

Monthly HG Market Review

Dec '23: Pricing a soft landing

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The bullish market sentiment continued in December on a combination of a dovish Fed pivot, a further slowdown in inflation and a still resilient US economy. First, the dovish December FOMC arguably had the biggest market impact. Chair Powell stated during the press conference that the Fed started discussing cuts for 2024, reflecting the progress on inflation and an outlook for a soft landing (see [US Watch: FOMC quick reaction- A holiday gift: the dovish pivot arrives](#)). Second, US inflation data remained benign, with November core PCE coming in at just +0.1% MoM, as expected by our economists (see [US Watch: November PCE inflation tracking: Further progress towards target](#)). Third, the US economic growth remained resilient (see [US Watch: November employment: On a glide path](#), [US Watch: November retail sales: shopping online and dining out](#)).

The times are changing

Following the developments in December the markets are now pricing a close to 100% chance of a Fed cut by March and a total of 6.3 Fed cuts in 2024, up from 4.6 cuts on November 30th. Our economist also revised their forecast for Fed cuts in 2024 to four from three. They also revised the outlook for inflation lower and for growth – higher (see [US Economic Viewpoint: Sticking the landing](#)).

Rally continued

Stocks delivered the highest return in December (+4.54%), followed by IG credit (+4.04%), high yield (+3.69%) and Treasuries (+3.41%), loans underperformed (+1.65%).

ICE BofA IG index spread 7bps tighter in December

The ICE BofA US IG index spread was 7bps tighter in December for an excess return of +31bps. The January monthly rebalancing did not impact the index spread, leaving it at 104bps. December top performing sectors in terms of excess returns were the interest-rate sensitive REITs (+101bps) and Commercial & Consumer Finance (+82bps), followed by Paper and Forest Products (+64bps). Underperforming sectors were Tobacco (-39bps), Technology (-36bps) and Media & Entertainment (-9bps).

Outlook

The dovish Fed pivot reduced some of the key risks for US IG spreads. We mark to market our expected range for IG spreads over the next six months to 100 - 120bps, compared to 104bps currently.

Supply

We look for January IG supply in \$150 - \$160bn range.

Fund flows

Net inflows to US IG bond funds & ETFs totaled +0.50% of assets in December (based only on funds reporting weekly), up from +0.39% of assets in November (based on all funds).

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Dec '23: Pricing a soft landing

The bullish market sentiment continued in December on a combination of a dovish Fed pivot, a further slowdown in inflation and a still resilient US economy. First, the dovish December FOMC arguably had the biggest market impact. Chair Powell stated during the press conference that the Fed started discussing cuts for 2024, reflecting the progress on inflation and an outlook for a soft landing (see [US Watch: FOMC quick reaction- A holiday gift: the dovish pivot arrives](#)). Second, US inflation data remained benign, with November core PCE coming in at just +0.1% MoM, as expected by our economists (see [US Watch: November PCE inflation tracking: Further progress towards target](#)). Third, the US economic growth remained resilient (see [US Watch: November employment: On a glide path](#), [US Watch: November retail sales: shopping online and dining out](#)).

The times are changing

Following the developments in December the markets are now pricing a close to 100% chance of a Fed cut by March and a total of 6.3 Fed cuts in 2024, up from 4.6 cuts on November 30th (Exhibit 2). Our economist also revised up their forecast for Fed cuts in 2024 to four from three. They also revised the outlook for inflation lower and for growth – higher (see [US Economic Viewpoint: Sticking the landing](#)).

Rally continued

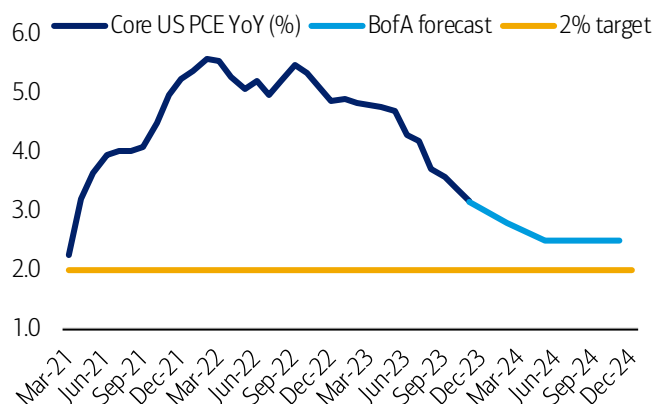
The higher chances of a soft landing and the dovish pivot by the Fed led to a rally in both risk assets and a decline in interest rates. Hence stocks delivered the highest return in December (+4.54%), followed by IG credit (+4.04%), high yield (+3.69%) and Treasuries (+3.41%), while loans underperformed due to low duration (+1.65%).

ICE BofA IG index spread 7bps tighter in December

The ICE BofA US IG index spread was 7bps tighter in December for an excess return of +31bps. The January monthly rebalancing did not impact the index spread, leaving it at 104bps. December top performing sectors in terms of excess returns were the interest-rate sensitive REITs (+101bps) and Commercial & Consumer Finance (+82bps), followed by Paper and Forest Products (+64bps). Underperforming sectors were Tobacco (-39bps), Technology (-36bps) and Media & Entertainment (-9bps).

Exhibit 1: Benign US inflation

US inflation moderated further in November.

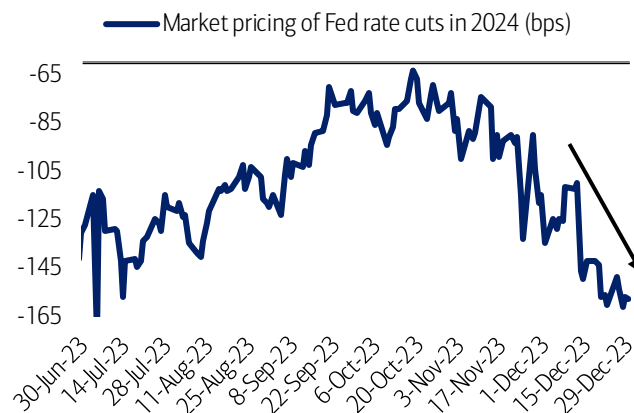


Source: BofA Global Research, Bloomberg.

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Exhibit 2: Pricing in more Fed cuts in 2024

Markets now price 6.3 Fed rate cuts in 2024, up from 4.6 at the end of November.

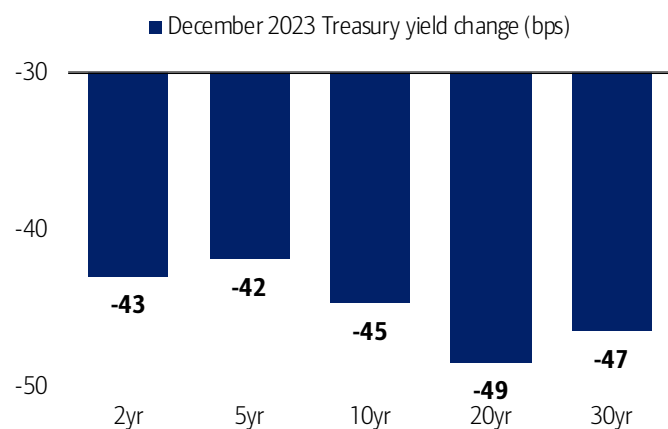


Source: BofA Global Research, Bloomberg.

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Exhibit 3: Rates rallied in December

Treasury yields curve moved lower in a mostly parallel manner in December.



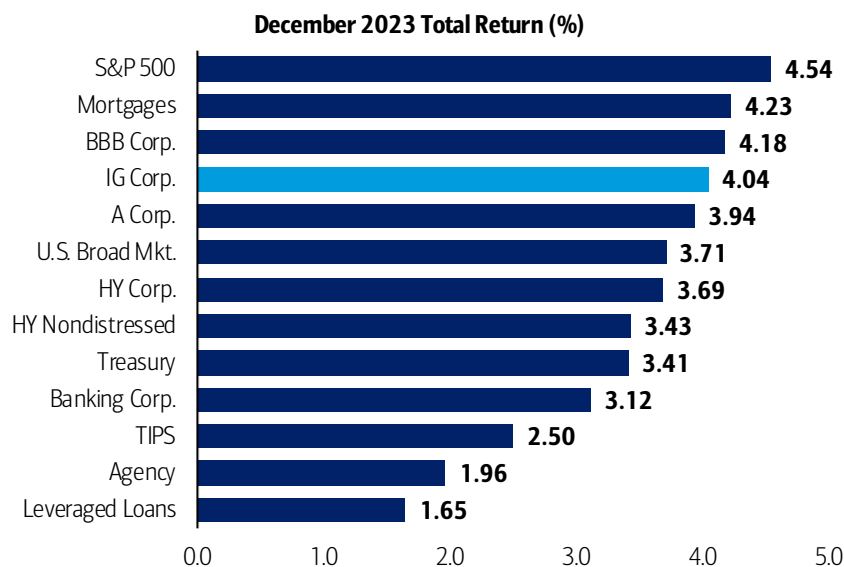
Source: BofA Global Research, Bloomberg.

