

Situation Room

Higher rates, normal supply

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Despite the big jump higher in interest rates, IG new issue supply volumes have remained robust both year-to-date as well as in August. That could mean companies are not expecting Treasury yields to come down any time soon. That would be consistent with our rates strategists, who have revised their outlook for Treasury yields higher earlier this month, including to 4% on the 10yr Treasury by year-end 2023 (see Global Rates Weekly: Steep demand curve).

Daily credit snapshot

US IG issuance totaled \$9.3bn across 5 deals today and \$60.0bn MTD. The average new issue concession was 5.3bps today, while the average break performance was 2.7bps tighter today. S&P 500 closed +0.58%, 10-year Treasury yields +5bps, CDX IG -0.4bps, CDX HY +\$0.11pts, and cash bond spreads unchanged today, LQD closed 1.28bps tighter today.

Credit Market Strategist

We published the latest Credit Market Strategist on Friday. See inside for more details.

Daily dealer inventories update

\$909mn (notional), \$619,000 (DV01) today. Maturities and sectors inside.

Daily foreign demand tracker

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

14 August 2023

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United States
Cross Product

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Research Overview — The Situation

Higher rates, normal supply

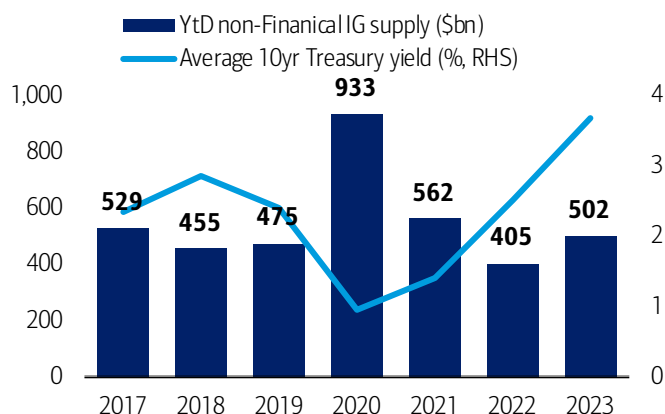
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Demand = supply

Companies not delaying borrowing to wait for potentially lower costs later could mean the typical pickup in supply during September, despite the much higher corporate yields. However, higher yields should also result in stronger investor demand, suggesting an overall neutral impact on spreads. Finally, IG issuers rolling debt at the current even higher yields should continue to depress the IG market coverage ratio (see Situation Room: Higher for longer will dent IG coverage).

Figure 1: Higher rates, higher supply YtD

Non-financial issuance picked up this year relative to the same period last year despite much higher interest rates in 2023.

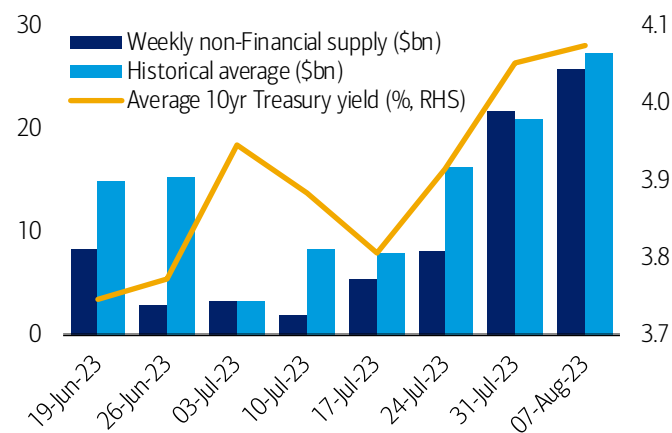


Source: BofA Global Research, Bloomberg.

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Figure 2: August Supply remained robust despite higher rates

IG non-financial supply during the first two weeks of August was in line with historical averages, despite a big jump in Treasury yields.



Note: IG weekly supply average is for years 2016-2019, 2021-2022.

Source: BofA Global Research, Bloomberg.

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Credit Strategy

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S&P 500 closed +0.58%, 10-year Treasury yields +5bps, CDX IG -0.4bps, CDX HY +\$0.11pts, and cash bond spreads unchanged today, LQD closed 1.28bps tighter today.

