

Situation Room

4Q earnings update: it's complicated

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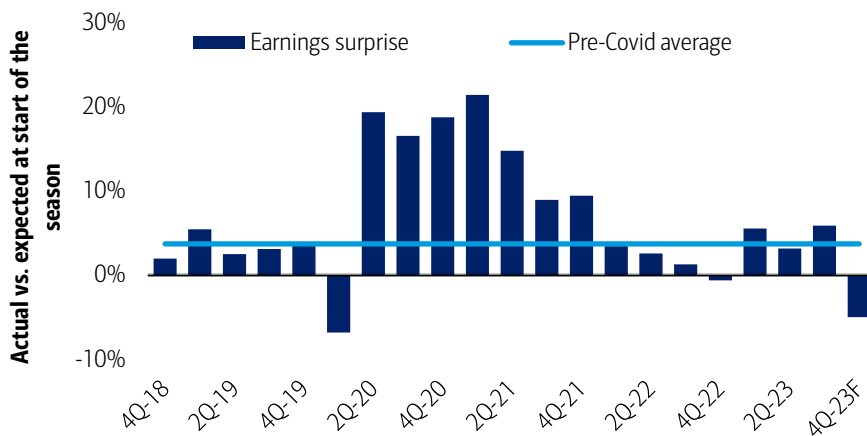
Here we provide an early peek at the 4Q earnings reporting season. This and next week will be the heaviest in terms of reporting. By now 26% of IG public issuers have released results, accounting for 30% of the total aggregate expected earnings. The key takeaway is that we are currently tracking a +7.9% YoY earnings growth for “core” public US IG issuers, ex. Energy and Finance (based on actual results when available and the latest bottom-up consensus estimates otherwise). However, a lot of that growth is driven by big Tech. Excluding Tech the expected growth drops to +3.8% YoY in 4Q.

Earnings are better than expected ex. Financials

Based on the full sample of issuers, and using GAAP EPS (rather than adjusted EPS), 4Q earnings have come in -5.0% below expectations. However, most of that negative surprise is driven by banks. Excluding Financials earnings so far came in 5.3% above expectations. That's better than +3.7% positive average surprise pre-Covid. Revenues so far have been 1.1% above expectations, also better than +0.7% pre-Covid average. Finally, earnings surprises have been stronger for more global “core” IG issuers (+12.7%) compared to more domestic issuers (+0.6%, Exhibit 8).

Exhibit 1: A negative earnings surprise in 4Q, driven entirely by Banks

4Q earnings reported so far were -5.0% below expectations. This negative surprise was entirely due to Financials. Ex. Financials the surprise was a positive +5.3%.



Source: BofA Global Research, FactSet

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30 January 2024

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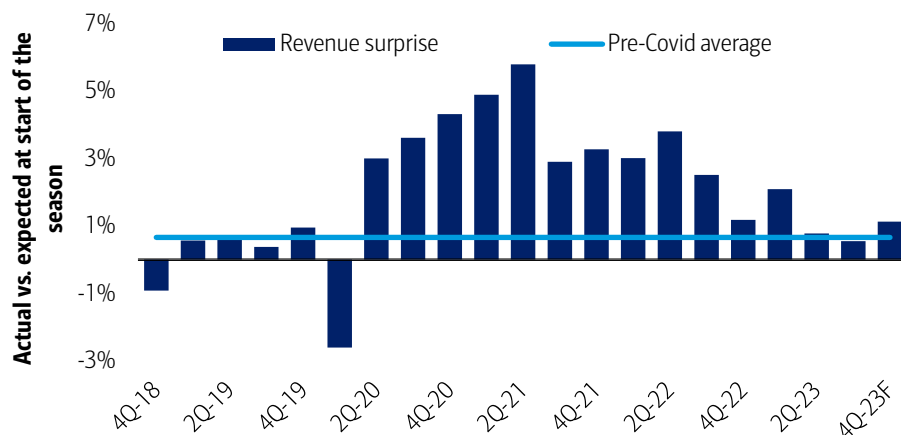
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Timestamp: 30 January 2024 06:19PM EST

Exhibit 2: 4Q revenue surprise so far has been above average levels

4Q revenues surprised to the upside by +1.1%, up from +0.5% surprise in 3Q-2023 and above +0.7% pre-Covid average.

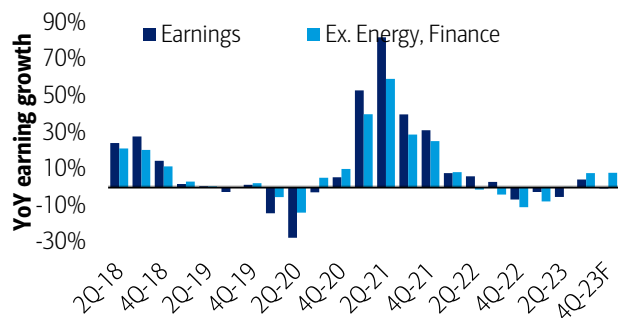


Source: BofA Global Research, FactSet

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Exhibit 3: Earnings growth for US IG issuers

We are tracking 4Q-23 earnings growth of +7.9%, ex. Energy and Finance.