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December 2023 Returns

Exhibit 4: Broad Asset Class Total Return Performance, December 2023

Monthly total return for broad asset classes in Dec 2023. Stocks outperformed (+4.54%).

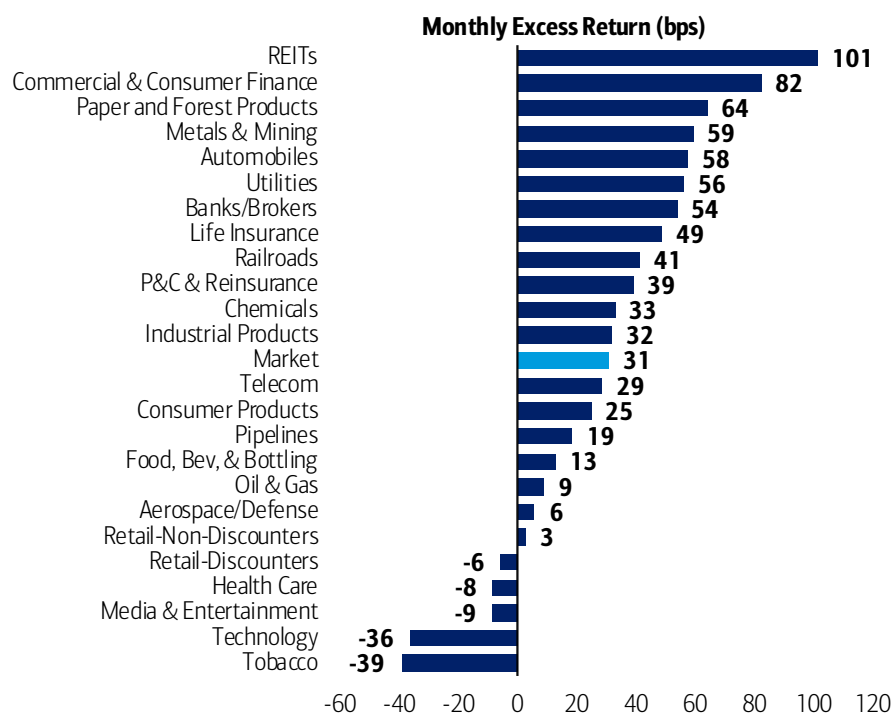


Source: ICE Data Indices, LLC, Bloomberg

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Exhibit 5: High grade sector excess return, December 2023

Market excess return: +31bps. REITs (+101bps) was the top performer, Tobacco (-39bps) was the bottom performer.



Source: ICE Data Indices, LLC

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Year 2023 Returns

Exhibit 6: Broad Asset Class Total Return Performance, Year 2023

In 2023 stocks outperformed (+26.3%), followed by HY (+13.5%), loans (+13.3%) and IG corporates (+8.4%).

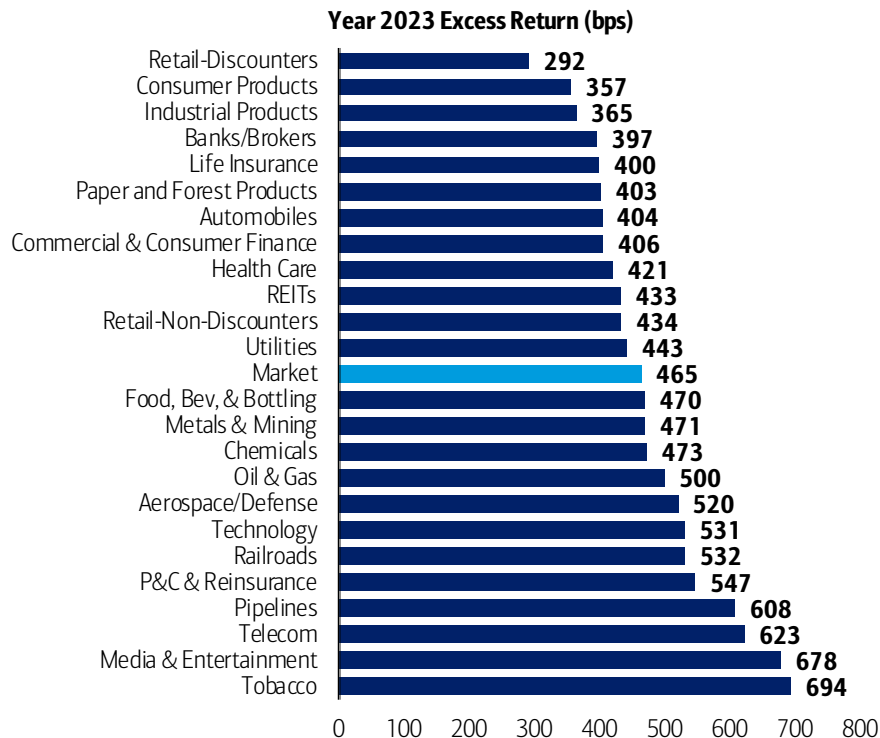


Source: ICE Data Indices, LLC, Bloomberg

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Exhibit 7: High grade sector excess return, Year 2023

Tobacco (+694) and Media & Entertainment (+678bps) delivered the best excess returns in 2024.



Source: ICE Data Indices, LLC

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Outlook

Previously published here

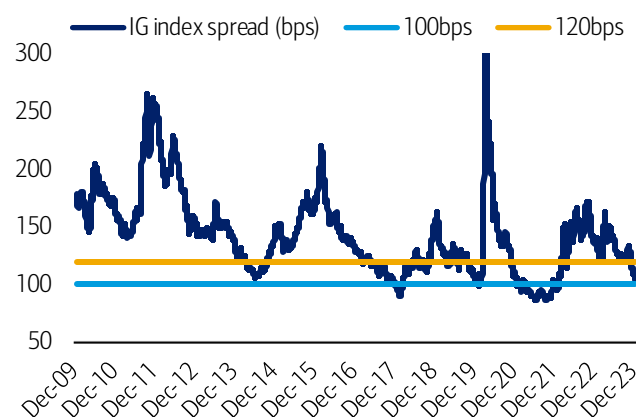
[Credit Market Strategist: Pivoting positively 15 December 2023](#)

Pivoting positively

The dovish Fed pivot reduces some of the key risks for US IG spreads. The big decline in Treasury yields should also support financial issuer spreads by reducing the tail risk of “something breaking” on the back of the hiking cycle. Financials spreads also still have room to tighten, unlike most non-financials that are already near the historical tightness (Exhibit 9). Given the recent reduction in risks and a stronger tailwind for financials we mark to market our expected range for IG spreads over the next six months to 100 – 120bps, compared to 104bps currently on the ICE BofA IG index (Exhibit 8). This implies we still see downside risks for IG spreads going forward.

Exhibit 8: We look for IG index to trade in 100 – 120bps range

That compares to 104bps currently on the ICE BofA US IG index.

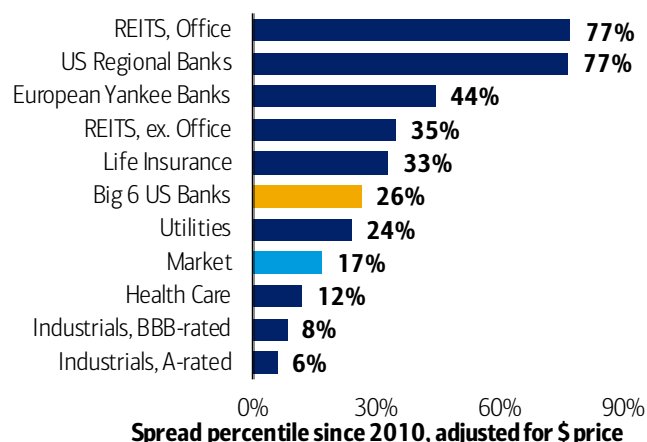


Source: ICE Data Indices, LLC

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Exhibit 9: Some IG sectors are reaching historical tight

Even after adjusting for the currently low bond dollar prices, single-A rated industrials are trading at 6th percentile since 2010.



Source: BofA Global Research, ICE Data Indices, LLC

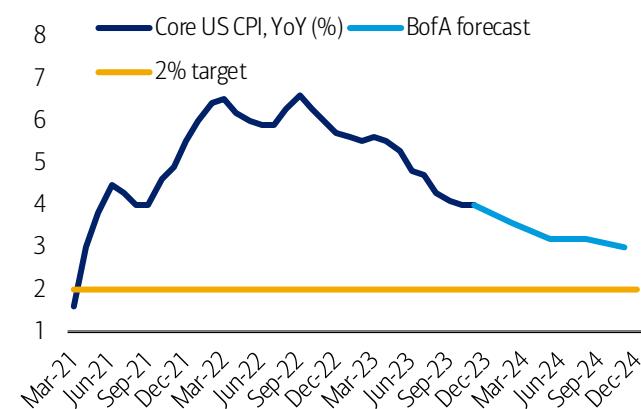
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The dovish pivot

At the December FOMC press conference chair Powell acknowledged that US inflation was largely driven by Covid supply and demand shocks rather than an overheating US economy (Exhibit 10). That suggests less pressure on the Fed to slow the US growth to fight inflation, increasing the chances of a softer landing. Such a more dovish Fed, therefore, is more likely to be more patient with some stickiness in inflation, as we saw in the November CPI report (see [Situation Room: Nov CPI: high but in line](#)), and more responsive to potential weakness in US data, which our economists forecast for 2024. Markets are now pricing about a 90% of a Fed cut in March (Exhibit 11).

