

Situation Room

IG March supply: the return of normality

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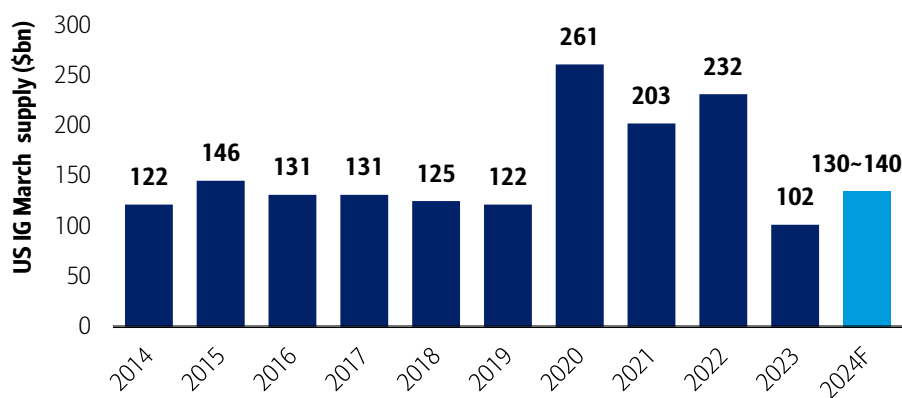
We look for March IG supply to total \$130 - \$140bn. That would be above than \$102bn from March 2023 but well below the March supply in 2022, 2021 and 2020 (Exhibit 1). That is because over the prior four years March issuance was either unusually heavy (due to COVID in 2020, record low yields in 2021, front-loading ahead of the Fed hiking cycle in 2022), or unusually low (due to regional bank stress in 2023). We look for issuance to return finally to a more normal level in March 2024.

Demand creates supply

The combination of a big M&A deal pipeline (\$49bn) and very strong investor demand (see [Situation Room: From buying the dip to just buying](#)) pushed issuance so far in February to \$180bn, above our expected \$160 - \$170bn range. The implication of this for March supply is probably a wash. On the one hand, the heavy issuance in February means deals were potentially front-loaded from March to take advantage of the very strong investor demand (Exhibit 2). On the other hand, the strong demand could continue attracting supply in March. As a result, while we look for March 2024 supply to be higher than the last “normal” volume of \$122bn in March 2019, it should be relatively modest as a share of the IG index at 1.5%. That’s below 1.9% in 2019 (Exhibit 3).

Exhibit 1: We expect March supply in \$130 - \$140bn range

That would be higher than the prior record for the calendar month of \$155bn set in 2023.



Source: BofA Global Research

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27 February 2024

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United States
Cross Product

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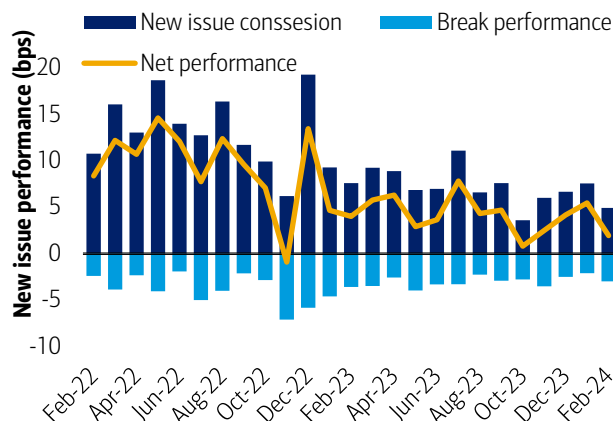
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Timestamp: 27 February 2024 05:53PM EST

Exhibit 2: IG supply performance was strong in February

Net new issue performance (new issue concession less break performance) improved to +1.9bps so far in February from +5.5bps in January.