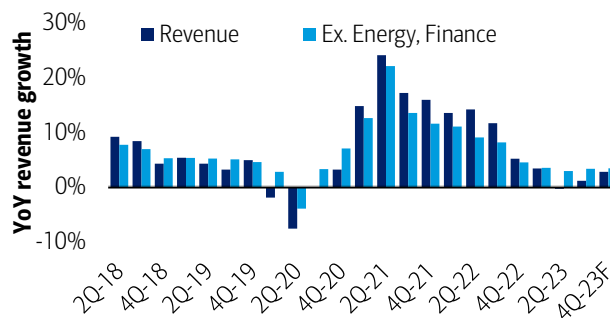
Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet

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Exhibit 4: Revenue growth for US IG issuers

Revenue growth is bottomed in 2Q-2023.



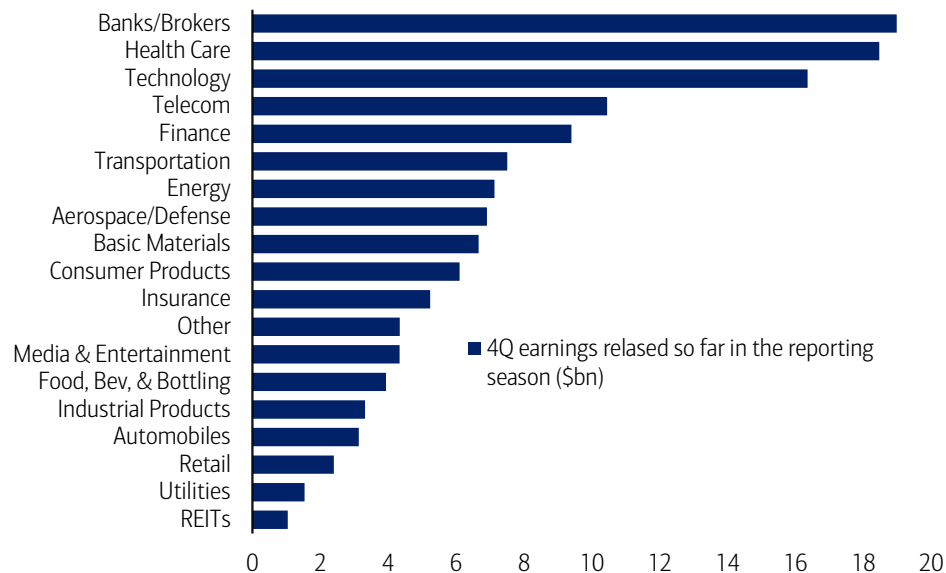
Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet

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Exhibit 5: Most 4Q earnings reported so far were from Banks, Health Care and Tech

The top sectors in terms of the aggregate 4Q-23 earnings amount released so far in the reporting season.



Source: BofA Global Research, FactSet

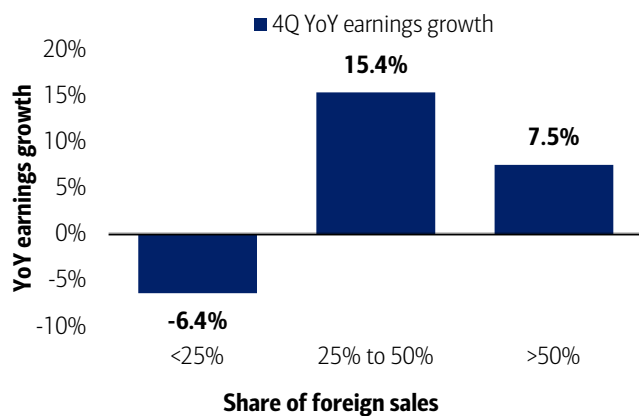
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Domestic versus foreign

We are tracking the strongest 4Q earnings growth for the intermediately global IG issuers, and the weakest for the more domestic issuers (Exhibit 6, Exhibit 7). Earnings surprise has been strongest for the more global issuers (Exhibit 8, Exhibit 9).

Exhibit 6: 4Q-23 consensus earnings growth by foreign sales

4Q earnings growth is tracking -6.4% YoY for the more domestic issuers, but +15.4% YoY for the intermediately global issuers.



