

# Situation Room

## No reprieve from the Fed

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The key takeaway from today's FOMC was that the Fed is not ready to commit to a pause, and risks related to tighter lending standards continue to complicate the story. That helped rates vol and equity vol to extend the recent upward trend. These elevated Fed risks add to IG supply pressures in May (see [Credit Market Strategist: A stormy May](#)) as well as ongoing regional bank and debt ceiling concerns. As a result, we continue to view IG spreads as biased to the upside in May. Longer term, the outlook for moderating inflation and only a mild recession supports our 6M spread target of 130bps, down from 144bps currently.

As expected, the Fed removed the "additional policy firming may be appropriate" language from the statement. On the other hand, during the press conference Chair Powell said that "a decision on a pause was not made today." Markets are currently pricing a very low probability of rate hikes in June or later in 2023. Still, our economists point out that the likelihood of a hike could increase on the back of strong data (see [US Watch: May FOMC quick reaction: Hawkish hold 03 May 2023](#)).

### Daily credit snapshot

No IG new issue supply priced in the market today. S&P 500 closed -0.70%, 10-year Treasury yields -5bps, CDX IG +1.9bps, CDX HY -\$0.34pts, and cash bond spreads quoted from 1 to 5bps wider today, LQD closed 3.88bps wider today.

### Daily dealer inventories update

\$736mn (notional), \$951,000 (DV01) today. Maturities and sectors inside.

### Daily foreign demand tracker

We track dealer-to-affiliate volumes on Trace that are correlated with foreign buying.

03 May 2023

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United States  
Cross Product

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See Team Page for List of Analysts

See page 7 for definitions of common abbreviations used in our reports.



# Research Overview – The Situation

## No reprieve from the Fed

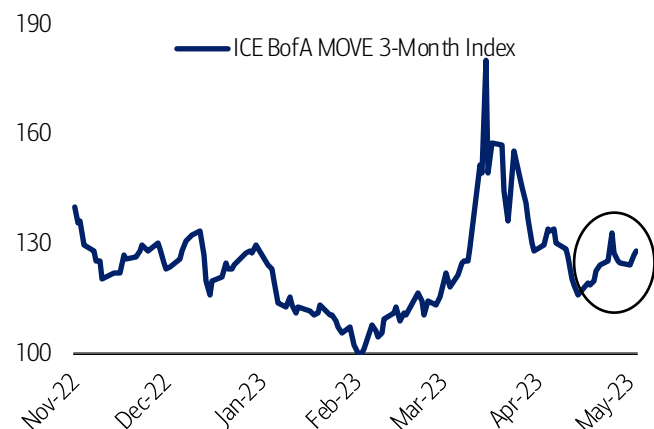
The key takeaway from today's FOMC was that the Fed is not ready to commit to a pause, and risks related to tighter lending standards continue to complicate the story. That helped rates vol and equity vol to extend the recent upward trend (Figure 1, Figure 2). These elevated Fed risks add to IG supply pressures in May (see [Credit Market Strategist: A stormy May](#)) as well as ongoing regional bank and debt ceiling concerns. As a result, we continue to view IG spreads as biased to the upside in May. Longer term, the outlook for moderating inflation and only a mild recession supports our 6M spread target of 130bps, down from 144bps currently.

As expected, the Fed removed the “additional policy firming may be appropriate” language from the statement. On the other hand, during the press conference Chair Powell said that “a decision on a pause was not made today.” Markets are currently pricing a very low change of rate hikes in June or later in 2023 (Figure 3). Still, our economists point out that chances of a hike could increase on the back of strong data (see [US Watch: May FOMC quick reaction: Hawkish hold 03 May 2023](#)).

The statement as well Chair Powell during the press conference again highlighted the potential impact on growth from tighter lending conditions at medium and small banks. Spillovers from bank stress also add uncertainties to the outlook for the economy and the Fed, this time to the downside in terms of the policy rate.

**Figure 1: Both rates and ...**

3M MOVE index rose to 128, the highest level since April 10.