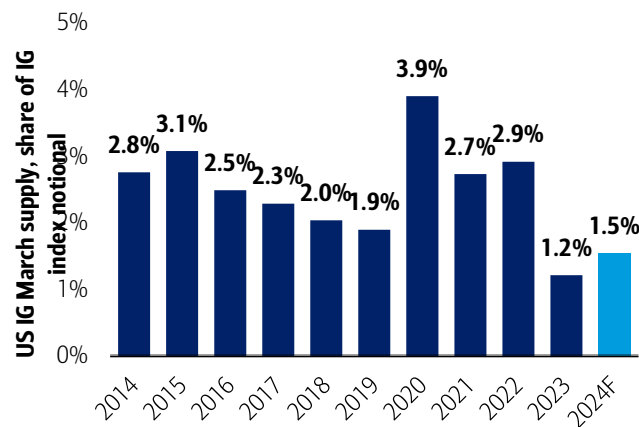


Source: BofA Global Research

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Exhibit 3: The expected March supply is relatively modest vs. index

The expected \$130-\$140bn for March supply is 1.5% of the index, below 1.9% for March 2019, for example.



Source: BofA Global Research, ICE Data Indices, LLC

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Daily credit snapshot

US IG issuance totaled \$7.5bn across six deals today, \$34.8bn WTD and \$180.2bn MTD. The average new issue concession was 3.8bps today, while the average break performance was 2.0bps tighter today. This week's new issues are trading 4.0bps tighter on average from pricing.

The S&P 500 closed +0.17%, 10-year Treasury yields +3bps, CDX IG -0.6bps, CDX HY +\$0.18pts, and cash bond spreads quoted 1 to 4bps tighter today, LQD closed 2.21bps tighter today.

Exhibit 4: 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)
2024-02-26	BNCN	Brookfield Finance Inc	30	750	A3/A-	5.968	155	13	n.a.	156
2024-02-26	BPLN	BP Capital Markets PLC	PERP NC10	1,300	A2/A-	6.45	n.a.	n.a.	n.a.	214
2024-02-26	CNP	CenterPoint Energy Houston Electric LLC	10	400	A2/A	5.15	90	7	n.a.	89
2024-02-26	DANBNK	Danske Bank A/S	4NC3	1,000	A3/A+	5.427	95	n.a.	-3	92
2024-02-26	DANBNK	Danske Bank A/S	6NC5	1,250	Baa2/BBB+	5.705	140	n.a.	-2	137
2024-02-26	DUK	Duke Energy Indiana LLC	10	300	Aa3/A	5.25	100	2	-1	99
2024-02-26	EXC	Potomac Electric Power Co	10	375	A2/A	5.2	95	n.a.	2	97
2024-02-26	EXC	Potomac Electric Power Co	30	300	A2/A	5.5	110	n.a.	2	112
2024-02-26	FI	Fiserv Inc	3	750	Baa2/BBB	5.15	68	n.a.	n.a.	67
2024-02-26	FI	Fiserv Inc	7	500	Baa2/BBB	5.35	105	10	n.a.	1
2024-02-26	FI	Fiserv Inc	10	750	Baa2/BBB	5.45	115	4	n.a.	100
2024-02-26	HON	Honeywell International Inc	6	500	A2/A	4.875	55	n.a.	0	54
2024-02-26	HON	Honeywell International Inc	8	500	A2/A	4.95	65	n.a.	n.a.	64
2024-02-26	HON	Honeywell International Inc	11	750	A2/A	5	75	n.a.	-2	74
2024-02-26	HON	Honeywell International Inc	30	1,750	A2/A	5.25	85	n.a.	-2	84
2024-02-26	HON	Honeywell International Inc	40	650	A2/A	5.35	95	n.a.	-1	94
2024-02-26	HSBC	HSBC USA Inc	3	500	A2/A-	FRN	0	n.a.	n.a.	n.a.
2024-02-26	HSBC	HSBC USA Inc	3	1,000	A2/A-	5.294	80	n.a.	-1	80
2024-02-26	HSBC	HSBC Holdings PLC	6NC5	1,500	A3/A-	5.546	123	n.a.	1	124
2024-02-26	HSBC	HSBC Holdings PLC	11NC10	1,250	A3/A-	5.719	143	n.a.	2	144
2024-02-26	KEY	KeyCorp	11NC10	1,000	Baa2/BBB	6.401	210	n.a.	-3	210
2024-02-26	LYB	LYB International Finance III LLC	10	750	Baa2/BBB	5.5	130	n.a.	n.a.	129
2024-02-26	NWG	NatWest Group PLC	4NC3	300	A3/BBB+	FRN	SOFR+125	n.a.	n.a.	122
2024-02-26	NWG	NatWest Group PLC	4NC3	1,000	A3/BBB+	5.583	110	0	-2	108