Exhibit 10: US inflation has declined without slower US economy

Core US PCI has declined to 4% YoY in November from the peak 6.6% YoY in September 2022.

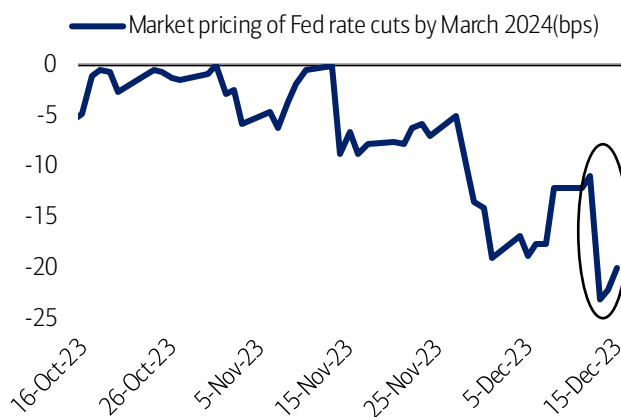


Source: BofA Global Research, Bloomberg.

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Exhibit 11: Markets have almost fully priced in a March Fed cut

Markets are currently pricing 20bps of Fed rate cuts by March 2024.



Source: BofA Global Research, Bloomberg.

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Downside risks

On balance we continue to see downside risks to IG spreads from the current levels. Following the rapid rally over the prior two months valuations have turned into a bigger risk. Upside to credit valuations is now limited by the fact that some of the key sectors have already approached historically tight levels. At 65bps, single-A industrials are trading at 6th percentile since 2010, even after adjusting for the still low bond dollar prices. BBB industrials (121bps) are trading at 8th percentile (Exhibit 9).

Other important risks remain. Even after a dovish Fed pivot the US economy remains difficult to forecast. Given the soft-landing base case, surprises to either upside or downside could be negative for spreads. Interest rate implied volatility remains high, highlighting such growth risks. The recent drop in yields should be negative for demand, while encouraging opportunistic supply. Finally, the soft landing could encourage re-leveraging by IG issuers (see [Situation Room: Soft landing = re-leveraging](#)).

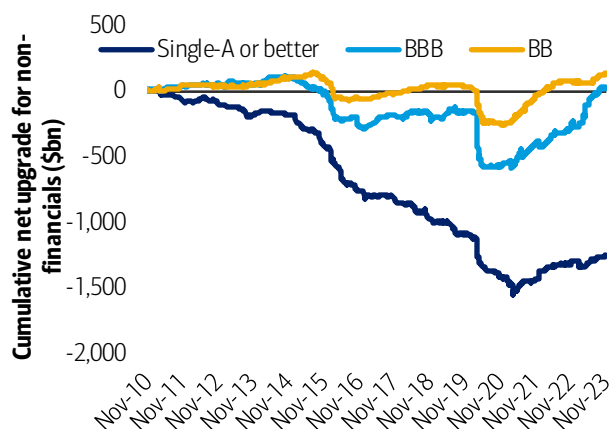
Upside risks

The key positive for IG credit is the combination of stronger balance sheets (Exhibit 12) at the end 2024, combined with the outlook for only a mild recession in the downside economic scenario (see [Credit Market Strategist: Nov '23 Credit Investor Survey: positioning for a mild recession](#)). Hence, risk of downgrades to HY should be low (see [Situation Room: Rising Stars > Fallen Angels](#)). That's the key reason why we expect only moderate spread widening in a downside scenario.

Equity implied volatility has reached the lowest levels since Covid, also suggesting limited risks to earnings (Exhibit 13). That has been supported by continued resilience in the US data, including retail sales (see [US Watch: November retail sales: shopping online and dining out](#)) and jobs (see [US Watch: November employment: On a glide path](#)). Finally, the strong bond returns in November and so far in December should attract stronger bond fund inflows in January.

Exhibit 12: IG issuers have improved their balance sheets

Strong rating upgrades illustrate improvements in credit quality for IG issuers over the past two years.

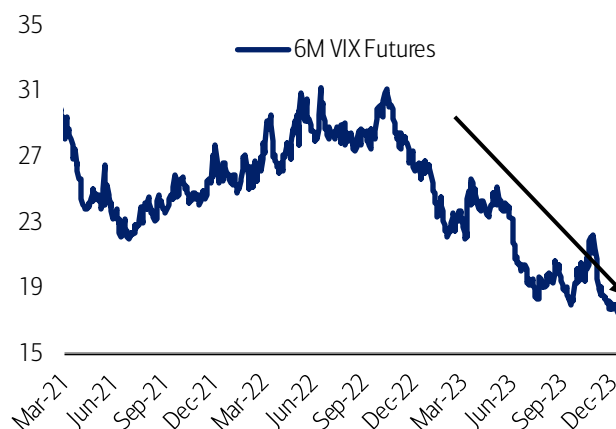


Source: BofA Global Research

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Exhibit 13: Equity volatility has reached post-Covid lows

6M VIX futures have declined to 17 currently from the recent high of 22 in October 2023 and post-Covid highs of 31 in October 2022.



Source: Bloomberg.

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Supply

January supply: tighter spreads, heavier supply

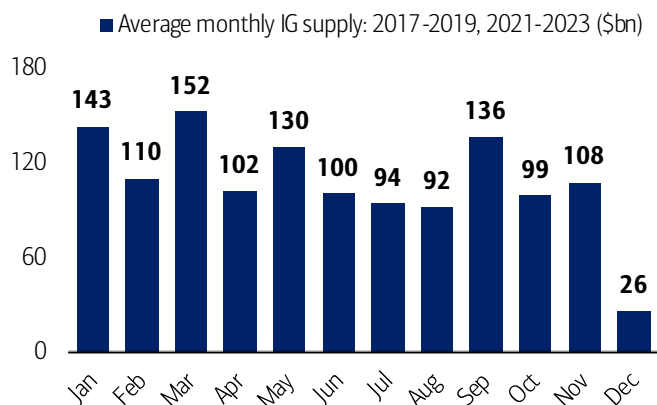
We look for January supply to come in a relatively busy \$150 - \$160bn range, as tighter spreads encourage more financial issuance. Currently the spread on the ICE BofA US IG Financial index is 115bps, down from 138bps average in January 2023 (Exhibit 19). That matters as financials accounted for 65% of January over the past three years (Exhibit 16). Moreover, the share of financial supply reached a high 69% in December, suggesting pent-up interest from financial issuers to come to the market at the current more attractive spreads. In contrast yields are unchanged relative to January of last year for the IG Industrial index (Exhibit 18). That implies no incremental support from valuations for non-financial supply.



Our outlook implies a high net issuance in January. We estimate \$64bn of maturities in January. Adding to that the average LTM monthly call / tender volume of \$7bn implies net issuance of +\$84bn – up from +\$65bn net supply in January 2023.

Exhibit 14: IG supply averaged \$33bn for the month of January

December tends to be the slowest month of the year for IG supply

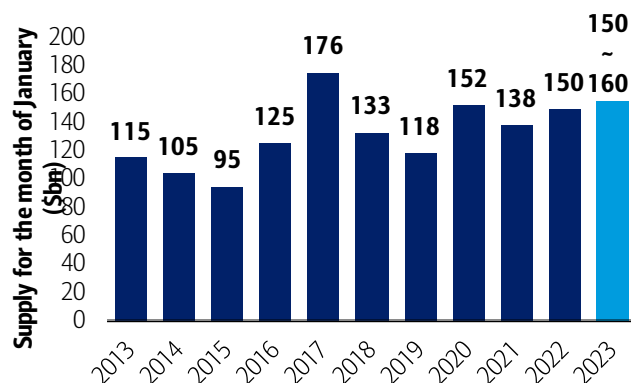


Source: BofA Global Research

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Exhibit 15: We look for IG gross supply of \$35-45bn in Dec-2022.

\$4035-\$45bn expected for Dec-2022 is down from \$62bn in Nov-2021 and similar to \$42bn in Nov-2020.

