season: Mildest in years

Sherwin-Williams Company (SHW)

Daniel Lungo
Research Analyst
BofAS
+1 646 855 9965
daniel.e.lungo@bofa.com

Underweight

Exhibit 8: Sherwin-Williams Company – Representative Issues
We believe SHW's bonds will underperform going forward

						As of 2/29/2024		
BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	Bid Price	YTW %	Sprd bp
UW	Senior Notes	2.200	3/15/2032	500	Baa2 / BBB	80.21	5.25	94
UW	Senior Notes	2.900	3/15/2052	500	Baa2 / BBB	63.32	5.48	104

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

SHW's recent YE23 earnings update did not change our fundamental view of the business. We continue to like the company's large, bellwether status, conservative balance sheet, and robust market share position. We have concerns around its end-markets, however, given sluggish residential housing turnover, fading do-it-yourself (DIY) demand, and an uncertain macro back drop. We think these headwinds could weigh on the credit story going forward despite our forecasts for the business to generate consistent cash flow this year and maintain leverage within its long-term target range (2.0-2.5x). Furthermore, we view SHW's current trading levels, which are inside Dow Chemical (DOW, UW) and near the BofA Single-A Corporate Index, as rich given our cautious outlook for the company's primary end-markets going forward. This leads us to an UW recommendation on the name as we think credit spreads are likely biased wider in the near-term. We also note that SHW's flatter 10s30s curve vs peers further support our UW recommendation.

Key drivers and/or catalysts

Moderating end-markets / uncertain macro: We have concerns around SHW's end-markets in 2024 given sluggish residential housing turnover, fading do-it-yourself demand, and an uncertain macro backdrop. At its recent 4Q23 update, SHW guided FY24 adj earnings below consensus estimates due to sluggish new residential construction / existing home sales activity. We think this softer outlook, coupled with an uncertain macro backdrop, could weigh on the company's credit story in the near-term.

Unattractive relative value: We view SHW's current trading levels, which are inside Dow Chemical (DOW, UW) and modestly wide of the Single-A Corp Index, as unwarranted particularly given our cautious outlook for the company's primary end-markets in 2024. We also note that SHW's flatter 10s30s curve vs peers further support our UW recommendation.

Risks

M&A, a change in leverage targets, a shift in FCF priorities, unexpected raw material price increases/decreases and competitors taking market share.

Company description

SHW is a global specialty chemicals company engaged in the development, manufacture, distribution and sale of paint, coatings, and related products.

Latest report: High Grade Basic Materials Weekly: Week ended January 26, 2024

Tyson Foods (TSN)

Brian Callen, CFA
Research Analyst
BofAS
+1 646 855 8987
brian.callen@bofa.com

Underweight

Exhibit 9: Tyson Foods – Representative Issues
We see opportunity for TSN to widen further vs packaged food & protein peers, implying 15-25bps of downside

						As of 2/29/2024		
BofA Rec	**Issue**	**Coupon %**	**Maturity**	**Out $MM**	**Mdy/S&P**	**Bid Price**	**YTW %**	**Sprd bp**
UW	Senior Notes	5.700%	03/15/2034	$900	Baa2/BBB	100.16	5.68	145
UW	Senior Notes	5.100%	09/28/2048	1,500	Baa2/BBB	88.08	6.05	165

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

We believe that tough protein complex fundamentals into '25, limited execution visibility, headwinds to productivity & efficiency aspirations, and stressed credit & cash flow metrics over the next 12+ months, including high-4x leverage and narrow net FCF, are not adequately reflected in TSN bonds and could lead to spreads further lagging peers by +15-25bps.

Key drivers and/or catalysts

Industry dynamics under pressure: We anticipate protein industry challenges continue for at least the next 12-18mo on unsteady demand, volatile commodity & operating costs, supply imbalances, and limited exports. Beef & Pork are likely to face a slow recovery while Chicken's upturn is still early and unproven and Prepared Foods competition heats up due to elasticity.

Deleveraging while refinancing: We est. 4.6x leverage in 1H24 which is high for mid-BBB so TSN has limited headroom in path to <4x exiting FY24. Refinancing of $1.25bn mid-Aug maturity has been pulled forward locking buyers in ahead of weather-impacted 2Q and need for 2H-improved EBITDA to deleverage.

