

Situation Room

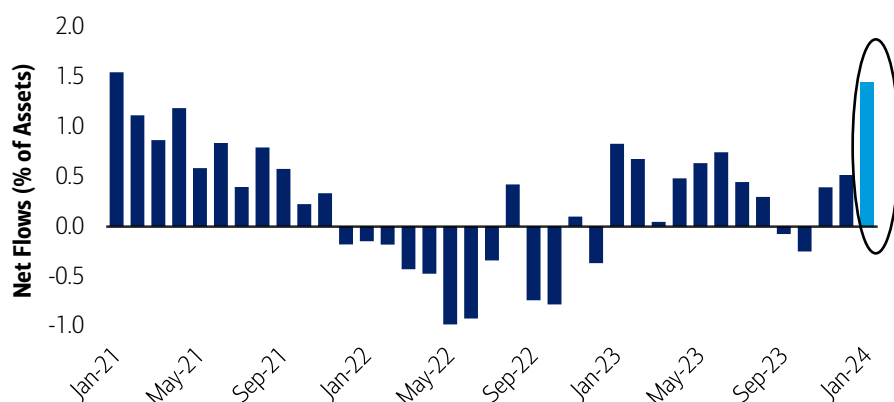
Flipping flows

Flipping flows

Bond fund / ETF flows tend to follow returns with about a month lag. Therefore, the big rally in interest rates during November and December has resulted in a big inflow to high grade in January. Based on daily data through January 22 we are tracking an inflow of 1.5% of AUM for the full month – the biggest since January 2021 (Exhibit 1). In contrast to late 2023, the 10yr Treasury yield is up 30bps so far in 2024. The resulting drop in bond prices could now instead trigger outflows by the end of February (Exhibit 2). We do not expect a large impact on IG spreads for two reasons. First, supply will also slow in February due to the 4Q earnings reporting season (Exhibit 3). This year February supply could be a bit heavier due to potential for larger M&A-related issuance. Second, even with weaker retail buying, higher yields should continue to attract stronger institutional demand, particularly as interest rate implied volatility remains subdued.

Exhibit 1: We are tracking the largest inflow to HG bond funds / ETFs in two years

Based on MtD flows we are tracking a an inflow for the full month of +1.5% of AUM – the larges since January 2021.



Source: BofA Global Research, EPFR Global

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24 January 2024

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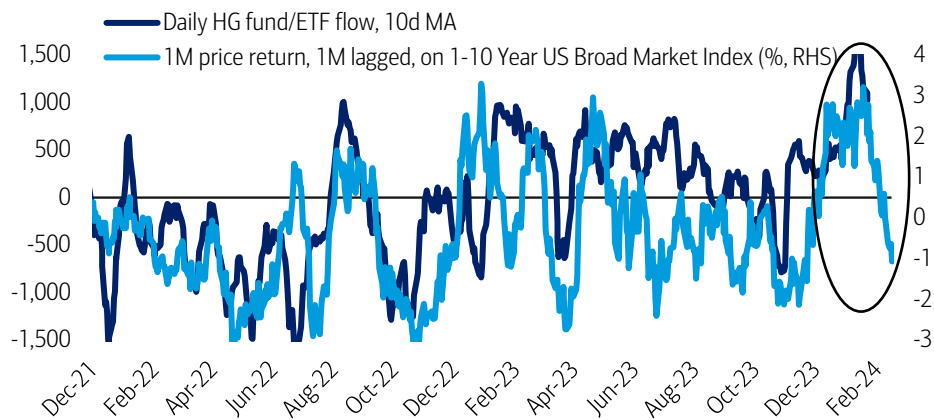
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Timestamp: 24 January 2024 06:06PM EST

Exhibit 2: Bond selloff could trigger outflows from HG bond funds / ETFs in February

The decline in bond prices during January is consistent with outflows from HG bond funds / ETFs by the end of February, as flows tend to follow returns with about a month lag.

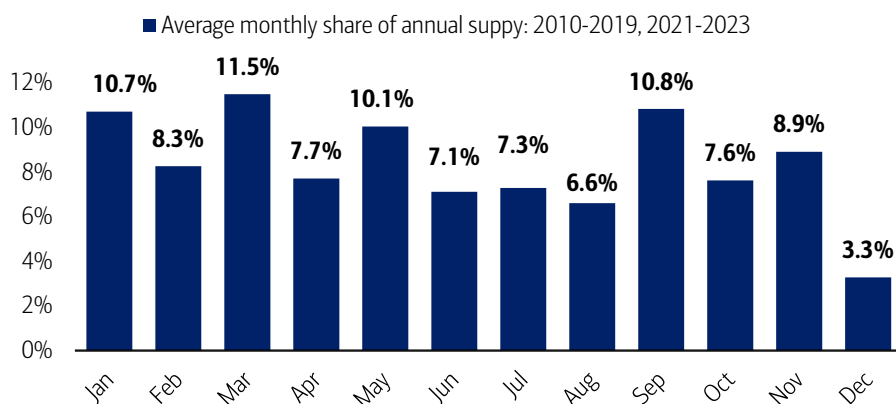


Source: BofA Global Research, EPFR Global, ICE Data Indices, LLC

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Exhibit 3: Supply tends to be slower in February

Historically February IG supply accounted for 8.3% of the annual total, down from 10.7% for January.