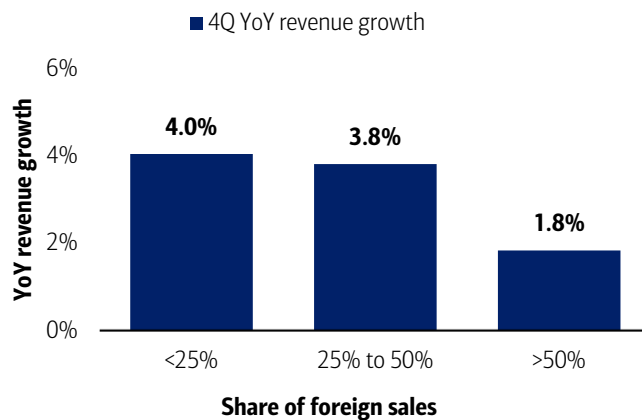
Note: 4Q-23 based on the actual results when available and consensus estimates otherwise. Excluding Finance, Energy, Utilities.

Source: BofA Global Research, FactSet.

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Exhibit 7: 4Q-23 consensus sales growth by foreign sales

4Q sales growth is tracking +4.0% for the more domestic issuers and 1.8% for the more global issuers.



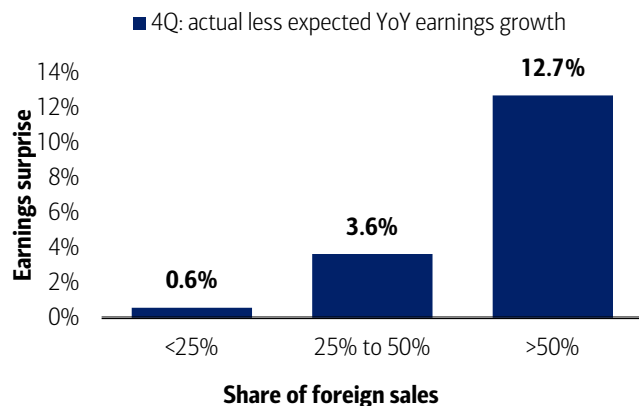
Note: 4Q-23 based on the actual results when available and consensus estimates otherwise. Excluding Finance, Energy, Utilities.

Source: BofA Global Research, FactSet.

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Exhibit 8: 4Q-23 earnings surprise by foreign sales

Earnings surprise was the strongest for the most global issuers.



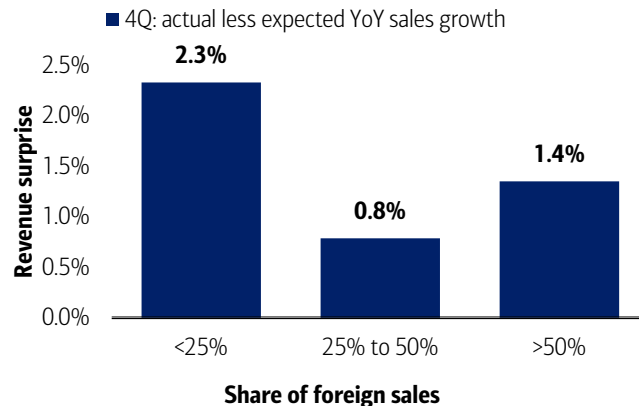
Note: Excluding Finance, Energy, Utilities.

Source: BofA Global Research, FactSet.

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Exhibit 9: 4Q-23 sales surprise by foreign sales

Sales surprise was the strongest for the more domestic issuers.



Note: Excluding Finance, Energy, Utilities.

Source: BofA Global Research, FactSet.

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Results by sector

We are tracking the weakest 4Q YoY earnings growth for Banks/Brokers (-51%), Automobiles (-33%) and Energy (-29%). On the flip side we are tracking the strongest YoY earnings growth in 4Q for Media & Entertainment (+65%), Utilities (+36%) and Retail (+34%, Exhibit 10).

Exhibit 10: 4Q-2023 results by sector for US public IG issuers

The table lists earnings and sales growth by sector.