Weak relative value: TSN spreads trade rich relative to operational risks & underlying business cyclicality. We think it should trade equidistant between less levered packaged food & weaker rated, better executing protein peers implying spread downside. TSN +25bps would trade flat to ICE BofA Crossover spreads.

Management turnover: TSN has had numerous management changes over the past few years (CEO, CFO, Prepared Foods & Chicken heads) which has reduced our confidence in a smooth turnaround.

Risks

(1) Protein segments rebound faster than expected, notably via Beef packer margins & Chicken efficiency actions; (2) Financial discipline & cash conversion is prioritized leading to rapid deleveraging and mid-BBB stabilization; or (3) asset or brand sales or dividend cut augments cash flow.

Company description

Tyson Foods (TSN) is the largest US protein processor with the leading share in Beef and Chicken and increasing scale in Pork and Prepared Foods.

Latest report: Vegetarian valuation while '24 risks graze

How this list will be maintained and updated

We refresh and publish this list at the beginning of each month to ensure that it continues to represent our best current ideas for the next three months (in line with the three-month time horizon for BofA Global Research credit ratings). After the list is published, ideas remain on the list through the month unless coverage is dropped or the recommendation changes, in which case we publish the change in a research report. Issuers and instruments that become restricted should be considered deleted from the list at the time they are restricted. Any issuer or instrument that is removed will not be replaced. Issuers and instruments are intended to stay on the list for at least a month and may be chosen to remain on the list for subsequent months.

Valuation & risk

AbbVie Inc. (ABBV)

AbbVie is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care. The acquisition of Allergan for $84 billion brought a leading medical aesthetics portfolio and significant cash flow generation. ABBV paid down $34 bn of debt over the last three years and reached its leverage target of 1.8x at the end of 2023. Key pipeline assets Imbruvica, Venclexta, Rinvoq, and Skyrizi will provide an offset to the patent loss on Humira, which began in January 2023 in the United States. Following the acquisitions of ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn), we expect the focus for M&A will be on smaller sized, early-stage deals. We expect ABBV to trade 15 bps behind pharma peer AstraZeneca.

Credit strengths: 1) A diverse portfolio, 2) commitment to debt pay down, 3) upward ratings momentum, 4) strong cash flow position, 5) favorable demographic trends, and 6) a strong liquidity position.

Credit risks: 1) Large debt funded acquisitions, 2) more rapid Humira erosion curve then expected, 3) pipeline failures, and 4) drug price reform legislation.

Ally (ALLY)

We rate Ally Financial at Underweight as the bonds trade tight to historical ranges to comps while profitability is relatively more constrained than peers' and capital levels are lower, leaving less room for error. ALLY's capital generation lags investment grade consumer finance peers as well as super regional banks, which have superior diversification and deeper customer relationships across more products.

Risks to our rating are a more benign credit cycle, particularly in non-prime auto loans, that results in lower provisions than currently expected, improvement in used car auto values, favorable moves in interest rates than enable ALLY to grow net interest margin and net interest income, and lower long-term interest rates that improve ALLY's unrealized losses on securities.

AutoNation Inc (AN)

AutoNation has a strong business profile that is resilient to economic downturns. This is largely due to its economies of scale and high degree of variable costs, as well as its diversity in revenue from its profitable parts & services business that compliments new and used vehicle sales. The senior notes are guaranteed by AutoNation's subsidiaries, which rank equal to the revolving credit facility. Risks are potential deterioration of credit metrics in an economic downturn, likely driven by decreasing margins and pressure on top-line. Based on management commentary, AutoNation is also likely to continue to expand via acquisitions, which could result in increasing leverage if funded through debt. We are Overweight.

CVS Health (CVS)

CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products, including Medicare Advantage and Medicare Part D prescription drug plans. We maintain CVS and bonds issued at Aetna Inc. at Overweight. Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. 2024 headwinds (Star ratings and CNC contract loss) will constrain flexibility in the near term, but we believe cash generation and the strength of the balance sheet will allow the company to execute on its strategy. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term target range of low 3x. We expect CVS to trade 5-10 bps behind MCO peer Cigna.
Credit Strengths: 1) Positive market demographics, 2) fully integrated health insurer, 3) strong and stable cash flows, and 4) largest U.S. pharmacy chain.
Credit Risks: 1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and
4) pharmacy reimbursement pressure.

