Credit Market Strategist

The world is flat

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Credit Strategy
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BofA Data Analytics

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The world is flat

IG spreads are tight, the spread curve is flat, and both are here to stay. Technicals and fundamentals suggest IG spreads should remain about flat, or unchanged, from here, near the tight end of our expected 100 – 120bs spread range. In terms of Technicals, demand for bonds has been very strong to start the year, while IG supply was close to typical levels despite lower yields / tighter spreads. At the same time fundamentals remain in the goldilocks zone with strong jobs, but moderate inflation reports for December. The next potential catalysts for moving spreads wider are March supply and weaker US growth into 2Q-2024.

Strong demand

Demand for IG bonds has exceeded already strong expectations (see Credit Market Strategist: Demanding IG). The demand was evident in IG ETF trading volumes reaching levels last seen in March 2023, inflows to IG bond funds / ETFs for the prior week coming in at $9.3bn – the highest weekly volume since Jan-2021, and new issue concessions compressing to just 4.6bps this week.

Demand is here to stay

The demand is primarily driven by attractive yields (rather than spreads). The yields should remain attractive. Our rates strategists argue that 10yr Treasury should remain in the 10Y between 3.75-4.25%, which is to say relatively stable from here (see Global Rates Weekly: Quantitative Teasing)

Dec CPI: fading the elevated CPI for now

Following the Fed pivot we do not think sticky inflation is a big risk for IG spreads.

Seasonal 30yr IG bond shortage

30yr supply should not increase any time soon given the outlook for stable rates.

Back to pre-March levels for REITs

Spreads for IG non-office REITs are now trading about flat to BBB Industrials.

4Q-23 earnings preview: strong ex energy

Bottom-up consensus calls for IG issuer 4Q earnings ex. Fin, Energy to grow +7.2% YoY.

IG market technicals

Supply: $44.0bn of issuance this week, expect $30-40bn next week. **Flows**: +$9.35bn inflow this past week ending on January 10. **Weekly technicals**: expect $12.8bn of coupon payments, $0.3bn of calls to become effective next week. Bond maturities: $20.6bn this week, $19.1bn next week. **Dealer inventories**: +$5,453mn past week ended Thu. Details inside.

We published the weekly CMS data and charts in Situation Room.

Recent credit strategy research

Publication	Name
Situation Room	Situation Room: Dec CPI: fading the elevated CPI for now
Situation Room	Situation Room: Seasonal 30yr IG bond shortage
Situation Room	Situation Room: Back to pre-March levels for REITs
Situation Room	Situation Room: 4Q-23 earnings preview: strong ex energy
Monthly HG Market Review	Dec '23: Pricing a soft landing
Credit Market Strategist	Credit Market Strategist: Sep '23 Credit Investor Survey
Credit Market Strategist	Summer 2023 snapshot of US IG market

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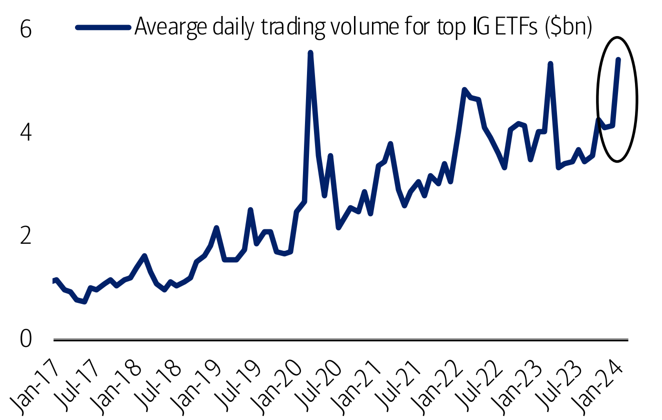
Demand for IG bonds has exceeded already strong expectations (see Credit Market Strategist: Demanding IG). The demand was evident in IG ETF trading volumes reaching levels last seen in March 2023 (Exhibit 1), inflows to IG bond funds / ETFs for the prior week coming in at $9.3bn – the highest weekly volume since Jan-2021 (Exhibit 2), and new issue concessions compressing to just 4.6bps this week (Exhibit 3).

Demand is here to stay

The demand is primarily driven by attractive yields (rather than spreads). The yields should remain attractive. Our rates strategists argue that 10yr Treasury should remain in the 10Y between 3.75-4.25%, which is to say relatively stable from here (see Global Rates Weekly: Quantitative Teasing). On top of that, our economists argue for a later YCC (yield curve control) removal by the Bank of Japan, suggesting lower local-currency yields there potentially stimulating stronger demand for foreign bonds (see Japan Watch: BoJ Watch: Eyes on April).

Exhibit 1: IG ETF trading volumes reached Mar-2023 levels in Jan

Daily trading volumes for the top 15 IG ETFs averaged $5.4bn in Jan, similar to $5.3bn in March 2023 during US regional bank stress.



Note: trading volumes for the following ETFs: FLOT, IGIB, IGSB, LQD, SPIB, SPSB, USIG, VCIT, VCLT, VCSH.

Source: BofA Global Research, Bloomberg

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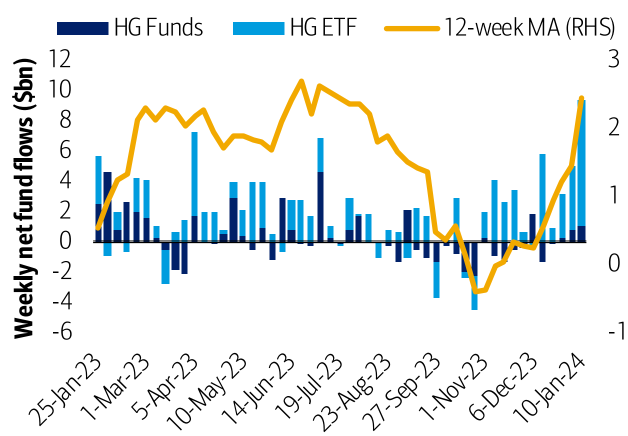
Exhibit 2: Heavy inflows to HG, driven by ETFs

Inflows to HG funds / ETFs reached $9.3bn this past week – the largest weekly inflow since Jan 2023.



Source: BofA Global Research, EPFR Global.

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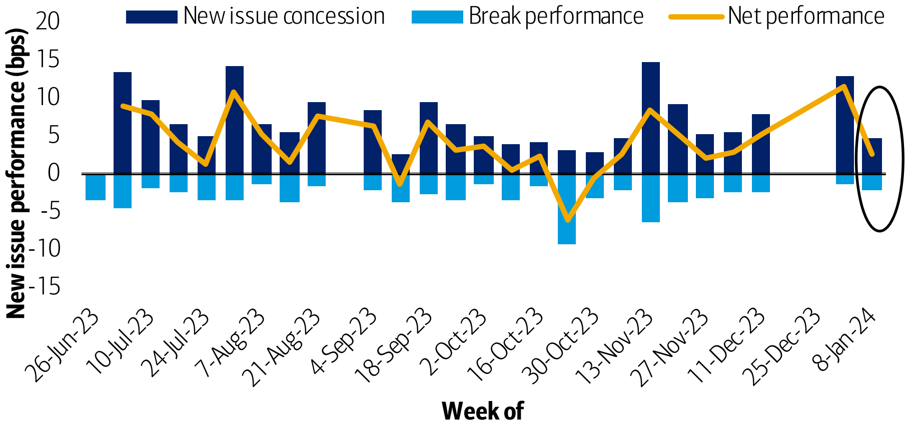
Exhibit 3: Strong IG new issue performance
IG new issue concessions declined to +4.6bps this week.



Source: BofA Global Research

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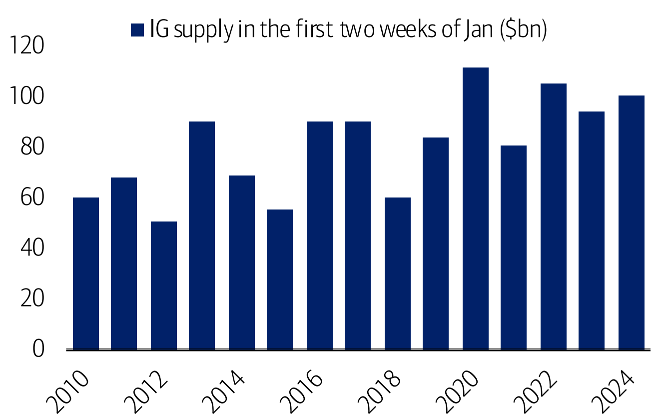
Moderate supply

IG supply was $101bn in the first two weeks of the year. The key is that the number is in the middle of the $81 - $112bn range of the prior five years (Exhibit 4). In other words, upside risks to supply have not materialized, at least so far. IG supply during the first two weeks is consistent with about $148bn for the full month (Exhibit 5) – in the lower end of our $150 - $160bn expectations (see Monthly HG Market Review: Dec '23). The swing factor for next week is supply from the big six US banks/ brokers, which typically ranges $10 - $30bn following the release of 4Q earnings (Exhibit 6).

Exhibit 4: Supply has been typical so far in January
IG supply so far in January has totaled $101bn, which is in the middle of the range over the past five years.