Source: BofA Global Research

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Daily credit snapshot

US IG issuance totaled \$6.5bn across 5 deals today, \$15.6bn WTD and \$166.6bn MTD. The average new issue concession was 9.8bps today. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed +0.08%, 10-year Treasury yields +5bps, CDX IG +0.4bps, CDX HY - \$0.09pts, and cash bond spreads quoted -1-4bps today, LQD closed 1.62bps 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)
2024-01-22	BRKHEC	MidAmerican Energy Co	31	600	Aa2/A	5.3	98	-1	-3	98
2024-01-22	CCDJ	Federation des Caisses Desjardins du Quebec	5	1,000	A1/A-	5.25	125	n.a.	-6	120
2024-01-22	FITB	Fifth Third Bancorp	8NC7	1,000	Baa1/BBB+	5.631	155	-10	n.a.	153
2024-01-22	NYLIFE	New York Life Global Funding	5	600	Aaa/AA+	4.7	72	1	-1	72
2024-01-22	TFC	Truist Financial Corp	6NC5	1,500	A3/A-	5.435	142	n.a.	-5	139
2024-01-22	TFC	Truist Financial Corp	11NC10	2,000	A3/A-	5.711	162	n.a.	-3	160
2024-01-23	AMH	American Homes 4 Rent LP	10	600	Baa2/BBB	5.5	137	n.a.	n.a.	133
2024-01-23	BZLNZ	Bank of New Zealand	5	750	A1/AA-	5.076	103	n.a.	n.a.	102
2024-01-23	CDEL	Corp Nacional del Cobre de Chile	30	500	Baa1/BBB+	6.3	235	n.a.	n.a.	n.a.
2024-01-23	HLEND5	HPS Corporate Lending Fund	5	550	Baa3/BBB-	6.75	295	n.a.	-23	270
2024-01-24	KORELE	Korea Electric Power Corp	3	1,200	Aa2/AA	4.875	80	n.a.	n.a.	n.a.
2024-01-24	NRUC	National Rural Utilities Cooperative Finance Corp	3	300	A2/A-	FRN	SOFR+80	n.a.	n.a.	n.a.
2024-01-24	NRUC	National Rural Utilities Cooperative Finance Corp	3	600	A2/A-	4.8	63	n.a.	n.a.	n.a.
2024-01-24	NRUC	National Rural Utilities Cooperative Finance Corp	5	500	A2/A-	4.85	77	n.a.	n.a.	n.a.
2024-01-24	NRUC	National Rural Utilities Cooperative Finance Corp	7	450	A2/A-	5	90	n.a.	n.a.	n.a.
2024-01-24	PCAR	PACCAR Financial Corp	5	600	A1/A+	4.6	55	n.a.	n.a.	n.a.
2024-01-24	PG	Procter & Gamble Co/The	5	600	Aa3/AA-	4.35	27	10	n.a.	n.a.
2024-01-24	PG	Procter & Gamble Co/The	10	750	Aa3/AA-	4.55	37	10	n.a.	n.a.
2024-01-24	STT	State Street Corp	PERP NC5	1,500	Baa1/BBB	6.7	261	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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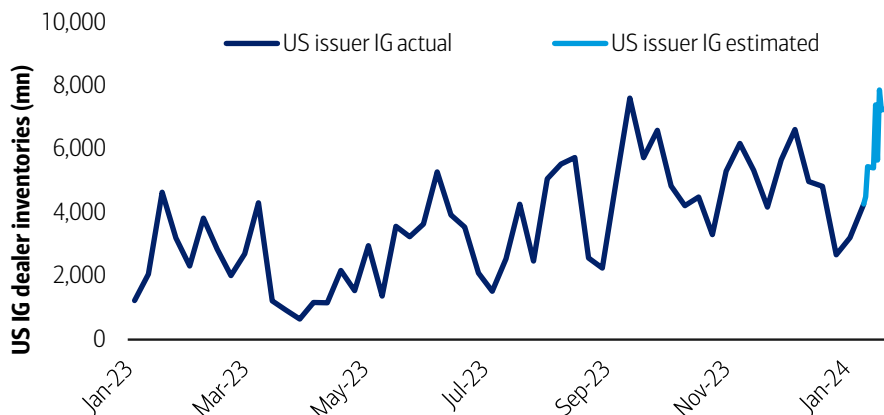
Daily dealer inventories update

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 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 \$6.3bn currently from \$4.3bn on Jan-10.