Figure 3: 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)
2023-08-14	BAC	Bank of America NA	2	400	Aa1/A+	FRN	SOFR+78	n.a.	-3	n.a.
2023-08-14	BAC	Bank of America NA	2	2,000	Aa1/A+	5.65	70	n.a.	-2	68
2023-08-14	BAC	Bank of America NA	3	600	Aa1/A+	FRN	SOFR+102	n.a.	-3	n.a.
2023-08-14	BAC	Bank of America NA	3	2,000	Aa1/A+	5.526	90	n.a.	-2	88
2023-08-14	ETR	Entergy Arkansas LLC	10	300	A2/A	5.3	120	0	n.a.	n.a.
2023-08-14	FI	Fiserv Inc	5	700	Baa2/BBB	5.375	108	n.a.	n.a.	n.a.
2023-08-14	FI	Fiserv Inc	10	1,300	Baa2/BBB	5.625	155	8	-7	148
2023-08-14	HBAN	Huntington Bancshares Inc/OH	6NC5	1,250	Baa1/BBB+	6.208	185	8	-1	184
2023-08-14	OTIS	Otis Worldwide Corp	5	750	Baa1/BBB	5.25	98	5	-1	97

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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Previously published here

[Credit Market Strategist: Running out of positive catalysts 11 August 2023](#)

Credit Market Strategist

Running out of positive catalysts

Resilient US growth, benign inflation, the potential end of the Fed hiking cycle, bear steepening of the Treasury yield curve and the normalization of financial issuer valuations post the banks stress in March have all been positive catalysts for IG spreads during the summer. Spreads now almost fully reflect these positive developments, suggesting limited further upside. In contrast, several risks still have the capacity to push spreads wider, including a stronger than expected US growth or inflation (re-acceleration risks), funding concerns at higher interest rates for lower-rated issuers, or growth slowing more than expected on the back of the Fed hiking cycle.

Moderate widening bias in spreads

While we look for spreads to remain resilient in August (see [Credit Market Strategist: Rate resilience](#)), we maintain our 6M IG spread target of 130bps, a bit wider from the current levels. While that implies spreads are biased wider, the risks are moderate. In a re-acceleration scenario, higher Fed risks and potential increase in rates vol are offset by a stronger economy. In a deceleration scenario recessions risks are offset by potential Fed rate cuts and stronger IG corporate balance sheets.

Moody's bank downgrade

In total \$196bn of index bonds was impacted. The effect on spreads should be limited to technicals related to potential average index rating transitions.

July CPI: benign inflation priced in

The benign inflation is priced in by now given the mild market reaction to the soft print.



Higher rates = shorter supply

A big jump in interest rates typically leads to both less supply and more demand for 20 and 30yr bonds.

2Q earnings final update: in line

Results were generally in line with the expectations. Earnings surprise was +2.4%, below pre-Covid average of +3.7%. We are tracking 2Q earnings growth of -1.2% YoY.

IG market technicals

Supply: \$35.6bn of issuance this week, expect \$15-20bn next week. **Flows:** +\$1.81bn inflow this past week ending on August 9. **Weekly technicals:** expect \$10.3bn of coupon payments to become effective next week. **Bond maturities:** \$7.4bn this week, \$17.6bn next week. **Dealer inventories:** +\$3,524mn past week ended Thu. Details inside.

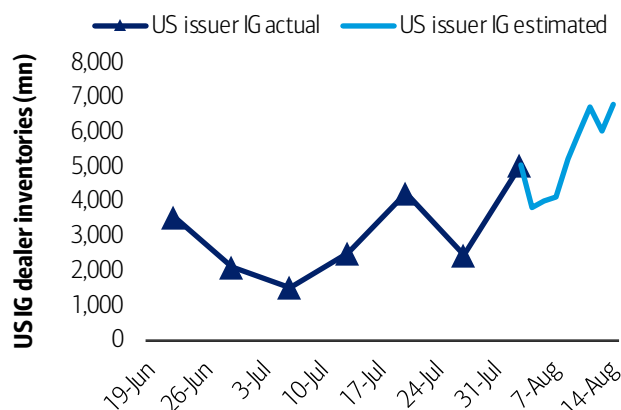
We published the weekly CMS data and charts in [Situation Room](#).

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 4 and Figure 5. We estimate the corresponding DV01 equivalent in Figure 5. More details by sector and maturity are available in Figure 6 and Figure 7. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Figure 4: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$6.8bn currently from \$5.1bn on Aug-02.