Source: BofA Global Research

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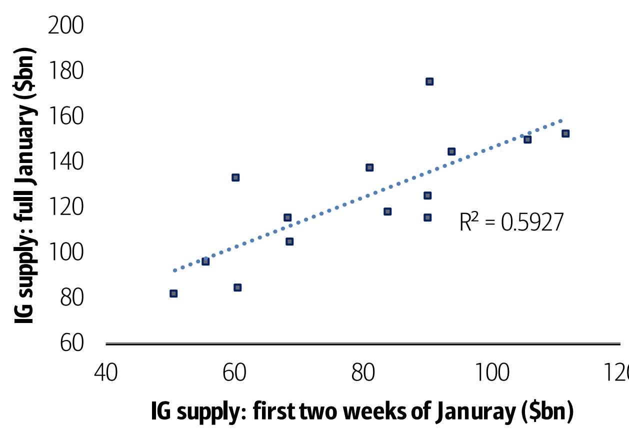
Exhibit 5: MtD supply is consistent with $148bn for January
Supply over the first two weeks of January is correlated with issuance for the full calendar month.



Source: BofA Global Research

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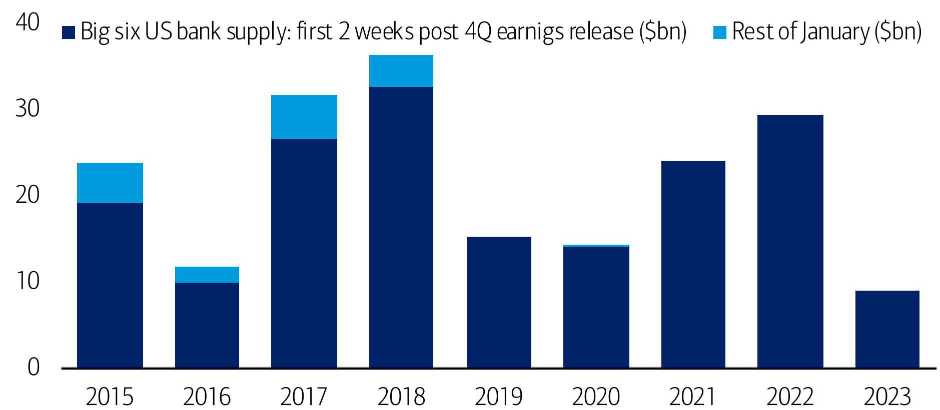
Exhibit 6: Supply from the big six US banks / brokers is typically $10 - $30bn post 4Q earnings

Big six US bank / broker supply has ranged from $9bn in 2023 to $30bn in 2022 in the second two weeks of January, after the banks release 4Q results.



Source: BofA Global Research

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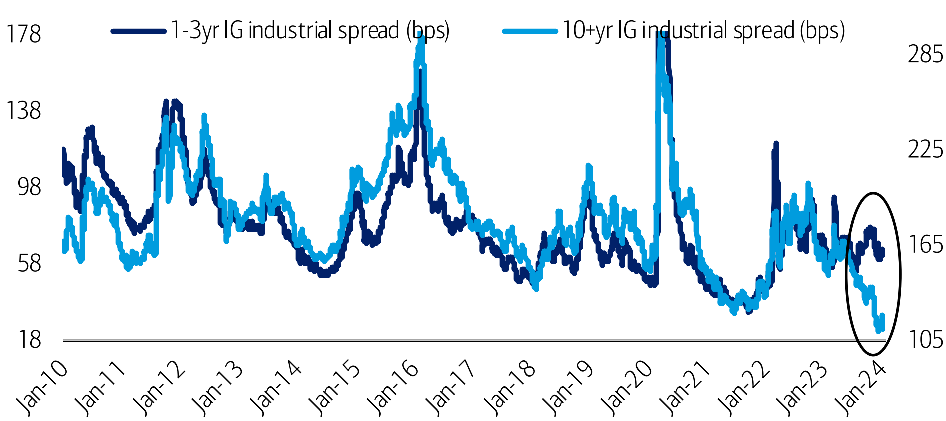
Flat curves

Remarkably, 1-3yr IG industrial spread is unchanged since June 30 2023, while 10+yr spread is 38bps tighter over the same period (Exhibit 7). Such a big move means curves across maturities are all flat, more so in the back-end (10s30s spread curve is at 7th percentile since 2010) than the front-end (3s5s spread curve is at 23rd percentile, Exhibit 9). Given the outlook for relatively high Treasury yields to continue, we think the IG spread curves should stay flat as well (see [Situation Room: Seasonal 30yr IG bond shortage]).

Exhibit 7: Flat front-end, tighter back-end spreads since June 2023.

1-3yr IG industrial spread is unchanged at 63bps since June, while 10+yr IG industrial spread is 38bps tighter to 112bps over the same period.



Source: ICE Data Indices, LLC

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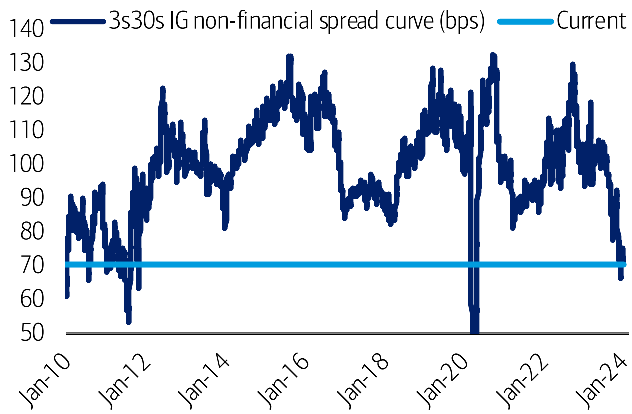
Exhibit 8: IG spread curves are historically flat levels
IG non-financial spread curves were this flat only during the European sovereign crisis in 2012 and the Covid pandemic in 2020.



Source: BofA Global Research, ICE Data Indices, LLC

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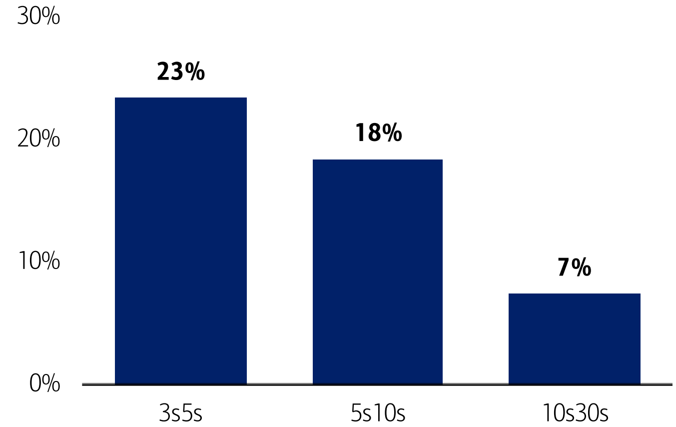
Exhibit 9: Flat across the curve
Back-end curves (10s30s) are more flat relative to history compared to front-end curves (3s5s).



Source: BofA Global Research, ICE Data Indices, LLC

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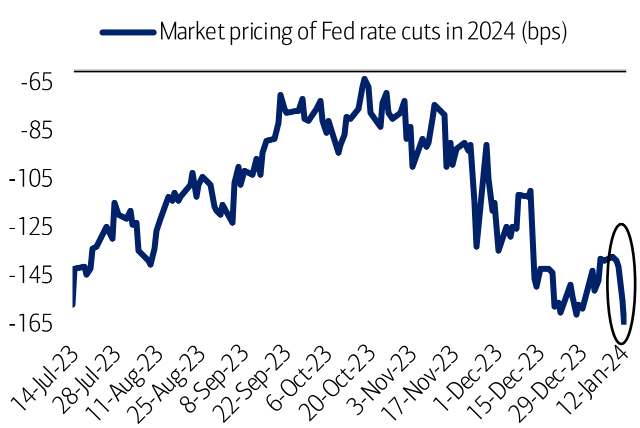
Spread catalysts

The big catalysts for IG spreads to start the year – IG supply and the December inflation reports – are now behind us. First, the inflation data turned out to be benign. Our economists are tracking PCE inflation at +0.2% for December (see US Watch: December PCE inflation tracking). On the back of that market pricing have added 30bps of additional 2024 Fed cuts this week (Exhibit 10). Second, the two seasonally heaviest weeks of January are now behind us, and now heavy supply is not expected until March (Exhibit 11).

Finally, while US data has been strong so far, our economists are calling for a notable slowdown in 2024. They expect monthly US payrolls to drop from 216k in December to 50k in 2Q-2024 (Exhibit 12). We see recession fears on the back of a weaker than expected US economy as the biggest risk to IG spreads in 1Q and 2Q 2024.

Exhibit 10: Market pricing added 30bps of Fed cuts this week
Markets are now pricing in 168bps of rate cuts in 2024.



Source: BofA Global Research, Bloomberg

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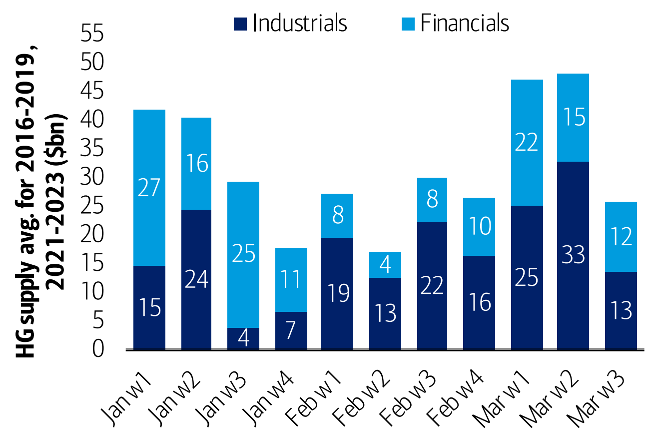
Exhibit 11: Supply should be seasonally slower until March
IG issuance typically slows down in the second half of January and into February.