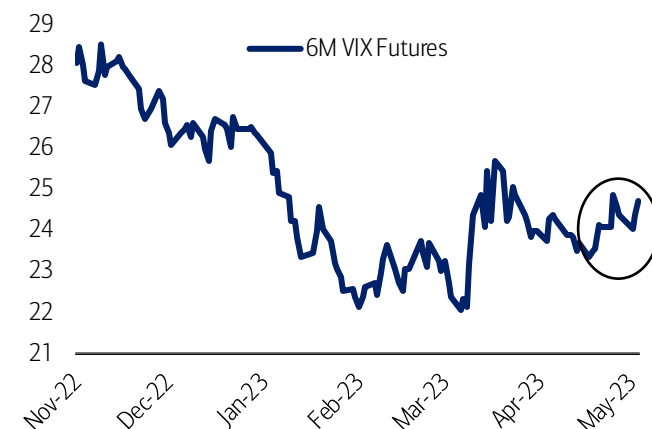


Source: Bloomberg

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**Figure 2: ... equity volatility increased on May 3rd**

6M VIX futures rose to 24.7, the highest levels since April 4<sup>th</sup>.

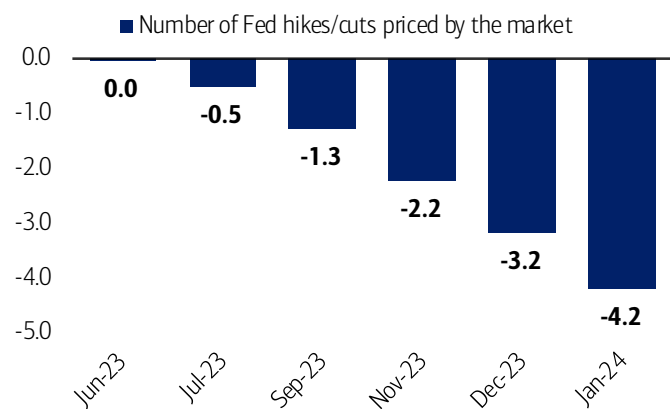


Source: Bloomberg

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**Figure 3: Markets price little change of June Fed hike**

Market is currently pricing a close to zero change of another Fed hike in June.

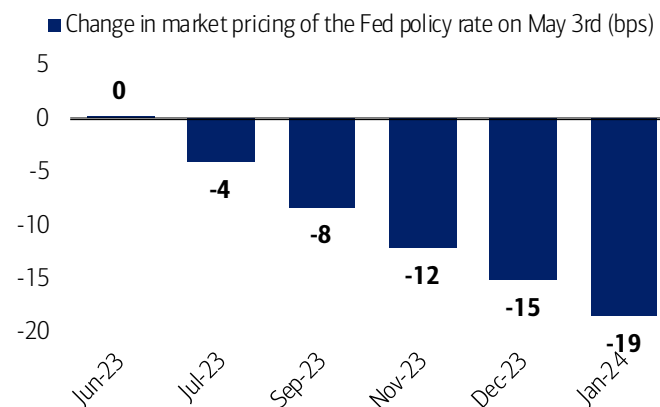


Source: Bloomberg

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**Figure 4: More dovish Fed pricing following May FOMC**

Market pricing for the Fed policy rate declined by 19bps for the Jan 2024 meeting.



Source: BofA Global Research, Bloomberg

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## Credit Strategy

### Daily credit snapshot

No IG new issue supply priced in the market today.

S&P 500 closed -0.70%, 10-year Treasury yields -5bps, CDX IG +1.9bps, CDX HY - \$0.34pts, and cash bond spreads quoted from 1 to 5bps wider today, LQD closed 3.88bps wider today.