Diamondback Energy (FANG)

Diamondback Energy (FANG) is an independent, oil and gas producer focused on the acquisition, development, exploration and exploitation of unconventional, onshore oil, and natural gas reserves in the Permian Basin.

Pro-forma (PF) for the acquisition of Endeavor, we continue to have a positive fundamental view of FANG. The transaction would be a good strategic fit for the business, in our view, and further strengthen its significant Tier-1 acreage position / scale in the Permian basin. We acknowledge that FANG plans to issue $5-6b of new debt to fund the deal but note that management's explicit commitment to de-leveraging (post-acquisition) should help support the company's credit story. Compared to peers, we think FANG could eventually trade well inside similar size Canadian peers and flat to the BofA BBB Corp Index. We also think FANG bonds should trade at a significant premium to Occidental Petroleum (OXY), which has substantially higher risk involved with its approximate 5-year de-leveraging plan post its recent M&A transaction. We therefore see upside potential to FANG's current spreads and have an OW recommendation on the name.

Risks: volatility in oil, natural gas, and NGL prices, changes in its capex program that either stress or relieve cash flow estimates, debt-funded acquisitions, and shareholder-friendly activities that strain cash flows, such as share repurchases and dividend increases, and the pending Endeavor deal not closing.

Pacific Gas (PCG)

PG&E has made substantial and consistent progress mitigating wildfire exposure as exemplified by the now three seasons in a row with manageable utility-caused damages. The company is also taking steps to implement its ambitious undergrounding program, which we expect will dramatically reduce the company's business risk profile in the medium-term. While the upcoming wildfire season could put pressure on the name, we emphasize the bonds have already underperformed the index due to higher beta and we see the bonds attractively priced, particularly as we believe the low dollar price and first lien security somewhat mitigates downside risk. We expect positive rating actions across the board should the company navigate the 2022 wildfire season with manageable utility-caused damages and successfully raises the $7.5 Bn rate-neutral securitization bonds.

We view risks as additional large wildfires which could potentially increase PG&E's liabilities and lead to a faster-than-anticipated exhaustion of the AB1054 wildfire fund, as well as political risks including less favorable regulatory treatment from the CPUC.

The Sherwin-Williams (SHW)
The Sherwin-Williams Company (SHW) is a global specialty chemicals company engaged in the development, manufacture, distribution and sale of paint, coatings and related products.

We view SHW favorably given its large size and scale, conservative balance sheet, and robust market share position. We foster concerns around its end-markets, however, given sluggish residential housing turnover, fading DIY demand, and an uncertain macro backdrop. We think these headwinds could weigh on the credit story going forward despite our forecasts for the business to generate consistent cash flow this year and maintain leverage within its long-term range (2.0-2.5x). Compared to peers, we think SHW trades rich particularly given our concerns around end-market demand this year. As a result, we see spreads biased wider in the near-term and provide an UW rec on the name.

Risks: M&A, a change in leverage targets, a shift in FCF priorities, unexpected raw material price increases/decreases and competitors taking market share

Tyson Foods (TSN)
Tyson Foods is the largest U.S. protein processor with leading share in Beef and Chicken, and increasing scale in Pork and Prepared Foods. We anticipate weak protein industry fundamentals into 2025 will continue to weigh on business performance. Cyclical pressures from consumer demand rotation, supply imbalances, elevated commodity & operating costs, and limited exports will remain an overhang to credit and cash flow metrics which are already strained. TSN has not shown an urgency to address elevated leverage despite historically running a conservative balance sheet. We believe risk is not reflected in current bond relative valuation and see additional spread widening so TSN trades equidistant between less leverage packaged food names and traditional protein peers. Our Neutral rating in CDS incorporates ongoing operating disruption, the uncertainty around protein cyclicality.

