US High Grade Credit Research

Top US High Grade Ideas – January 2024 edition

Credit Analysis

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High Grade Credit
United States
Cross-Industry

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US High Grade Research

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Our Top High Grade ideas list

This report is our Top US High Grade (HG) Ideas list comprising corporate bond and/or loan recommendations. As selected by the Head of BofA US Credit Research, these recommendations are a collection of our best investment ideas from the universe of bonds and loans covered by BofA Global Research US fundamental HG credit research analysts. We expect the picks to outperform or underperform their relevant benchmarks, and they could be based on particularly attractive or unattractive expected total return due to potential market and/or business-related catalysts, interest carry, yield-to-redemption, and/or value based on spread and/or yield relative to credit quality. BofA Global Research credit ratings reflect a three-month time horizon. While the list is not a model portfolio, we strive to provide a diversified group of debt instruments from a range of sectors. Instruments not under research coverage cannot be included. Accordingly, we do not have any technology ideas to include.

6 Overweights & 2 Underweights

Our January 2024 list consists of 8 issuer recommendations and is comprised of 2 Underweight (UW) and 6 Overweight (OW) ratings. The Underweight issuer recommendations are ONEOK, Inc and Tyson Foods. The Overweight bond issuer recommendations are Abbvie, AutoNation, Charles Schwab, CVS Health Corp, Georgia Power and Pacific Gas.

Exhibit 1: Top US High Grade Ideas List – January 2024 – Representative Issues[1]
Our top High Grade ideas consist of 2 Underweight and 6 Overweight recommendations

							As of 12/29/2023			
BofA Rec	Company	Issue	Interest Rate (%)	Maturity	Out $MM	Mdy / S&P	Bid Price	YTW[2] (%)	Sprd/ DM (bp)	Rec Type[3]
OW	AbbVie	Sr. Notes	4.250	11/21/49	5,745	A3/A-	89.14	5.00	95	ISR
OW	AutoNation	Sr. Notes	4.750	6/01/30	500	Baa3/BBB-	96.79	5.35	149	ISR
OW	Charles Schwab	Sr Notes	6.136	6/08/34	1,350	A2/A-	105.44	5.38	151	ISR
OW	CVS Health Corp	Sr. Notes	5.875	6/01/53	1,250	Baa2/BBB	105.24	5.51	146	ISR
OW	Georgia Power	Sr. Notes	4.950	5/17/33	1,000	Baa1/BBB+	101.03	4.80	97	ISR
UW	ONEOK, Inc	Sr. Notes	6.050	9/1/33	1,500	Baa2 / BBB	105.44	5.31	141	ISR
OW	Pacific Gas	1st Mtge	3.500	8/1/50	1,925	Baa3/BBB-	69.53	5.75	163	ISR
UW	Tyson Foods	Sr. Notes	5.100	9/28/48	1,500	Baa2/BBB	91.50	5.75	176	ISR

(1) Additional representative issues may be listed later in report
(2) YTW for loans is with the swap curve per Bloomberg
(3) ISR denotes issuer recommendation, SP denotes bond- or loan-specific issue recommendation
Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

We refresh our top ideas list each month

We update and publish this list at the beginning of each month to ensure that it continues to represent our best current ideas for the next three months (in line with the three-month time horizon for BofA Global Research credit ratings). We further explain how this list is maintained in this report.

AbbVie Inc (ABBV)

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Overweight

Exhibit 2: AbbVie – Representative Issues
We believe that ABBV will outperform in the near term

BofA Rec	Issue	Coupon %	Maturity	Out $MM	Mdy/S&P	As of 12/29/2023 Bid Price	YTW %	Sprd bp
OW	Senior Notes	3.200	11/21/2029	5,437	A3/A-	93.47	4.47	61
OW	Senior Notes	4.250	11/21/2049	5,745	A3/A-	89.14	5.00	95

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

The acquisition of Allergan for $84 billion brought in a leading medical aesthetics portfolio and significant cash flow generation. Key pipeline assets Venclexta, Rinvoq and Skyrizi will provide an offset to the patent loss on Humira which began in January 2023 in the United States. We see ABBV having the ability to fill the Humira gap both through pipeline development and M&A capacity if need be. We expect ABBV to trade 15 bps behind pharma peer AstraZeneca.

Key drivers and/or catalysts

Humira patent cliff: Humira began facing biosimilar competition in the U.S. with the launch of Amjevita in January 2023. There are currently eight biosimilars on the market. Management expects 2023 erosion to be 35% (prior estimate 45% +/- 10%) off of 2022 sales of $18.6 bn. We expect sales to outperform guidance as the company has historically been successful in maintaining formulary access and growing market share in immunology.

Upward ratings momentum: With recent upgrades from Moody's and S&P to A- and a consistent leverage policy, we still see ABBV benefitting from ratings upgrades overtime as the company drives growth post Humira.

Pipeline: Estimates for Imbruvica sales are $1.9 bn in 2025, Venclexta sales of $2.7 bn, Rinvoq sales of $7.1 bn, and Skyrizi sales of $12.5 bn in 2025

Leverage commitment: ABBV has paid down $34 bn of debt since the Allergan acquisition. Net leverage of 2x is the long-term target.

M&A: Following the acquisitions of ImmunoGen ($10.1 bn) and Cerevel Therapeutics ($8.7 bn), we expect the focus for M&A will be on smaller sized, early stage deals. Any additional M&A will be viewed in the context of the goal to get back to 2x net leverage in 2-3 years post close.