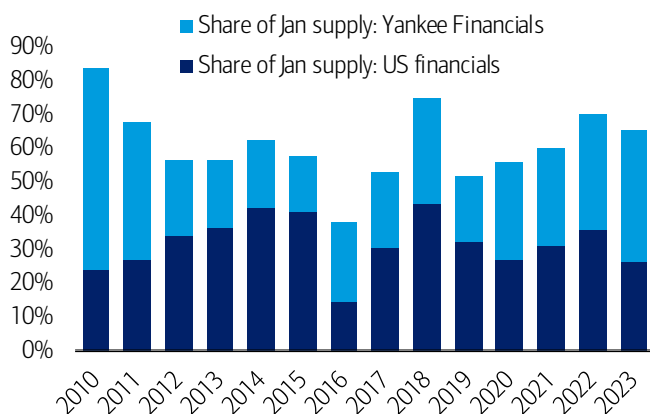


Source: BofA Global Research

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Exhibit 16: In 2021 – 2023 financials account for 65% of January supply

The share of January financial issuance was 66% in 2023 and 70% in 2022. Jan. issuance is about equally split between US and Yankee financials.

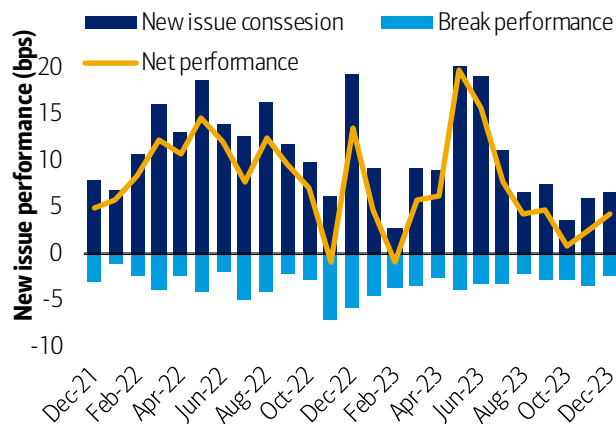


Source: BofA Global Research

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Exhibit 17: New issue performance was strong in Oct – Dec 2023

IG new issue performance was relatively strong at 2.5bps in November and 4.2bps in December. That compares to 7.4bps median over the past 2yr.



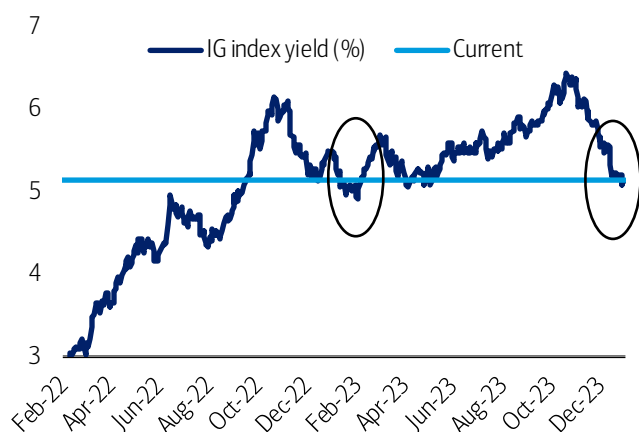
Note: IG new issue performance is new issue concessions less break performance.

Source: BofA Global Research

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Exhibit 18: Yields are currently unchanged from Jan 2023

The US IG index yield averaged 5.14% in Jan 2023 – matching the yield as of Dec 29 2023.

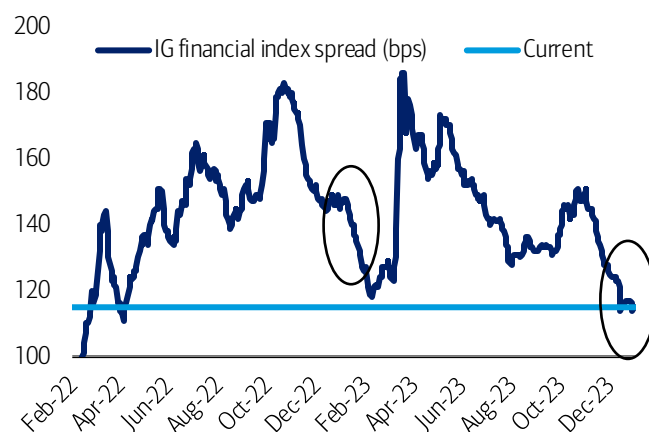


Source: ICE Data Indices, LLC

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Exhibit 19: Financial spreads are currently tighter than in Jan 2023

The US IG Financials index spread averaged 138bps in Jan 2023, wider than 115bps as of December 29.



Source: ICE Data Indices, LLC

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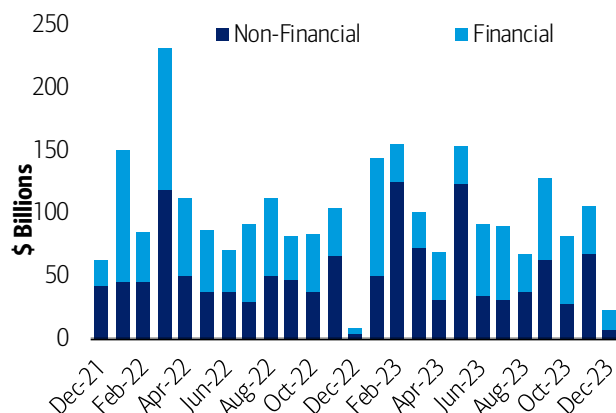
December supply review

IG gross supply totaled to 23.6bn in December down from 107.8bn in November. December supply consisted of \$7.4bn non-financials and \$16.2bn financials.

IG new issue performance weakened in December. The average new issue concession increased to 6.7bps from 6.0bps in November, while the average break performance tightened to 2.5bps from 3.5bps tighter. As a result, the overall performance of new issue performance, which we define as new issue concession plus break performance, widened to +4.2bps in December from 2.5bps in November (Exhibit 22).

Exhibit 20: Monthly US IG supply volume

December supply consisted of \$7.4bn non-financials and \$16.2bn financials.

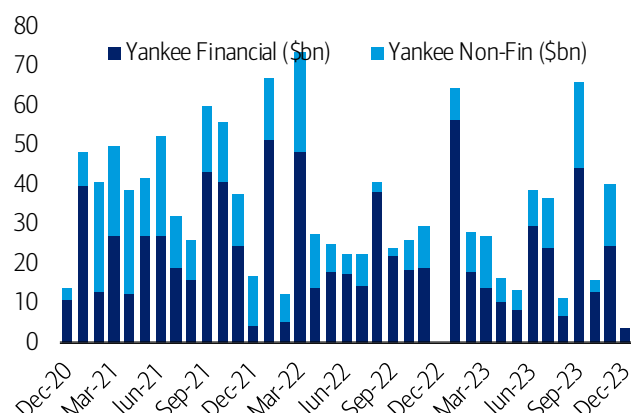


Source: Bloomberg, BofA Global Research

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Exhibit 21: US IG Yankee supply

US IG Yankee issuance = \$3.8bn in December

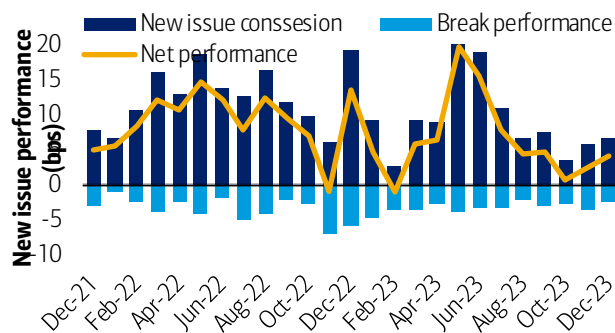


Source: Bloomberg, BofA Global Research

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Exhibit 22: Monthly new issue supply performance

US IG new issue performance weakened in December.

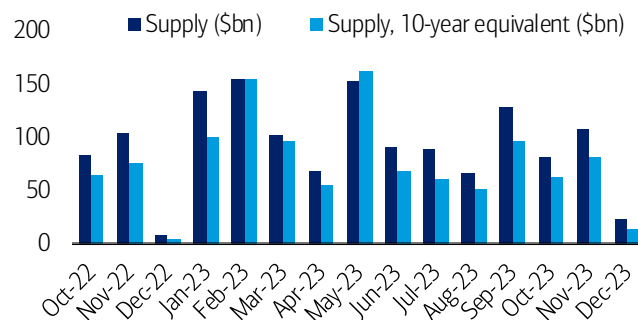


Source: Bloomberg, BofA Global Research

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Exhibit 23: Monthly gross and 10-year equivalent supply volumes

10-year equivalent supply = \$14.3bn in January



Source: BofA Global Research, Bloomberg

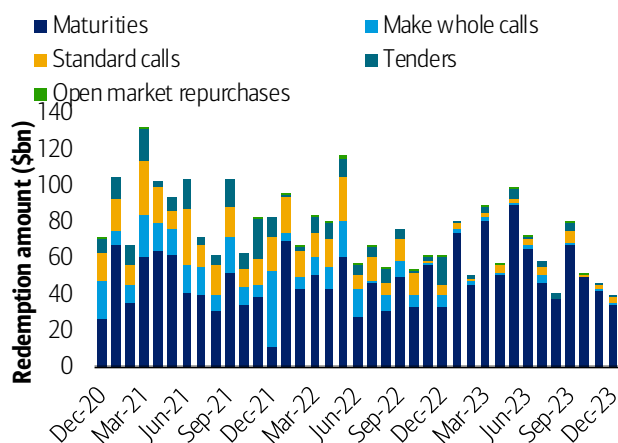
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Redemptions

Redemptions totaled \$39.3bn in December, including \$34.6bn of contractual maturities and \$4.7bn of additional redemptions (Exhibit 24). Gross supply less all redemptions decreased to -\$15.7bn in December from +\$62.8bn in November (Exhibit 25).