Sector	Earnings growth (YoY)	Sales growth (YoY)	Share of bond index value	Share of the sector that has reported
Aerospace/Defense	5.9%	6.0%	1.7%	62%
Automobiles	-32.9%	0.5%	1.3%	50%
Banks/Brokers	-51.4%	1.5%	11.6%	100%
Basic Materials	-21.7%	-4.0%	1.9%	30%
Consumer Products	2.4%	1.2%	0.7%	53%
Energy	-28.9%	-6.2%	4.2%	22%
Finance	8.5%	9.4%	2.6%	38%
Food, Bev, & Bottling	0.9%	0.5%	2.0%	26%
Health Care	-18.5%	5.2%	7.5%	35%
Industrial Products	3.4%	0.4%	1.9%	15%
Insurance	23.3%	8.8%	2.5%	16%
Media & Entertainment	64.9%	7.8%	3.2%	32%
REITs	18.3%	6.1%	3.0%	17%
Retail	34.3%	4.4%	3.3%	6%
Technology	18.4%	6.5%	5.6%	42%
Telecom	-3.7%	0.8%	2.6%	100%
Transportation	-10.6%	-1.9%	1.3%	93%
Utilities	35.7%	0.7%	6.9%	11%
Other	-4.1%	1.9%	2.2%	31%
Total US HG public co's	-0.7%	2.8%	65.7%	44%
Total ex. Financials	2.5%	2.3%	46.0%	34%
Total ex. Energy	3.0%	3.9%	61.5%	46%
Total ex. Fin. & Energy	7.9%	3.4%	41.8%	35%
Yankee and private co's	n.a.	n.a.	34.3%	n.a.
HQ ex. Financials, Utilities	9.0%	3.5%	14.9%	37%
BBB ex. Financials, Utilities	-10.1%	1.2%	23.7%	39%

Note: based on the actual results when available and consensus estimates otherwise.

Source: BofA Global Research, FactSet.

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Surprises by sector

Earnings surprised to the upside the most for Autos (+17% surprise), Energy (+14% surprise), and Insurance (+11% surprise). On the other hand, earnings came in the weakest relative to expectations at the start of the season for Banks/Brokers (-40% surprise), REITs (-6% surprise), and Telecom (-4% surprise, Exhibit 11).

Exhibit 11: 4Q-2023 earnings / sales surprises by sector for public US IG issuers

The table summarizes earnings and revenue surprises by sector.

Sector	Expected earnings growth (YoY)	Actual earnings growth (YoY)	Earnings surprise	Expected sales growth (YoY)	Actual sales growth (YoY)	Sales surprise	Percentage of the sector that has reported
Aerospace/Defense	-6.4%	-3.6%	2.9%	4.7%	6.0%	1.2%	62%
Automobiles	-32.0%	-20.8%	16.5%	-7.7%	1.4%	9.9%	50%
Banks/Brokers	-19.2%	-51.8%	-40.4%	2.8%	1.4%	-1.3%	100%
Basic Materials	-22.5%	-20.7%	2.3%	-4.2%	-3.6%	0.7%	30%
Consumer Products	4.3%	10.4%	5.8%	2.6%	2.8%	0.2%	53%
Energy	-37.6%	-28.7%	14.2%	-7.7%	-7.3%	0.5%	22%
Finance	1.7%	2.0%	0.3%	5.1%	7.5%	2.2%	38%
Food, Bev, & Bottling	9.9%	10.5%	0.5%	4.7%	4.6%	-0.1%	26%
Health Care	-32.5%	-24.1%	12.5%	0.4%	2.7%	2.3%	35%
Industrial Products	-11.1%	-3.7%	8.4%	-9.9%	-6.4%	3.9%	15%
Insurance	29.7%	44.6%	11.4%	13.3%	12.8%	-0.5%	16%
Media & Entertainment	16.4%	21.2%	4.2%	1.9%	4.4%	2.4%	32%
REITs	-13.1%	-18.5%	-6.2%	4.0%	1.8%	-2.1%	17%
Retail	16.0%	16.0%	0.0%	2.6%	2.6%	0.0%	6%
Technology	0.0%	6.1%	6.1%	0.4%	1.1%	0.7%	42%
Telecom	0.5%	-3.7%	-4.1%	-1.3%	0.8%	2.2%	100%
Transportation	-12.9%	-9.8%	3.7%	-1.3%	-1.5%	-0.2%	93%
Utilities	7.3%	9.5%	2.1%	-3.6%	1.0%	4.8%	11%
Other	-7.5%	-10.5%	-3.3%	2.8%	3.0%	0.2%	31%
Total US HG public co's	-13.2%	-17.5%	-5.0%	0.1%	1.2%	1.1%	44%
Total ex. Financials	-13.7%	-9.1%	5.3%	-0.9%	0.6%	1.6%	34%
Total ex. Energy	-11.6%	-16.8%	-5.9%	0.8%	2.0%	1.2%	46%
Total ex. Fin. & Energy	-11.4%	-7.2%	4.7%	-0.2%	1.5%	1.7%	35%
HQ ex. Financials, Utilities	-14.4%	-7.5%	8.1%	-0.2%	0.9%	1.1%	37%
BBB ex. Financials, Utilities	-14.6%	-12.2%	2.8%	-1.7%	0.2%	2.0%	39%

Note: based only on companies that have released 4Q-2023 results. Earnings surprise is [Actual \$ earnings] / [Expected \$ earnings] - 1

Source: BofA Global Research, FactSet.

