

## Situation Room

## Fed vs. credit

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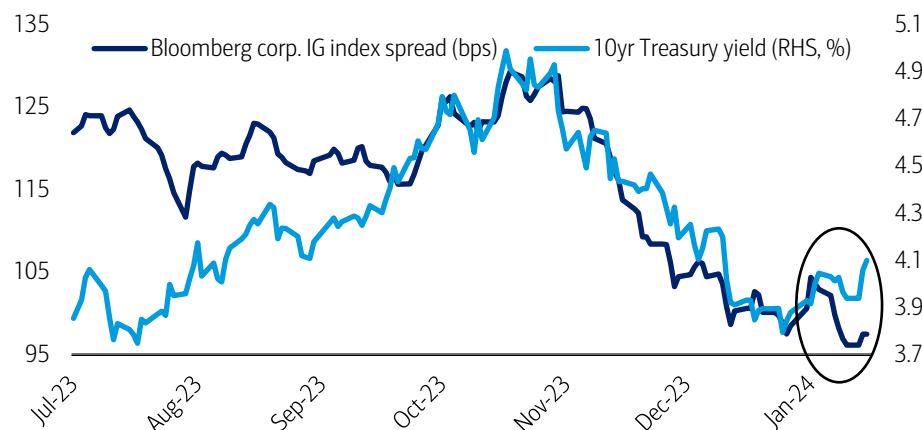
Some of the optimism about 2024 Fed rate cuts was reversed this week on the back of pushback from the Fed (Waller on Tuesday) and strong US data (December Retail Sales report on Wednesday, Exhibit 2). That has pushed 10yr Treasury yield up 16bps and S&P 500 down 1% this week. However, the impact on IG spreads was very muted, with the Bloomberg US IG index just 1bps wider, despite heavy supply. We expect this resilience to stay.

## IG spread resilience

Currently the biggest macro driver is the interaction of US data and the outlook for the Fed. Generally, more Fed cuts is viewed positively by risk assets, and fewer cuts – negatively. However, for IG spreads those effects are offset by lower / higher yields. Hence this week while the pricing of fewer Fed cuts was negative for stocks, the corresponding increase in yields was positive for investor IG bond demand. Hence the biggest near-term risk – potentially fewer Fed cuts priced for the Fed in 2024 – is unlikely to widen IG spreads materially.

**Exhibit 1: Higher Treasury yields, but resilient IG spreads**

10yr Treasury yield is 16bps higher this week, while the IG index spread is just 1bps wider.



Source: Bloomberg.

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17 January 2024

Credit Strategy  
United States  
Cross Product

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## In this report

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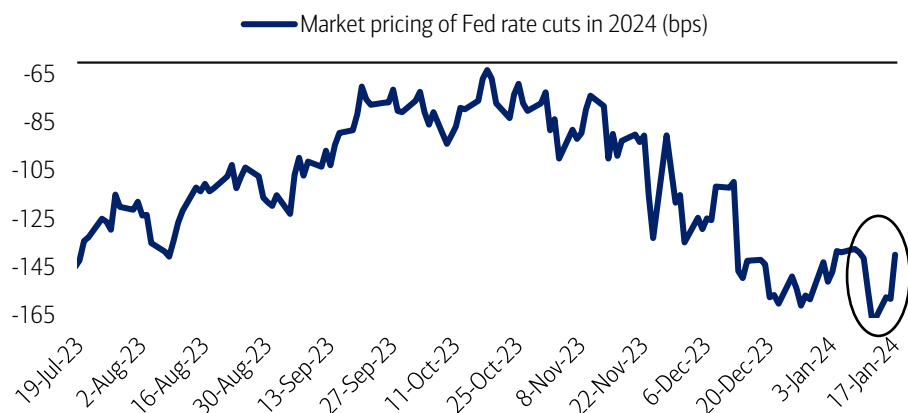
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12647442

Timestamp: 17 January 2024 06:00PM EST

**Exhibit 2: Markets are now pricing in fewer Fed cuts for 2024**

Markets are now pricing in 140bps of Fed rate cuts in 2024, down from 168bps on Friday January 12.