Analyst Certification

We, Larry Bland, Andrew Kaplan, Antoine Aurimond, CFA, Brian Callen, CFA, Daniel Lungo, Douglas Karson and Tom Curcuruto, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security/Loan pricing

AbbVie Inc. / ABBV

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.2, Senior, USD, 2026:B	2,000	14-May-2026	A3/A-/NR	96.28	28-Feb-2024	5.00	36
3.2, Senior, USD, 2029:B	5,437	21-NOV-2029	A3/A-/NR	91.61	28-Feb-2024	4.90	61
5.050, Senior, USD, 2034:B	3,000	15-Mar-2034	A3	100.40	29-Feb-2024	5.00	75
4.4, Senior, USD, 2042:B	2,600	06-NOV-2042	A3/A-/NR	89.86	29-Feb-2024	5.26	75
4.25, Senior, USD, 2049:B	5,750	21-NOV-2049	A3/A-/NR	85.86	29-Feb-2024	5.26	89
5.400, Senior, USD, 2054:B	3,000	15-Mar-2054	A3	101.04	29-Feb-2024	5.33	96

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Ally Financial Inc. / ALLY

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
8, , USD, 2031:B	1,995	01-NOV-2031	Baa3/BBB-/BBB-	109.77	28-Feb-2024	6.37	211
2.2, , USD, 2028:B	750	02-NOV-2028	Baa3/BBB-/BBB-	85.11	28-Feb-2024	5.89	156
4.75, , USD, 2027:B	750	09-JUN-2027	Baa3/BBB-/BBB-	97.17	28-Feb-2024	5.71	126
7.1, , USD, 2027:B	750	15-NOV-2027	Baa3/BBB-/BBB-	104.20	28-Feb-2024	5.80	139
6.7, , USD, 2033:B	500	14-FEB-2033	Baa3/BB+/BB+	98.42	28-Feb-2024	6.94	268
6.992, , USD, 2029:B	850	13-JUN-2029	Baa3/BBB-/BBB-	102.75	28-Feb-2024	6.25	190
6.848, , USD, 2030:B	750	03-JAN-2030	Baa3/BBB-/BBB-	102.23	28-Feb-2024	6.30	199

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AutoNation, Inc. / AN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.5, Senior, USD, 2025:B	450	01-OCT-2025	Baa3/BBB-/BBB-	98.25	28-Feb-2024	5.66	87
3.5, Senior, USD, 2024:B	450	15-NOV-2024	Baa3/BBB-/BBB-	98.42	28-Feb-2024	5.79	61
3.8, Senior, USD, 2027:B	300	15-NOV-2027	Baa3/BBB-/BBB-	93.13	28-Feb-2024	5.89	148
4.75, Senior, USD, 2030:B	500	01-JUN-2030	Baa3/BBB-/BBB-	94.97	28-Feb-2024	5.72	145
3.85, Senior, USD, 2032:B	700	01-MAR-2032	Baa3/BBB-/BBB-	87.27	28-Feb-2024	5.87	161

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CVS Health / CVS

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.3, Senior, USD, 2028:B	9,000	25-Mar-2028	Baa2/BBB/NR	97.04	28-Feb-2024	5.11	74
4.78, Senior, USD, 2038:B	5,000	25-Mar-2038	Baa2/BBB/NR	90.95	28-Feb-2024	5.72	134
5.05, Senior, USD, 2048:B	8,000	25-Mar-2048	Baa2/BBB/NR	89.06	28-Feb-2024	5.91	133
1.75, Senior, USD, 2030:B	1,250	21-AUG-2030	Baa2/BBB/NR	81.15	28-Feb-2024	5.22	95
4.25, Senior, USD, 2050:B	750	01-APR-2050	Baa2/BBB/NR	79.66	28-Feb-2024	5.77	124
1.875, Senior, USD, 2031:B	1,250	28-FEB-2031	Baa2/BBB/NR	80.27	28-Feb-2024	5.28	103
5.3, Senior, USD, 2033:B	1,250	01-JUN-2033	Baa2/BBB/NR	99.30	28-Feb-2024	5.40	113
5.875, Senior, USD, 2053:B	1,250	01-JUN-2053	Baa2/BBB/NR	99.61	28-Feb-2024	5.90	151

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Diamondback Energy, Inc / FANG

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.25, Senior, USD, 2026:B	800	01-DEC-2026	Baa2/BBB-/BBB	95.69	28-Feb-2024	4.94	41
3.5, Senior, USD, 2029:B	1,200	01-DEC-2029	Baa2/BBB-/BBB	91.79	28-Feb-2024	5.17	88
3.125, Senior, USD, 2031:B	900	24-MAR-2031	Baa2/BBB-/BBB	87.76	28-Feb-2024	5.22	96
4.4, Senior, USD, 2051:B	650	24-MAR-2051	Baa2/BBB-/BBB	81.33	28-Feb-2024	5.77	128
4.25, Senior, USD, 2052:B	750	15-Mar-2052	Baa2/BBB-/BBB	79.32	28-Feb-2024	5.74	129
6.25, Senior, USD, 2033:B	1,100	15-MAR-2033	Baa2/BBB-/BBB	105.28	28-Feb-2024	5.49	123
6.25, Senior, USD, 2053:B	650	15-Mar-2053	Baa3/BBB-	105.51	28-Feb-2024	5.85	142