Exhibit 24: US IG maturities and additional redemptions

US IG redemptions = \$39.3bn in December.



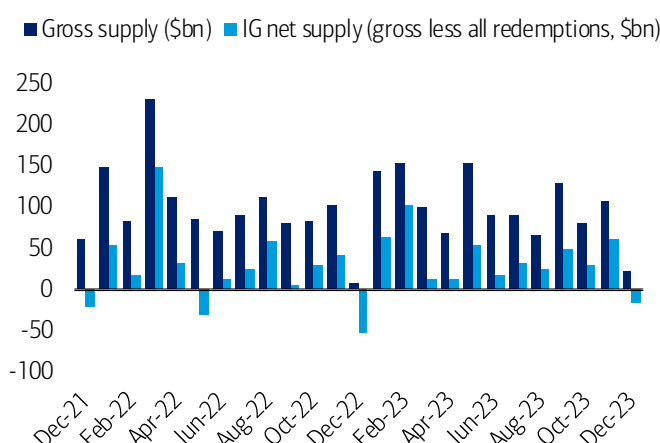
Note: Detailed redemption amounts data by type is grouped by effective dates.

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

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Exhibit 25: US IG gross and net supply

US IG gross supply = \$23.6bn and net supply = -\$15.7bn in December.



Source: BofA Global Research, Bloomberg

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Exhibit 26: US IG gross supply and redemptions

Exhibit shows IG gross supply, maturities, additional redemptions and net supply by month

Month	Gross supply (\$bn)	Maturities	Make whole calls	Standard calls	Tenders	Open market repurchases	Total redemptions	IG net supply (gross less all redemptions, \$bn)	Coupons
Jan-18	133.3	72.4	4.1	5.3	6.9	0.0	88.7	44.6	24.4
Feb-18	98.4	46.4	2.0	5.8	4.1	0.0	58.2	40.1	22.0
Mar-18	125.2	65.6	15.4	4.2	14.1	1.6	100.8	24.4	28.4
Apr-18	124.3	74.3	20.0	1.7	1.7	0.0	97.7	26.5	22.7
May-18	127.6	80.6	3.5	18.3	3.1	0.0	105.5	22.1	24.9
Jun-18	120.4	43.9	10.9	9.3	5.7	1.8	71.6	48.8	22.5
Jul-18	67.3	47.9	6.3	5.9	0.2	0.2	60.5	6.8	24.4
Aug-18	91.8	36.3	2.9	2.8	1.3	0.3	43.6	48.2	22.0
Sep-18	146.2	29.0	6.0	4.1	8.9	1.8	49.7	96.4	28.4
Oct-18	96.2	29.7	7.4	4.0	3.8	0.4	45.4	50.7	22.7
Nov-18	97.4	52.6	6.8	1.4	3.9	0.2	64.8	32.5	24.9
Dec-18	9.1	31.2	16.9	3.5	12.8	0.8	65.1	-56.0	22.5
Jan-19	118.3	72.6	1.6	2.0	3.2	0.0	79.4	38.9	25.5

Exhibit 26: US IG gross supply and redemptions

Exhibit shows IG gross supply, maturities, additional redemptions and net supply by month

Month	100.0	75.7	5.2	7.5	21.5	0.0	13.5	21.5	22.7
Mar-19	121.7	65.8	16.1	5.0	7.1	0.2	94.2	27.5	31.8
Apr-19	95.9	52.3	5.8	3.5	5.6	0.6	67.8	28.2	25.1
May-19	110.8	66.8	6.3	3.8	3.6	0.0	80.5	30.3	27.3
Jun-19	85.5	42.9	5.4	4.2	6.6	0.2	59.2	26.3	24.5
Jul-19	101.4	44.3	5.2	1.1	6.6	0.0	57.2	44.2	25.5
Aug-19	84.9	42.6	5.4	2.8	12.3	0.6	63.6	21.3	22.4
Sep-19	166.5	72.9	15.4	10.9	14.2	0.3	113.8	52.7	31.8
Oct-19	85.2	55.1	19.2	6.3	12.7	0.0	93.2	-8.0	25.1
Nov-19	104.2	39.2	8.5	9.1	7.6	0.4	64.9	39.3	27.3
Dec-19	24.0	26.6	18.0	26.6	11.2	0.0	82.4	-58.4	24.5
Jan-20	152.3	65.6	7.9	7.3	2.3	0.0	83.0	69.3	27.2
Feb-20	96.7	36.6	6.9	2.9	2.7	0.0	49.0	47.7	23.0
Mar-20	261.4	73.2	22.4	16.0	14.2	0.4	126.2	135.2	32.5
Apr-20	297.4	36.7	2.2	5.6	11.2	0.0	55.6	241.7	26.1
May-20	261.9	59.2	7.7	17.8	11.9	0.0	96.6	165.4	27.5
Jun-20	176.8	60.9	19.4	9.3	18.1	0.0	107.8	69.0	24.3
Jul-20	68.9	46.9	14.3	11.5	9.2	0.0	81.9	-13.0	24.8
Aug-20	143.5	35.3	11.1	9.4	14.7	0.6	71.2	72.3	21.3
Sep-20	168.4	45.7	19.9	18.3	25.1	0.0	109.1	59.4	31.4
Oct-20	87.0	65.9	14.6	18.8	11.0	0.1	110.4	-23.4	28.3
Nov-20	98.6	54.8	7.8	17.0	8.6	0.2	88.4	10.1	30.7
Dec-20	42.4	26.4	20.9	15.5	8.3	0.2	71.2	-28.8	26.8
Jan-21	137.9	67.2	7.5	18.1	12.1	0.0	104.8	33.1	24.6
Feb-21	119.9	35.3	9.4	11.2	11.0	0.0	67.0	52.9	21.2
Mar-21	202.5	60.7	23.1	30.1	17.0	0.0	130.9	71.6	31.7
Apr-21	124.3	63.9	16.1	19.4	3.5	0.0	102.8	21.5	27.8
May-21	136.7	61.8	14.2	10.5	7.7	0.0	94.3	42.5	30.3
Jun-21	139.1	40.9	15.9	30.7	16.6	0.0	104.2	34.9	26.2
Jul-21	90.7	39.6	15.4	12.3	4.8	0.0	72.1	18.6	25.0
Aug-21	88.3	31.0	9.1	16.3	5.5	0.0	61.9	26.5	20.6
Sep-21	160.4	52.1	19.8	15.9	16.1	0.0	103.9	56.6	30.2
Oct-21	120.4	33.8	10.1	10.6	8.7	0.0	63.3	57.0	27.8
Nov-21	112.6	38.1	6.9	14.3	22.8	0.0	82.2	30.3	30.3
Dec-21	62.4	10.7	42.0	19.1	11.3	0.0	83.2	-20.8	26.2
Jan-22	149.7	69.5	4.5	19.6	1.1	0.0	94.8	55.0	24.4
Feb-22	84.6	43.3	6.6	13.8	2.1	0.0	65.8	18.8	21.4
Mar-22	231.8	50.5	9.9	13.5	9.0	0.0	82.9	148.9	32.2
Apr-22	112.6	42.6	12.5	15.8	9.1	0.0	80.1	32.5	28.4
May-22	87.1	61.1	19.7	24.4	9.2	3.0	117.5	-30.4	29.6
Jun-22	70.6	28.1	14.6	7.7	5.9	0.0	56.3	14.2	24.3
Jul-22	90.9	45.9	2.1	12.9	5.3	0.0	66.2	24.7	24.4
Aug-22	112.6	30.6	9.2	6.9	7.1	0.6	54.5	58.1	21.4
Sep-22	81.4	49.1	9.9	11.5	5.9	0.0	76.4	5.0	32.2
Oct-22	83.2	33.3	6.4	11.8	1.4	0.2	53.1	30.1	28.4
Nov-22	103.9	56.6	1.0	1.3	2.0	0.3	61.2	42.6	29.6
Dec-22	8.1	33.3	6.1	5.5	15.5	0.1	60.5	-52.5	24.3
Jan-23	144.6	74.4	1.2	3.3	0.5	0.0	79.5	65.0	26.1
Feb-23	154.8	45.0	2.4	0.9	2.6	0.0	50.9	103.9	23.9
Mar-23	101.7	80.6	2.4	2.2	2.9	0.1	88.2	13.5	35.0
Apr-23	69.4	50.5	1.3	4.0	0.5	0.5	56.8	12.5	31.1
May-23	153.9	89.8	0.9	2.4	5.3	0.0	98.3	55.5	29.6
Jun-23	91.3	65.7	1.7	3.9	1.0	0.1	72.3	19.0	25.1
Jul-23	89.7	46.6	4.4	4.1	3.1	0.0	58.2	31.6	26.1
Aug-23	67.2	37.4	0.0	0.0	3.9	0.0	41.3	25.9	23.9
Sep-23	128.6	67.2	0.9	7.0	4.8	0.1	80.0	48.6	35.0
Oct-23	82.3	49.2	0.0	1.6	0.4	0.4	51.6	30.6	31.1
Nov-23	107.8	41.9	0.9	2.0	0.3	0.0	45.0	62.8	29.6
Dec-23	23.6	34.6	1.2	2.8	0.6	0.0	39.3	-15.7	25.1

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

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Quantitative Review

Returns

Performance data include year-to-date sector returns, sector spreads, and a table summarizing a number of sector statistics such as size, performance and rating. At the issuer level, the top 25 names gained 99bps in terms of excess return in December while the bottom 25 large issuers lost 73bps in terms of excess return.