Source: BofA Global Research, Bloomberg.

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## Daily credit snapshot

US IG issuance totaled \$6.7bn across 7 deals today, \$37.1bn WTD and \$139.0bn MTD. The average new issue concession was -5.0bps today, while the average break performance was 4.8bps tighter today. This week's new issues are trading 3.0bps tighter on average from pricing.

S&P 500 closed -0.56%, 10-year Treasury yields +4bps, CDX IG +0.7bps, CDX HY - \$0.19pts, and cash bond spreads quoted -1-3bps today, LQD closed 1.16bps tighter today.

**Exhibit 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)
2024-01-16	ARCC	Ares Capital Corp	5	1,000	Baa3/BBB-	5.875	210	n.a.	n.a.	209
2024-01-16	AVOL	Avolon Holdings Funding Ltd	5	1,150	Baa3/BBB-	5.75	200	n.a.	n.a.	199
2024-01-16	COXENT	Cox Communications Inc	5	350	Baa2/BBB	5.45	155	n.a.	n.a.	106
2024-01-16	COXENT	Cox Communications Inc	9	300	Baa2/BBB	5.7	197	n.a.	n.a.	131
2024-01-16	COXENT	Cox Communications Inc	30	850	Baa2/BBB	5.8	148	n.a.	n.a.	147
2024-01-16	ES	Eversource Energy	3	350	Baa2/BBB+	5	100	n.a.	-3	97
2024-01-16	ES	Connecticut Light and Power Co/The	5	350	A1/A+	4.65	75	n.a.	-3	72
2024-01-16	ES	Eversource Energy	10	650	Baa2/BBB+	5.5	150	n.a.	n.a.	145
2024-01-16	EXR	Extra Space Storage LP	10	600	Baa2/BBB+	5.4	135	n.a.	n.a.	135
2024-01-16	GIS	General Mills Inc	3	500	Baa2/BBB	4.7	70	-4	-2	68
2024-01-16	JPM	JPMorgan Chase & Co	4NC3	500	A1/A-	FRN	SOFR+120	n.a.	n.a.	n.a.
2024-01-16	JPM	JPMorgan Chase & Co	4NC3	2,500	A1/A-	5.04	103	10	-3	100
2024-01-16	JPM	JPMorgan Chase & Co	6NC5	2,500	A1/A-	5.012	108	6	-1	107
2024-01-16	JPM	JPMorgan Chase & Co	11NC10	3,000	A1/A-	5.336	128	9	-3	125
2024-01-16	MS	Morgan Stanley Bank NA	4NC3	450	Aa3/A+	FRN	SOFR+108	n.a.	n.a.	n.a.
2024-01-16	MS	Morgan Stanley Bank NA	4NC3	1,550	Aa3/A+	4.952	92	n.a.	-4	91
2024-01-16	MS	Morgan Stanley	6NC5	2,250	A1/A-	5.173	122	6	-3	121
2024-01-16	MS	Morgan Stanley	11NC10	2,500	A1/A-	5.466	140	13	-6	135
2024-01-16	POHANG	POSCO	3	500	Baa1/A-	4.875	110	n.a.	n.a.	n.a.
2024-01-16	VALIAE	Buffalo Energy Mexico Holdings / Buffalo Energy In	15	530	Baa3/BBB	7.875	243	n.a.	n.a.	n.a.
2024-01-16	WFC	Wells Fargo Bank NA	2	450	Aa2/A+	FRN	SOFR+71	n.a.	n.a.	n.a.