Risks

1) Large debt funded acquisitions, 2) more rapid Humira erosion curve then expected, 3) pipeline failures, and 4) drug price reform legislation.

Company description

ABBV is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care.

Latest report: Healthcare Quarterly Market Update

AutoNation (AN)

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Overweight

Exhibit 3: AutoNation – Representative Issues
We believe that AN bonds will outperform going forward.

BofA Rec	Issue	Coupon %	Maturity	Out $MM	Mdy/S&P	As of 12/29/2023 Bid Price	YTW %	Sprd bp
OW	Senior Notes	4.500	10/01/2025	450	Baa3/BBB-	98.38	5.48	115
OW	Senior Notes	4.750	6/01/2030	500	Baa3/BBB-	96.79	5.35	149

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

AutoNation has a strong business profile that is resilient to economic downturns. This is largely due to its economies of scale and high degree of variable costs, as well as its diversity in revenue from its profitable parts & services business that compliments new and used vehicle sales. As of 9/30/23, AutoNation had $1.6bn of liquidity, comprised of $64mn in cash and about $1.55bn availability under its revolving credit facility. Free cash flow for the quarter was $258mn, and cash conversion sat at 105% of net income. AutoNation had approximately $3.9bn of non-vehicle debt outstanding as of 9/30/23 compared to $4.1bn at 6/30/23. Its leverage ratio was 2.0x at the end of 3Q23, roughly flat sequentially. Management remains committed to maintaining a leverage ratio between 2x-3x, and moving forward plans to allocate capital to maximizing shareholder value. We remain Overweight because bonds look cheap against IG and BBB names, and although pricing is falling/moderating, the credit profile is still very strong. Auto retailers also benefit from their stable parts and services businesses which should continue to perform in the face of an uncertain macro environment, serving as a hedge to the new and used vehicle segments. On a relative value basis, the AN 3.85% 32s are being offered at $86.51 or a g-spread of 174bps, 38bps wide to the ICE BofA BBB index with a g-spread of 136bps.

Key drivers and/or catalysts

We see several key drivers of outperformance for AN. 1) Strong margins and cash flows given elevated pricing 2) the continuation of a solid balance and low leverage 3) a negative catalyst could be the potential for a recession and normalization in new and used pricing.

Company description

AN is a leading automotive retailer in the US. The Company offers cars, trucks, pre-owned vehicles, auto parts, and accessories, as well as provides service contracts, auto financing, and repairing services.

Latest report: AutoNation 3Q23 EPS Beat - Remain OW

Charles Schwab (SCHW)

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Overweight

Exhibit 4: Charles Schwab – Representative Issues
We believe SCHW bonds will outperform going forward

						As of 12/29/2023		
BofA Rec	**Issue**	**Cpn %**	**Maturity**	**Out $MM**	**Mdy/S&P**	**Bid Price**	**YTW %**	**Sprd Bp**
OW	Senior Notes	6.196	11/17/29	1,300	A2/A-	104.51	5.09	123
OW	Senior Notes	6.136	8/24/34	1,350	A2/A-	105.44	5.38	151

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

Our Overweight rating on SCHW reflects the favorable risk/reward potential in the bonds that trade +17 bp behind the GSIB average compared to about 40 bp inside GSIBs prior to March '23, a high quality, fee-driven business with secular growth tailwinds, and given the favorable backdrop in the interest rate and credit cycles that should benefit SCHW's credit risk-lite model relatively more than credit-sensitive banks, in our view. SCHW has underperformed GSIBs since early March due to concerns about the impact of unrealized losses on securities on its proforma capital ratios and persistent deposit outflows as customers reinvest cash into higher yielding instruments. Deposit outflows slowed in late 3Q and saw an inflow in November, by our estimates.

Key drivers and/or catalysts

Balance sheet positioned to benefit from lower rates. As headlines about potential rate cuts pick up and signs of a weakening consumer (if not the economy), we view the rate cycle in the later innings whereas the credit cycle is in the early innings. As the prospect for lower rates increases and as time elapses, unrealized losses should begin to 'pull' to par and accrete back to capital and deposit flows should improve.

Substantial value from non-bank earnings. SCHW generates a substantial amount of earnings from outside of the bank entities (77% of total YTD'23, ~55% in '21 and '22) through its fee driven business model. If valued at wealth manager comp P/E multiples, the value of these earnings alone could be $50-75B, well in excess of the $35B of holdco debt and preferreds outstanding.

Risks

Risks to our rating are an increase in short term and long term interest rates that put pressure on net interest margin, deposit flows, securities valuations and pro forma capital ratios, client asset net outflows, and declines in market prices that impact fees.

Company description

Charles Schwab Corporation is a domestically focused financial services company with $8.2T of client assets on its platform that serves individual investors and registered investment advisors (RIAs). Within its bank entities, its deposit base of $284B at 9/30 ranked #12 in the U.S. Non-bank entity earnings accounted for 77% of total YTD'23.