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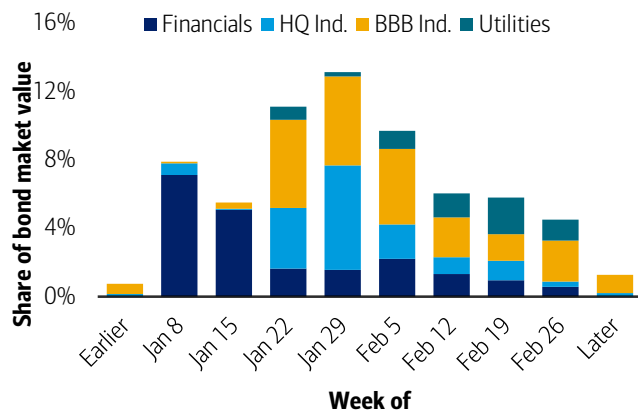
Timing of the earnings season

4Q reporting season peaks during the weeks of January 22nd and January 29th. The pace of reporting slows substantially during the week of February 12th and the season is virtually after February 26th (Exhibit 12, Exhibit 13).

For the remainder of the season reporting will be concentrated in terms of the IG bond index share in BBB industrials (15.0% of index value) and high quality industrials (9.2% of index value, Exhibit 14, Exhibit 15).

Exhibit 12: Weekly reporting: by the share of the US IG bond index

The week of Jan 22nd and Jan 29th are the busiest of the season.

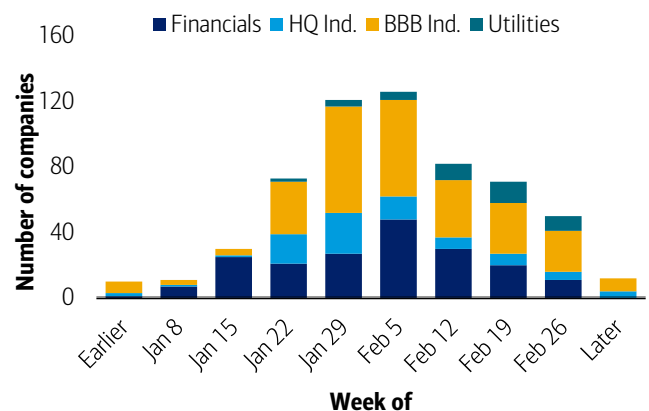


Source: BofA Global Research, Bloomberg.

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Exhibit 13: Weekly reporting: by the number of companies

The number of companies reporting peaks for the week of Feb 5th.

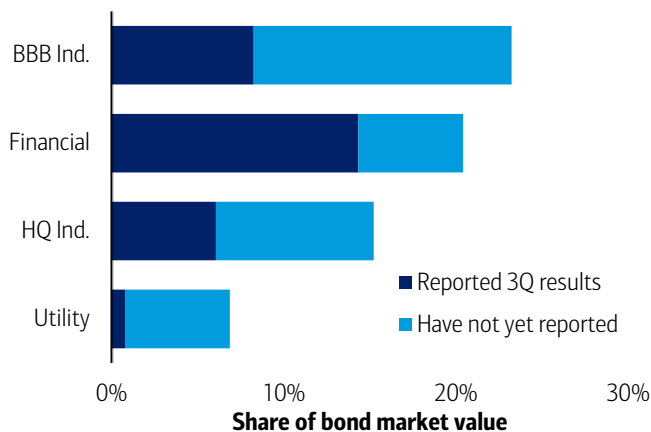


Source: BofA Global Research, Bloomberg.

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Exhibit 14: 4Q reporting season progress by bond market value

By issuer bond market value reporting going forward is concentrated in BBB and high-quality industrials.

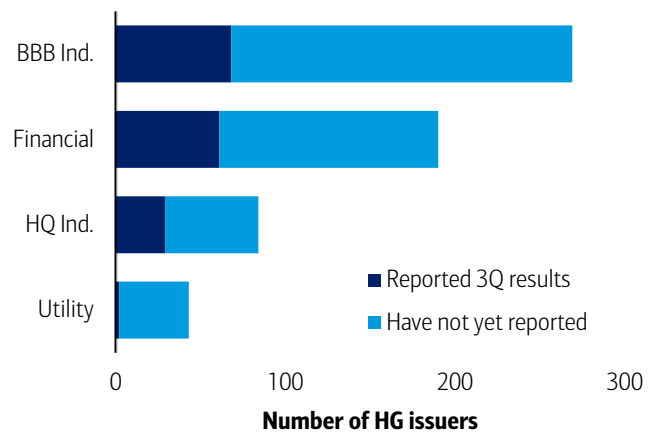


Source: BofA Global Research, Bloomberg.

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Exhibit 15: 4Q reporting season progress by issuer count

By issuer count reporting going forward is concentrated in BBB industrials and Financials.



Source: BofA Global Research, Bloomberg.