Diamondback Energy, Inc / FANG

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)

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Pacific Gas & Electric / PCG

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
2.1, Secured, USD, 2027:B	1,000	01-AUG-2027	Baa2/BBB/BBB	89.64	28-Feb-2024	5.46	103
2.5, Secured, USD, 2031:B	2,000	01-FEB-2031	Baa2/BBB/BBB	81.79	28-Feb-2024	5.72	147
3.3, Secured, USD, 2040:B	1,000	01-AUG-2040	Baa2/BBB/BBB	72.05	28-Feb-2024	6.00	153
3.5, Secured, USD, 2050:B	1,925	01-AUG-2050	Baa2/BBB/BBB	67.27	28-Feb-2024	5.98	146

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The Sherwin-Williams Co / SHW

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.5, Senior, USD, 2047:B	1,250	01-JUN-2047	Baa2/BBB/BBB	86.41	28-Feb-2024	5.55	97
3.45, Senior, USD, 2027:B	1,500	01-JUN-2027	Baa2/BBB/BBB	95.26	28-Feb-2024	5.05	59
3.125, Senior, USD, 2024:B	500	01-JUN-2024	Baa2/BBB/BBB	99.29	28-Feb-2024	5.90	51
4, Senior, USD, 2042:B	300	15-DEC-2042	Baa2/BBB/BBB	81.29	28-Feb-2024	5.63	109
3.45, Senior, USD, 2025:B	400	01-AUG-2025	Baa2/BBB/BBB	97.43	28-Feb-2024	5.35	50
4.55, Senior, USD, 2045:B	400	01-AUG-2045	Baa2/BBB/BBB	86.03	28-Feb-2024	5.69	110
2.3, Senior, USD, 2030:B	500	15-MAY-2030	Baa2/BBB/BBB	84.83	28-Feb-2024	5.19	92
3.3, Senior, USD, 2050:B	500	15-MAY-2050	Baa2/BBB/BBB	69.91	28-Feb-2024	5.48	95
2.2, Senior, USD, 2032:B	500	15-MAR-2032	Baa2/BBB/BBB	80.92	28-Feb-2024	5.12	87
2.9, Senior, USD, 2052:B	500	15-MAR-2052	Baa2/BBB/BBB	64.51	28-Feb-2024	5.36	91

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B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Tyson Foods / TSN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.95, Senior, USD, 2024:B	1,250	15-AUG-2024	Baa2/BBB+/BBB	99.18	28-Feb-2024	5.77	47
4.35, Senior, USD, 2029:B	1,000	01-MAR-2029	Baa2/BBB+/BBB	96.21	28-Feb-2024	5.22	91
5.700, Senior, USD, 2034:B	900	15-Mar-2034	Baa2/BBB	100.00	29-Feb-2024	5.69	145
4.55, Senior, USD, 2047:B	750	02-JUN-2047	Baa2/BBB+/BBB	80.82	28-Feb-2024	6.10	152
5.1, Senior, USD, 2048:B	1,500	28-SEP-2048	Baa2/BBB+/BBB	88.09	28-Feb-2024	6.04	147
5-Year CDS:CDS					29-Feb-2024		58

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Hold	193	49.87%	Hold	163	84.46%
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Research Analysts

Larry Bland
Research Analyst
BofAS
larry.bland@bofa.com

Andrew Kaplan
Research Analyst
BofAS
andrew.kaplan@bofa.com

Antoine Aurimond, CFA
Research Analyst
BofAS
antoine.aurimond@bofa.com

Brian Callen, CFA
Research Analyst
BofAS
brian.callen@bofa.com

Daniel Lungo
Research Analyst
BofAS
daniel.e.lungo@bofa.com

Douglas Karson
Research Analyst
BofAS
doug.karson@bofa.com

Tom Curcuruto, CFA
Research Analyst
BofAS
tom.curcuruto@bofa.com

Shanna Qiu, CFA
Research Analyst
BofAS
shanna.qiu@bofa.com