Latest report: Charles Schwab: Initiating at Overweight 19 December 2023

GSIB: Global systemically important banks; AFS: Available for sale; AOCI: accumulated other comprehensive income; CET1: common equity tier 1 capital; RWA: risk-weighted assets

CVS Health (CVS)

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Overweight

Exhibit 5: CVS Health – Representative Issues
We believe that CVS will outperform in the near term

BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	As of 12/29/2023 Bid Price	YTW %	Sprd bp
OW	Senior Notes	5.300	06/01/33	1,250	Baa2/BBB	102.24	4.99	111
OW	Senior Notes	5.875	06/01/53	1,250	Baa2/BBB	105.24	5.51	146

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term leverage target range of low 3x. We expect CVS to trade 5-10 bps behind managed care peer Cigna.

Key drivers and/or catalysts

M&A: CVS completed the acquisition of Signify (home health) in March, funding the transaction with $6 bn of new debt. In May, CVS closed the acquisition of Oak Street Health (primary care) for $10.6 bn, funding with $5 bn of new debt. We expect the company to remain acquisitive going forward, however with a focus on smaller sized deals while integration is underway.

Primary care/home health strategy: At its investor day in 2021, CVS highlighted primary care as a key growth pillar for the company going forward. CVS is looking to build out a network of physician-led primary care centers with integrated virtual and home health assets. We see this as a positive strategic focus due to the continued success of Optum's OptumCare unit.

2024 headwinds: Going into 2024 CVS faces four key headwinds: loss of 4 star position, the Centene (CNC) pharmacy benefit manager (PBM) contract loss, changes to the 340B program, and a more rapid decline in the covid contribution. While previously pointing to buybacks to offset these headwinds, CVS has laid out a new plan to mitigate the headwinds. The components include G&A savings ($400-$500 mn), Oak Street and Signify growth (adding 10-15 cents to earnings), biosimilars, and the expanded exchange business.

Risks

1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and 4) slower than expected integration.

Company description

CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products including Medicare Advantage and Medicare Part D prescription drug plans.

Latest report: Healthcare Quarterly Market Update

Georgia Power (SO)

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Overweight

Exhibit 6: Georgia Power – Representative Issues
We believe that the Georgia Power senior notes will outperform going forward

BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	As of 12/29/2023 Bid Price	YTW %	Sprd bp
OW	Senior Notes	4.950	05/17/2033	1,000	Baa1/BBB+	101.03	4.80	97

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

The long-awaited completion of the Vogtle nuclear project should substantially improve the company's credit quality, boosting credit metrics and reducing business risk. Separately, the multi-year rate case approved by the Georgia PSC earlier this year further supports the company's credit metrics with a cumulative ~$1 Bn rate increase over 2023-25 with an industry-leading 10.5% authorized ROE and 56% equity layer, highlighting the constructive regulatory jurisdiction in which Georgia Power operates. As Unit 3 is expected to come in service in July 2023 and Unit 4 in 1Q24, we expect spreads to compress.

Key drivers and/or catalysts

- **Vogtle completion:** Unit 3 of the nuclear project is expected to come in service in July 2023, with Unit 4 following in 1Q24.

Risks

Risks are 1) further delay and/or cost increases associated with the Vogtle nuclear project; 2) potential Vogtle cost disallowance, and 3) regulatory risks, including less favorable regulatory treatment from the Georgia Public Service Commission.

Company description

Georgia Power is a regulated electric utility subsidiary of Southern Company (SO) and serves 2.7 Mn customers in Georgia. Georgia Power is regulated by the Georgia Public Service Commission and the Federal Energy Regulatory Commission.

Latest report: IG Utility Update: SO, BRKHEC

ONEOK, Inc (OKE)

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Underweight

Exhibit 7: ONEOK, Inc – Representative Issues
We believe OKE's bonds will underperform going forward

BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	As of 12/29/2023 Bid Price	YTW %	Sprd bp
UW	Senior Notes	6.050	9/1/2033	1,500	Baa2 / BBB	105.44	5.31	141
UW	Senior Notes	6.625	9/1/2053	1,750	Baa2 / BBB	112.93	5.71	171

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

Though we viewed OKE's 3Q23 earnings positively, we do not believe that current spreads fully reflect integration / deleveraging risks associated with the Magellan acquisition given OKE's more volumetric exposed earnings stream vs other large cap peers. We are confident in OKE's management team to successfully de-lever but note that some things are still out of their control (i.e., uncertain macro conditions) and investors should be compensated for these risks. Currently, OKE trades 10-30 bps inside larger / lower levered peers, Energy Transfer (ET, MW), Kinder Morgan (KMI, MW), and MPLX LP (MPLX, MW). If deleveraging is achieved, we think OKE could trade flat to ET, KMI, and MPLX but that is likely still at least a year away and implies downside to current levels. In the near-term, we think OKE spreads are biased wider and (at best) could trade in line with MPLX, KMI and ET. We therefore provide an UW rating.

Key drivers and/or catalysts

Integration / deleveraging risks with MMP acquisition: We believe there are material integration / deleveraging risks involved with the Magellan acquisition given (i) OKE's higher leverage post-close and (ii) a lengthy return to target leverage (likely still a year away). We are confident in management's ability to successfully de-lever (given history of execution) but note there are many things out of their control. As a result, we think spreads likely widen near-term to reflect these risks.

Unattractive rel value vs peers: If deleveraging is achieved, we think OKE could trade flat to larger / more diversified and/or lower levered peers ET, KMI and MPLX but that is likely still a year away. As a result, we do not believe that OKE's tight trading levels vs these peers fully reflects its lengthy return to target leverage and material risks associated with the MMP transaction. Given this, we think near-term spreads could move wider and that OKE should trade (at best) in-line with MPLX, KMI and ET.