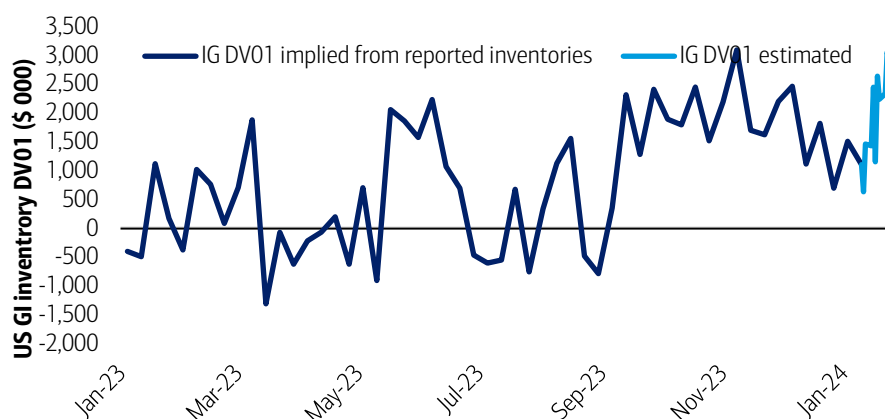
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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 \$2.9mn currently from \$1.1bn on Jan-10.



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 declined -\$1,480mn today and increased \$253mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 24-Jan-24 (\$mn)			
	24-Jan	23-Jan	1 W	2 W	4 W	24-Jan	23-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-1,480	348	253	1,969	12,320	-326	960	1,930	2,357	8,205	14,921	16,401	10,162	41,484
<3yr	200	-553	-562	-1,533	-1,362	41	-118	-70	-249	-249	2,949	2,750	1,474	7,173
3-5yr	-1,354	-101	-1,154	-437	1,916	-512	-15	-435	-187	711	2,461	3,815	1,844	8,120
5-11yr	-1,136	205	-217	3,218	10,880	-758	133	-168	1,985	6,853	4,636	5,772	3,391	13,799
11+yr	811	797	2,186	721	886	903	960	2,603	808	890	4,875	4,065	3,452	12,392
Fin	-1,313	-236	-1,578	-865	2,853	-427	41	-5	447	1,914	6,345	7,658	3,718	17,720
Non-Fin	-167	584	1,830	2,834	9,467	101	919	1,935	1,910	6,291	8,577	8,744	6,444	23,765
Fixed	-1,444	360	400	2,098	12,911	-318	960	1,900	2,302	8,242	14,650	16,095	10,096	40,841
Floating	-35	-11	-147	-129	-591	-7	0	30	55	-37	271	307	65	643
US issuers	-1,085	85	624	2,009	9,046	-186	720	1,725	1,776	5,799	11,866	12,951	8,385	33,202
DM Yankees	-417	253	-519	-189	3,043	-154	222	121	451	2,235	2,659	3,076	1,648	7,383
EM Yankees	22	11	147	150	230	14	19	84	131	171	396	374	129	900

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 declined -\$1,178mn for Banks/Brokers and declined -\$48mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 24-Jan-24 (\$mn)			
	24-Jan	23-Jan	1 W	2 W	4 W	24-Jan	23-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	123	55	44	110	-172	118	54	18	41	-288	428	305	175	908
Automobiles	-4	52	28	-99	584	-17	69	71	87	384	430	434	302	1,166
Banks/Brokers	-1,178	-392	-2,213	-1,782	241	-440	-23	-281	131	761	4,612	5,790	2,499	12,901
Basic Materials	61	138	336	561	1,011	69	125	282	434	741	623	561	349	1,533
Commercial Services	-20	30	37	-5	15	-30	14	33	11	13	108	128	65	301
Energy	-48	196	-4	-82	258	10	261	143	-24	139	850	898	774	2,523
Finance	-225	2	249	231	1,096	-22	43	111	96	490	778	1,003	674	2,456
Food, Bev, & Bottling	-27	7	-120	-185	337	-3	56	10	29	389	447	474	392	1,313
Health Care	188	26	775	627	1,415	113	116	536	98	793	1,511	1,322	1,218	4,051
Industrial Products	-21	-34	-157	29	428	-30	0	-12	127	355	191	212	201	605
Insurance	-13	-4	9	-68	71	4	-46	33	-91	-32	429	442	259	1,129
Media & Entertainment	22	0	387	584	623	65	26	398	503	500	668	646	414	1,729
REITs	103	158	377	754	1,445	31	67	132	310	696	525	423	286	1,234
Retail	14	21	183	434	699	40	-14	178	324	572	471	457	374	1,301