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Daily credit snapshot

US IG issuance totaled \$0.8bn across 1 deal today, \$20.3bn WTD and \$192.7bn MTD. The average new issue concession was 9.7bps today from 4.1bps yesterday. This week's new issues are trading 2bps tighter on average from pricing.

S&P 500 closed -0.06%, 10-year Treasury yields -4bps, CDX IG +0.4bps, CDX HY - \$0.17pts, and cash bond spreads quoted unched to +3bps today, LQD closed -1.01bps tighter today.

Exhibit 16: 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)
2024-01-29	COF	Capital One Financial Corp	6NC5	1,000	Baa1/BBB	5.7	170	0	-8	162
2024-01-29	COF	Capital One Financial Corp	11NC10	1,000	Baa1/BBB	6.051	195	-0	-7	189
2024-01-29	GBDC	Golub Capital BDC Inc	5	600	Baa3/BBB-	6	225	13	n.a.	224
2024-01-29	HYUCAP	Hyundai Capital Services Inc	3	500	Baa1/BBB+	5.125	110	n.a.	n.a.	n.a.
2024-01-29	HYUCAP	Hyundai Capital Services Inc	5	500	Baa1/BBB+	5.125	120	n.a.	n.a.	n.a.
2024-01-29	IBM	IBM International Capital Pte Ltd	2	600	A3/A-	4.7	45	5	-1	43
2024-01-29	IBM	IBM International Capital Pte Ltd	3	500	A3/A-	4.6	55	8	0	55
2024-01-29	IBM	IBM International Capital Pte Ltd	5	500	A3/A-	4.6	65	n.a.	0	65
2024-01-29	IBM	IBM International Capital Pte Ltd	7	500	A3/A-	4.75	75	10	2	77
2024-01-29	IBM	IBM International Capital Pte Ltd	10	1,000	A3/A-	4.9	85	n.a.	2	86
2024-01-29	IBM	IBM International Capital Pte Ltd	20	1,000	A3/A-	5.25	85	n.a.	1	86
2024-01-29	IBM	IBM International Capital Pte Ltd	30	1,400	A3/A-	5.3	100	17	-2	98
2024-01-29	KMI	Kinder Morgan Inc	5	1,250	Baa2/BBB	5	105	n.a.	n.a.	103
2024-01-29	KMI	Kinder Morgan Inc	10	1,000	Baa2/BBB	5.4	135	-1	2	137
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	2	600	Baa1/BBB+	FRN	SOFR+76	n.a.	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	2	1,000	Baa1/BBB+	4.95	65	-3	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	5	900	Baa1/BBB+	4.9	95	-12	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	10	1,100	Baa1/BBB+	5.25	120	4	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	30	800	Baa1/BBB+	5.55	125	-4	n.a.	n.a.
2024-01-29	NOC	Northrop Grumman Corp	5	500	Baa1/BBB+	4.6	65	n.a.	n.a.	64
2024-01-29	NOC	Northrop Grumman Corp	10	850	Baa1/BBB+	4.9	85	12	n.a.	84
2024-01-29	NOC	Northrop Grumman Corp	30	1,150	Baa1/BBB+	5.2	90	9	n.a.	89
2024-01-30	KLAC	KLA Corp	10	500	A2/A-	4.7	72	14	n.a.	n.a.
2024-01-30	KLAC	KLA Corp	28	250	A2/A-	4.95	80	6	n.a.	79

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

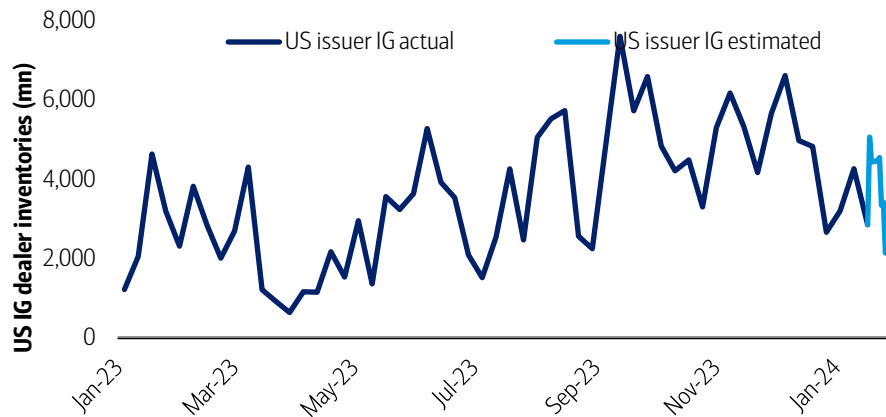
Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

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 17. We estimate the corresponding DV01 equivalent in Exhibit 18. More details by sector and maturity are available in Exhibit 19 and Exhibit 20. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



Exhibit 17: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$3.8bn currently from \$2.9bn on Jan-17.



