

Situation Room

Not paid for that discount dollar price

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We showed that 30yr IG spreads currently offer little value given historically flat 10s30s IG non-financial spread curves ([Situation Room: New frontier in flatness](#)). On top of that, investors are currently paying relatively little for back-end bond discount dollar prices. Corporate bonds priced below par trade at tighter spreads, compared to bonds priced at premium to par. Currently, we estimate investors pay a premium of 0.39% of spread for each \$1 bond price discount. That's below the 0.52% median since 2010 and the 0.46% reading in September 2023 (Exhibit 1).

The impact of the dollar price

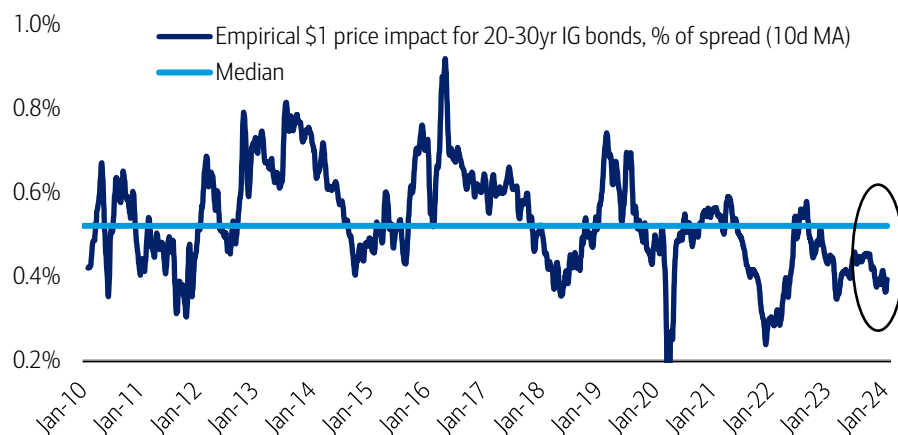
The pricing of the discount matters, as the average price of 15+yr US IG index is just \$85. Current market pricing implies the 15+yr index spread is about 2bps too wide (\$15 discount * 108bps spread * 0.13% dislocation vs. the median). However, for issuers trading at lower prices and/or wider spreads the impact could be much larger. In Exhibit 2 inside we screen for DM IG issuers with spreads that should be most impacted by the dollar prices discounts of back-end bonds.

Flat 10s30s spread curve screen

The combination of historically flat 10s30s IG spread curves and a smaller benefit for discount dollar prices make for poor relative value for 30yr bonds. In Exhibit 3 below we include a screen for the flattest 10s30s IG spread curves currently.

Exhibit 1: Investors are paying less for discount bond \$ prices

We estimate investors pay a premium of 0.39% of spread for each \$1 bond price discount. That's below 0.52% median since 2010.



Source: BofA Global Research, ICE Data Indices, LLC

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Cross Product

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[See page 8 for definitions of common abbreviations used in our reports.](#)

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Timestamp: 23 January 2024 06:16PM EST

Exhibit 2: Issuers with biggest expected \$ price impact on back-end spreads

We screen for larger DM issuers with the biggest expected positive impact on spreads from discount bond dollar prices. These tend to be the issuers with wider spreads / low average coupon bonds.