Ratings trends

Net upgrades (upgrades less downgrades, including Fallen Angels) for credits in ICE BofA US IG corporate index COAO declined to -\$9bn (net downgrade) in December from +\$27.6bn in November. Net LTM upgrades moderated to +5.8% of index notional in December from +6.7% of index notional in November. At the sector level Healthcare and Metals & Mining contributed the most to the overall index negative rating actions in December (including watch (75% weight) and outlook (25% weight) changes), while Banks/Brokers, Technology and Pipelines contributed the most to positive rating actions.

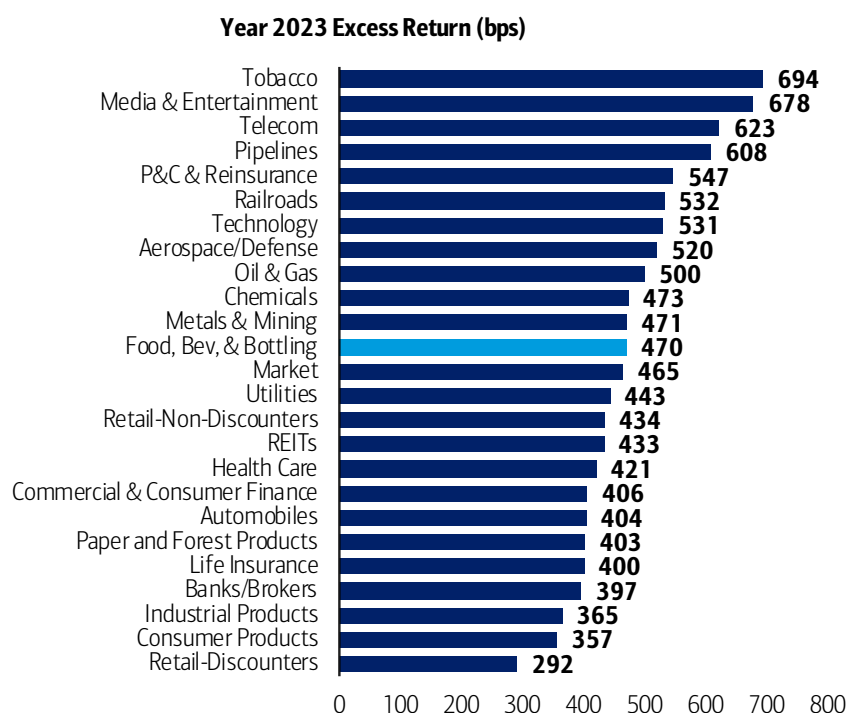
Fund flows

Net inflows to US IG bond funds and ETFs decreased to +0.50% of assets in December (based only on funds reporting daily) from +0.39% of assets in November (based on all funds).

Appendix: Performance Data

Exhibit 27: High Grade YtD sector excess return

Year-to-date excess return for HG corporate market sectors, through December 31, 2023. Results include hybrid and subordinated securities.

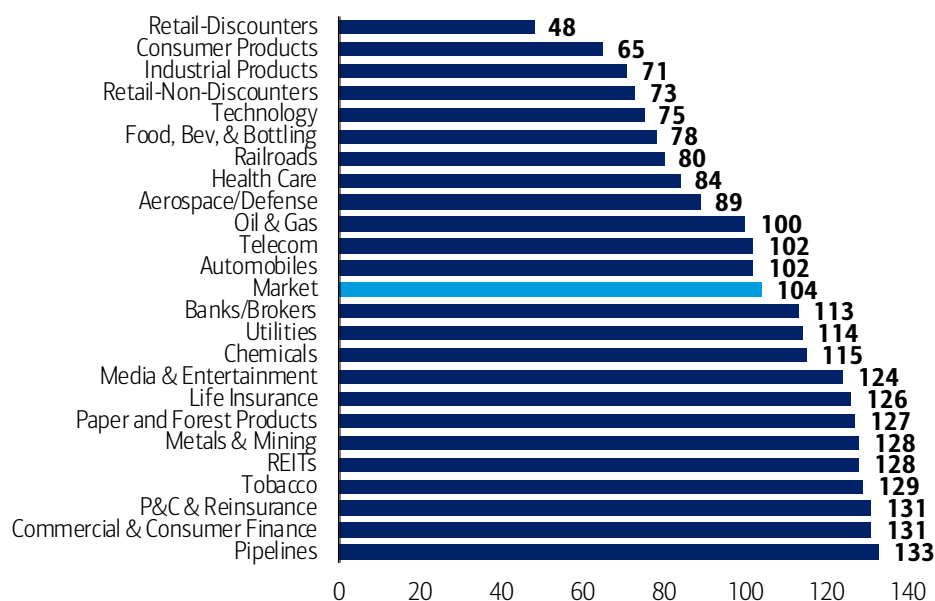


Source: ICE Data Indices, LLC

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Exhibit 28: High grade spreads by sector (bps)

Sector spreads for BofA US IG Corporate Index COA0 as of December 31 2023.



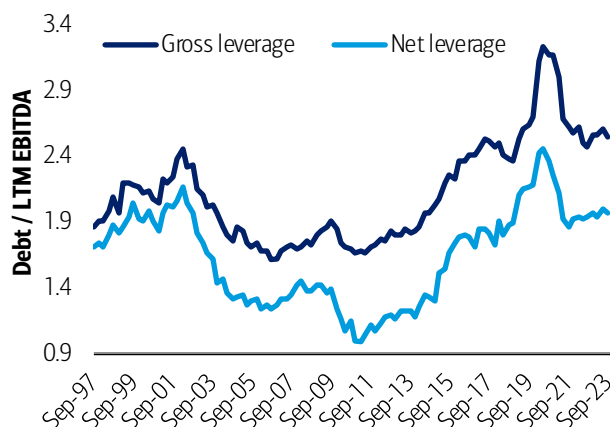
Note: Results include subordinated and hybrid securities.

Source: ICE Data Indices, LLC

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Leverage and coverage**Exhibit 29: Net and gross leverage: ex. Utilities**

US IG industrial (ex. financial & utility) leverage ratio was 2.55x on a gross basis and 1.97x on a net basis as of 3Q23.



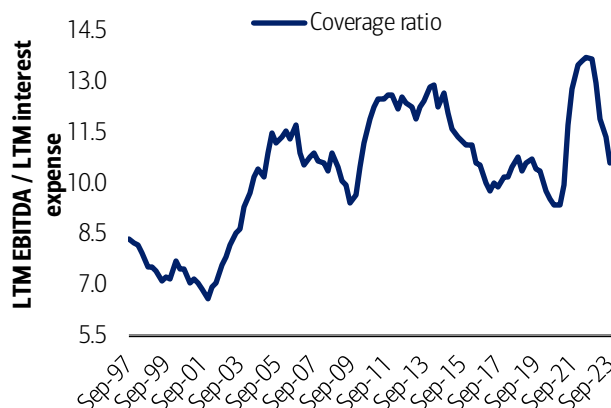
Note: Medians based on the US HG universe (ex. Fins and Utilities). Universe is rebalanced each quarter.

Source: Bloomberg, BofA Global Research

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Exhibit 30: Coverage: ex. Utilities

US IG industrial (ex. financial & utility) coverage ratio was 10.6x as of 3Q23.



Note: Medians based on the US HG universe (ex. Fins and Utilities). Universe is rebalanced each quarter.

Source: Bloomberg, BofA Global Research

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Note: High grade market fundamental statistics are all median values for U.S. nonfinancial issuers in our benchmark USD high grade index COA0.