Source: BofA Global Research

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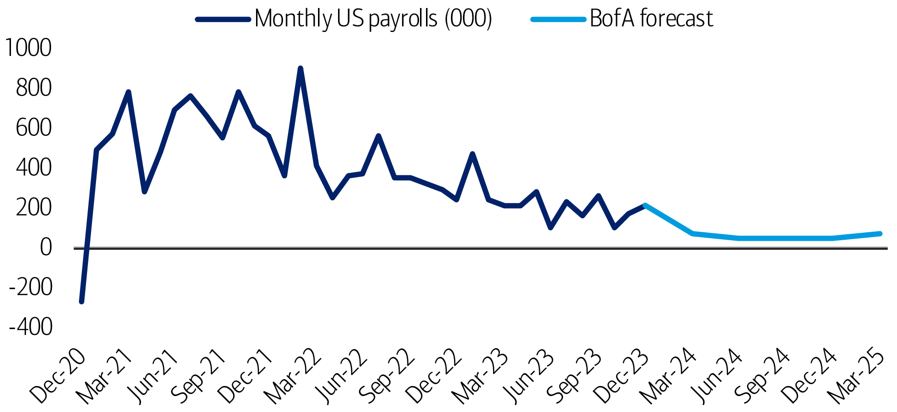
Exhibit 12: Slower US growth expected in 1H-2024
Our economists calling for US payrolls to slow to +50k in 2Q-2024.



Source: BofA Global Research

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Previously published here
[Situation Room: Dec CPI: fading the elevated CPI for now]

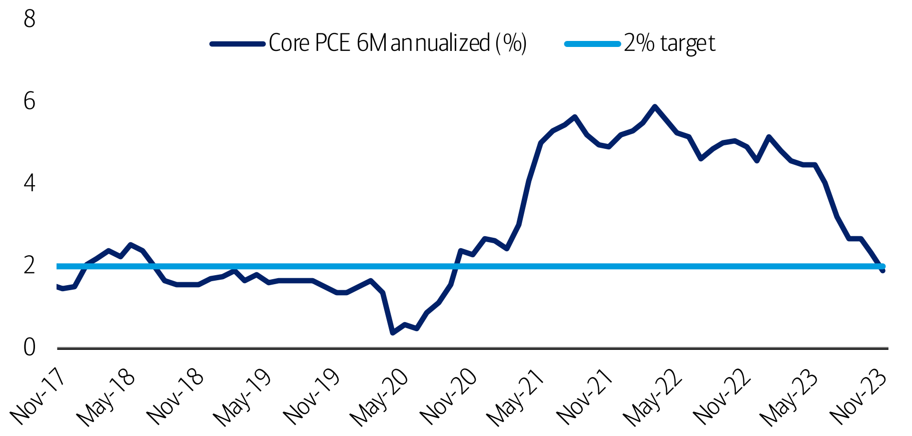
Dec CPI: fading the elevated CPI for now

The rates market largely shrugged off the slightly higher than expected December CPI report. That was likely for two reasons. First, the broader picture is that the US inflation is slowing, with the preferred Fed measure of Core PCE inflation running at the 2% target over the prior six months through November (Exhibit 13). Second, our economists suggest the details of the CPI report do not translate to upside risks to the Core PCE inflation report for December. They estimate the December Core PCE in 0.12% – 0.15% m/m range (see US Watch: December CPI Inflation). As a result, market pricing of Fed rate cuts for 2024 actually increased by 5bps today on Thursday, even despite some hawkish statements from Fed's Mester (Exhibit 14).

CPI vs PCE

Unlike the PCE, the CPI data is consistent with some stickiness in US inflation. The component recently emphasized by the Fed – core services CPI ex. housing – came in at an elevated +0.40% m/m in December and +0.44% m/m in November (Exhibit 16). However, the cumulative progress on inflation means the Fed no longer needs to "break things" to get inflation under control, as Chair Powell signaled during the December press conference (see US Watch: FOMC quick reaction- A holiday gift: the dovish pivot arrives). As a result, a sticky inflation from here should not be a big problem for IG spreads. That's because higher rates uncertainties and potentially lower stocks in that scenario are offset by stronger US economic growth and higher yields, which have been very supportive of investor demand in 2023 and so far in 2024.

Exhibit 13: US Core PCE inflation is running at 2% over the past six months
6M average US core PCE was +1.9% as of Nov-2023, down from +2.3% in October.



Source: BofA Global Research, Bloomberg.

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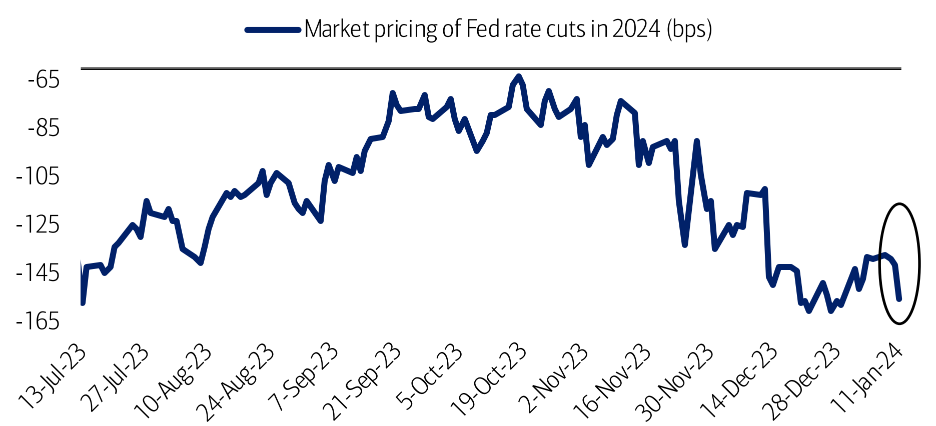
Exhibit 14: Markets priced in 14bps of more Fed cuts in 2024 on Thursday post the Dec. CPI report
Market pricing currently implies about 155bps of Fed cuts in 2024.



Source: BofA Global Research, Bloomberg.

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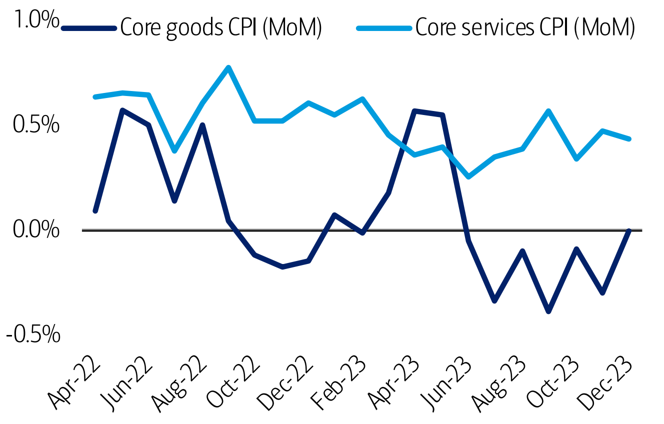
Exhibit 15: Core goods flat, services inflation in December

Core goods inflation was close to flat in December (-0.04% m/m), while core services inflation remained high at +0.44%.



Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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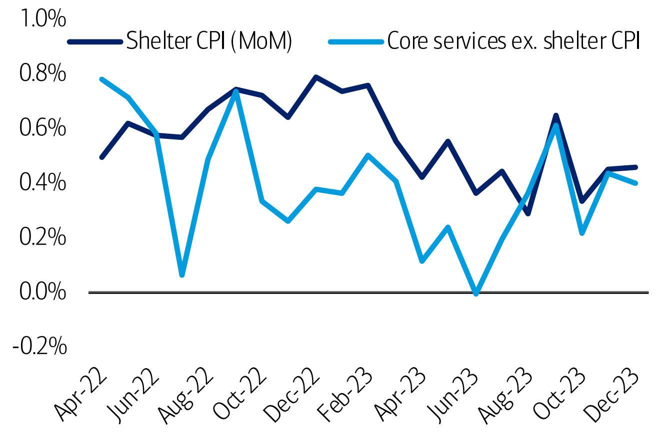
Exhibit 16: Elevated core services inflation

Core services ex. shelter CPI remained elevated at +0.40% in Dec, similar to +0.44% m/m in Nov. Shelter inflation was little changed at +0.46% m/m.



Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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Situation Room: Seasonal 30yr IG bond shortage

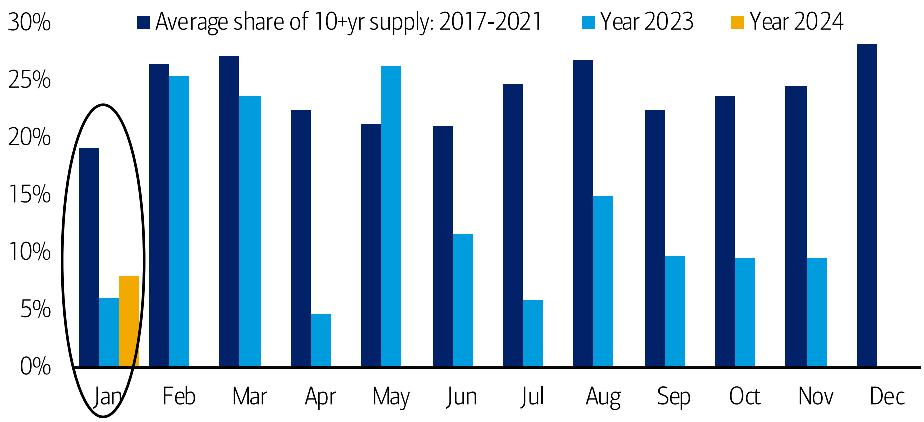
Seasonal 30yr IG bond shortage

Due to more financial issuance, the share of 10+yr (20yr, 30yr) IG supply tends to be smaller in January. Not surprisingly, the share of back-end supply was especially low in 2023 (6%) and also so far in 2024 (8%, Exhibit 17). As a result, 10s30s IG spread curve is flattening again in January after steepening a bit on the back of the rally in rates during November and December (Exhibit 18). Dealer inventory data clearly illustrates the mismatch between supply and demand in the back end of the IG curve. As expected, TRACE data shows dealers net bought 1-10yr IG bonds in January due to heavy supply. In contrast, dealers net sold 10+yr IG bonds (Exhibit 19, Exhibit 20).

