

Industrial Weekly

The Nuts and Bolts

Industry Overview

GE Aerospace hosted its 2024 Investor Day

GE Aerospace reaffirmed its 2024 financial guidance and 2025 outlook, and initiated its 2028 outlook, including achieving ~\$10bn of operating profit in 2028 (~100% FCF conversion). Capital allocation priorities as a standalone company: ~70-75% of available funds returned through dividends and buybacks, including initial dividend payout at 30% of net income, and \$15bn share buyback authorization.

Carrier to sell its Industrial Fire business for \$1.425bn

Carrier Global (CARR) announced sale of its Industrial Fire business to Sentinel Capital Partners for an enterprise value of \$1.425bn. Carrier expects net proceeds from the transaction to exceed \$1.1bn and intends to use the proceeds to pay down debt. Carrier anticipates resuming share repurchases as it returns to ~2x net leverage by the end of 2024.

Lockheed Martin offered to buy Terran Orbital

Lockheed Martin (LMT) has submitted a nonbinding offer to buy satellite maker Terran Orbital's (LLAP) \$223mn outstanding shares for \$1 each and pay \$70mn for its outstanding warrants. Additionally, Lockheed said it would assume or repay Terran's existing debt liabilities, which amounted to \$313mn as of Sept. 30.

Market news

For the week ended 3/7, IG spreads were unchanged and HY spreads were 1bp tighter. The 5yr Treasury, 10yr Treasury, and 30yr Treasury yields were all 19bps, 19bps, and 15bps tighter, respectively. The S&P 500 was +1.2% on the week and +8.1% YTD.

Exhibit 3: Weekly Bond Movers 3/7/24

BNSF 27s were 16bps tighter; MGCN 26s were 14bps wider

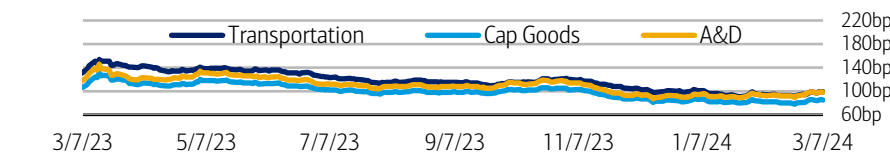
Leaders			Laggards		
Bond		Sprd Ch.	Bond		Sprd Ch.
BNSF 6.875	12/01/27	(16)	MGCN 5.980	03/21/26	+ 14
PENSKE 3.350	11/01/29	(11)	NSC 5.640	05/17/29	+ 9
RTX 2.150	05/18/30	(6)	UNP 5.375	06/01/33	+ 5
DE 5.375	10/16/29	(5)	GMT 3.500	06/01/32	+ 5
CP 4.000	06/01/28	(3)	CNRCN 2.750	03/01/26	+ 5

Source: Bloomberg

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Exhibit 4: Weekly Bond Movers 3/7/24

Cap Goods trade through both Transportation & A&D by 13-14bps



Source: Bloomberg

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12668818

Timestamp: 08 March 2024 02:04PM EST

08 March 2024

High Grade Credit
United States
Aerospace/Defense, Autos, Capital Goods, Transportation

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Exhibit 1: U.S. Mutual Fund Flows

Changes in mutual fund flows

\$ MN	Week	% Ch.	YTD	% Ch.
High Grade	+8,844	+0.4%	+65,212	+1.6%
High Yield	+930	+0.4%	+5,511	+1.5%
Bank Loans	+564	+0.6%	+2,406	+2.0%
EM Debt	(1,011)	(0.2%)	(4,520)	(0.7%)
Money Markets	(1,739)	+0.0%	+149,014	+2.3%
Equities	+468	+0.0%	+9,039	+0.0%

Source: BofA Global Research, EPFR Global. Note: Week Ended 3/6/24.

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Exhibit 2: Markets Monitor (as of 3/7/24)

Macro data and indices snapshots

Market	Value	Week Δ
ICE BofA IG Index (sprd)	102	+0
ICE BofA IG Index (yield)	5.31	(15)
ICE BofA HY Index (sprd)	346	(1)
ICE BofA HY Index (yield)	7.74	(16)
ICE BofA BBB Index (sprd)	127	+0
ICE BofA BB Index (sprd)	227	+3
ICE BofA CCC Index (yield)	12.84	(25)
CDX IG 5yr (sprd)	50	(2)
CDX HY 5yr (sprd)	330	(10)
5yr Treasury (yield)	4.07	(19)
10yr Treasury (yield)	4.08	(19)
30yr Treasury (yield)	4.23	(15)
S&P 500 (index)	5,157	1.2%
Dow Jones (index)	38,791	-0.5%
Gold (\$/oz)	2,168	6.1%
Crude Oil (WTI \$/bbl)	78.46	0.3%

Source: BofA Global Research; ICE Data Indices, LLC
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Exhibit 5: Relative Value by Sector (\$ million, unless otherwise noted)

Relative value for A&D, Industrials & Transportation sectors.