High grade sector historical performance

Exhibit 31: High Grade Sector Performance as of December 31, 2023

Sector spreads and performance for BofA HG U.S. Corporate Master COAO. Results include subordinated and hybrid securities

Sector	Rating	OAS	Duration	Yield	Price	Face (\$bn)	% Mkt Value	Excess Return (bps)	Spread Change (bps)	Total Return						
								MTD	QTD	YTD	YOY	MTD	QTD	YTD	YOY	QTD
Aerospace/Defense	BBB2	89	7.8	4.97	95.4	156.0	1.83	6	189	520	520	-3	-21	-38	-38	878
Automobiles	BBB1	102	3.9	5.12	96.9	241.7	2.89	58	149	404	404	-15	-10	-27	-27	557
Banks/Brokers	A2	113	4.6	5.34	95.3	1,921.6	22.59	54	177	397	397	-11	-26	-31	-31	636
Basic Materials	BBB2	121	7.1	5.26	94.7	338.5	3.95	53	189	482	482	-14	-27	-40	-40	825
Building Materials	BBB2	104	7.4	5.11	92.6	24.9	0.28	85	260	654	654	-12	-28	-55	-55	905
Chemicals	BBB2	115	7.4	5.22	92.9	125.3	1.43	33	177	473	473	-22	-34	-41	-41	827
Homebuilders	BBB2	114	4.7	5.14	94.6	15.2	0.18	87	214	592	592	-16	-25	-54	-54	694
Metals & Mining	BBB1	128	7.6	5.31	96.7	127.0	1.52	59	195	471	471	-8	-22	-40	-40	871
Paper and Forest Products	BBB2	127	5.5	5.34	95.0	46.1	0.54	64	154	403	403	-10	-22	-28	-28	684
Commercial Services	A3	89	8.5	4.93	90.4	114.4	1.27	40	136	531	531	-7	-16	-40	-40	861
Consumer Products	A2	65	6.6	4.67	94.7	78.9	0.92	25	101	357	357	-4	-13	-31	-31	703
Energy	BBB1	115	7.5	5.23	94.5	721.4	8.41	13	171	546	546	-3	-18	-37	-37	837
Oil & Gas	A3	100	7.7	5.07	93.2	409.0	4.70	9	152	500	500	-3	-17	-34	-34	837
Pipelines	BBB2	133	7.1	5.43	96.2	312.4	3.72	19	194	608	608	-4	-23	-45	-45	837
Finance	A3	114	5.3	5.24	93.9	441.3	5.10	51	170	426	426	-10	-23	-36	-36	679
Commercial & Consumer Finance	BBB1	131	3.9	5.42	96.1	160.4	1.90	82	179	406	406	-14	-25	-36	-36	592
Finance-Other Services	A3	103	6.1	5.13	92.6	280.9	3.20	32	164	437	437	-8	-22	-36	-36	728
Food, Bev, & Bottling	A3	78	7.8	4.83	93.8	318.3	3.68	13	149	470	470	-3	-16	-35	-35	844
Health Care	A3	84	8.5	4.91	92.5	837.9	9.54	-8	130	421	421	-1	-13	-27	-27	866
Industrial Products	A3	71	6.2	4.79	94.1	210.5	2.44	32	119	365	365	-4	-14	-26	-26	685
Insurance	A3	128	7.2	5.39	92.9	367.6	4.21	45	163	453	453	-4	-17	-27	-27	801
Insurance-Other	BBB1	121	8.3	5.23	92.8	37.0	0.42	13	174	527	527	19	-20	-34	-34	885
Life Insurance	A2	126	6.3	5.40	93.1	230.3	2.64	49	156	400	400	-7	-17	-26	-26	736
Multi-Line Insurance	BBB1	146	9.0	5.59	95.0	22.7	0.27	67	185	554	554	-9	-13	-18	-18	947
P&C & Reinsurance	A3	131	8.5	5.37	91.8	77.6	0.88	39	173	547	547	-4	-16	-30	-30	915
Leisure	BBB2	117	3.8	5.22	95.7	29.8	0.35	66	165	501	501	-14	-28	-76	-76	580
Media & Entertainment	BBB1	124	8.6	5.29	89.4	331.5	3.66	-9	254	678	678	1	-22	-46	-46	994
Media-Cable	BBB1	132	9.4	5.38	88.4	157.6	1.72	-28	225	622	622	1	-19	-36	-36	1,021
Media-Diversified	BBB1	116	8.0	5.22	90.4	173.8	1.94	9	280	728	728	-1	-26	-56	-56	970
Real Estate Dev & Mgt	A3	143	5.3	5.36	92.6	8.4	0.10	65	178	453	453	-13	-24	-35	-35	707
REITs	BBB1	128	5.5	5.30	91.1	284.3	3.19	101	206	433	433	-19	-29	-40	-40	731
Retail	A2	72	7.9	4.77	92.1	315.7	3.58	8	174	405	405	-4	-18	-27	-27	862
Food & Drug Retailers	BBB2	114	7.7	5.20	89.9	23.2	0.26	88	201	399	399	-20	-30	-27	-27	876
Retail-Discounters	A1	48	7.5	4.54	95.5	55.3	0.65	-6	159	292	292	-1	-20	-20	-20	821
Retail-Non-Discounters	A3	73	8.0	4.79	91.5	237.2	2.67	3	175	434	434	-4	-16	-28	-28	870
Technology	A2	75	7.7	4.81	91.6	555.7	6.27	-36	172	531	531	1	-21	-39	-39	852
Telecom	BBB2	102	8.6	5.05	90.8	334.0	3.74	29	326	623	623	-4	-32	-47	-47	1,065
Tobacco	BBB1	129	7.0	5.35	94.1	87.8	1.02	-39	217	694	694	3	-23	-54	-54	854
Transportation	BBB1	100	9.1	5.09	92.3	192.9	2.20	47	156	503	503	-7	-15	-36	-36	921
Railroads	A3	80	11.2	4.88	90.4	111.1	1.24	41	186	532	532	-4	-14	-31	-31	1,088
Transportation-Other	BBB2	125	6.5	5.35	95.0	81.8	0.96	54	121	463	463	-12	-17	-42	-42	711
Utilities	A3	114	8.4	5.20	92.2	797.6	9.06	56	166	443	443	-7	-16	-30	-30	894
Market	A3	104	6.8	5.14	93.4	8,685.8	100.00	31	175	465	465	-7	-21	-34	-34	791

Source: ICE Data Indices, LLC

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Exhibit 32: Summary of fallen angels, December 2023

Number of IG issuers downgraded to HY in December 2023: 4.

Ticker	Rating	N Bonds	Par, \$mn	Avg. Price	Avg. Yield	Avg. OAS
BRASKM	BB1	6	5,923	80.75	9.72	577
VNO	BB1	3	1,200	88.99	6.84	251
WBA	BB1	7	4,403	85.58	5.93	181
Total		16	11,526	83.53	7.93	388

Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 33: Summary of rising stars, December 2023

Number of HY issuers upgraded to IG in December 2023: 1.

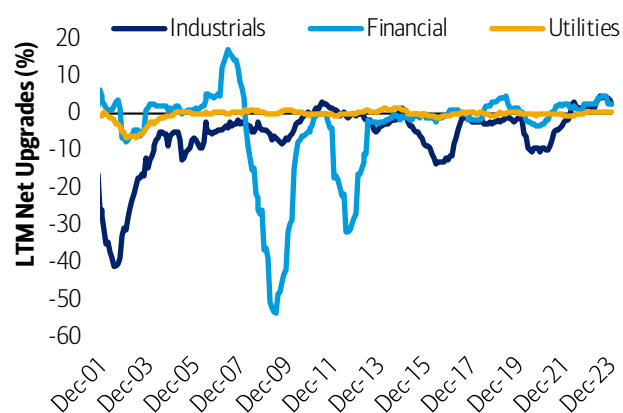
Ticker	Rating	N Bonds	Par, \$mn	Avg. Price	Avg. Yield	Avg. OAS
ICLR	BBB3	1	500	93.44	5.68	154
Total		1	500	93.44	5.68	154

Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 34: Net LTM upgrades and rising stars as percent of HG index notional.

LTM net downgrades as shares of index notional moderated across sectors in May



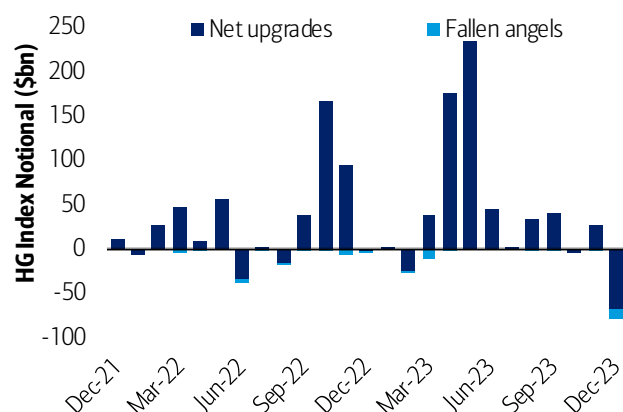
Note: Net upgrades equal to the total notional upgraded each month less the total notional that was downgraded. Rising stars are credit that migrated from HY Master (H0A0) to HG Master (COA0) during the month.

Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 35: HG Index upgrade and fallen angel volumes.

Net upgrades for credits in the US IG corporate Index totaled -\$78bn in Dec.



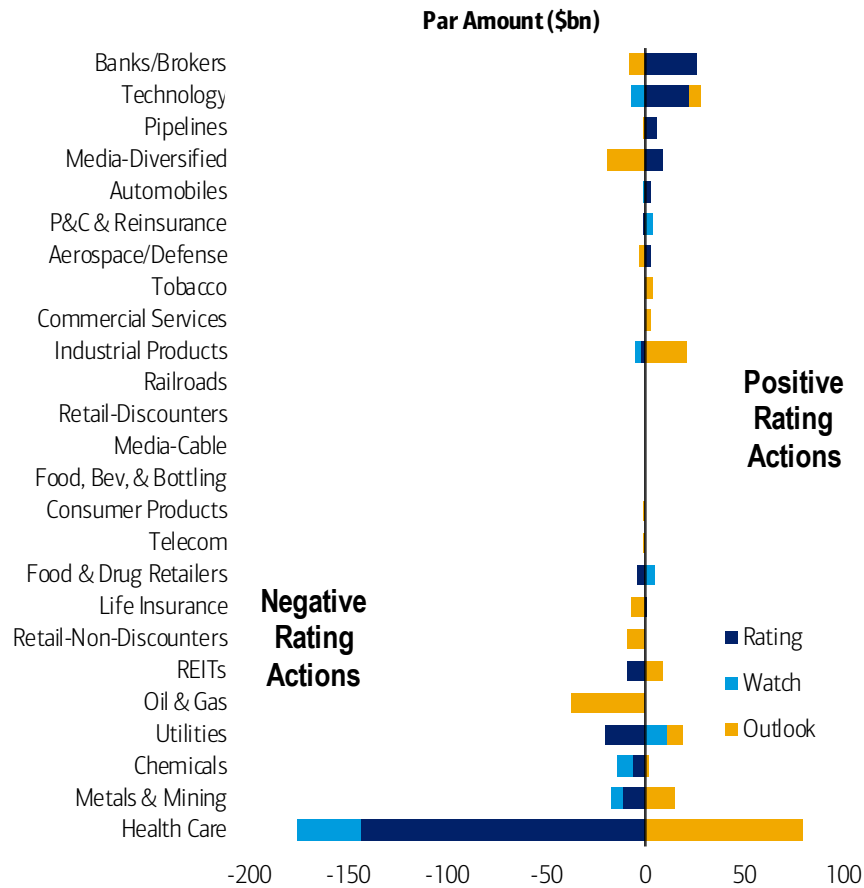
Note: Net upgrades equal to the total notional upgraded each month less the total notional that was downgraded. Fallen angels are credit that migrated from HG Master (COA0) to HY Master (H0A0) during the month.

Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 36: December 2023 rating actions by sector, percent of HG index market value

Data include rating action by any of the three agencies (Moody's, S&P, Fitch).

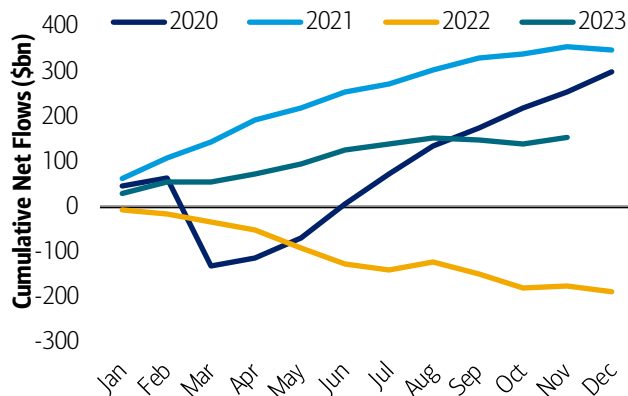


Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 37: LTM mutual fund net flows in HG credit funds

Cumulative outflows Ytd have been stronger than in 2022, but below than in 2021.



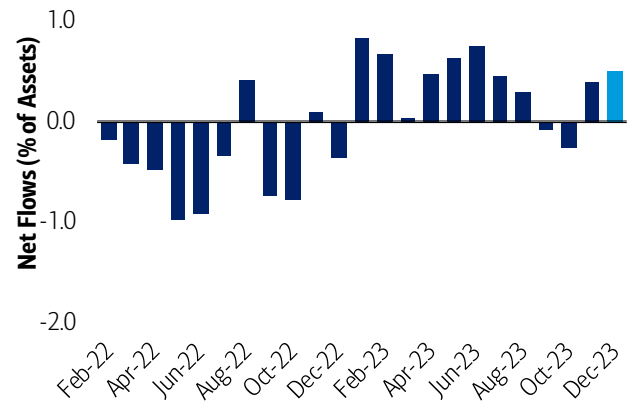
Note: Weekly-only mutual fund flows for the latest month, all-funds flows for earlier months.

Source: BofA Global Research, EPFR

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Exhibit 38: Monthly HG fund and ETF flows

Net inflows to US IG bond funds and ETFs = +0.50% of assets in December (based only on funds reporting daily)



Note: Weekly-only mutual fund flows for the latest month, all-funds flows for earlier months.

Source: BofA Global Research, EPFR

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Exhibit 39: Monthly top and bottom performers

Top and bottom excess-return performers in BofA HGMaster Index (COAO). Results include hybrids and subordinated securities

Top 25 Credits					Bottom 25 Credits						
Rnk	Name	Ticker	Excess Return	OAS Chg	Weight	Rnk	Name	Ticker	Excess Return	OAS Chg	Weight
1	Deutsche Bank AG	DB	181	-40	0.27	1	Microsoft Corporation	MSFT	-149	10	0.51
2	Capital One Financial	COF	164	-37	0.33	2	Apple Inc.	AAPL	-133	9	0.94
3	MidAmerican Energy Company	BRKHEC	138	-13	0.43	3	Bristol-Myers Squibb Company	BMJ	-126	9	0.38
4	Barclays PLC	BACR	133	-28	0.54	4	Altria Group	MO	-120	9	0.24
5	Banco Santander SA	SANTAN	120	-26	0.34	5	Pfizer	PFE	-115	10	0.69
6	Societe Generale	SOCGEN	114	-22	0.31	6	Johnson & Johnson	JNJ	-83	7	0.28
7	Standard Chartered plc	STANLN	103	-12	0.31	7	Exxon Mobil Corp.	XOM	-82	5	0.31
8	Lloyds Banking Group plc	LLOYDS	103	-20	0.29	8	Charter Communications Inc	CHTR	-79	5	0.47
9	The Charles Schwab Corporation	SCHW	103	-22	0.25	9	Oracle Corp	ORCL	-79	5	0.85
10	AerCap Holdings NV	AER	98	-19	0.29	10	Amazon.com Inc	AMZN	-76	6	0.65
11	Truist Bank	TFC	94	-23	0.32	11	Berkshire Hathaway	BRK	-76	6	0.20
12	PG&E Corp	PCG	91	-15	0.40	12	Shell International Finance BV	RDSALN	-68	5	0.32
13	Ford	F	90	-23	0.51	13	AbbVie Inc.	ABBV	-67	3	0.53
14	Enbridge Inc	ENBCN	87	-12	0.30	14	Enterprise Products Partners LP	EPD	-61	1	0.32
15	US Bancorp	USB	85	-15	0.34	15	The Coca-Cola Company	KO	-59	2	0.21
16	Saudi Arabian Oil Co	ARAMCO	85	-10	0.22	16	AMBEV	ABIBB	-59	4	0.61
17	Natwest Group PLC	NWG	83	-18	0.21	17	Intel Corporation	INTC	-53	3	0.54
18	BPCE SA	BPCEGP	81	-17	0.29	18	Walt Disney Co	DIS	-49	4	0.42
19	Prudential Financial Inc	PRU	81	-11	0.25	19	Wal-Mart Stores	WMT	-35	3	0.38
20	UBS AG	UBS	79	-17	0.78	20	BAT Capital Corp	BATSLN	-34	3	0.39
21	PNC Financial Services Group	PNC	76	-15	0.33	21	IBM Corp	IBM	-33	1	0.35
22	BNP Paribas	BNP	75	-13	0.36	22	Merck & Co., Inc.	MRK	-29	0	0.34
23	Edison International	EIX	70	-11	0.30	23	Gilead Sciences, Inc.	GILD	-29	-1	0.25
24	Macquarie Group Ltd.	MQGAU	69	-11	0.22	24	United Health Group	UNH	-27	1	0.68
25	The Toronto-Dominion Bank	TD	66	-16	0.33	25	Amgen	AMGN	-24	0	0.68
Average (Market Weighted)			99	-19	8.52	Average (Market Weighted)			-73	5	11.53

Source: BofA Global Research, ICE Data Indices, LLC

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