**Figure 5: 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)
2023-05-01	AVOL	Avolon Holdings Funding Ltd	5	750	Baa3/BBB-	6.375	300	n.a.	n.a.	n.a.
2023-05-01	CMCSA	Comcast Corp	6	1,000	A3/A-	4.55	95	n.a.	n.a.	n.a.
2023-05-01	CMCSA	Comcast Corp	10	1,000	A3/A-	4.8	125	10	n.a.	n.a.
2023-05-01	CMCSA	Comcast Corp	30	1,600	A3/A-	5.35	155	-1	n.a.	n.a.
2023-05-01	CMCSA	Comcast Corp	41	1,400	A3/A-	5.5	170	-4	n.a.	n.a.
2023-05-01	CNP	CenterPoint Energy Resources Corp	5	300	A3/BB+	5.25	115	n.a.	n.a.	n.a.
2023-05-01	GMT	GATX Corp	10	400	Baa2/BBB	5.45	190	10	4	194
2023-05-01	HCA	HCA Inc	5	1,000	Baa3/BBB-	5.2	160	-3	-1	159
2023-05-01	HCA	HCA Inc	10	1,250	Baa3/BBB-	5.5	193	-8	5	198
2023-05-01	HCA	HCA Inc	30	1,000	Baa3/BBB-	5.9	233	-10	4	237
2023-05-01	HSY	Hershey Co/The	5	350	A1/A	4.25	67	n.a.	n.a.	n.a.
2023-05-01	HSY	Hershey Co/The	10	400	A1/A	4.5	97	n.a.	n.a.	n.a.
2023-05-01	META	Meta Platforms Inc	5	1,500	A1/AA-	4.6	95	n.a.	2	97
2023-05-01	META	Meta Platforms Inc	7	1,000	A1/AA-	4.8	120	n.a.	1	121
2023-05-01	META	Meta Platforms Inc	10	1,750	A1/AA-	4.95	135	8	4	139
2023-05-01	META	Meta Platforms Inc	30	2,500	A1/AA-	5.6	177	3	2	179
2023-05-01	META	Meta Platforms Inc	40	1,750	A1/AA-	5.75	192	3	3	195
2023-05-01	PEAK	Healthpeak OP LLC	10	350	Baa1/BBB+	5.25	190	n.a.	n.a.	n.a.
2023-05-01	SO	Georgia Power Co	5	750	Baa1/BBB+	4.65	105	n.a.	n.a.	n.a.
2023-05-01	SO	Georgia Power Co	10	1,000	Baa1/BBB+	4.95	140	n.a.	n.a.	n.a.
2023-05-01	TSCO	Tractor Supply Co	10	750	Baa1/BBB	5.25	175	n.a.	n.a.	n.a.
2023-05-01	XEL	Northern States Power Co/MN	30	800	Aa3/A	5.1	135	n.a.	n.a.	n.a.
2023-05-02	BACR	Barclays PLC	4NC3	2,000	Baa1/BBB	5.829	215	34	-8	207
2023-05-02	BACR	Barclays PLC	11NC10	2,000	Baa1/BBB	6.224	280	32	-4	276
2023-05-02	GLENLN	Glencore Funding LLC	5	500	Baa1/BBB	5.4	195	n.a.	-8	187
2023-05-02	GLENLN	Glencore Funding LLC	10	500	Baa1/BBB	5.7	230	32	-11	219

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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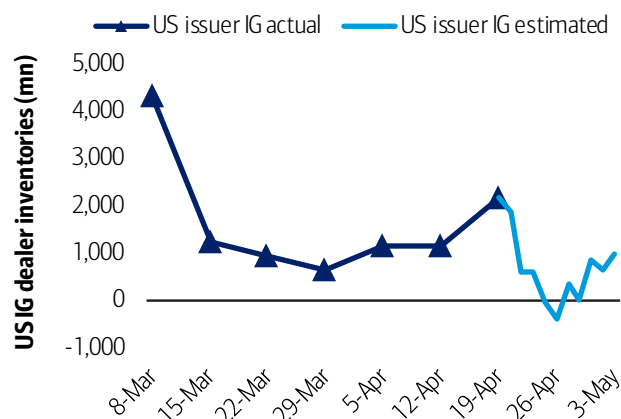
**Daily dealer inventories update**

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 Figure 6 and Figure 7. We estimate the corresponding DVO1 equivalent in Figure 7. More details by sector and maturity are available in Figure 8 and Figure 9. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



**Figure 6: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds dedined to \$1.0bn currently from \$2.2bn on Apr-19.



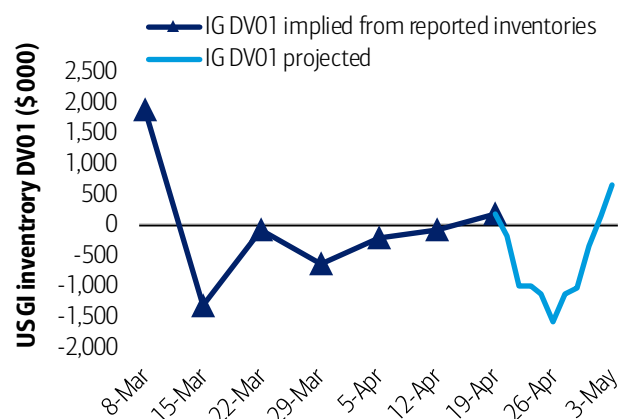
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Figure 7: Estimated dealer inventory DV01 for IG corporate bonds.**

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$0.7mn currently from \$0.2bn on Apr-19.