No near-term relief

Companies are preferring shorter maturities in anticipation of lower borrowing costs in the future. Getting to those lower yields could take a while. Our rates strategists call for 10yr Treasury yields to remain relatively stable in 2024, with year-end target of 4.25% (see Global Rates Year Ahead: 2024: Cloudy with a chance of landing). That means back-end supply should increase only gradually, as some issuers eventually capitulate. In this base-case scenario 10s30s IG spread curve should remain flat at least through 1H-2024.

Exhibit 17: Little 30yr IG supply to start the year
The share of 10+yr IG supply is typically low in January (19% 2017 – 2021 average), but it was especially low in 2013 (6%) and so far in 2024 (8%).



Source: BofA Global Research

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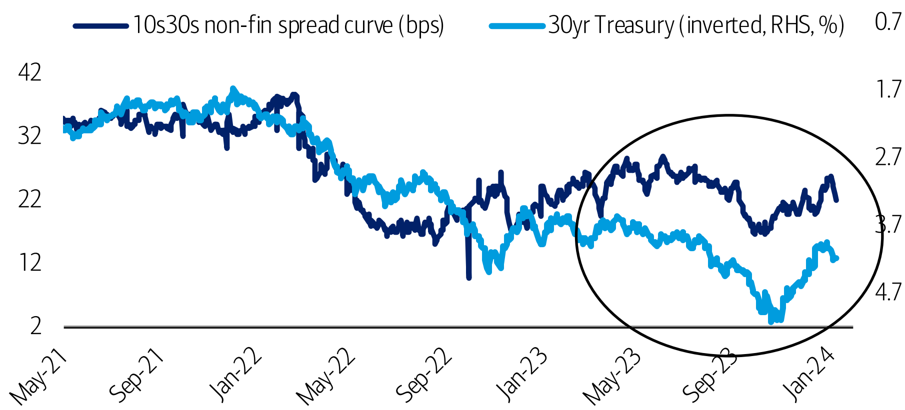
Exhibit 18: Flattening 10s30s
IG 10s30s spread curve reached the flattest level in October 2023 (17bps), then steepened to 26bps in December before re-flattening to 22bps currently.



Note: based on issuer-matched on-the-run 10 and 30yr IG bonds.
Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg.

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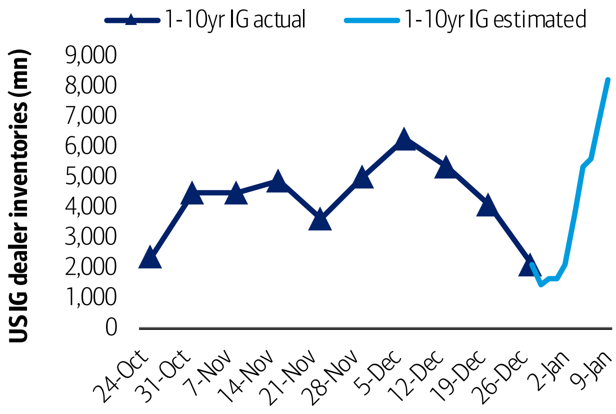
Exhibit 19: Higher dealer inventories of 1-10yr IG bonds.
As expected, dealer inventories of US IG 1-10yr bonds increased in January on the back of heavy supply.



Source: BofA Global Research, FINRA TRACE, NY Fed.
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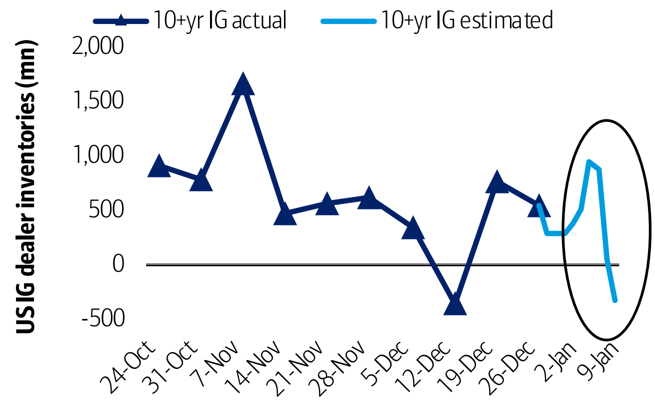
Exhibit 20: Lower dealer inventories of 10+yr IG bonds.
Despite heavy IG supply, dealer inventories of 10+yr IG bonds declined so far in January.



Source: BofA Global Research, FINRA TRACE, NY Fed.
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Previously published here
Situation Room: Back to pre-March levels for REITs

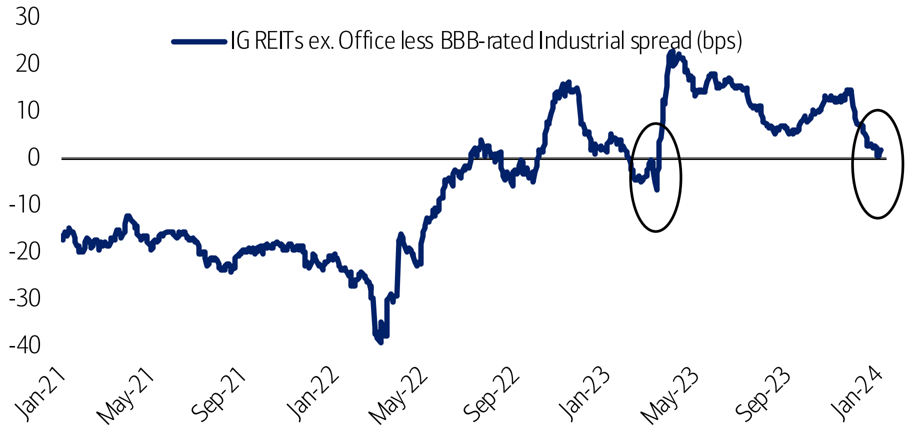
Back to pre-March levels for REITs

Spreads for IG non-office REITs are now trading about flat to BBB-rated Industrials. That's similar to where they were in Jan-Feb 2023, prior to the regional bank stress in March, and about 15bps tighter since Nov-2023 (Exhibit 21). Hence greater investor concerns about commercial real estate (CRE) post the SVB collapse have by now been offset by the outlook for more Fed cuts in 2024. We think there is more room for REIT spreads to outperform, this time driven by supply.

Benign supply

Not surprisingly, lower yields and tighter spreads are resulting in more REIT supply. REIT issuance has reached $3.7bn so far in January from seven deals, which is the highest monthly volume since Apr-2022 (Exhibit 22). Given that the REIT sector is illiquid, in a tightening spread environment supply could counterintuitively be positive for secondary spreads. That's because new issues pricing at tighter levels could help re-price illiquid secondary bond spreads tighter as well.

Exhibit 21: REITs spread premium vs industrials has compressed to pre-SVB levels
IG REITs (ex. Office) less BBB-rated industrial spreads is 2bps currently, down from 15bps in November 2023 and similar to the about flat level in Jan/Feb 2023.



Note: excluding downgrades to HY.
Source: BofA Global Research

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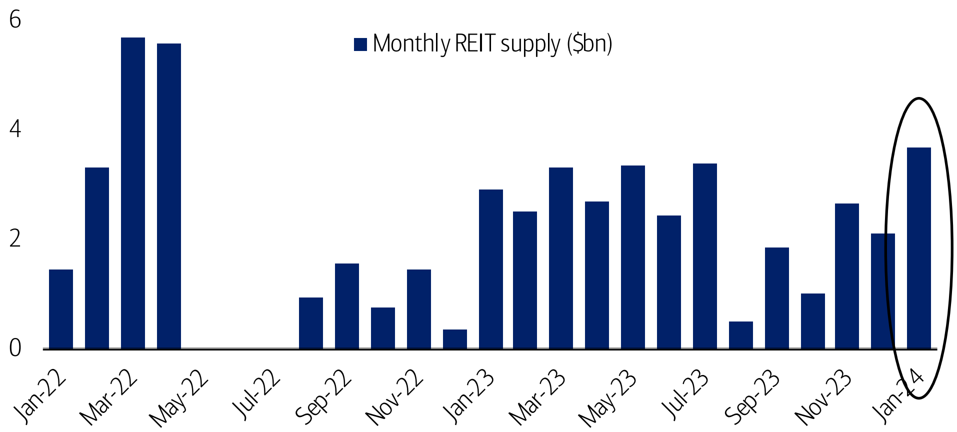
Exhibit 22: Jan-2024 MtD REIT supply is the highest since the full month of Apr-2022.
The MtD REIT supply has reached $3.7bn. The last time monthly REIT issuance was higher was in April 2022.