Ticker	Issuer name	20+yr notional (\$mn)	Average rating	Average spread (bps)	Average bond price (\$)	Theoretical \$ price impact (bps)
PRXNA	Prosus NV	3,750	BBB3	292	64.3	-56
PARA	Paramount Global	2,498	BBB3	245	77.3	-28
CHTR	Charter Communications	24,600	BBB3	237	77.5	-26
VTRS	Viatis Inc	3,750	BBB3	205	76.2	-24
IFF	International Flavors & Fragrances Inc.	2,800	BBB3	166	73.7	-21
BAYNGR	Bayer	4,091	BBB2	188	79.2	-20
NGGLN	The Brooklyn Union Gas Company	3,800	BBB1	152	72.7	-20
WBD	WarnerMedia Holdings Inc.	14,729	BBB3	204	82.0	-19
BATSLN	B.A.T. Capital Corporation	7,850	BBB2	210	81.3	-19
MASSMU	Massmutual Global Funding II	3,747	A1	138	74.0	-19
APTV	Aptiv PLC / Aptiv Corp	3,150	BBB2	145	72.4	-19
PNW	Arizona Public Service Company	3,000	A3	134	73.6	-16
AMT	American Tower Corporation	2,700	BBB2	104	67.9	-16
T	AT&T Inc	43,538	BBB2	124	74.6	-16
BX	Blackstone	3,500	A1	125	71.7	-16
PCG	Pacific Gas and Electric Company	8,750	BBB3	160	78.9	-16
WLK	Westlake Corporation	2,250	BBB2	134	76.0	-15
KKR	KKR	3,000	A2	140	75.8	-15
BNCN	Brookfield Finance Inc.	2,650	A3	128	75.6	-15
RE	Everest Reinsurance Holdings Inc.	2,400	BBB1	112	72.7	-14
ARE	Alexandria Real Estate Equities Inc.	3,350	BBB1	124	75.3	-14
NATMUT	Nationwide Mutual Insurance Co.	3,150	BBB1	150	80.2	-14
MO	Altria Group Inc.	6,050	BBB1	137	80.6	-14
LYB	LYB International	5,500	BBB2	134	79.7	-14
ORCL	Oracle Corp.	24,500	BBB2	127	78.4	-13
AEP	American Electric Power Co Inc.	12,375	A3	116	75.8	-13
NWMLIC	Northwestern Mutual Global Funding	3,447	AA2	100	74.7	-13
TMUS	T-Mobile USA Inc.	10,500	BBB2	105	75.1	-13
OKE	Oneok Inc.	5,048	BBB2	144	82.5	-12
BPLN	BP Capital Markets	9,550	A2	81	69.1	-12

Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 3: Flat 10s30s IG spread curve screen

We screen for the flattest on-the-run 10s30s IG spread curves below.

Issuer	10yr bond	30yr bond	Index rating	Sector	10yr spread (bps)	30yr spread (bps)	10s30s curve (bps)	10yr price (\$)	30yr price (\$)	10s30s curve, adjusted for \$ price	10s30s curve, share of 10yr spread
MORGAN STANLEY	MS 6.627 11/01/34	MS 2.802 01/25/52	A2	Banks/Brokers	128	80	-48	109.3	66.0	-36	-29.3%
JPMORGAN CHASE	JPM 6.254 10/23/34	JPM 3.328 04/22/52	A1	Banks/Brokers	119	85	-34	107.2	73.2	-25	-22.0%
WELLS FARGO CO	WFC 6.491 10/23/34	WFC 4.611 04/25/53	A2	Banks/Brokers	138	109	-29	107.7	88.6	-20	-15.5%
METLIFE INC	MET 5 3/8 07/15/33	MET 5 1/4 01/15/54	A3	Insurance	104	91	-13	102.5	100.5	-11	-10.9%
BROADCOM INC	AVGO 4.15 04/15/32	AVGO 3 3/4 02/15/51	BBB3	Technology	105	99	-6	93.3	77.7	-8	-7.1%
ENBRIDGE INC	ENBNCN 5.7 03/08/33	ENBNCN 6.7 11/15/53	BBB1	Energy	126	135	9	102.3	114.8	0	-0.2%
GILEAD SCIENCES	GILD 5 1/4 10/15/33	GILD 5.55 10/15/53	BBB1	Health Care	80	86	6	102.7	105.4	4	5.2%
CARRIER GLOBAL	CARR 5.9 03/15/34	CARR 6.2 03/15/54	BBB2	Industrial Products	97	104	7	106.4	112.4	5	5.3%
ROCHE HLDGS INC	ROSW 5.593 11/13/33	ROSW 2.607 12/13/51	AA2	Health Care	71	66	-5	105.9	64.6	4	5.9%
RTX CORP	RTX 6.1 03/15/34	RTX 6.4 03/15/54	BBB1	Aerospace/Defense	106	116	10	107.2	113.5	7	6.7%
INTUIT INC	INTU 5.2 09/15/33	INTU 5 1/2 09/15/53	A3	Technology	70	77	7	102.9	105.9	5	7.0%
ROGERS COMMUNIC	RCICN 3.8 03/15/32	RCICN 4.55 03/15/52	BBB3	Telecom	120	131	11	90.1	84.9	9	7.3%
KENVUE INC	KVUE 4.9 03/22/33	KVUE 5.05 03/22/53	A2	Consumer Products	67	73	6	101.0	99.9	6	8.6%
ENEL FIN INTL NV	ENELIM 7 1/2 10/14/32	ENELIM 7 3/4 10/14/52	BBB1	Utilities	149	178	29	112.6	122.0	14	10.0%
ELI LILLY & CO	LLY 4.7 02/27/33	LLY 4 7/8 02/27/53	A1	Health Care	49	56	7	100.8	100.0	5	10.9%