Risks

New project execution risk, volatility in commodity prices, decreasing / increasing drilling activity, spills / other operational disruptions, event risk (M&A), changes in its leverage targets, regulatory delays, and the new-issue overhang of the entire MLP space.

Company description

OKE is a US natural gas midstream operator with a 38,000-mile integrated network of NGL & natural gas pipelines, processing plants, fractionators, & storage facilities.

Latest report: Midstream 2024 Year Ahead – Strong fundamentals, but wait for widening

Pacific Gas and Electric Co (PCG)

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Overweight

Exhibit 8: Pacific Gas & Electric – Representative Issues
We believe that the PG&E first mortgage bonds (FMBs) will outperform going forward

						As of 12/29/2023		
BofA Rec	Issue	Cpn %	Maturity	Out $MM	Mdy/S&P	Bid Price	YTW %	Sprd bp
OW	First Mortgage Bonds	3.500	08/01/2050	1,925	Baa3/BBB-	69.53	5.75	163

Source: Company reports, BofA Global Research, ICE Data Indices, LLC, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

PCG has made substantial and consistent progress mitigating wildfire exposure, as exemplified by the now three seasons in a row with manageable utility-caused damages. The company is also taking steps to implement its ambitious undergrounding program, which we expect will dramatically reduce the company's business risk profile medium term. We note Fitch upgraded the name by one notch earlier this year, underlining the first rating upgrade since the emergence from bankruptcy in the summer of 2020. While we expect both S&P and Moody's to take more time (we could see an upgrade early 2024), we believe these positive rating actions are signaling to investors that PCG is investable again and that the wildfire risk can be managed.

Key drivers and/or catalysts

- **Wildfire season:** The 2023 wildfire season is ongoing, with the core typically running from July to October. While the company has made considerable progress mitigating wildfires, substantial risk remains, and we continue to expect seasonal pressure.

- **2023 General Rate Case:** The California Public Utility Commission is expected to make a decision on PCG's 2023 General Rate Case on Nov. 2 which will determine base rate increases through 2026.

Risks

Risks are 1) new evidence indicating that destructive wildfires were caused by PCG equipment, which could increase the company's liabilities and lead to a faster-than-anticipated exhaustion of the AB1054 wildfire fund; 2) Unfavorable outcome in 2023 General Rate Case

Company description

PCG engages in the sale and delivery of electricity and natural gas to approximately 16 million people throughout a 70,000-square-mile service area in northern and central California.

Latest report: 2022 California Wildfire season: Yet another mild season for Utilities

Tyson Foods (TSN)

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Underweight

Exhibit 9: Tyson Foods – Representative Issues
We see opportunity for TSN to widen further vs packaged food & protein peers, implying 30-50bps of downside

BofA Rec	Issue	Coupon %	Maturity	Out $MM	Mdy/S&P	As of 12/29/2023 Bid Price	YTW %	Sprd bp
UW	Senior Notes	5.100%	09/28/2048	1,500	Baa2/BBB	91.50	5.75	176

Source: BofA Global Research, Bloomberg

BofA GLOBAL RESEARCH

Investment thesis

We believe that weak protein complex fundamentals into '25, limited execution visibility, headwinds to productivity & efficiency aspirations, and stressed credit & cash flow metrics over the next 12+ months, including high-4x leverage and narrow net FCF, are not adequately reflected in TSN bonds and could lead to spreads lagging by +30-50bps.

Key drivers and/or catalysts

Industry dynamics under pressure: We anticipate protein industry challenges continue for at least the next 12-18mo on unsteady demand, volatile commodity & operating costs, supply imbalances, and limited exports. Beef & Pork are likely EBITDA headwinds while Chicken's upturn is early & unproven and Prepared Foods competition heats up due to elasticity.

Deleveraging while refinancing: We est. leverage 4.7-5.2x in 1H24 which is ~2x above agency downgrade thresholds so TSN has limited headroom in path to <4x exiting FY24. $1.25bn mid-Aug maturity will remain an overhang which we est. needs to be refinanced via bonds or more ST/bank debt. TSN already drew on 3Y/5Y term loans.

Weak relative value: TSN spreads trade rich relative to operational risks & underlying business cyclicality. We think it should trade equidistant between less levered packaged food & weaker rated protein peers. If TSN widened +30-50bps they would still be tight to ICE BofA Crossover Index levels.

Management turnover: TSN has had numerous management changes over the past few years (CEO, CFO, Prepared Foods & Chicken heads) which has reduced our confidence in a smooth turnaround.

Risks

(1) Protein segments rebound faster than expected, notably via Beef packer margins & Chicken efficiency actions; (2) Financial discipline & cash conversion is prioritized leading to rapid deleveraging and mid-BBB stabilization; or (3) asset or brand sales or dividend cut augments cash flow.

Company description

Tyson Foods (TSN) is the largest US protein processor with the leading share in Beef and Chicken, and increasing scale in Pork and Prepared Foods.

Latest report: Vegetarian valuation while '24 risks graze

How this list will be maintained and updated

We refresh and publish this list at the beginning of each month to ensure that it continues to represent our best current ideas for the next three months (in line with the three-month time horizon for BofA Global Research credit ratings). After the list is published, ideas remain on the list through the month unless coverage is dropped or the recommendation changes, in which case we publish the change in a research report. Issuers and instruments that become restricted should be considered deleted from the list at the time they are restricted. Any issuer or instrument that is removed will not be replaced. Issuers and instruments are intended to stay on the list for at least a month and may be chosen to remain on the list for subsequent months.