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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**Figure 8: Estimated changes in IG dealer inventories by maturity and broad sector.**

We estimate IG dealer inventories increased \$736mn today and increased \$2,088mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 3-May-23 (\$mn)			
	3-May	2-May	1 W	2 W	4 W	3-May	2-May	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>736</b>	<b>-61</b>	<b>2,088</b>	<b>-577</b>	<b>5,794</b>	<b>951</b>	<b>605</b>	<b>2,977</b>	<b>1,027</b>	<b>4,849</b>	<b>9,252</b>	<b>8,516</b>	<b>5,976</b>	<b>23,744</b>
<3yr	-234	-490	-1,150	-1,746	-2,148	-51	-97	-200	-285	-326	1,454	1,688	960	4,101
3-5yr	42	-206	-353	-486	678	4	-76	-160	-175	285	1,708	1,666	1,043	4,417
5-11yr	302	174	1,972	1,149	6,306	213	89	1,194	639	3,700	3,133	2,831	2,081	8,046
11+yr	626	461	1,619	507	958	785	688	2,143	849	1,190	2,957	2,331	1,892	7,179
Fin	471	-364	60	-1,639	-30	415	-90	345	-657	963	3,472	3,001	1,988	8,460
Non-Fin	265	304	2,028	1,062	5,824	536	695	2,633	1,685	3,885	5,780	5,515	3,988	15,283
Fixed	728	0	2,172	-500	6,203	946	613	2,990	1,039	4,865	9,152	8,425	5,945	23,522
Floating	9	-61	-85	-77	-409	5	-9	-13	-12	-16	100	91	31	222
US issuers	299	-179	1,355	-1,216	4,831	514	483	2,233	454	3,894	7,136	6,837	4,918	18,891
DM Yankees	438	60	710	418	169	415	47	690	376	452	1,801	1,363	948	4,113
EM Yankees	-1	59	22	221	794	22	75	54	197	502	314	315	110	740

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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**Figure 9: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories increased \$459mn for Banks/Brokers and increased \$225mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 3-May-23 (\$mn)			
	3-May	2-May	1 W	2 W	4 W	3-May	2-May	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-37	-80	-103	-42	256	-32	-55	-100	-57	91	90	128	136	354
Automobiles	-42	-49	-59	-101	79	-6	-19	17	41	100	155	197	165	517
Banks/Brokers	459	-299	22	-948	36	370	-77	185	-399	817	2,487	2,028	1,296	5,811
Basic Materials	102	28	-14	-110	61	87	42	52	56	3	372	270	217	859
Commercial Services	5	-7	22	62	-37	9	7	16	57	-17	107	102	79	288
Energy	225	115	438	169	1,065	179	91	399	179	607	734	509	371	1,614
Finance	-53	-42	68	-309	56	16	1	167	47	345	407	460	347	1,214
Food, Bev, & Bottling	-111	13	-159	-313	-116	-31	32	78	-67	-47	354	466	349	1,169
Health Care	43	80	495	238	685	92	109	402	242	545	758	715	642	2,115
Industrial Products	-69	25	-21	17	247	-26	36	62	77	146	141	210	121	473
Insurance	1	12	-107	-297	-36	-9	-4	-81	-260	-97	273	271	153	697
Media & Entertainment	46	380	408	325	681	89	509	567	386	669	851	805	463	2,120
REITs	64	-36	77	-85	-85	38	-11	74	-45	-101	306	242	191	739

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Retail	41	-129	290	430	966	17	-101	263	303	535	333	292	210	834
Technology	-1	-75	98	259	1,003	4	33	245	421	948	515	516	387	1,418
Telecom	-39	-17	107	-6	435	23	-10	123	4	240	460	499	296	1,255
Tobacco	3	-36	124	141	39	-3	-23	59	42	-12	108	105	63	275
Transportation	120	35	192	196	265	88	17	134	97	164	298	177	129	604
Utilities	-20	17	197	-241	160	44	25	263	-87	-28	392	412	284	1,087
Other	-2	4	12	38	36	2	4	50	-9	-59	111	113	77	301

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

Source: BofA Global Research, FINRA, TRACE.