Source: BofA Global Research

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Previously published here
[Situation Room: 4Q-23 earnings preview: strong ex energy]

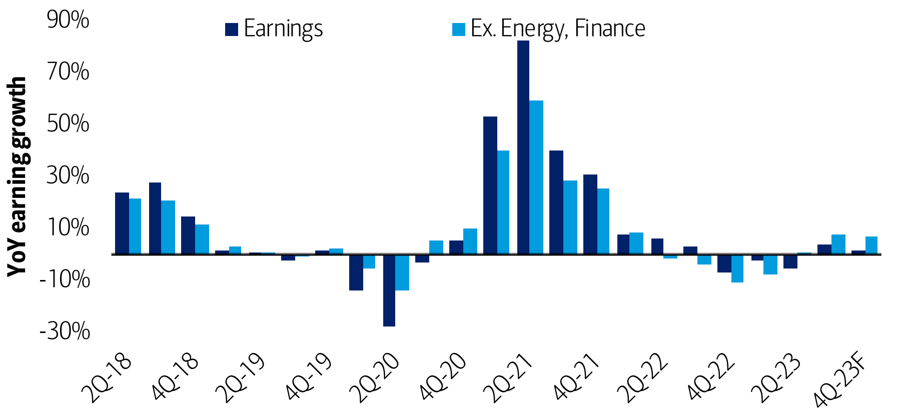
4Q-23 earnings preview: strong ex energy

The big six US banks / brokers will kick off the 4Q reporting season this Friday, January 12th. Bottom-up consensus calls for US HG public issuer earnings to grow +1.3% YoY in 4Q, following a +4.2% YoY increase in the prior 3Q-2023 quarter. As in the previous quarter, much of the weakness is driven by tough comps for commodity sectors during 2022. Hence excluding the more volatile Energy and Finance sectors, earnings growth is expected to remain strong, increasing +7.2% YoY in 4Q-23, similar to the +7.7% YoY reading in 3Q-23 and up from +0.2% YoY in 2Q-2023. Note that actual results typically surprise to the upside. Consensus is calling for YoY revenue growth to strengthen for the full universe (to +2.4% YoY in 4Q from +1.2% YoY in 3Q), but less so ex. Energy and Finance (to +2.8% YoY in 4Q from +3.3% YoY in 3Q).

Positive surprises

Actual results tend to come in better than expectations by +3.7% for earnings and +0.7% for revenues, on average. For the prior 3Q-2023 earnings season, earnings surprise was stronger than average, while revenue surprise was slightly below the average (Figure 3, Figure 4).

Exhibit 23: Earnings growth for US IG issuers
YoY earnings growth is expected to moderate in 4Q vs. 3Q ex. Energy, Finance.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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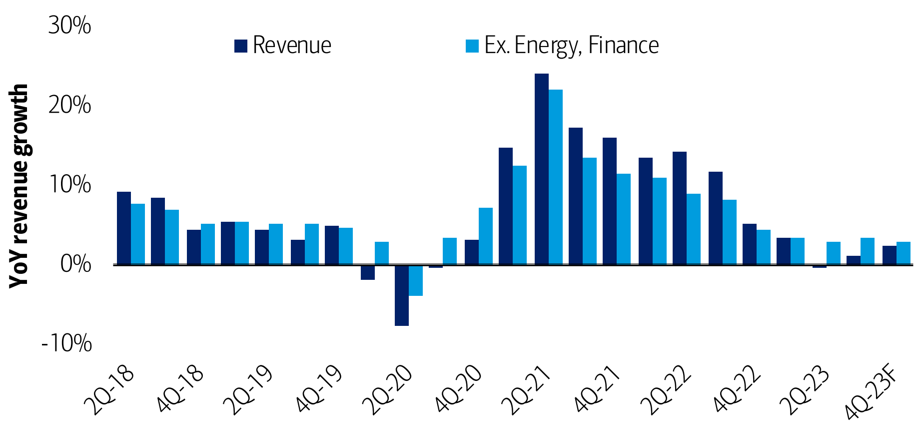
Exhibit 24: Revenue growth for US IG issuers
Consensus is calling for YoY revenue growth to strengthen for the full universe (to +2.4% YoY in 4Q from +1.2% YoY in 3Q), while remaining robust ex. Energy and Finance (to +2.8% YoY in 4Q from +3.3% YoY in 3Q).



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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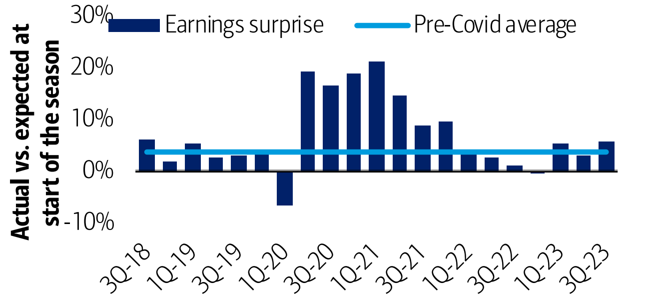
Exhibit 25: Earnings surprise for US IG issuers
Earnings surprise was above the +3.7% pre-Covid average in 3Q-2023.



Source: BofA Global Research, FactSet

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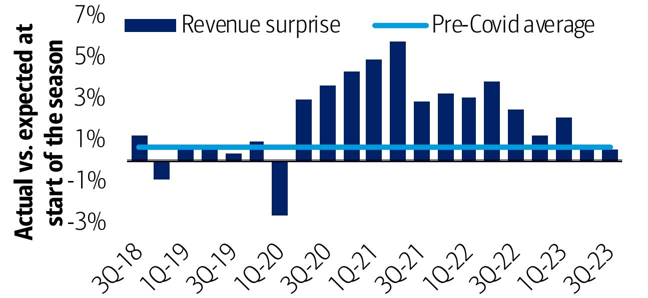
Exhibit 26: Revenue surprise for US IG issuers
Sales beat expectations by only 0.5% in 3Q-2023.



Source: BofA Global Research, FactSet

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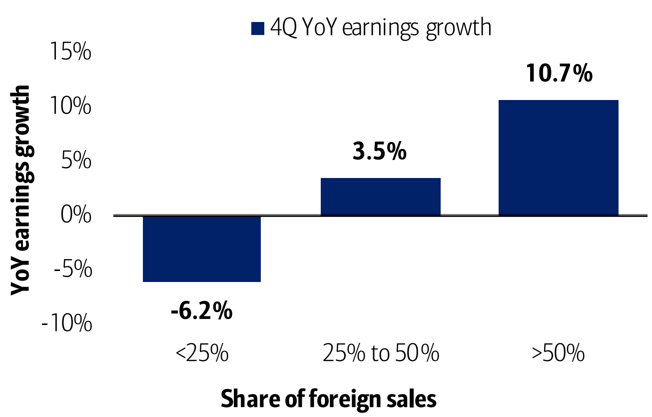
Foreign over domestic

The strongest earnings growth in 4Q-23 (+10.7%) is expected for the more global issuers (>50% share of foreign sales, ex. Finance, Energy, Utilities), while the biggest earnings decline (-6.2%) is expected for the more domestic issuers (<25% foreign sales, Exhibit 27, Exhibit 28).

Exhibit 27: 4Q-23 consensus earnings growth by foreign sales
Expected 4Q earnings growth is expected to drop the most for more domestic issuers (-6.2%).



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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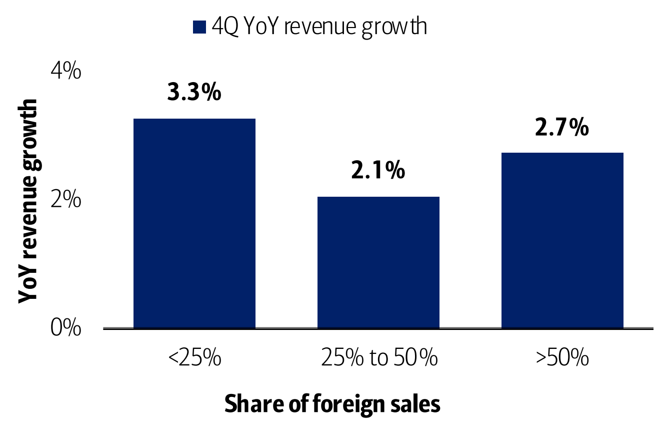
Exhibit 28: 4Q-23 consensus sales growth by foreign sales
Expected 4Q sales growth is 3.3% YoY for the more domestic issuers, 2.1% for issuers with intermediate foreign exposure, 2.7% for more global issuers.



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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Results by sector

Sectors with the weakest expected YoY earnings growth in 4Q include Autos (-39%), Energy (-28%), and Basic Materials (-22%). The strongest YoY earnings growth is expected for Media & Entertainment (+66%), Utilities (+41%) and Retail (+34%, Exhibit 29).

Exhibit 29: Bottom-up consensus estimates for 4Q-23, public US IG issuers
Expected YoY 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	3.6%	4.8%	1.7%	0%
Automobiles	-39.2%	-4.3%	1.3%	0%
Banks/Brokers	-18.9%	2.8%	11.6%	0%
Basic Materials	-21.6%	-4.0%	1.9%	2%

Exhibit 29: Bottom-up consensus estimates for 4Q-23, public US IG issuers
Expected YoY 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
Consumer Products	-1.8%	1.0%	0.7%	0%
Energy	-28.0%	-5.7%	4.2%	0%
Finance	3.4%	8.8%	2.3%	0%
Food, Bev, & Bottling	0.3%	0.9%	2.0%	18%
Health Care	-19.2%	4.5%	7.5%	0%
Industrial Products	1.8%	-0.6%	1.9%	0%
Insurance	20.4%	9.7%	2.5%	0%
Media & Entertainment	65.5%	7.4%	3.2%	0%
REITs	19.6%	6.3%	3.0%	0%
Retail	34.0%	4.4%	3.3%	6%
Technology	17.0%	6.3%	5.6%	18%
Telecom	-0.1%	-1.3%	2.6%	0%
Transportation	-13.3%	-1.7%	1.3%	14%
Utilities	41.4%	-2.2%	6.5%	0%
Other	-3.1%	1.8%	2.2%	1%
Total US HG public co's	**1.3%**	**2.4%**	**65.0%**	**3%**
Total ex. Financials	2.0%	1.8%	45.6%	4%
Total ex. Energy	5.2%	3.4%	60.8%	3%
Total ex. Fin. & Energy	**7.2%**	**2.8%**	**41.4%**	**4%**
Yankee and private co's	n.a.	n.a.	35.0%	n.a.
HQ ex. Financials, Utilities	8.0%	3.3%	14.9%	1%
BBB ex. Financials, Utilities	-10.2%	0.6%	23.7%	7%