								Credit Metrics (LTM 6/30/23)					
Issuer	Mdy's / S&P / F	Outlook	Coupon	Maturity	STW	G-Sprd	5yr CDS	Revenue	Adj. EBITDA	Debt/ EBITDA	EBITDA/ Int. Exp	FCF	TEV/ 2023E EBITDA
Aerospace & Defense													
BAE Systems (BA) (E)*	Baa1/BBB+/BBB+	S/S/S	3.850%	12/15/2025	67	58	35	22,516	3,204	2.1x	10.7x	2,977	10.8x
Boeing (BA) ¹	Baa2/BBB-/BBB-	S/S/P	2.950%	2/1/2030	125	125	83	73,608	4,258	12.3x	1.7x	7,830	27.7x
General Dynamics (GD)	A3/A-/WD	P/P/#	2.250%	6/1/2031	66	66	38	40,859	6,004	1.6x	17.1x	3,023	14.4x
Honeywell (HON)	A2/A/A	P/S/S	1.950%	6/1/2030	58	57	25	36,147	9,234	2.3x	15.4x	4,174	14.1x
L3Harris Technologies (LHX)	Baa2/BBB/BBB+	N/N/N	2.900%	12/15/2029	91	90	38	17,988	3,006	3.2x	8.4x	1,446	13.9x
Lockheed Martin (LMT)	A2/A-/A-	S/S/S	1.850%	6/15/2030	65	66	23	67,393	7,909	1.8x	10.2x	6,004	12.9x
Northrop Grumman (NOC)	Baa1/BBB+/BBB+	S/S/S	3.250%	1/15/2028	77	65	38	37,881	5,292	2.2x	10.2x	2,262	14.2x
RTX (RTX)	Baa1/BBB+	N/N	2.250%	7/1/2030	84	84	38	70,573	12,502	3.0x	0.1x	2,846	12.7x
Textron (TXT) ²	Baa2/BBB	S/S	2.450%	3/15/2031	106	106	38	13,162	1,450	2.2x	14.6x	954	10.0x
¹ Boeing financials exclude Boeing Capital. ² Textron financials exclude Textron Financial. *Reports Semi-Annually													
Industrials													
ABB (ABBN)	A3/A-/WD	S/S/#	3.800%	4/3/2028	28	19	66	31,252	5,476	1.5x	33.8x	1,800	15.0x
Aptiv (APTV)	Baa2/BBB/BBB	S/S/S	4.350%	3/15/2029	86	86	NA	19,272	2,698	2.5x	10.2x	1,015	8.5x
AutoNation (AN)	Baa3/BBB-/BBB-	S/S/S	2.400%	8/1/2031	161	161	174	26,652	1,971	2.1x	8.5x	896	7.1x
BorgWarner (BWA)	Baa1/BBB/BBB+	S/S/S	2.650%	7/1/2027	75	79	174	16,868	2,668	1.6x	50.3x	593	5.1x
Caterpillar (CAT)	A2/A/A+	S/S/S	2.600%	4/9/2030	44	43	32	61,793	11,492	0.8x	23.8x	8,343	11.4x
Cat Financial (CAT) ¹	A2/A/A+	S/S/S	1.700%	1/8/2027	31	29	38	61,793	11,492	0.8x	23.8x	8,343	11.4x
Cummins (CMI)	A2/A	S/S	1.500%	9/1/2030	71	70	38	32,194	4,654	1.7x	13.9x	1,098	8.6x
Mercedes-Benz (MBG) (E) ²	A2/A/Au	S/S/S	3.450%	1/6/2027	53	51	46	154,476	26,462	4.4x	89.4x	12,798	2.3x
Deere (DE)	A1/A	S/S	3.100%	4/15/2030	54	55	38	56,404	13,346	0.7x	17.0x	9,282	10.4x
John Deere Capital (DE) ¹	(PI)A1/A	S/S	2.450%	1/9/2030	52	52	38	56,404	13,346	0.7x	17.0x	9,282	10.4x
Eaton (ETN)	A3/A-/WD	S/S/#	7.650%	11/15/2029	65	65	38	22,046	4,344	2.1x	25.1x	2,706	22.9x
Ford (F) ^{2,3}	Ba1/BBB-/BBB-	S/S/S	7.450%	7/16/2031	191	191	152	160,462	15,359	1.3x	12.3x	1,300	3.0x
Ford Credit (F) ^{1,2,3}	Ba1/BBB-/BBB-	S/S/S	4.000%	11/13/2030	186	185	174	160,462	15,359	1.3x	12.3x	1,300	3.0x