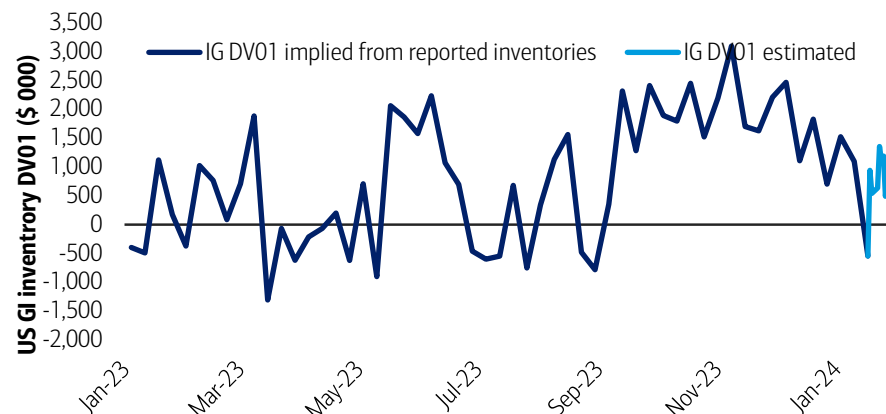
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 18: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$1.6mn currently from -\$0.5bn on Jan-17.



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

We estimate IG dealer inventories declined -\$880mn today and declined -\$938mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 30-Jan-24 (\$mn)			
	30-Jan	29-Jan	1 W	2 W	4 W	30-Jan	29-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-880	3,408	-938	-1,612	12,625	-392	1,995	222	858	8,512	15,626	16,506	9,142	41,275
<3yr	-134	1,483	1,020	-690	-414	-28	232	134	-150	-121	2,490	2,624	1,507	6,621
3-5yr	-56	673	-1,401	-1,699	2,217	24	259	-461	-558	868	2,745	2,800	1,645	7,189
5-11yr	-960	2	-2,817	-1,991	8,369	-697	4	-1,942	-1,516	5,033	4,674	5,634	3,487	13,796
11+yr	270	1,251	2,259	2,769	2,453	310	1,500	2,491	3,082	2,733	5,718	5,447	2,503	13,668
Fin	-927	1,218	-1,792	-3,223	1,897	-358	611	-245	-355	1,906	5,908	6,835	3,687	16,430
Non-Fin	47	2,190	853	1,611	10,728	-34	1,384	467	1,213	6,607	9,718	9,671	5,455	24,844
Fixed	-857	3,438	-772	-1,314	13,179	-389	1,999	244	841	8,524	15,500	16,357	9,083	40,940
Floating	-22	-29	-166	-298	-554	-3	-4	-22	17	-11	127	149	59	335
US issuers	-586	2,263	-752	-783	9,557	-269	1,374	216	835	6,203	12,419	13,005	7,650	33,075
DM Yankees	-220	1,036	-252	-1,000	2,747	-88	547	-87	-99	2,053	2,820	3,040	1,374	7,234
EM Yankees	-74	109	65	171	321	-35	73	92	122	257	387	461	118	965

Exhibit 19: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories declined -\$880mn today and declined -\$938mn over the prior week.

Net dealer buy (\$mn)**Net dealer DV01 change (\$thousand)****Trading volumes on 30-Jan-24 (\$mn)**

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 20: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories declined -\$1,105mn for Banks/Brokers and increased \$138mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 30-Jan-24 (\$mn)			
	30-Jan	29-Jan	1 W	2 W	4 W	30-Jan	29-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	92	121	567	439	316	101	95	584	436	239	667	575	409	1,652
Automobiles	-29	109	50	58	408	-28	22	-70	43	218	392	420	280	1,092
Banks/Brokers	-1,105	727	-1,891	-3,874	-968	-543	235	-667	-836	317	3,864	4,969	2,465	11,298
Basic Materials	65	33	436	736	1,388	59	37	362	599	990	551	486	230	1,266
Commercial Services	30	38	-15	44	13	38	38	-12	46	11	164	135	76	375
Energy	138	221	-241	-296	166	197	20	-124	-41	20	1,033	895	618	2,545
Finance	-29	315	-227	138	1,057	-44	222	64	116	585	1,039	1,069	774	2,882
Food, Bev, & Bottling	-131	110	-67	-324	297	-123	71	-133	-207	226	525	656	261	1,442
Health Care	-60	317	418	869	1,764	-137	319	157	418	796	1,656	1,716	955	4,328
Industrial Products	-28	253	265	138	590	26	155	188	214	518	300	328	224	851
Insurance	164	161	251	148	298	172	144	324	224	274	577	413	252	1,243
Media & Entertainment	-155	111	-187	175	515	-155	94	-139	189	388	571	725	314	1,610
REITs	43	16	76	364	1,510	57	10	33	141	730	428	385	195	1,007
Retail	106	138	183	342	964	65	56	155	278	748	564	458	354	1,377
Technology	16	215	102	464	1,617	74	155	168	373	1,004	976	959	516	2,451
Telecom	-108	-32	-508	-694	509	-118	-75	-373	-569	153	515	623	315	1,453
Tobacco	22	-2	-87	-123	238	25	5	-15	-11	211	153	131	96	379
Transportation	25	77	74	57	162	-7	42	36	-43	57	281	256	107	645
Utilities	16	468	-310	-508	1,227	-66	330	-389	-642	747	1,145	1,130	525	2,800
Other	49	14	172	235	553	16	20	74	131	280	225	176	176	577