Valuation & risk

AbbVie Inc. (ABBV)

AbbVie is a biopharmaceutical company offering R&D, manufacturing, commercialization and sale of innovative medicines and therapies with products across immunology, hematologic oncology, neuroscience, aesthetics, and eye care. The acquisition of Allergan for $84 billion brought a leading medical aesthetics portfolio and significant cash flow generation. ABBV paid down $34 bn of debt over the last three years and reached its leverage target of 1.8x. Key pipeline assets Imbruvica, Venclexta, Rinvoq, and Skyrizi will provide an offset to the patent loss on Humira, which began in January in the United States. We see ABBV having the ability to fill the Humira gap both through pipeline development and M&A capacity if need be. We expect ABBV to trade 15 bps behind pharma peer AstraZeneca over time.
Credit strengths: 1) A diverse portfolio, 2) commitment to debt pay down, 3) upward ratings momentum, 4) strong cash flow position, 5) favorable demographic trends, and 6) a strong liquidity position.
Credit risks: 1) Large debt funded acquisitions, 2) more rapid Humira erosion curve then expected, 3) pipeline failures, and 4) drug price reform legislation.

AutoNation Inc (AN)

AutoNation has a strong business profile that is resilient to economic downturns. This is largely due to its economies of scale and high degree of variable costs, as well as its diversity in revenue from its profitable parts & services business that compliments new and used vehicle sales. The senior notes are guaranteed by AutoNation's subsidiaries, which rank equal to the revolving credit facility. Risks are potential deterioration of credit metrics in an economic downturn, likely driven by decreasing margins and pressure on top-line. Based on management commentary, AutoNation is also likely to continue to expand via acquisitions, which could result in increasing leverage if funded through debt. We are Overweight.

Charles Schwab (SCHW)

We have an Overweight rating on Charles Schwab (SCHW) due to the favorable risk/reward opportunity in the bonds, trading at a material discount to comps from a historical perspective and given the favorable timing in the interest rate and credit cycles that should benefit SCHW's credit risk-lite model relatively more than credit-sensitive banks. SCHW has underperformed GSIBs since early March due to concerns about its unrealized losses on securities, which have depleted its proforma capital ratios. As headlines about potential rate cuts pick up and signs of a weakening consumer (if not the economy), we view the rate cycle in the later innings whereas the credit cycle is in the early innings. As the prospect for lower rates increases and as time elapses (9 months from 'peak' concerns relative to the 3.9 year duration of its securities book), unrealized losses should begin to 'pull' to par and accrete back to capital and remove the overhang from bonds.

Risks are an increase in short term and long term interest rates that put pressure on net interest margin, deposit flows, securities valuations and pro forma capital ratios, client asset net outflows, and declines in market prices that impact fees.

CVS Health (CVS)

CVS is a diversified health solutions company with retail, medical clinics, a pharmacy benefits manager, and consumer-directed health insurance products, including Medicare Advantage and Medicare Part D prescription drug plans. Following the acquisition of Aetna, along with Signify and Oak Street, we see potential for outperformance as the company continues to benefit from its vertically integrated healthcare model. CVS now offers a full suite of healthcare offerings to better compete against the diversified offerings of the other managed care companies. 2024 headwinds (Star ratings and CNC contract loss) will constrain flexibility in the near term, but we believe cash generation and the strength of the balance sheet will allow the company to execute on its strategy. CVS is strongly committed to IG ratings with mid-BBB as the floor and a long-term target range of low 3x. We expect CVS to trade 5-10 bps behind MCO peer Cigna.

Credit Strengths: 1) Positive market demographics, 2) fully integrated health insurer, 3) strong and stable cash flows, and 4) largest U.S. pharmacy chain.
Credit Risks: 1) Amazon entering the healthcare industry, 2) negative regulatory changes, 3) debt funded M&A or buybacks, and 4) prescription volume pressure from covid.

Georgia Power (SO)
Georgia Power is the largest regulated utility within the Southern Company complex. We view Georgia as an overall credit supportive jurisdiction and note the strong regulatory support thus far for the Vogtle nuclear project despite cost overruns. We notably highlight Georgia Power is allowed to earn a cash return on construction work in progress (CWIP) in connection with new nuclear projects that have been approved by the public commission. We see the construction of the Vogtle nuclear project as an overhang on the credit quality of the company, with any further cost increases and/or construction delays potentially damaging the support of the Georgia public commission and negatively impacting credit metrics and ratings.
Risks to our investment recommendation are: 1) adverse regulatory outcomes, 2) adverse impact from the Tax Reform Legislation, 3) construction risks as the company may incur additional costs and/or delays in the construction of new plants or other facilities (including the Vogtle nuclear project) and may not be able to recover their investments, 4) adverse weather conditions could impact energy usage or natural disasters could affect system reliability, 5) interest rate risk.