General Electric (GE) ²	Baa1/BBB+/BBB+	P/S/S	4.418%	11/15/2035	91	86	41	72,057	9,383	2.3x	7.0x	2,848	8.9x
General Motors (GM) ^{2,3}	Baa2/BBB/BBB	S/S/S	5.000%	4/9/2027	87	89	117	156,437	20,408	0.8x	120.8x	14,568	2.9x
GM Financial (GM) ^{1,2}	Baa2/BBB/BBB	S/S/S	2.350%	1/8/2031	138	138	159	156,437	20,408	0.8x	120.8x	14,568	2.9x
Hubbell (HUBB)	Baa1/BBB+/A-	S/S/S	2.300%	3/15/2031	80	80	NA	5,187	1,064	1.4x	24.9x	647	17.6x
Illinois Tool Works (ITW)	A1/A+	S/S	2.650%	11/15/2026	-11	6	38	16,075	4,351	1.9x	18.4x	2,587	18.4x
Johnson Controls (JCI)	Baa2/BBB+/WD	P/S/#	1.750%	9/15/2030	84	83	83	26,612	4,807	2.0x	17.3x	1,482	15.2x
Lear Corp (LEA)	Baa2/BBB	S/S	3.500%	5/30/2030	115	114	NA	22,457	1,667	1.7x	14.9x	449	5.7x
Magna (MGA)	A3/A-	S/S	2.450%	6/15/2030	85	84	83	40,491	3,258	1.8x	36.6x	(279)	5.3x
Paccar (PCAR) ²	WR/A+	S/S	2.000%	2/4/2027	41	41	NA	30,913	4,802	0.0x	9.5x	3,025	9.5x
Pentair (PNR)	WR/BBB-	#/S	4.500%	7/1/2029	124	124	NA	4,169	958	2.2x	8.6x	448	15.3x
Republic Services (RSG)	Baa1/BBB+/A-	S/S/S	1.450%	2/15/2031	83	83	38	14,436	4,172	2.9x	8.9x	1,872	14.6x
Roper Technologies (ROP)	Baa2/BBB+	S/S	2.000%	6/30/2030	90	89	NA	5,535	2,299	2.9x	13.7x	1,056	23.4x
Waste Management (WM)	A3/A-/A-	S/S/S	1.500%	3/15/2031	75	75	38	20,021	5,597	2.7x	12.6x	1,506	15.5x
¹ Parent company credit metrics are used for captive industrial finance companies. ² Caterpillar, Deere, Ford, Mercedes, GE, GM, Paccar financials exclude financial businesses. ³ FCF = Automotive operating cash flow													
Transportation													
Burlington Northern (BNI)	A3/AA-	P/S	3.250%	6/15/2027	35	38	38	25,127	10,427	2.3x	10.1x	4,319	Private
Canadian National (CNR) (CAD)	A2/A-	S/S	2.750%	3/1/2026	33	32	38	17,425	8,889	1.9x	14.1x	4,424	14.3x
Canadian Pacific (CP) (CAD)	Baa2/BBB+	S/S	2.050%	3/5/2030	81	82	38	13,735	6,732	3.5x	8.5x	3,013	18.3x
CSX (CSX)	A3/BBB+	S/S	2.400%	2/15/2030	64	63	21	15,030	7,550	2.4x	9.5x	3,235	12.4x
GATX (GATX)	Baa2/BBB	S/S	1.900%	6/1/2031	126	126	38	1,326	879	7.7x	3.8x	(868)	11.6x
Norfolk Southern (NSC)	Baa1/BBB+	S/S	2.550%	11/1/2029	75	74	21	12,732	5,424	2.8x	7.8x	1,998	13.2x
Penske Truck Leasing	Baa2/BBB/BBB+	S/S/S	3.350%	11/1/2029	135	135	NA	Private					
Ryder (R)	Baa2/BBB+/BBB+	S/S/P	2.850%	3/1/2027	74	75	72	11,959	2,958	2.2x	11.5x	382	4.5x
Southwest (LUV)	Baa1/BBB/BBB+	S/S/S	5.125%	6/15/2027	64	65	72	25,135	1,955	4.1x	6.9x	(1,463)	6.8x
Union Pacific (UNP)	A3/A-	S/S	2.400%	2/5/2030	67	67	21	24,765	11,824	2.8x	8.9x	5,471	15.1x

Source: Company Filings, Bloomberg



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