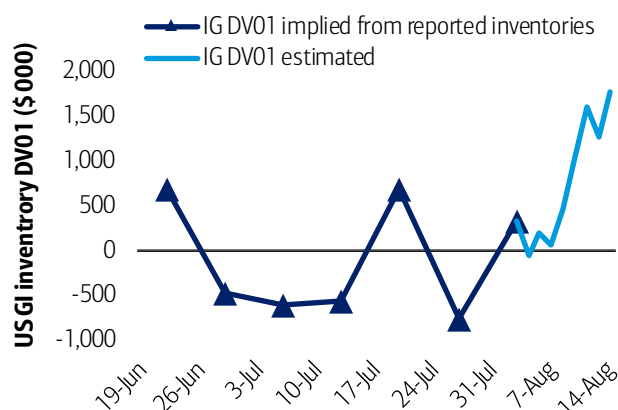
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Figure 5: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$1.8mn currently from \$0.3bn on Aug-02.



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

We estimate IG dealer inventories increased \$909mn today and increased \$2,877mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 14-Aug-23 (\$mn)			
	14-Aug	11-Aug	1 W	2 W	4 W	14-Aug	11-Aug	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	909	-889	2,877	3,527	7,554	619	-499	1,780	1,756	3,830	8,285	7,376	5,339	21,000
<3yr	17	-319	645	2,184	2,778	-7	-62	96	366	481	1,519	1,502	1,127	4,149
3-5yr	204	-261	536	89	1,599	48	-88	184	31	534	1,807	1,603	1,140	4,550
5-11yr	466	-58	1,355	729	1,910	305	-31	913	550	1,095	3,131	2,665	1,968	7,764
11+yr	222	-251	341	526	1,267	273	-318	586	810	1,721	1,828	1,605	1,104	4,537
Fin	717	-335	1,321	1,221	1,723	394	-167	646	372	585	3,667	2,950	1,796	8,413
Non-Fin	192	-554	1,556	2,306	5,831	225	-332	1,134	1,384	3,245	4,618	4,426	3,543	12,587
Fixed	890	-883	2,913	3,286	7,591	601	-490	1,781	1,684	3,836	8,159	7,269	5,310	20,738
Floating	19	-6	-37	241	-37	17	-9	-1	72	-6	126	107	29	262
US issuers	758	-681	2,668	3,024	5,429	510	-354	1,700	1,728	3,034	6,629	5,871	4,457	16,956
DM Yankees	94	-190	104	298	1,241	72	-124	49	-49	326	1,432	1,339	824	3,595
EM Yankees	58	-18	104	206	884	37	-22	30	78	470	224	166	59	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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Figure 7: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$443mn for Banks/Brokers and increased \$28mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 14-Aug-23 (\$mn)			
	14-Aug	11-Aug	1 W	2 W	4 W	14-Aug	11-Aug	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-62	-1	-77	-243	-193	1	-1	-9	-103	-66	120	182	115	418
Automobiles	-9	9	185	450	664	20	9	104	204	189	159	167	199	525
Banks/Brokers	443	-135	649	1,052	455	222	-37	342	209	20	2,486	2,043	1,197	5,726
Basic Materials	36	2	43	-37	-77	54	10	27	-23	-167	289	252	156	697
Commercial Services	53	0	57	-38	164	32	-4	26	-58	56	136	83	95	314
Energy	28	40	421	684	1,333	-8	-12	371	611	1,014	562	534	339	1,436
Finance	70	-161	207	52	438	24	-117	72	169	285	545	475	304	1,324
Food, Bev, & Bottling	41	-83	91	-131	270	36	-56	-2	-202	-49	250	209	147	606
Health Care	-56	-140	296	270	1,094	-17	-49	191	46	387	817	872	551	2,240
Industrial Products	-27	-50	101	242	-123	-13	-25	96	192	-15	194	221	162	577
Insurance	147	-9	266	92	122	107	7	184	34	44	277	130	124	531
Media & Entertainment	-36	13	9	30	290	-40	20	-10	-10	198	244	280	296	821
REITs	57	-30	199	26	709	41	-21	48	-39	236	359	302	171	832
Retail	8	-63	223	305	911	32	-40	236	308	825	286	278	276	840
Technology	123	-77	310	448	824	65	-21	244	400	455	523	400	379	1,302
Telecom	28	-71	-201	-539	-196	26	-35	-210	-507	-83	252	224	206	681
Tobacco	-15	-14	-11	86	104	-9	0	1	46	68	45	60	30	135
Transportation	-1	-5	75	156	511	-13	-10	41	145	435	96	97	68	261
Utilities	78	-108	69	598	-120	74	-99	90	354	-167	535	456	455	1,446
Other	2	-7	-36	26	373	-15	-20	-64	-19	163	111	109	69	289