**Exhibit 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)
2024-01-16	WFC	Wells Fargo Bank NA	2	1,800	Aa2/A+	4.811	60	14	n.a.	59
2024-01-16	WFC	Wells Fargo & Co	6NC5	2,750	A1/BBB+	5.198	127	6	n.a.	126
2024-01-16	WFC	Wells Fargo & Co	11NC10	3,000	A1/BBB+	5.499	145	9	-2	144
2024-01-17	AL	Air Lease Corp	5	500	NA/NA	5.1	135	n.a.	n.a.	n.a.
2024-01-17	AYR	Aircastle Ltd	5	650	Baa3/BBB-	5.95	205	4	n.a.	n.a.
2024-01-17	BFCM	Banque Federative du Credit Mutuel SA	3	300	Aa3/A+	FRN	SOFR+113	n.a.	n.a.	n.a.
2024-01-17	BFCM	Banque Federative du Credit Mutuel SA	3	700	Aa3/A+	5.088	97	14	-3	94
2024-01-17	EQT	EQT Corp	10	750	Baa3/BBB-	5.75	165	n.a.	n.a.	n.a.
2024-01-17	OBDC	Blue Owl Capital Corp	5	600	Baa3/BBB-	5.95	220	3	n.a.	n.a.
2024-01-17	PNC	PNC Financial Services Group Inc/The	4NC3	1,000	A3/A-	5.3	118	n.a.	n.a.	n.a.
2024-01-17	PNC	PNC Financial Services Group Inc/The	11NC10	1,500	A3/A-	5.676	158	7	-7	151
2024-01-17	WOORIB	Woori Bank	3	300	A1/A+	4.75	75	n.a.	n.a.	n.a.
2024-01-17	WOORIB	Woori Bank	5	400	A1/A+	4.75	85	n.a.	n.a.	n.a.

Note: We calculate new issue concessions by estimating the difference between new issue bond spread and interpolated G spread from comparable liquid secondary bonds of the same issuer prior to the new issue deal announcement, adjusted for the spread impact of dollar prices deviating from par. Break performance is computed as the difference between new issue pricing and secondary closing spread on the first day of trading.

Source: BofA Global Research, Bloomberg

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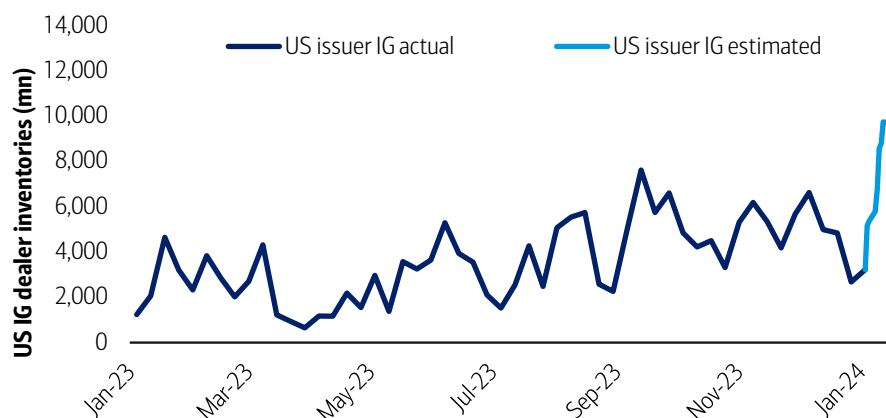
## Daily dealer inventories update

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Exhibit 4. We estimate the corresponding DV01 equivalent in Exhibit 5. More details by sector and maturity are available in Exhibit 6 and Exhibit 7. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

**Exhibit 4: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds increased to \$10.7bn currently from \$3.2bn on Jan-03.