Exhibit 3: Flat 10s30s IG spread curve screen

We screen for the flattest on-the-run 10s30s IG spread curves below.

Issuer	10yr bond	30yr bond	Index rating	Sector	10yr spread (bps)	30yr spread (bps)	10s30s curve (bps)	10yr price (\$)	30yr price (\$)	10s30s curve, adjusted for \$ price	10s30s curve, share of 10yr spread
COLUMBIA PIPE OC	CPGX 6.036 11/15/33	CPGX 6.544 11/15/53	BBB1	Energy	140	160	20	104.0	108.7	16	11.8%
T-MOBILE USA INC	TMUS 5 3/4 01/15/34	TMUS 6 06/15/54	BBB2	Telecom	106	119	13	104.5	107.1	12	12.0%
ELEVANCE HEALTH	ELV 4 3/4 02/15/33	ELV 5 1/8 02/15/53	BBB1	Health Care	87	99	12	98.4	97.4	11	12.8%
AMGEN INC	AMGN 5 1/4 03/02/33	AMGN 5.65 03/02/53	BBB1	Health Care	100	117	17	101.0	101.9	13	13.4%
ONEOK INC	OKE 6.05 09/01/33	OKE 6 5/8 09/01/53	BBB2	Energy	137	161	24	104.0	109.7	18	13.6%
BP CAP MKTS AMER	BPLN 4.893 09/11/33	BPLN 3.001 03/17/52	A2	Energy	86	85	-2	99.5	67.9	12	13.9%
COCA-COLA CO/THE	KO 2 1/4 01/05/32	KO 3 03/05/51	A1	Food, Bev, & Bottling	38	50	12	85.2	72.4	6	14.1%
VERIZON COMM INC	VZ 5.05 05/09/33	VZ 3 7/8 03/01/52	BBB1	Telecom	91	98	7	100.2	78.9	13	14.6%
HCA INC	HCA 5 1/2 06/01/33	HCA 5.9 06/01/53	BBB3	Health Care	130	151	21	101.0	101.0	19	14.6%
JM SMUCKER CO	SJM 6.2 11/15/33	SJM 6 1/2 11/15/53	BBB2	Food, Bev, & Bottling	112	132	20	107.3	112.0	16	14.6%
NEXTERA ENERGY	NEE 5.05 02/28/33	NEE 5 1/4 02/28/53	BBB1	Utilities	114	131	17	98.9	94.5	19	16.6%
ENTERPRISE PRODU	EPD 5.35 01/31/33	EPD 3.3 02/15/53	A3	Energy	81	82	1	103.2	72.3	14	17.7%
PROSUS NV	PRXNA 4.193 01/19/32	PRXNA 4.987 01/19/52	BBB3	Media & Entertainment	683	738	55	83.3	71.5	53	17.8%
INTESA SANPAOLO	ISPIM 8.248 11/21/33	ISPIM 7.778 06/20/54	BBB3	Banks/Brokers	292	332	41	108.0	101.1	51	18.1%

Source: BofA Global Research, ICE Data Indices, LLC

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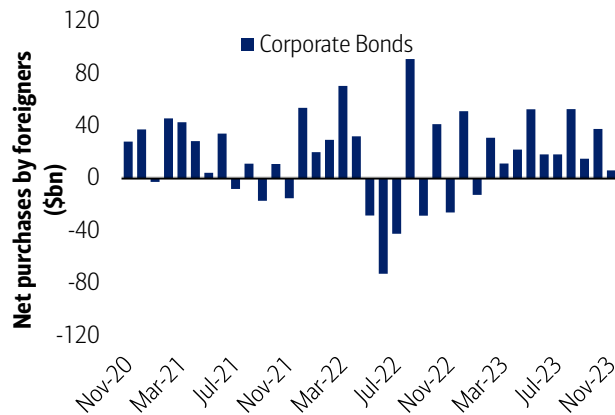
TIC update for January