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	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 24-Jan-24 (\$mn)			
Technology	-5	-22	491	906	1,291	-19	-5	295	590	666	742	747	715	2,204
Telecom	-197	68	-172	-139	889	-45	86	-25	-124	589	623	820	354	1,797
Tobacco	-72	-10	-76	-8	218	-27	14	-23	15	174	165	237	124	526
Transportation	11	-21	-30	76	68	28	-14	-61	3	63	182	171	118	471
Utilities	-256	86	20	-171	1,404	-201	119	33	-338	997	935	1,191	698	2,823
Other	63	-7	88	197	400	29	12	60	132	205	203	140	170	514

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

Source: BofA Global Research, FINRA, TRACE.

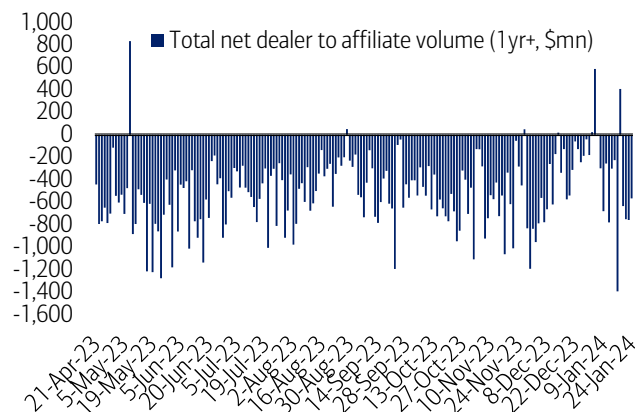
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Daily foreign demand tracker

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. Exhibit 9 shows the overall daily dealer-to-affiliate volumes while Exhibit 10, Exhibit 11 and Exhibit 12 show subsets of this data. In particular Exhibit 10 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 11 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 12 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 9: Net dealer buying from affiliate (1yr+)

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



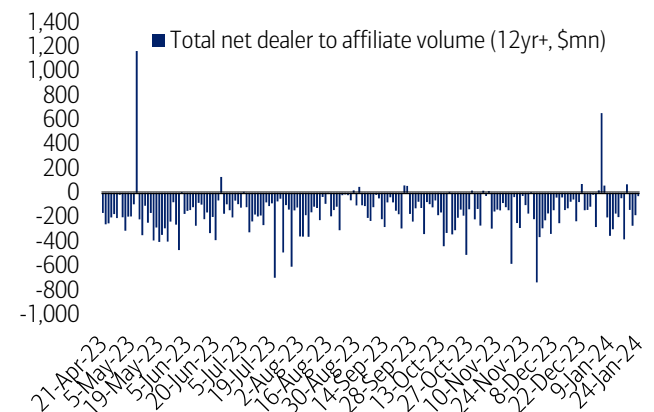
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 10: Net dealer buying from affiliate (12yr+)

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



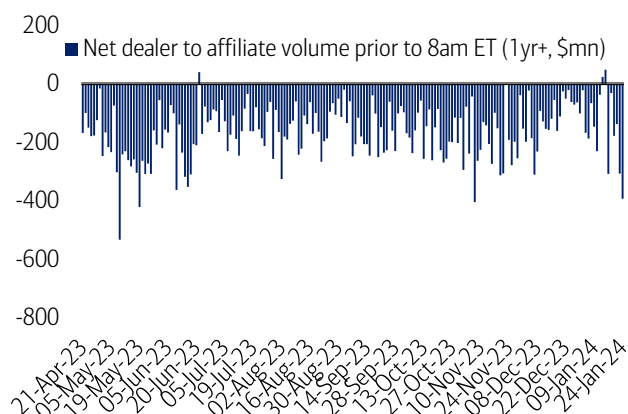
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 11: 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



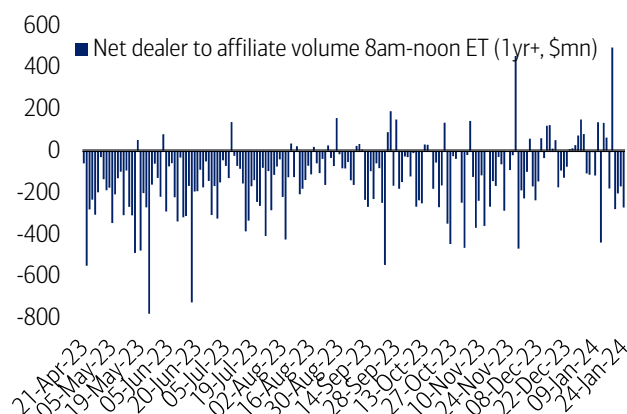
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 12: 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

Unchd: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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