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Date	Ticker	Name	Tenor	Size (\$mm)	Moody's/S&P Rating	Coupon (%)	Px Spread (bps)	New Issue Conc. (bps)	* Break performance	Current spread (bps)
2024-02-26	NWG	NatWest Group PLC	11NC10	1,500	A3/BBB+	5.778	150	16	1	151
2024-02-26	PCG	Pacific Gas and Electric Co	5	850	Baa2/BBB	5.55	125	n.a.	-4	124
2024-02-26	PCG	Pacific Gas and Electric Co	10	1,100	Baa2/BBB	5.8	153	n.a.	3	152
2024-02-26	PCG	Pacific Gas and Electric Co	29	300	Baa2/BBB	6.75	170	n.a.	6	176
2024-02-26	PSX	Phillips 66 Co	7	600	A3/BBB+	5.25	100	n.a.	3	99
2024-02-26	PSX	Phillips 66 Co	9	400	A3/BBB+	5.3	110	n.a.	4	111
2024-02-26	PSX	Phillips 66 Co	30	500	A3/BBB+	5.65	125	2	3	124
2024-02-26	R	Ryder System Inc	3	350	Baa2/BBB+	5.3	83	n.a.	n.a.	82
2024-02-26	R	Ryder System Inc	5	550	Baa2/BBB+	5.375	105	n.a.	n.a.	104
2024-02-26	SO	Southern Co/The	5	400	Baa2/BBB	5.5	85	6	-5	78
2024-02-26	SO	Southern Co/The	10	400	Baa2/BBB	5.7	117	3	-2	117
2024-02-26	WAB	Westinghouse Air Brake Technologies Corp	10	500	Baa3/BBB	5.611	132	n.a.	n.a.	131
2024-02-26	XEL	Xcel Energy Inc	10	800	Baa1/BBB+	5.5	125	n.a.	-1	124
2024-02-27	EIX	Southern California Edison Co	2	600	A2/A-	5.35	62	1	n.a.	n.a.
2024-02-27	EIX	Southern California Edison Co	5	600	A2/A-	5.15	83	7	n.a.	n.a.
2024-02-27	EIX	Southern California Edison Co	30	400	A2/A-	5.75	135	3	n.a.	n.a.
2024-02-27	GMT	GATX Corp	3	350	Baa2/BBB	5.4	95	n.a.	-6	89
2024-02-27	NEE	NextEra Energy Capital Holdings Inc	31NC5	1,000	Baa2/BBB	6.7	236	n.a.	n.a.	n.a.
2024-02-27	RABOBK	Cooperatieve Rabobank UA/NY	3	600	Aa2/A+	FRN	0	n.a.	n.a.	n.a.
2024-02-27	RABOBK	Cooperatieve Rabobank UA/NY	3	650	Aa2/A+	5.041	55	9	-2	53
2024-02-27	RABOBK	Cooperatieve Rabobank UA	6NC5	750	A3/A-	5.447	112	-1	-1	111
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	3	350	Aa3/A+	FRN	0	n.a.	n.a.	n.a.
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	3	650	Aa3/A+	5.125	73	n.a.	-3	70
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	5	750	A3/A-	5.375	117	n.a.	-2	115
2024-02-27	WTW	Willis North America Inc	30	750	Baa3/BBB+	5.9	150	n.a.	2	152

Source: BofA Global Research, Bloomberg

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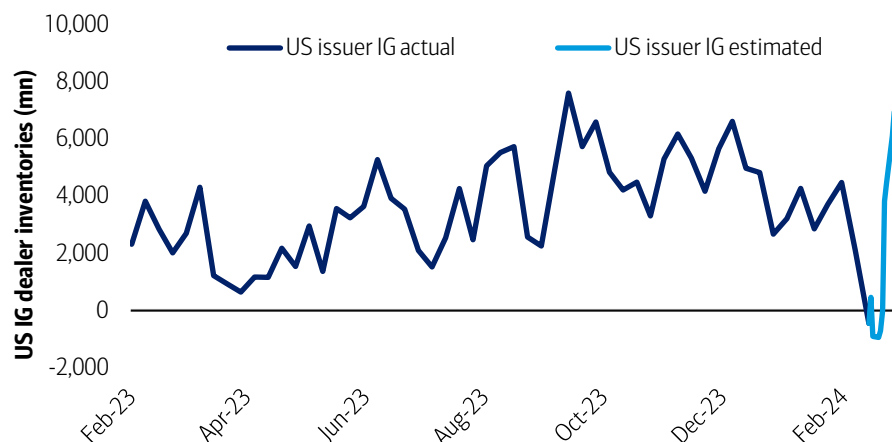
Daily dealer inventories update