According to TIC (Treasury International Capital) data released today foreign investors net bought +\$5.9bn of US corporate bonds (excluding ABS) in November, after net buying +\$37.7bn in October (Exhibit 4). Note that the net purchase amount is based on monthly market value of securities holdings, adjusted for the price change. In November foreign investors net bought +\$14.1bn of Treasuries, after net buying +\$68.2bn in October. Foreign investors also net sold -\$1.0bn of Agencies and net bought +\$22.7bn of Agency MBS (Exhibit 5).

By region, where data includes ABS, European investors net bought +\$1.5bn, Asia net bought +\$6.0bn and the Caribbean net sold -\$4.9bn (Exhibit 6). Within Asia, Japan net sold -\$3.4bn, China net bought +\$0.5bn, while the rest of Asia net bought +\$8.9bn (Exhibit 7). Notice that this data on the geographical breakdown of foreign purchases is fairly useless as it tracks the money manager or the custodian – i.e. often not the root source of demand.

Exhibit 4: Foreign net purchases of corporate bonds (excl. ABS)

Foreign investor flows have been positive over the past few months.



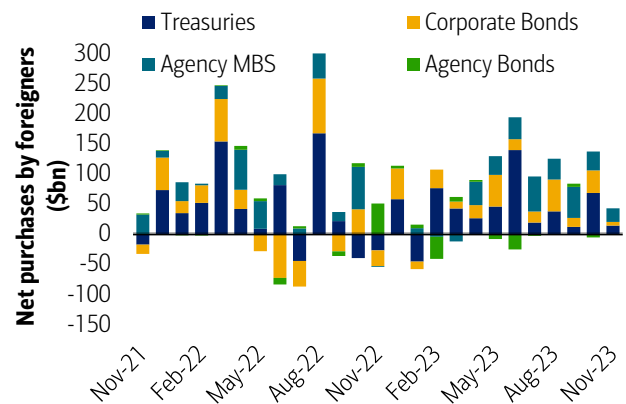
Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.

Source: TIC system, BofA Global Research

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Exhibit 5: Monthly foreign net purchases of long-term US securities

Foreign investors were net buyers of US treasuries, corporate bonds and agency MBS bonds in November, and they were net sellers of agency bonds.



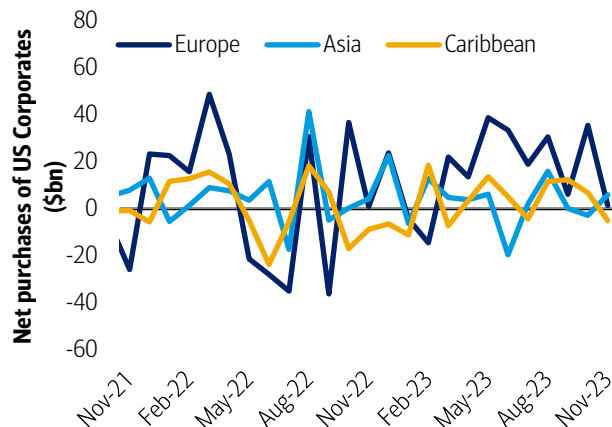
Note: net purchases are based on monthly market value of security holdings, adjusted for the price change. Agency MBS excludes prepayments.

Source: TIC system, BofA Global Research

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Exhibit 6: Net purchases of US corporate bonds by region (incl. ABS)

Europe and Asia were net buyers of US corporate bonds in November, while the Caribbean was a net seller.



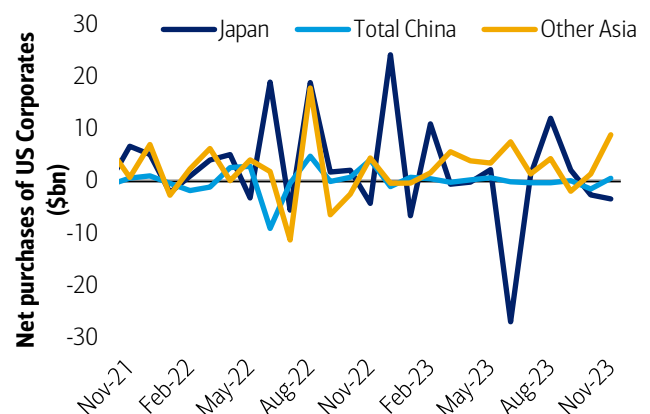
Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.