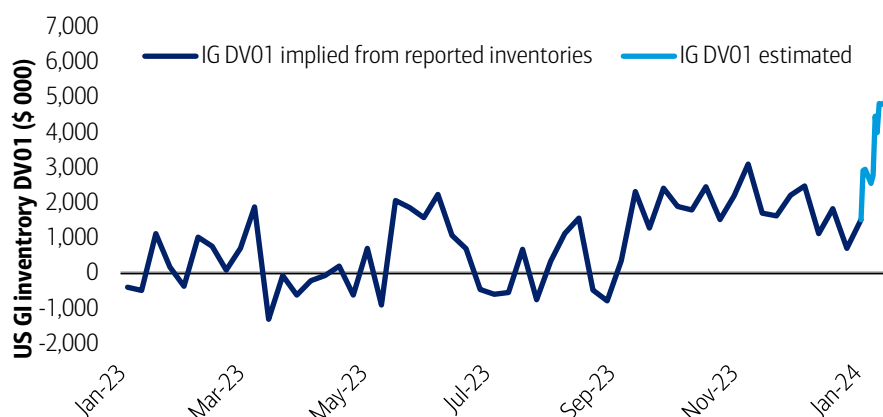
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Exhibit 5: Estimated dealer inventory DV01 for IG corporate bonds.**

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$5.0mn currently from \$1.5bn on Jan-03.



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

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

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

We estimate IG dealer inventories declined -\$1,236mn today and increased \$2,886mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Jan-24 (\$mn)			
	17-Jan	16-Jan	1 W	2 W	4 W	17-Jan	16-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>-1,236</b>	<b>2,134</b>	<b>2,886</b>	<b>10,046</b>	<b>11,104</b>	<b>-889</b>	<b>1,163</b>	<b>1,158</b>	<b>5,126</b>	<b>6,237</b>	<b>14,093</b>	<b>15,330</b>	<b>9,157</b>	<b>38,580</b>
<3yr	-407	292	-429	-489	-1,163	-70	66	-77	-86	-291	2,228	2,635	1,558	6,420
3-5yr	-439	271	776	3,008	2,184	-150	98	272	1,105	825	2,783	3,222	2,096	8,100
5-11yr	177	1,442	3,706	8,642	10,980	35	928	2,353	5,438	6,924	5,327	5,150	3,314	13,792
11+yr	-567	128	-1,166	-1,114	-899	-703	71	-1,389	-1,332	-1,221	3,755	4,322	2,189	10,267
Fin	-690	628	1,189	3,368	3,979	-361	321	623	1,344	1,788	5,524	6,214	3,413	15,151
Non-Fin	-546	1,505	1,697	6,678	7,125	-529	841	535	3,782	4,449	8,570	9,116	5,744	23,429
Fixed	-1,222	2,089	2,862	10,296	11,589	-880	1,157	1,144	5,150	6,340	13,907	15,130	9,075	38,112
Floating	-14	45	24	-249	-485	-9	6	14	-24	-103	186	200	82	468
US issuers	-1,023	1,988	2,102	7,451	7,470	-803	1,014	541	3,481	3,993	10,804	11,827	7,441	30,072
DM Yankees	-232	136	744	2,364	3,543	-70	126	547	1,480	2,131	2,915	3,148	1,610	7,673
EM Yankees	19	9	41	231	90	-17	23	70	164	113	374	355	106	835

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

Source: BofA Global Research, FINRA, TRACE.

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**Exhibit 7: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories declined -\$584mn for Banks/Brokers and declined -\$40mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Jan-24 (\$mn)			
	17-Jan	16-Jan	1 W	2 W	4 W	17-Jan	16-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-74	65	41	-282	-271	-56	-8	15	-318	-328	300	374	212	886
Automobiles	18	-55	-85	79	532	38	11	29	72	311	449	431	305	1,185
Banks/Brokers	-584	512	795	1,631	2,275	-199	307	542	649	986	3,709	4,293	2,069	10,070
Basic Materials	39	230	239	619	537	30	156	159	396	395	481	442	267	1,190
Commercial Services	10	-11	-33	-74	-19	1	5	-15	-79	-30	145	136	58	339
Energy	-40	39	-19	172	211	-15	-34	-134	-19	66	837	877	580	2,294
Finance	-52	27	38	626	658	-71	27	-4	286	294	1,031	1,082	702	2,815
Food, Bev, & Bottling	-91	128	8	479	438	-24	105	82	417	445	479	569	336	1,384
Health Care	7	64	-5	855	607	-42	-42	-318	321	253	1,463	1,455	881	3,800
Industrial Products	26	56	203	337	496	15	50	147	236	312	361	335	288	983
Insurance	-100	-68	-53	-6	-41	-108	-83	-103	-117	-92	417	517	307	1,242
Media & Entertainment	23	123	222	319	196	12	95	122	179	122	567	544	341	1,452
REITs	46	157	409	1,117	1,086	17	70	189	527	599	367	321	336	1,024
Retail	42	74	302	528	635	33	48	195	403	538	496	455	416	1,367