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 Exhibit 5. We estimate the corresponding DV01 equivalent in Exhibit 6. More details by sector and maturity are available in Exhibit 7 and Exhibit 8. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



Exhibit 5: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$7.0bn currently from -\$0.5bn on Feb-14.



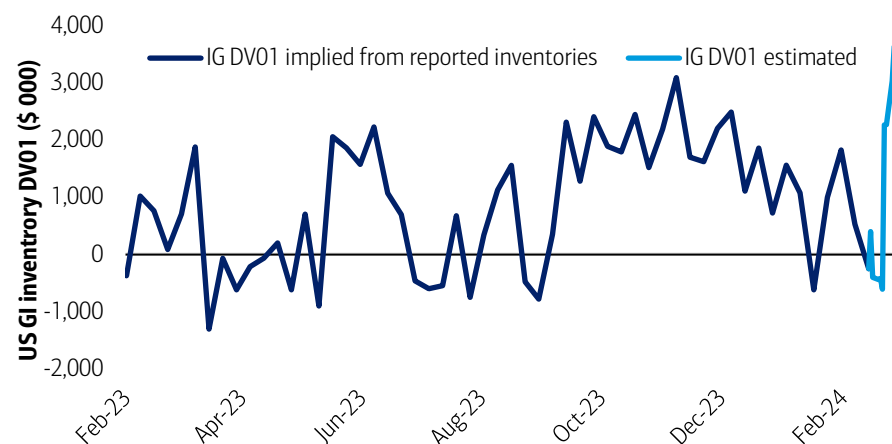
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 6: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$3.6mn currently from -\$0.3bn on Feb-14.



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

We estimate IG dealer inventories increased \$1,071mn today and increased \$9,770mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Feb-24 (\$mn)			
	27-Feb	26-Feb	1 W	2 W	4 W	27-Feb	26-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	1,071	2,227	9,770	11,817	5,166	754	1,043	5,255	6,901	4,620	13,828	12,757	9,965	36,550
<3yr	285	798	2,570	2,972	302	34	127	444	490	-80	2,326	2,041	1,784	6,151
3-5yr	65	612	2,624	1,772	1,206	4	223	937	557	313	2,524	2,459	2,104	7,087
5-11yr	-247	381	1,544	2,737	-1,964	-269	215	777	1,413	-1,388	4,815	5,061	3,563	13,440
11+yr	967	436	3,032	4,335	5,622	985	479	3,098	4,442	5,774	4,163	3,196	2,513	9,872
Fin	572	1,271	4,103	3,396	-682	357	490	1,887	1,574	-159	5,428	4,856	3,426	13,710
Non-Fin	498	956	5,667	8,420	5,848	397	552	3,368	5,327	4,778	8,400	7,901	6,539	22,840
Fixed	1,044	1,974	9,556	11,552	5,191	748	1,006	5,313	6,944	4,710	13,632	12,587	9,860	36,079
Floating	26	253	214	264	-24	5	37	-58	-43	-90	196	170	105	471

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	27-Feb	26-Feb	1 W	2 W	4 W	27-Feb	26-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
US issuers	843	1,683	7,646	9,292	4,196	606	767	4,053	5,459	3,409	10,979	10,136	8,320	29,435
DM Yankees	152	455	1,645	1,935	-130	83	179	848	1,013	456	2,494	2,343	1,544	6,381
EM Yankees	76	89	480	589	1,100	65	97	355	429	754	354	279	100	733