Source: TIC system, BofA Global Research

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Exhibit 7: Net purchases of US corporate bonds by Asia (incl. ABS)

Within Asia, Japan was a net seller of US corporate bonds in November, while China and the rest of Asia were net buyers.



Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.

Source: TIC system, BofA Global Research

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Daily credit snapshot

US IG issuance totaled \$2.4bn across four deals today, \$9.1bn WTD and \$160.1bn MTD. This week's new issues are trading 6.0bps tighter on average from pricing.

S&P 500 closed +0.29%, 10-year Treasury yields +2bps, CDX IG +0.1bps, CDX HY +\$0.01pts, and cash bond spreads quoted unched to + 2bp today, LQD closed 0.33bps wider today.

Exhibit 8: 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	96
2024-01-22	CCDJ	Federation des Caisses Desjardins du Quebec	5	1,000	A1/A-	5.25	125	n.a.	-6	119
2024-01-22	FITB	Fifth Third Bancorp	8NC7	1,000	Baa1/BBB+	5.631	155	-10	n.a.	152
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	141
2024-01-22	TFC	Truist Financial Corp	11NC10	2,000	A3/A-	5.711	162	n.a.	-3	159
2024-01-23	AMH	American Homes 4 Rent LP	10	600	Baa2/BBB	5.5	137	n.a.	n.a.	n.a.
2024-01-23	BZLNZ	Bank of New Zealand	5	750	A1/AA-	5.076	103	n.a.	n.a.	n.a.
2024-01-23	CDEL	Corp Nacional del Cobre de Chile	30	500	Baa1/BBB+	6.3	195	n.a.	n.a.	n.a.
2024-01-23	HLEND5	HPS Corporate Lending Fund	5	550	Baa3/BBB-	6.75	295	n.a.	-23	272

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

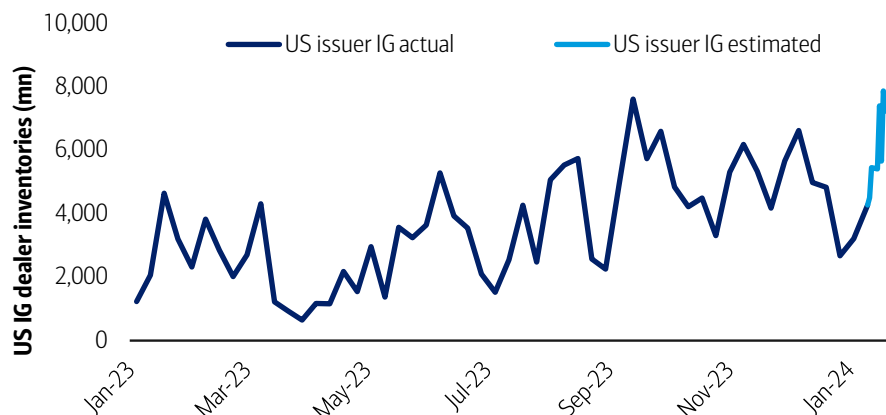
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Daily dealer inventories update

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 9. We estimate the corresponding DV01 equivalent in Exhibit 10. More details by sector and maturity are available in Exhibit 11 and Exhibit 12. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 9: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$7.8bn currently from \$4.3bn on Jan-10.