Note: 4Q-23 values are based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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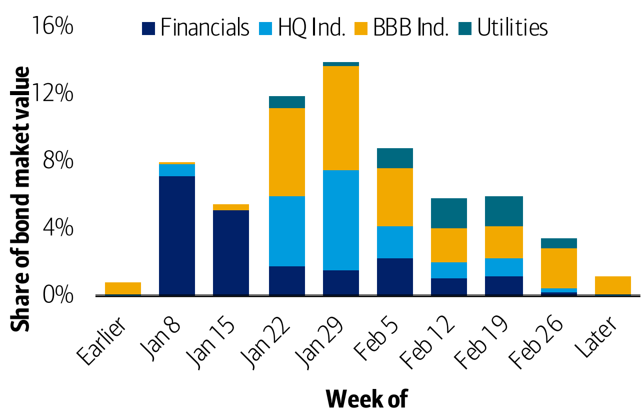
Timing of the earnings season

This week 11 issuers accounting for 7.9% of the US IG corporate bond index market value are scheduled to release 4Q results. The pace then accelerates to 29 issuers (but only 5.5% of the bond index) during the week of Jan 15, 80 issuers (11.9% of the index) during the week of Jan 22 and the peak 128 issuers (13.9% of the index) during the week of Jan 29. In terms of sectors, reporting will be skewed early in the season for financials, late for utilities, and mid-season for high quality industrials. The earnings season will be mostly over following the week of Feb 26th (Exhibit 30, Exhibit 31).

Exhibit 30: Weekly reporting: by the share of IG corp. bond index
The heaviest weeks for reporting are the last two weeks of January.



Source: BofA Global Research

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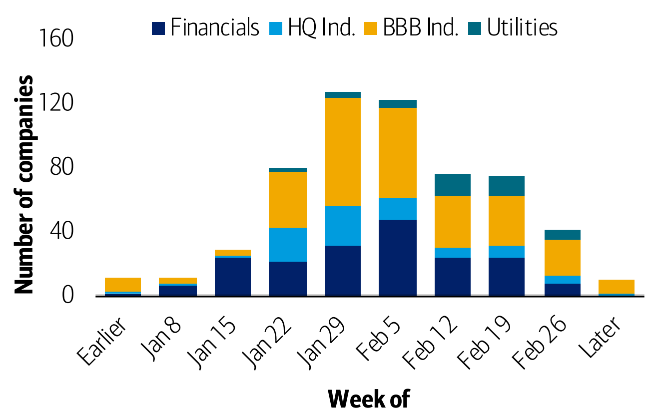
Exhibit 31: Weekly reporting: by the number of issuers
The number of companies reporting will peak.



Source: BofA Global Research

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Previously published here
[Situation Room: Dec CPI: fading the elevated CPI for now]

Flows

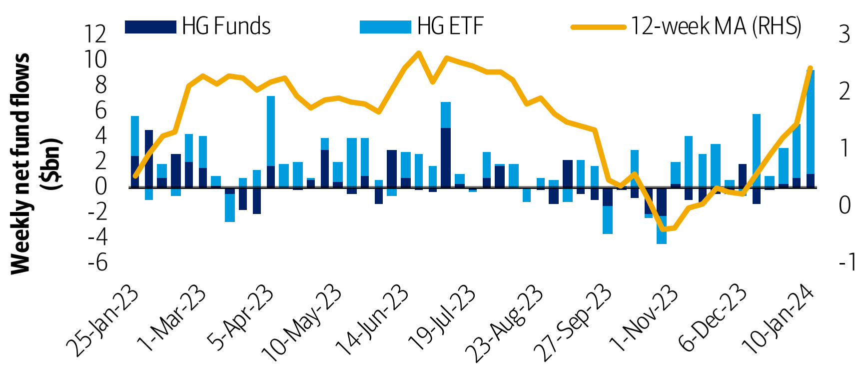
Big inflow to HG

Adding to an already strong start to 2024, inflows to US HG bond funds and ETFs accelerated to +$9.35bn this past week ending on January 10th, up from a +$5.00bn inflow in the prior week. This was the biggest weekly inflow in at least a year. Once again, most of the inflow was coming from HG ETFs (to +$8.32bn from +$4.28bn the prior week), whereas inflows to HG funds were more modest (to +$1.03bn from +$0.72bn). Flows to short-term HG turned positive for the first time in 13 weeks (to +$0.65n from -$0.26bn), while inflows improved ex. short-term (to +$8.69bn from +$5.26bn).

Outflow for stocks

Away from HG bonds, flows turned negative for equities (to -$9.50bn from +$4.46bn) and for global EM bonds (to -$0.55bn from +$0.09bn) this past week. On the other hand flows turned positive for HY (to +$1.29bn from -$0.90bn) as well as for loans (to +$0.25bn from -$0.04bn) and for munis (to +$0.18bn from -$0.82bn). Finally, money markets reported a +13.59bn inflow this past week, following a big +$64.09bn inflow a week earlier.

Exhibit 32: Weekly high grade fund flows, $bn
HG ETF +$4.28bn, HG Funds +$0.72



Source: EPFR Global. Note: data are for US-domiciled funds only.
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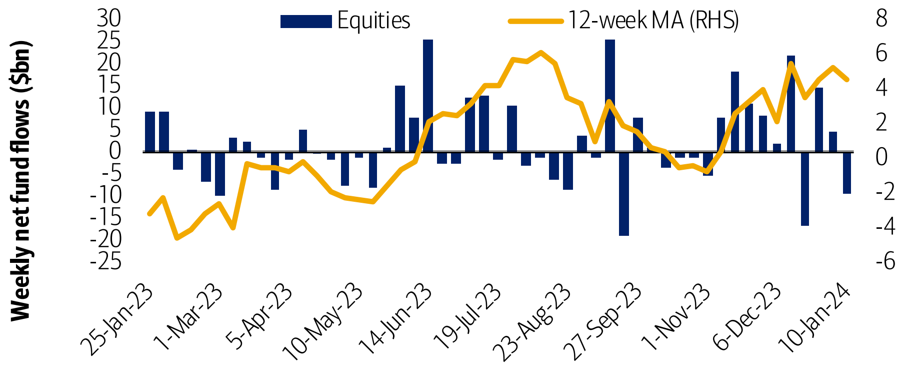
Exhibit 33: Weekly equity fund flows, $bn

Equities +$4.46bn



Source: EPFR Global. Note: data are for US-domiciled funds only.

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Exhibit 34: Fund flows summary

YTD fund flows summary by asset class

Asset class	Last week (% of AUM for weekly reporting funds/ETFs)	YTD (% of AUM for all funds/ETFs)	YTD ($bn)
High grade: total	0.45%	0.4%	14.4
High grade: ex short-term	0.55%	0.5%	14.0
High yield: total	0.52%	0.1%	0.4
High yield: ETFs only	1.69%	0.2%	0.2
Loans	0.30%	0.2%	0.2
EM	-0.12%	-0.1%	-0.5
Munis	0.04%	-0.1%	-0.6
All fixed income	0.28%	0.3%	16.2
Money markets	0.21%	1.2%	77.7
Equities	-0.09%	0.0%	-5.0

Note: Last week flow as % of AUM is based on AUM for weekly reporting funds / ETFs only. YTD flow as % of AUM is based on AUM for the full fund/ ETF universe as of December 31 2020. Global EM funds, US-domiciled funds only for other fund types.

Source: EPFR Global, BofA Global Research

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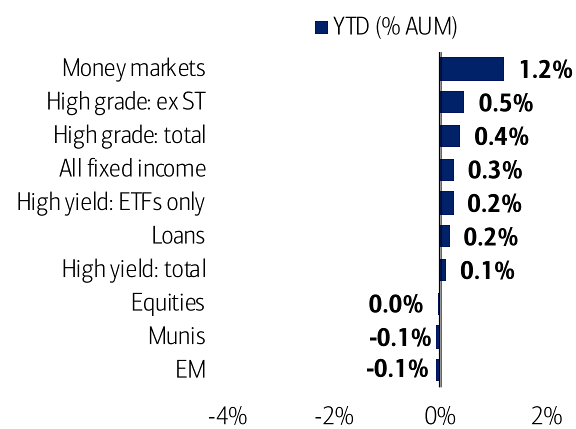
Exhibit 35: Year to date fund flows, % of AUM

Money markets have had the biggest inflows so far in 2024.



Note: Global EM funds, US-domiciled funds only for other fund types.

Source: EPFR Global, BofA Global Research

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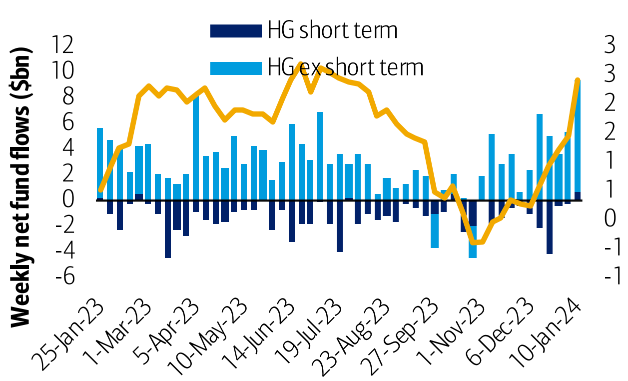
Exhibit 36: Weekly high grade fund flows, $bn

HG short-term -$0.26bn, HG ex short-term +$5.26



Source: EPFR Global. Note: data are for US-domiciled funds only.