Magellan Midstream (OKE)
MMP is a MLP engaged in the transportation, storage and distribution of refined petroleum products and crude oil. MMP historically was considered one of the higher quality names in Midstream, due to its leverage in the mid-3.0x area and a conservative management team. This view has changed as a large portion of MMP's EBITDA is tied to its volumetric exposure via refined product flows, a strength in today's market of elevated commodity prices but an issue as we move forward with the energy transition. In addition, MMP's leverage target provides less upside than it had historically, given the Midstream sector's preference for lower leverage overall (MMP's <4.0x target does not stand out anymore). Given near-term tailwinds and solid CFO, coupled with concerns about MMP's asset base as we go through the energy transition, the name could be susceptible to a possible LBO at some in the future. Furthermore, the belly of MMP's trades tight to peer EPD, which we view as unattractive. As a result, we see little value in MMP's outstanding notes and believe an Underweight (UW) recommendation is appropriate. Risks to our rec: upside to long-term commodity price forecasts, new project execution risk, spills and other operational disruptions that can cause environmental damage, changes in management's commitment to its ratings, event risk in the form of M&A, changing equity prices changing the company's cost of capital, regulatory changes, and the new-issue overhang of the entire MLP space.

ONEOK, Inc. (OKE)
ONEOK, Inc. (OKE) is one of the largest natural gas midstream companies in the U.S., owning a 38,000-mile integrated network of NGL and natural gas pipelines, processing plants, fractionators, and storage facilities.

Pro forma (PF) for the acquisition of Magellan Midstream, we have a more favorable view of OKE's asset base given commercial synergies, improved asset diversity, and exposure to Gulf Coast export facilities. We believe, however, that spreads do not fully reflect integration / deleveraging risks associated with the acquisition given OKE's more volumetric exposed earnings stream compared to other large cap peers. We are confident in management's ability to successfully de-lever (given history of execution) but note that investors should be compensated for certain risks out of managements control. If deleveraging is achieved, we think OKE could trade flat to peers but that is still at least a year away. As a result, we view current tight trading levels vs peers as unwarranted and see OKE's spreads biased wider in the near-term. We therefore have an UW rec on the name.

Risks to our rec: new project execution risk, changing commodity prices decreasing / increasing drilling activity, spills / other operational disruptions, event risk in the form of M&A, changes in its lev targets, regulatory delays, and the new-issue overhang of the entire MLP space.

ONEOK Partners LP (OKE)

ONEOK, Inc. (OKE) is one of the largest natural gas midstream companies in the U.S., owning a 38,000-mile integrated network of NGL and natural gas pipelines, processing plants, fractionators, and storage facilities.

Pro forma (PF) for the acquisition of Magellan Midstream, we have a more favorable view of OKE's asset base given commercial synergies, improved asset diversity, and exposure to Gulf Coast export facilities. We believe, however, that spreads do not fully reflect integration / deleveraging risks associated with the acquisition given OKE's more volumetric exposed earnings stream compared to other large cap peers. We are confident in management's ability to successfully de-lever (given history of execution) but note that investors should be compensated for certain risks out of managements control. If deleveraging is achieved, we think OKE could trade flat to peers but that is still at least a year away. As a result, we view current tight trading levels vs peers as unwarranted and see OKE's spreads biased wider in the near-term. We therefore have an UW rec on the name.

Risks to our rec: new project execution risk, changing commodity prices decreasing / increasing drilling activity, spills / other operational disruptions, event risk in the form of M&A, changes in its lev targets, regulatory delays, and the new-issue overhang of the entire MLP space.

Pacific Gas (PCG)

PG&E has made substantial and consistent progress mitigating wildfire exposure as exemplified by the now three seasons in a row with manageable utility-caused damages. The company is also taking steps to implement its ambitious undergrounding program, which we expect will dramatically reduce the company's business risk profile in the medium-term. While the upcoming wildfire season could put pressure on the name, we emphasize the bonds have already underperformed the index due to higher beta and we see the bonds attractively priced, particularly as we believe the low dollar price and first lien security somewhat mitigates downside risk. We expect positive rating actions across the board should the company navigate the 2022 wildfire season with manageable utility-caused damages and successfully raises the $7.5 Bn rate-neutral securitization bonds.

We view risks as additional large wildfires which could potentially increase PG&E's liabilities and lead to a faster-than-anticipated exhaustion of the AB1054 wildfire fund, as well as political risks including less favorable regulatory treatment from the CPUC.

Tyson Foods (TSN)

Tyson Foods is the largest U.S. protein processor with leading share in Beef and Chicken, and increasing scale in Pork and Prepared Foods. We anticipate weak protein industry fundamentals into 2025 will continue to weigh on business performance. Cyclical pressures from consumer demand rotation, supply imbalances, elevated commodity & operating costs, and limited exports will remain an overhang to credit and cash flow metrics which are already strained. TSN has not shown an urgency to address elevated leverage despite historically running a conservative balance sheet. We believe risk is not reflected in current bond relative valuation and see additional spread widening so TSN trades equidistant between less leverage packaged food names and traditional protein peers. Our Neutral rating in CDS incorporates ongoing operating disruption, the uncertainty around protein cyclicality.