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

Source: BofA Global Research, FINRA, TRACE.

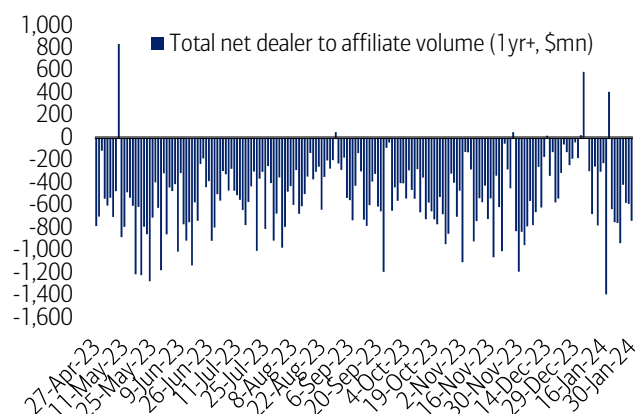
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Daily foreign demand tracker

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 21 shows the overall daily dealer-to-affiliate volumes while Exhibit 22, Exhibit 23 and Exhibit 24 show subsets of this data. In particular Exhibit 22 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 23 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 24 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 21: Net dealer buying from affiliate (1yr+)

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



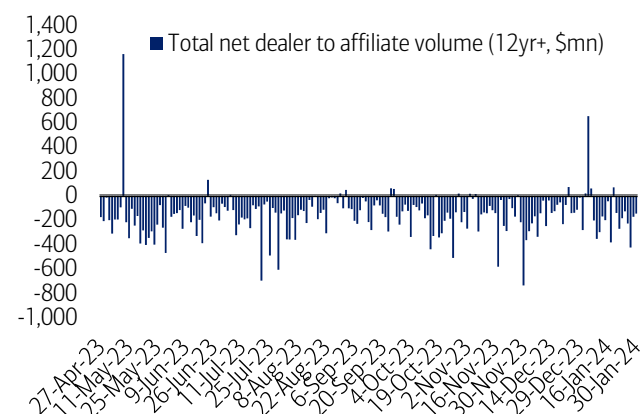
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 22: Net dealer buying from affiliate (12yr+)

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



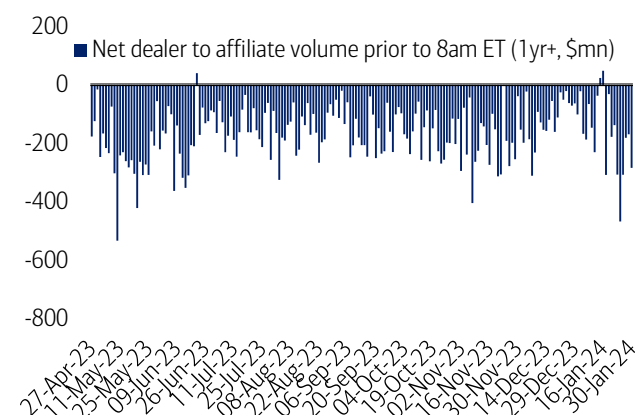
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 23: 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



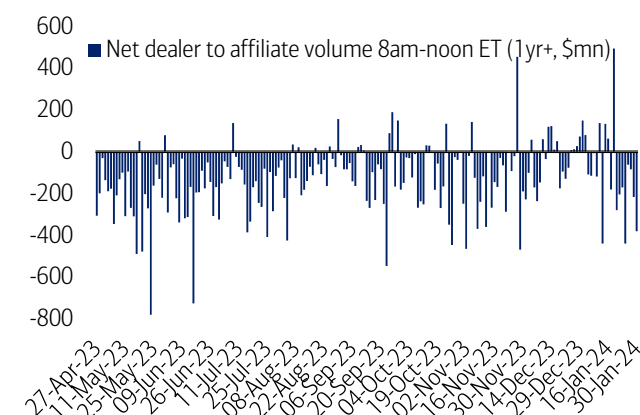
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 24: 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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