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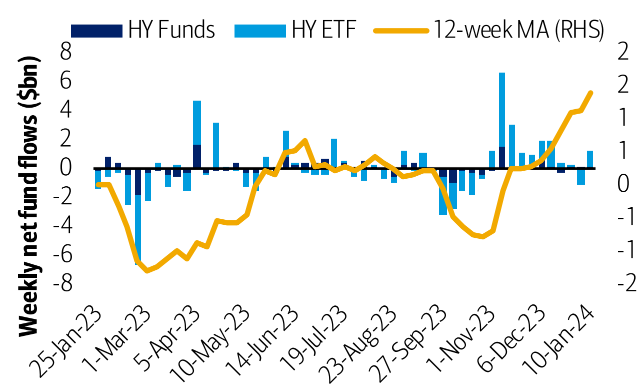
Exhibit 37: Weekly high yield fund flows, $bn

HY ETFs -$1.06bn, HY funds +$0.15



Source: EPFR Global. Note: data are for US-domiciled funds only.

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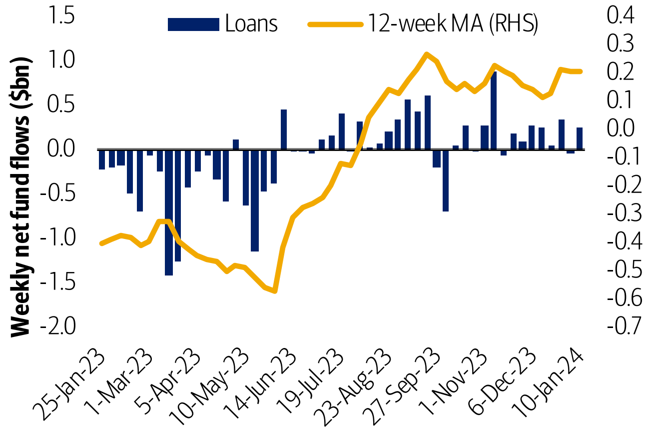
Exhibit 38: Weekly loan fund flows, $bn
Leveraged loans -$0.04bn



Source: EPFR Global. Note: data are for US-domiciled funds only.
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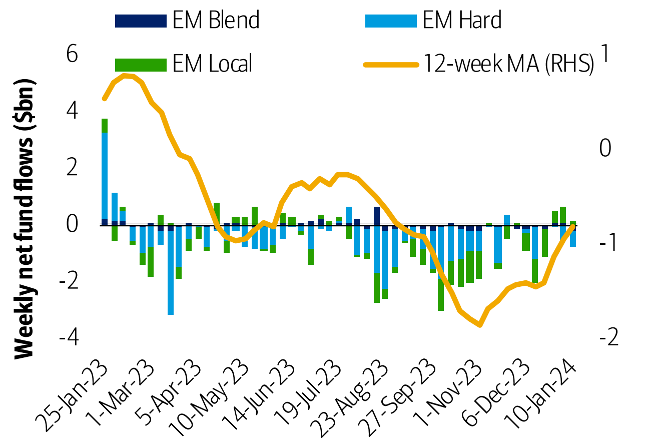
Exhibit 39: Weekly EM fund flows, $bn
Global EM bonds +$0.09bn



Source: EPFR Global. Note: data are for US-domiciled funds only.
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Appendix: defining high grade

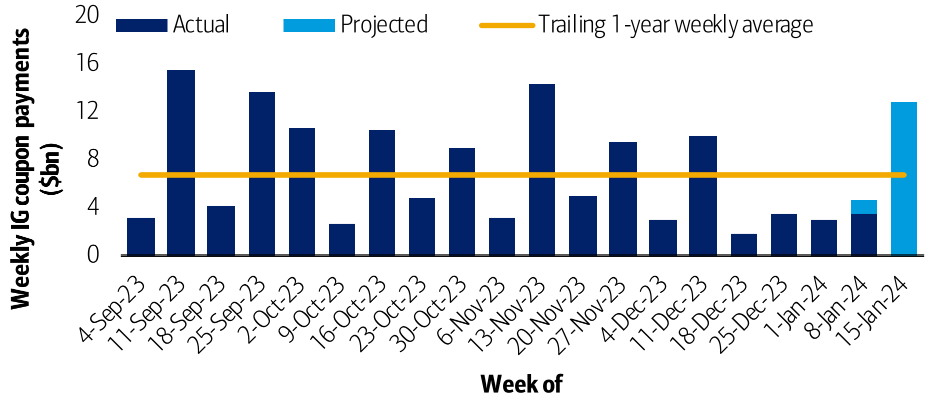
We define our high grade flows metric as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" category refers to the broad high grade market, which includes Treasuries, mortgages and agencies in addition to corporate bonds. This category accounts for the majority of AUM and flows. On the other hand the dedicated corporate bond funds and ETFs are much smaller in terms of assets under management. We also include the "total return" bond category in our tracking of high grade flows. Finally note that "short-term" maturity refers to duration of 0 to 4 years.

Weekly technicals

The US IG corporate bond market is expected to generate $12.8bn in coupon payments next week, above the trailing 1-year weekly average of $6.7bn (Exhibit 40). In addition, $0.1bn of calls and $0.4bn tender offer were settled and paid this week. Bond maturities: $20.6bn this week, $19.1bn next week.

Exhibit 40: Weekly US IG coupon payments

Expect $12.8bn of coupon payments next week, above the $6.7bn trailing 1-year weekly average.



Source: ICE Data Indices, LLC, BofA Global Research

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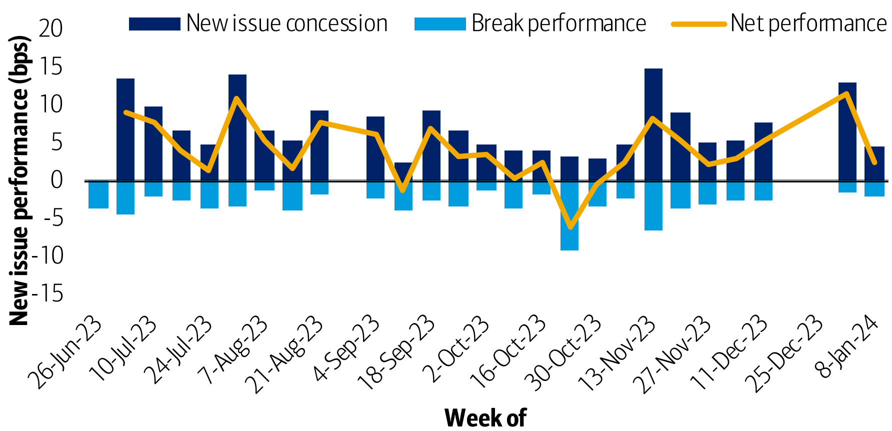
Supply

US IG gross issuance totaled $44.0bn this week, consisted of $22.6bn financials, $7.2bn high-quality industrials and $14.3bn BBB industrials. Given $101.0bn of gross issuance, $14.5bn of maturities and $0.7bn of additional redemptions, net issuance is tracking $85.9bn MTD. Next week is short due to the holiday on Monday, should be dominated by the large US banks/brokers, which typically issue $10-30bn averaging $20bn in January after releasing the 4Q results (Exhibit 44). Hence, we expect supply in $30-$40bn range, not far the typical levels for the 3rd week of January (Exhibit 42).

New issue performance improved this week. The average new issue concession decreased to 4.6bps from 13.0bps last week, while the average break performance narrowed to 2.1bps tighter this week from 1.74ps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, strengthened to 2.6bps this week from 11.5bps last week (Exhibit 41).

Exhibit 41: Weekly new issue supply performance

For the week of Jan 8 2024: new issue concession = 4.6bps; break performance = -2.1bps; net performance = 2.6bps.



Source: BofA Global Research

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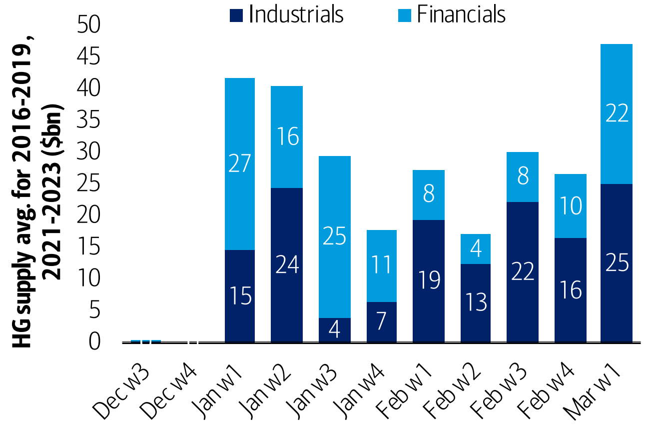
Exhibit 42: Weekly Supply seasonality

Supply volumes pick tend to pick up during first half of January.



Source: Bloomberg, BofA Global Research

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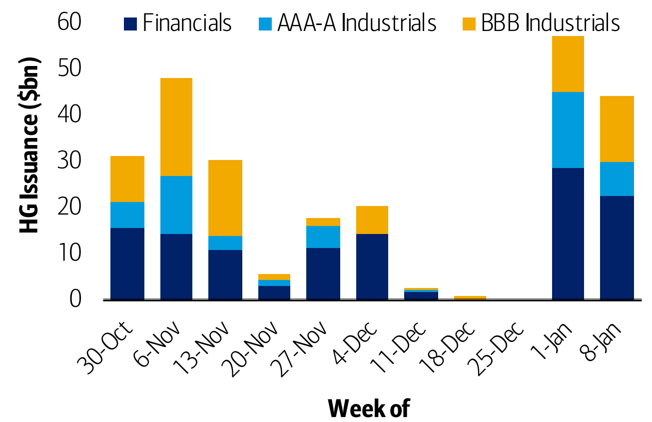
Exhibit 43: Weekly Supply

This week's supply consisted of $22.6bn financials, $7.2bn high-quality industrials and $14.3bn BBB industrials.