Analyst Certification

We, Larry Bland, Andrew Kaplan, Antoine Aurimond, CFA, Brian Callen, CFA, Daniel Lungo, Douglas Karson and Tom Curcuruto, CFA, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security/Loan pricing

AbbVie Inc. / ABBV

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.4, Senior, USD, 2042:B	2,600	06-NOV-2042	A3/A-/NR	92.84	29-Dec-2023	4.98	80
3.2, Senior, USD, 2026:B	2,000	14-May-2026	A3/A-/NR	96.92	31-Dec-2023	4.59	39
3.2, Senior, USD, 2029:B	5,437	21-NOV-2029	A3/A-/NR	93.48	31-Dec-2023	4.47	60
4.25, Senior, USD, 2049:B	5,750	21-NOV-2049	A3/A-/NR	89.66	29-Dec-2023	4.96	91

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

AutoNation, Inc. / AN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.5, Senior, USD, 2025:B	450	01-OCT-2025	Baa3/BBB-/BBB-	97.90	31-Dec-2023	5.78	138
3.5, Senior, USD, 2024:B	450	15-NOV-2024	Baa3/BBB-/BBB-	97.87	31-Dec-2023	6.04	117
3.8, Senior, USD, 2027:B	300	15-NOV-2027	Baa3/BBB-/BBB-	93.77	31-Dec-2023	5.61	165
4.75, Senior, USD, 2030:B	500	01-JUN-2030	Baa3/BBB-/BBB-	96.58	31-Dec-2023	5.39	152
3.85, Senior, USD, 2032:B	700	01-MAR-2032	Baa3/BBB-/BBB-	88.86	31-Dec-2023	5.57	170

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Charles Schwab / SCHW

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4, Senior, USD, 2029:B	600	01-FEB-2029	A2/A-/A	97.00	31-Dec-2023	4.67	77
4.625, Senior, USD, 2030:B	500	22-MAR-2030	A2/A-/A	100.61	31-Dec-2023	4.51	63
2.3, Senior, USD, 2031:B	750	13-MAY-2031	A2/A-/A	83.52	31-Dec-2023	5.00	114
2, Senior, USD, 2028:B	1,250	20-MAR-2028	A2/A-/A	88.96	31-Dec-2023	4.93	99
2.45, Senior, USD, 2027:B	1,500	03-MAR-2027	A2/A-/A	93.09	31-Dec-2023	4.83	78
2.9, Senior, USD, 2032:B	1,000	03-MAR-2032	A2/A-/A	85.95	31-Dec-2023	5.02	115
6.136, Senior, USD, 2034:B	1,350	24-AUG-2034	A2/A-/A	105.41	31-Dec-2023	5.41	153
5.875, Senior, USD, 2026:B	1,000	24-AUG-2026	A2/A-/A	102.56	31-Dec-2023	4.80	64
5.643, Senior, USD, 2029:B	1,200	19-MAY-2029	A2/A-/A	102.58	31-Dec-2023	4.98	105
5.853, Senior, USD, 2034:B	1,300	19-MAY-2034	A2/A-/A	103.23	31-Dec-2023	5.41	153

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B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

CVS Health / CVS

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4.3, Senior, USD, 2028:B	9,000	25-Mar-2028	Baa2/BBB/NR	98.30	31-Dec-2023	4.75	81
4.78, Senior, USD, 2038:B	5,000	25-Mar-2038	Baa2/BBB/NR	94.74	31-Dec-2023	5.31	131
5.05, Senior, USD, 2048:B	8,000	25-Mar-2048	Baa2/BBB/NR	93.53	31-Dec-2023	5.54	131
1.75, Senior, USD, 2030:B	1,250	21-AUG-2030	Baa2/BBB/NR	82.61	31-Dec-2023	4.85	98
4.25, Senior, USD, 2050:B	750	01-APR-2050	Baa2/BBB/NR	83.52	31-Dec-2023	5.44	125
1.875, Senior, USD, 2031:B	1,250	28-FEB-2031	Baa2/BBB/NR	82.30	31-Dec-2023	4.83	96
5.3, Senior, USD, 2033:B	1,250	01-JUN-2033	Baa2/BBB/NR	102.62	31-Dec-2023	4.94	106
5.875, Senior, USD, 2053:B	1,250	01-JUN-2053	Baa2/BBB/NR	105.18	31-Dec-2023	5.51	146

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Georgia Power Company / SO

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.25, Senior Notes, USD, 2026:B	325	01-Apr-2026	Baa1/BBB+/A-	96.12	31-Dec-2023	5.09	86
3.25, Senior Notes, USD, 2027:B	400	30-MAR-2027	Baa1/BBB+/A-	95.47	31-Dec-2023	4.77	73
5.4, Senior Notes, USD, 2040:B	265	01-JUN-2040	Baa1/BBB+/A-	97.75	31-Dec-2023	5.61	153
4.75, Senior Notes, USD, 2040:B	500	01-SEP-2040	Baa1/BBB+/A-	93.05	31-Dec-2023	5.39	129
4.3, Senior Notes, USD, 2042:B	1,100	15-MAR-2042	Baa1/BBB+/A-	88.41	31-Dec-2023	5.30	115
4.3, Senior Notes, USD, 2043:B	400	15-MAR-2043	Baa1/BBB+/A-	86.95	31-Dec-2023	5.40	122

Georgia Power Company / SO

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.25, Senior, USD, 2051:B	750	15-MAR-2051	Baa1/BBB+/A-	72.32	31-Dec-2023	5.15	101
4.7, Senior, USD, 2032:B	700	15-MAY-2032	Baa1/BBB+/A-	99.59	31-Dec-2023	4.76	89
5.125, Senior, USD, 2052:B	800	15-MAY-2052	Baa1/BBB+/A-	98.93	31-Dec-2023	5.20	111
4.95, Senior, USD, 2033:B	1,000	17-MAY-2033	Baa1/BBB+/A-	100.81	31-Dec-2023	4.84	96