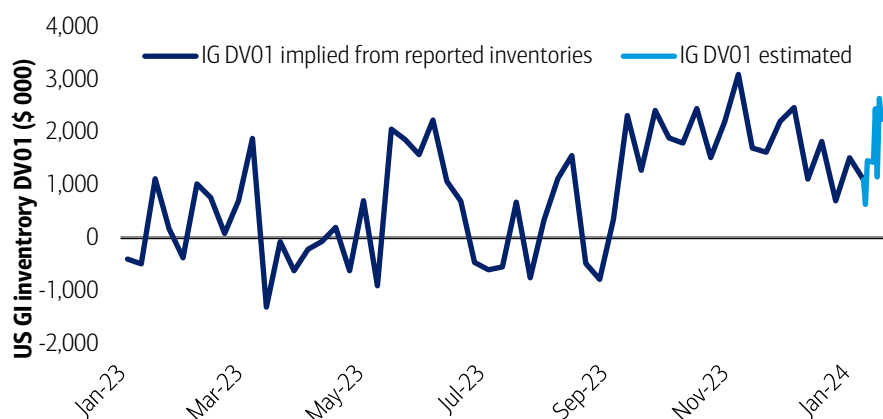
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 10: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$3.5mn 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 11: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$936mn today and declined -\$86mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 23-Jan-24 (\$mn)			
	23-Jan	22-Jan	1 W	2 W	4 W	23-Jan	22-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	936	169	-86	6,500	13,565	1,474	265	1,150	5,234	8,483	14,934	13,997	8,220	37,151
<3yr	-457	-385	-1,614	-1,552	-1,573	-97	-44	-263	-239	-314	2,193	2,650	1,665	6,508
3-5yr	-101	431	-299	1,343	2,971	-19	172	-100	494	1,101	2,474	2,575	1,643	6,692
5-11yr	393	-261	1,013	5,881	11,998	270	-223	562	3,782	7,612	4,785	4,393	2,585	11,763
11+yr	1,101	383	813	827	169	1,321	360	951	1,198	85	5,481	4,380	2,327	12,189
Fin	43	-51	-1,153	1,367	4,201	248	114	97	1,358	2,396	6,427	6,385	3,371	16,183
Non-Fin	894	220	1,067	5,132	9,364	1,226	152	1,053	3,876	6,087	8,506	7,613	4,849	20,968
Fixed	940	236	39	6,598	14,125	1,478	270	1,115	5,179	8,530	14,794	13,854	8,196	36,844
Floating	-4	-67	-124	-99	-560	-4	-4	35	55	-47	140	143	24	307
US issuers	579	28	463	5,389	9,904	1,124	94	1,023	4,045	5,916	11,577	10,998	6,659	29,234
DM Yankees	328	19	-673	983	3,432	316	107	82	1,066	2,388	3,058	2,730	1,464	7,253
EM Yankees	29	122	124	127	229	34	63	45	123	179	298	269	97	665

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 12: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$110mn for Banks/Brokers and increased \$239mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 23-Jan-24 (\$mn)			
	23-Jan	22-Jan	1 W	2 W	4 W	23-Jan	22-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	71	-35	-112	6	-322	75	-67	-127	-67	-417	285	214	142	641
Automobiles	50	-70	6	-141	543	67	-24	111	56	374	490	440	318	1,247
Banks/Brokers	-110	-257	-1,701	136	1,533	152	-14	6	823	1,231	4,534	4,644	2,241	11,419
Basic Materials	126	23	287	624	909	122	16	234	507	643	535	410	184	1,129
Commercial Services	30	2	58	-11	39	14	2	58	23	39	142	112	47	301
Energy	239	20	-13	-11	300	304	39	127	-13	140	1,059	820	616	2,495
Finance	2	125	366	565	1,276	45	43	54	241	517	968	966	708	2,642
Food, Bev, & Bottling	44	-92	-220	-19	352	93	-66	-37	132	393	459	415	273	1,147
Health Care	76	171	501	801	1,199	163	139	307	410	655	1,378	1,302	825	3,505
Industrial Products	-24	34	-116	31	446	1	35	27	189	375	291	315	219	825
Insurance	-11	87	-110	-106	41	-29	67	-83	-70	-36	444	455	194	1,092
Media & Entertainment	55	110	418	847	575	77	90	379	709	433	600	545	266	1,410
REITs	161	-6	292	772	1,351	80	17	120	364	683	482	320	228	1,031
Retail	26	70	165	515	655	0	43	136	381	522	389	362	290	1,042

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We estimate today IG dealer inventories declined -\$110mn for Banks/Brokers and increased \$239mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 23-Jan-24 (\$mn)			
Technology	17	96	402	1,152	1,355	33	77	244	834	734	660	643	476	1,779
Telecom	98	31	-156	424	1,061	121	32	-160	218	629	659	560	269	1,488
Tobacco	-15	15	-41	143	261	11	1	1	113	188	125	140	100	365
Transportation	-12	-57	-9	72	52	-4	-79	-69	-18	27	238	251	125	614
Utilities	83	-76	-202	492	1,576	116	-65	-256	247	1,155	1,046	964	601	2,610
Other	30	-23	99	205	363	33	-22	78	156	196	150	121	97	368

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

Source: BofA Global Research, FINRA, TRACE.