Source: Bloomberg, BofA Global Research

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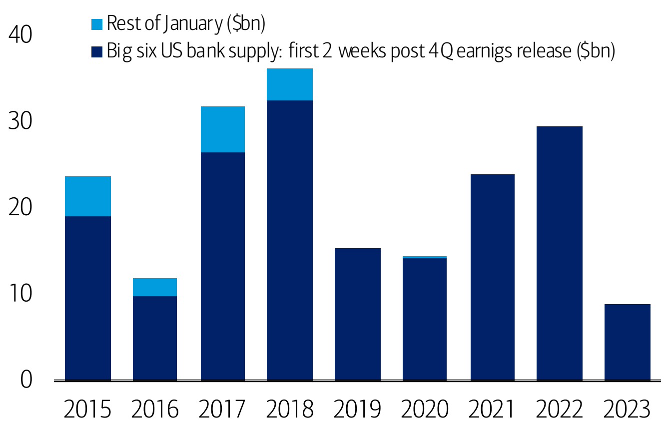
Exhibit 44: Big six US banks' supply post 4Q earnings

Big six US banks' supply is typically in $10 - $30bn range post the release of 4Q results.



Source: Bloomberg, BofA Global Research

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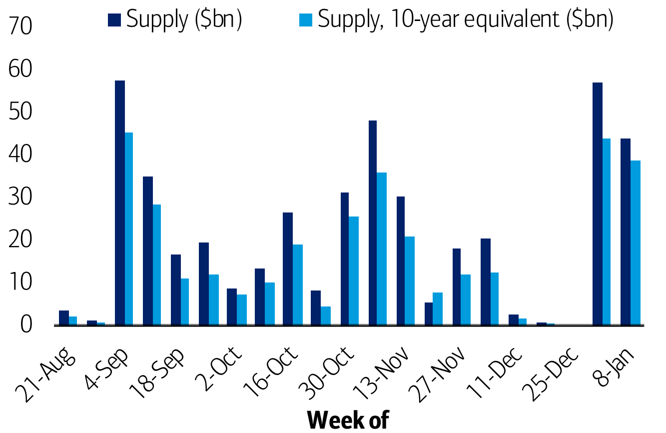
Exhibit 45: Weekly gross and 10-year equivalent supply volumes

10-year equivalent supply = $38.8bn WTD



Source: BofA Global Research, Bloomberg

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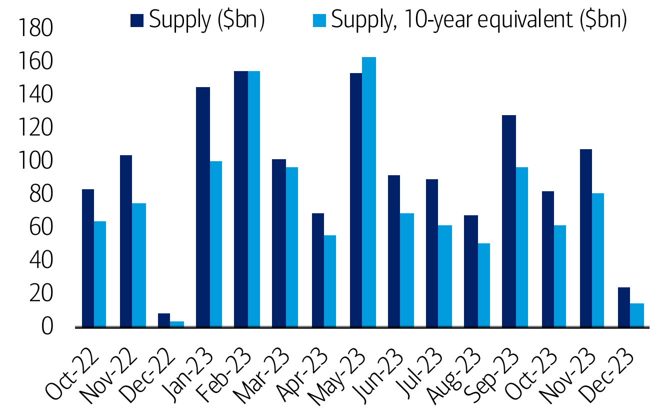
Exhibit 46: Monthly gross and 10-year equivalent supply volumes

10-year equivalent supply = $82.7bn in January



Source: BofA Global Research, Bloomberg

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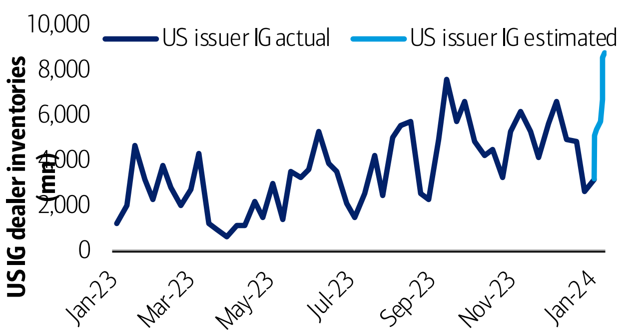
Dealer inventories

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 47 and Exhibit 48. We estimate the corresponding DV01 equivalent in Exhibit 48. More details by sector and maturity are available in Exhibit 49 and Exhibit 50. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 47: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to $8.8bn currently from $3.2bn on Jan-03.



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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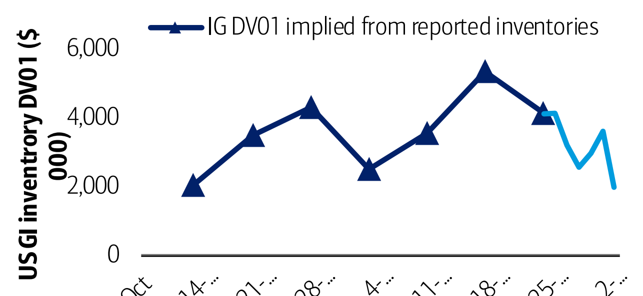
Exhibit 48: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds declined to $2.0mn currently from $4.1bn on Nov-24.



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

We estimate IG dealer inventories increased $441mn today and increased $5,453mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 11-Jan-24 ($mn)			
Sector	11-Jan	10-Jan	1 W	2 W	4 W	11-Jan	10-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	441	2,463	5,453	11,789	9,606	-339	2,037	2,107	6,117	6,180	14,298	13,857	10,359	38,514

Exhibit 49: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased $441mn today and increased $5,453mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 11-Jan-24 ($mn)			
Sector	**11-Jan**	**10-Jan**	**1 W**	**2 W**	**4 W**	**11-Jan**	**10-Jan**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
<3yr	-308	84	-133	311	-1,249	-72	30	-48	37	-293	2,302	2,610	1,555	6,467
3-5yr	430	426	2,185	2,996	2,414	132	172	772	1,110	879	2,444	2,014	1,863	6,321
5-11yr	1,667	1,339	5,273	9,385	8,137	1,145	902	3,468	6,045	5,055	5,441	3,775	3,516	12,732
11+yr	-1,348	613	-1,872	-903	304	-1,544	933	-2,085	-1,075	539	4,111	5,459	3,425	12,995
Fin	689	641	2,425	4,755	3,971	348	277	794	2,032	2,163	5,180	4,491	3,248	12,919
Non-Fin	-248	1,822	3,029	7,034	5,635	-688	1,759	1,313	4,085	4,018	9,118	9,366	7,111	25,595
Fixed	500	2,475	5,698	12,247	10,234	-312	2,040	2,140	6,228	6,353	14,199	13,700	10,277	38,176
Floating	-59	-13	-244	-458	-628	-27	-3	-33	-111	-172	98	157	82	338
US issuers	228	1,801	3,633	8,195	6,747	-469	1,679	1,075	4,104	4,387	11,205	10,977	8,570	30,753
DM Yankees	253	680	1,722	3,561	2,818	140	366	969	1,989	1,740	2,839	2,586	1,728	7,154
EM Yankees	-40	-18	98	32	41	-10	-9	62	23	53	253	293	60	607

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 50: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased $477mn for Banks/Brokers and declined -$39mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 11-Jan-24 ($mn)			
Sector	**11-Jan**	**10-Jan**	**1 W**	**2 W**	**4 W**	**11-Jan**	**10-Jan**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Aerospace/Defense	23	3	-278	-236	-274	50	-11	-237	-225	-286	374	351	246	971
Automobiles	-108	-44	-71	584	405	-48	-45	-67	246	181	401	509	480	1,390
Banks/Brokers	477	458	1,299	2,715	2,354	193	76	240	924	968	3,411	2,934	2,097	8,442
Basic Materials	-19	137	197	489	198	-34	145	128	311	148	402	422	297	1,121
Commercial Services	-12	-26	-55	-1	114	4	-19	-80	-7	75	151	163	123	436
Energy	-39	-19	139	390	38	-132	-21	-28	55	85	941	980	647	2,567
Finance	60	109	462	995	534	61	120	266	515	362	875	815	600	2,290
Food, Bev, & Bottling	-92	103	179	473	518	-61	63	79	327	420	370	463	437	1,270
Health Care	-269	313	430	624	486	-404	378	155	335	339	1,437	1,706	1,073	4,217
Industrial Products	61	-30	101	503	441	58	30	106	309	284	433	372	251	1,056
Insurance	51	-44	51	219	193	54	8	30	146	284	461	411	309	1,181
Media & Entertainment	-30	230	60	61	-21	-25	219	47	24	137	485	515	556	1,556
REITs	102	118	614	825	890	41	72	259	447	548	433	331	242	1,006
Retail	123	90	268	448	421	57	83	177	348	404	561	437	443	1,441
Technology	166	201	462	594	628	124	187	158	203	335	1,003	837	776	2,615
Telecom	-6	335	635	1,046	826	-70	262	302	657	509	566	572	429	1,566
Tobacco	19	83	278	232	149	-3	74	197	147	91	249	230	119	598
Transportation	-9	-1	-67	27	33	-66	-3	-110	14	16	212	221	192	625
Utilities	-73	411	527	1,571	1,539	-155	386	331	1,237	1,256	1,366	1,439	911	3,715
Other	18	35	222	229	136	16	32	154	104	25	168	150	130	449

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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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
CPI: Consumer Price Index
FOMC: The Federal Open Market Committee
ETF: exchange-traded fund

Disclosures

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