For pricing information refer to "Other Important Disclosures" below.
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Magellan Midstream Partners LP / OKE

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.4, Senior, USD, 2037:B	250	01-MAY-2037	Baa2/BBB/NR	104.34	31-Dec-2023	5.92	195
3.2, Senior, USD, 2025:B	250	15-MAR-2025	Baa2/BBB/NR	97.19	31-Dec-2023	5.64	99
4.2, Senior, USD, 2045:B	250	15-MAR-2045	Baa2/BBB/NR	75.82	31-Dec-2023	6.28	205
5, Senior, USD, 2026:B	650	01-MAR-2026	Baa2/BBB/NR	99.79	31-Dec-2023	5.10	84
4.25, Senior, USD, 2046:B	500	15-SEP-2046	Baa2/BBB/NR	80.49	31-Dec-2023	5.81	157
3.95, Senior, USD, 2050:B	800	01-MAR-2050	Baa2/BBB/NR	76.40	31-Dec-2023	5.70	151
3.25, Senior, USD, 2030:B	500	01-JUN-2030	Baa2/BBB/NR	90.52	31-Dec-2023	5.00	113

For pricing information refer to "Other Important Disclosures" below.
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ONEOK, Inc. / OKE

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
4, Senior, USD, 2027:B	500	13-JUL-2027	Baa2/BBB/BBB	97.12	31-Dec-2023	4.90	90
4.95, Senior, USD, 2047:B	700	13-JUL-2047	Baa2/BBB/BBB	89.48	31-Dec-2023	5.77	153
5.2, Senior, USD, 2048:B	1,000	15-JUL-2048	Baa2/BBB/BBB	93.71	31-Dec-2023	5.68	145
4.45, Senior, USD, 2049:B	673	01-SEP-2049	Baa2/BBB/BBB	83.65	31-Dec-2023	5.67	146
4.5, Senior, USD, 2050:B	443	15-MAR-2050	Baa2/BBB/BBB	83.72	31-Dec-2023	5.70	152
6.1, Senior, USD, 2032:B	750	15-Nov-2032	Baa2/BBB/BBB	106.26	31-Dec-2023	5.19	132
5.55, Senior, USD, 2026:B	750	01-Nov-2026	Baa2/BBB/BBB	101.76	31-Dec-2023	4.85	73
5.65, Senior, USD, 2028:B	750	01-Nov-2028	Baa2/BBB/BBB	103.52	31-Dec-2023	4.81	90
5.8, Senior, USD, 2030:B	500	01-Nov-2030	Baa2/BBB/BBB	103.96	31-Dec-2023	5.09	122
6.05, Senior, USD, 2033:B	1,500	01-Sep-2033	Baa2/BBB/BBB	105.95	31-Dec-2023	5.24	136
6.625, Senior, USD, 2053:B	1,750	01-Sep-2053	Baa2/BBB/BBB	111.91	31-Dec-2023	5.78	173

For pricing information refer to "Other Important Disclosures" below.
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ONEOK Partners LP / OKE

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
6.125, Senior, USD, 2041:B	650	01-FEB-2041	Baa2/BBB/BBB	104.40	31-Dec-2023	5.71	162
6.2, Senior, USD, 2043:B	400	15-SEP-2043	Baa2/BBB/BBB	104.51	31-Dec-2023	5.81	162
4.9, Senior, USD, 2025:B	500	15-MAR-2025	Baa2/BBB/BBB	99.42	31-Dec-2023	5.40	74

For pricing information refer to "Other Important Disclosures" below.
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Pacific Gas & Electric / PCG

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
2.1, Secured, USD, 2027:B	1,000	01-AUG-2027	Baa3/BBB-/BBB	90.12	31-Dec-2023	5.15	116
2.5, Secured, USD, 2031:B	2,000	01-FEB-2031	Baa3/BBB-/BBB	82.49	31-Dec-2023	5.52	165
3.3, Secured, USD, 2040:B	1,000	01-AUG-2040	Baa3/BBB-/BBB	73.18	31-Dec-2023	5.85	176
3.5, Secured, USD, 2050:B	1,925	01-AUG-2050	Baa3/BBB-/BBB	69.04	31-Dec-2023	5.80	163

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Tyson Foods / TSN

Security	Amt	Maturity date	Ratings Moody's/S&P/Fitch	Price	Price date	Yield (%)	Spread (bps)
3.95, Senior, USD, 2024:B	1,250	15-AUG-2024	Baa2/BBB+/BBB	98.86	31-Dec-2023	5.83	77
4.35, Senior, USD, 2029:B	1,000	01-MAR-2029	Baa2/BBB+/BBB	97.11	31-Dec-2023	4.99	110
4.55, Senior, USD, 2047:B	750	02-JUN-2047	Baa2/BBB+/BBB	83.81	31-Dec-2023	5.83	159
5.1, Senior, USD, 2048:B	1,500	28-SEP-2048	Baa2/BBB+/BBB	90.69	31-Dec-2023	5.81	159
5-Year CDS:CDS					30-Dec-2023		70

For pricing information refer to "Other Important Disclosures" below.
B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

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Marketweight: Spreads and/or excess returns are likely to perform in-line with the relevant and comparable market over the next three months.
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Buy Protection: Buy CDS, therefore going short credit risk.
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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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