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 8: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$466mn for Banks/Brokers and increased \$171mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Feb-24 (\$mn)			
	27-Feb	26-Feb	1 W	2 W	4 W	27-Feb	26-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-1	31	147	544	433	-7	46	148	306	236	219	220	171	610
Automobiles	63	97	551	677	159	21	22	219	333	10	342	279	397	1,018
Banks/Brokers	466	964	3,054	2,775	151	155	360	1,199	917	-280	3,904	3,439	2,367	9,710
Basic Materials	10	115	473	546	230	39	54	279	355	95	300	289	259	849
Commercial Services	-97	1	26	-38	-160	-46	9	33	34	17	170	267	146	583
Energy	171	221	877	937	71	121	95	465	659	121	890	720	589	2,199
Finance	-50	196	442	366	-261	56	74	225	269	-53	797	848	526	2,170
Food, Bev, & Bottling	-4	157	343	678	229	24	111	285	489	227	298	303	262	864
Health Care	-68	217	257	795	550	-64	10	-285	153	387	1,672	1,740	1,306	4,718
Industrial Products	-60	-62	362	927	298	-21	-43	249	733	296	416	476	342	1,233
Insurance	80	58	338	403	60	99	48	335	466	460	350	270	294	914
Media & Entertainment	202	80	619	352	405	144	66	389	163	216	788	586	436	1,810
REITs	77	52	269	-147	-633	46	8	128	-78	-286	376	299	240	916
Retail	55	36	241	176	322	74	58	300	205	469	373	319	332	1,024
Technology	109	209	920	1,059	1,019	114	173	605	675	814	690	581	716	1,988
Telecom	-235	-446	-169	-227	-199	-245	-337	-232	-281	-114	731	967	446	2,145
Tobacco	42	8	-3	107	337	8	-6	-28	19	77	192	150	102	444
Transportation	81	79	218	425	576	71	61	263	430	646	220	139	188	547
Utilities	247	192	736	1,369	1,579	177	244	654	1,019	1,252	939	691	689	2,319
Other	-17	21	70	91	0	-15	-11	23	34	31	158	175	156	488

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

Source: BofA Global Research, FINRA, TRACE.

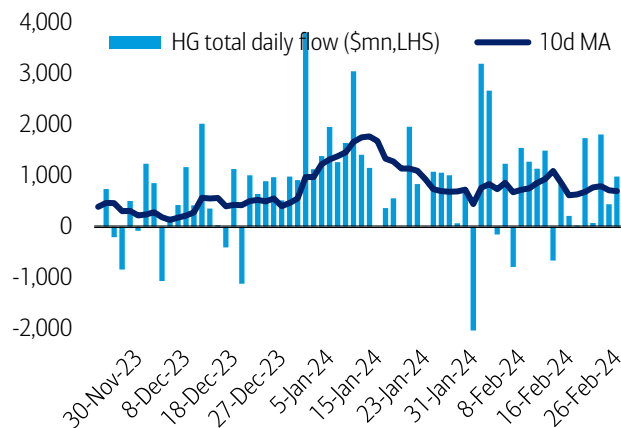
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Daily HG fund flows

We define our high grade flows 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.

Exhibit 9: Daily HG fund flows

The chart plots daily HG fund flows as well as a 10-day average trend.

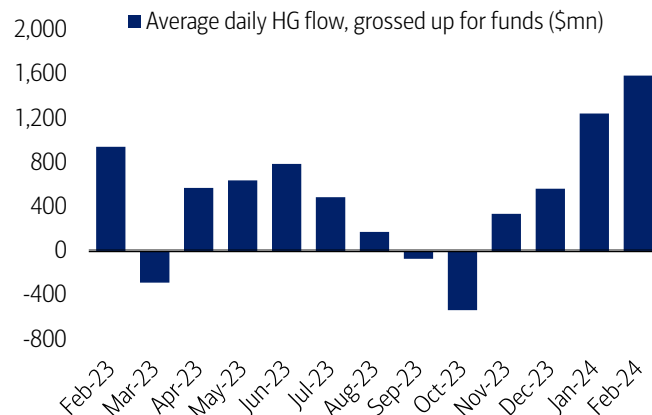


Source: EPFR Global, BofA Global Research

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Exhibit 10: Average daily HG flows by month

The chart plots the average daily ETF flows plus double the average daily fund flow, as only about half of funds report flows daily.