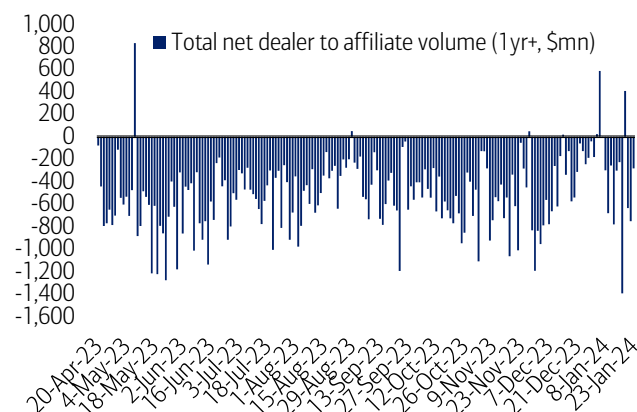
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Daily foreign demand tracker

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 13 shows the overall daily dealer-to-affiliate volumes while Exhibit 14, Exhibit 15 and Exhibit 16 show subsets of this data. In particular Exhibit 14 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 15 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 16 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 13: Net dealer buying from affiliate (1yr+)

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



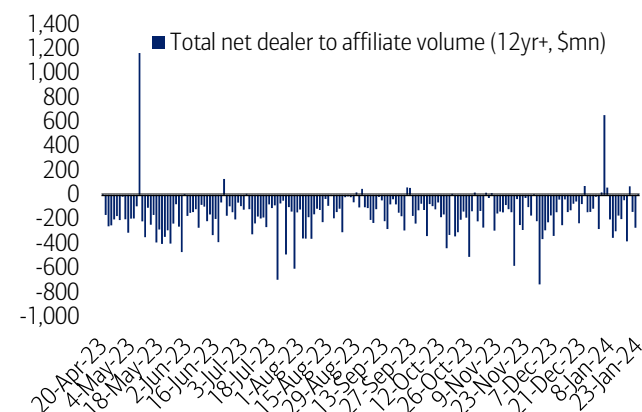
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 14: Net dealer buying from affiliate (12yr+)

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



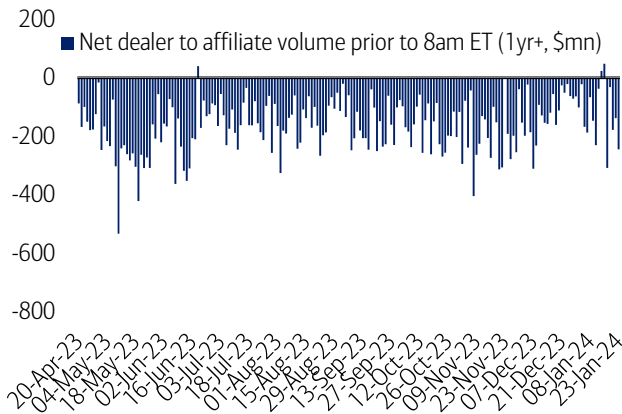
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 15: 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



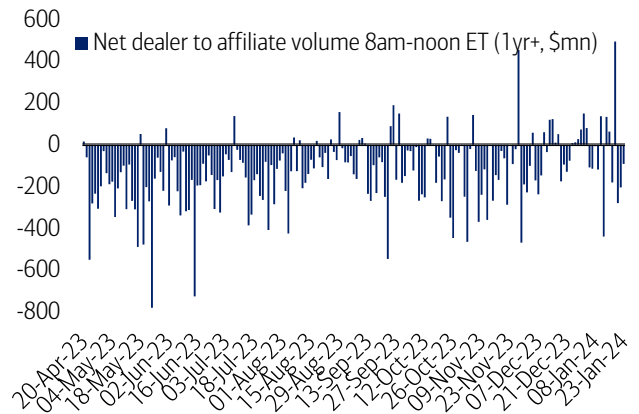
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 16: 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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