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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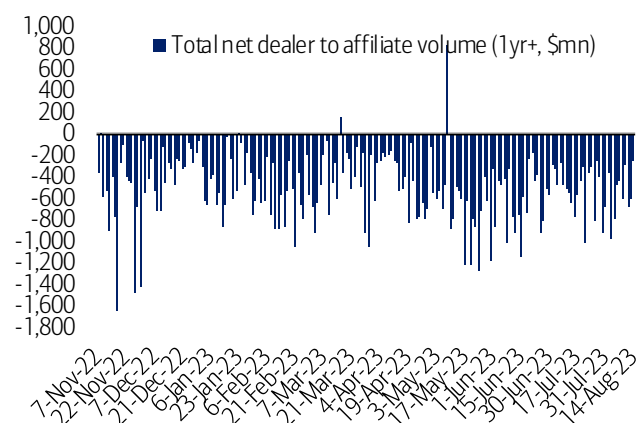
Daily foreign demand tracker

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 8 shows the overall daily dealer-to-affiliate volumes while Figure 9, Figure 10 and Figure 11 show subsets of this data. In particular Figure 9 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 10 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 11 shows the subset of net trades reported between 8am and noon (biased toward European buying).



Figure 8: Net dealer buying from affiliate (1yr+)

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



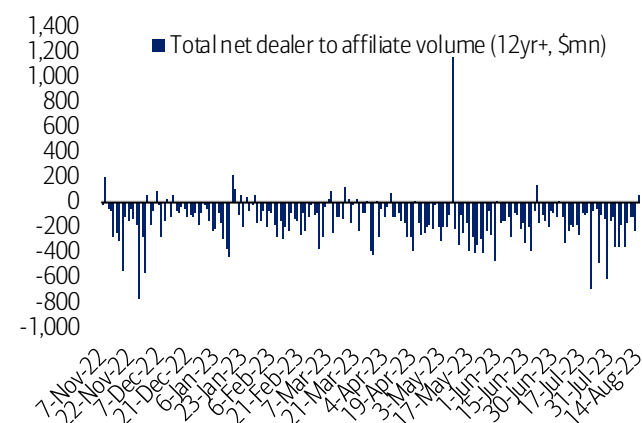
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 9: Net dealer buying from affiliate (12yr+)

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



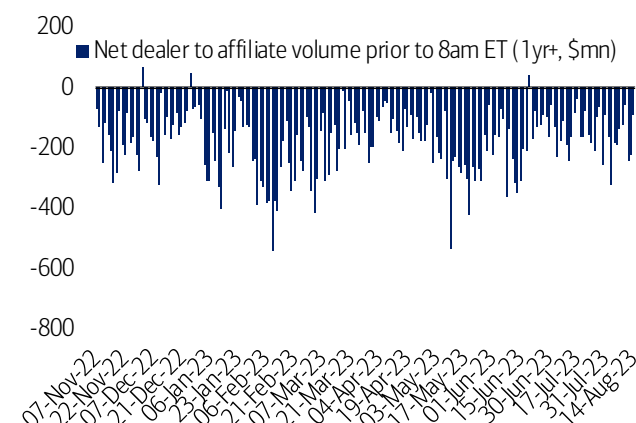
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Figure 10: 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



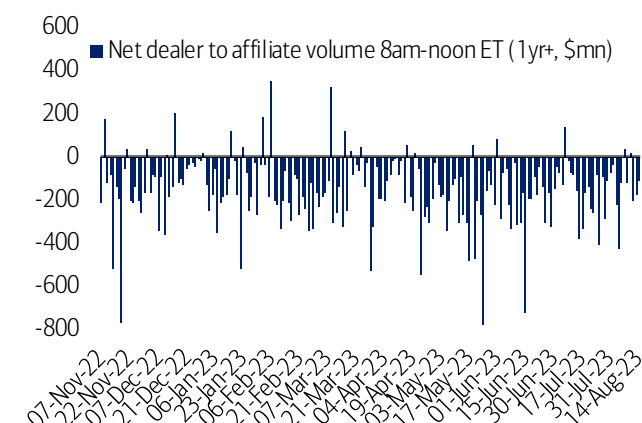
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Figure 11: 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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