Source: EPFR Global, BofA Global Research

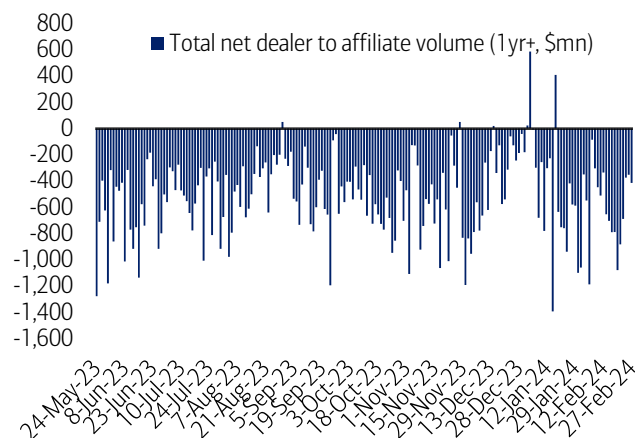
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Daily foreign demand tracker

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. Exhibit 11 shows the overall daily dealer-to-affiliate volumes while Exhibit 12, Exhibit 13 and Exhibit 14 show subsets of this data. In particular Exhibit 12 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 13 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 14 shows the subset of net trades reported between 8am and noon (biased toward European buying).

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

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



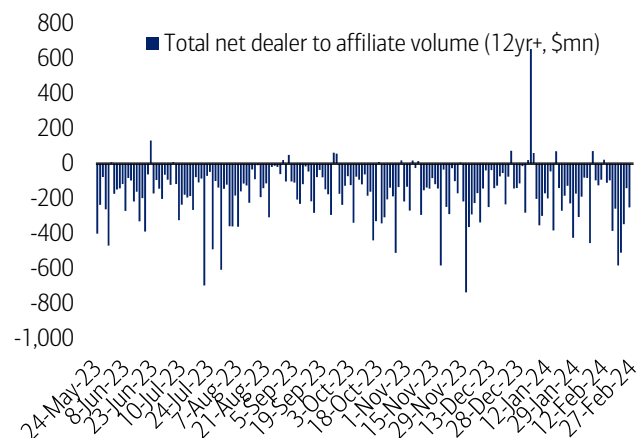
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 12: Net dealer buying from affiliate (12yr+)

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



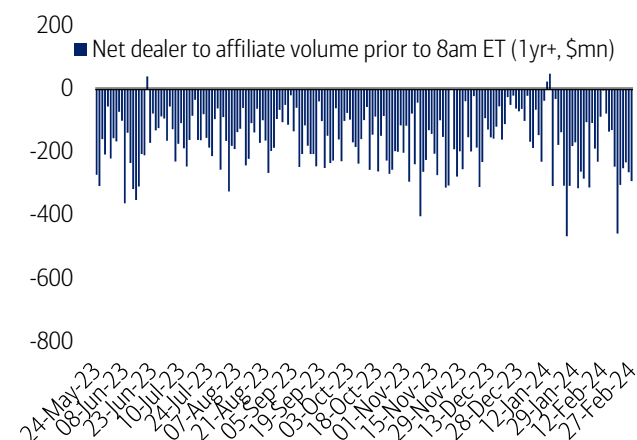
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 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



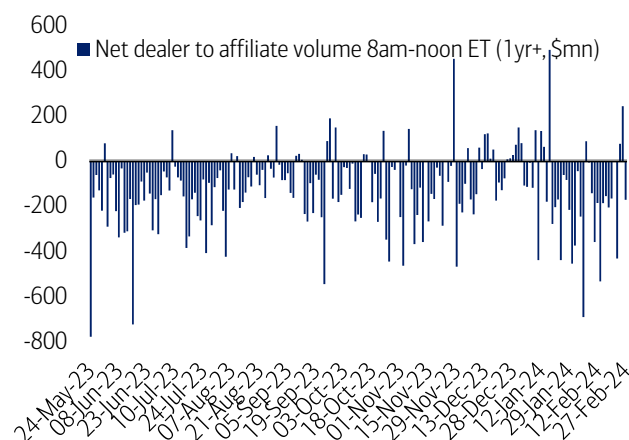
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 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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