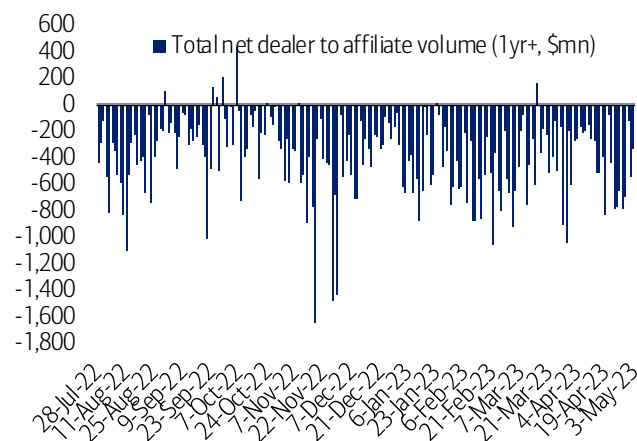
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**Daily foreign demand tracker**

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 (See: [Credit Market Strategist: One year round-trip in spreads 15 July 2016](#)). Figure 10 shows the overall daily dealer-to-affiliate volumes while Figure 11, Figure 12 and Figure 13 show subsets of this data. In particular Figure 11 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 12 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 13 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Figure 10: Net dealer buying from affiliate (1yr+)**

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



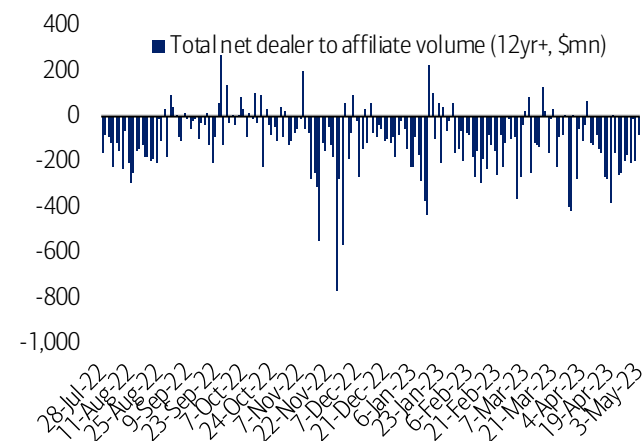
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Figure 11: Net dealer buying from affiliate (12yr+)**

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



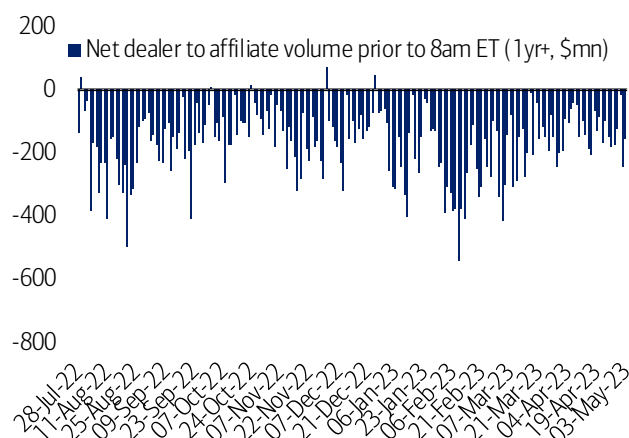
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Figure 12: 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



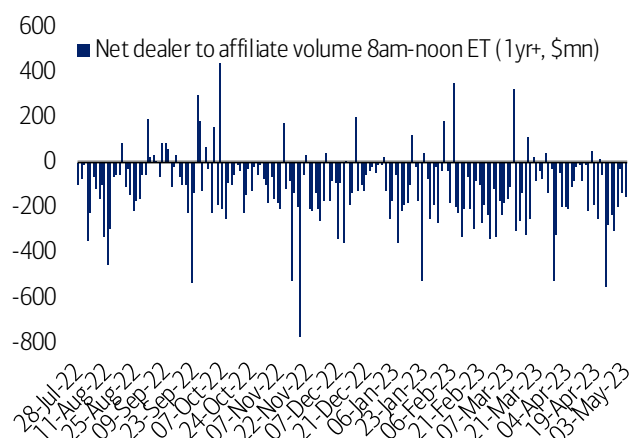
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Figure 13: 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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