**Exhibit 7: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories declined -\$584mn for Banks/Brokers and declined -\$40mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 17-Jan-24 (\$mn)			
Technology	-28	97	521	929	842	-18	-1	385	469	398	791	819	570	2,179
Telecom	-123	253	121	941	984	-110	170	6	525	576	468	591	321	1,380
Tobacco	-16	29	85	345	253	10	26	48	239	164	123	139	117	379
Transportation	31	81	113	76	82	17	83	71	68	125	222	191	143	556
Utilities	-403	301	-120	1,022	1,326	-445	162	-329	678	963	1,226	1,628	791	3,645
Other	32	29	104	332	275	26	15	72	196	141	162	130	118	410

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

Source: BofA Global Research, FINRA, TRACE.

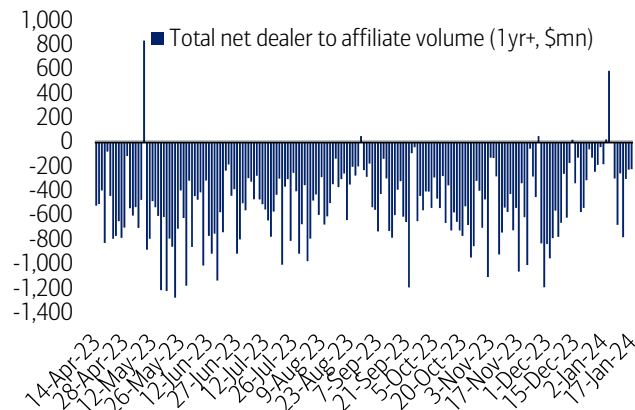
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## Daily foreign demand tracker

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

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

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



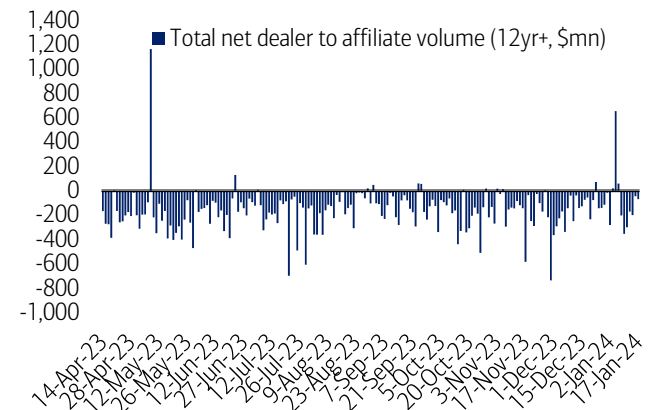
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



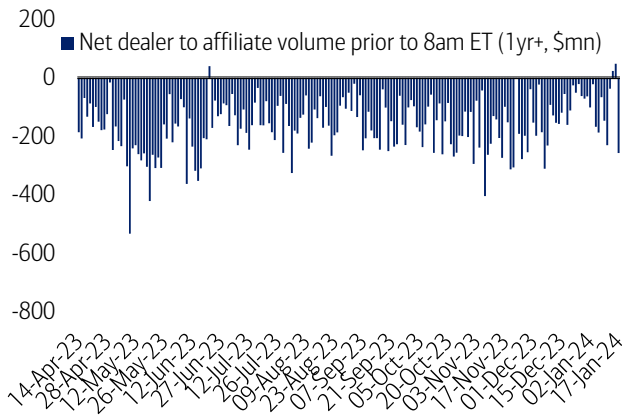
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 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



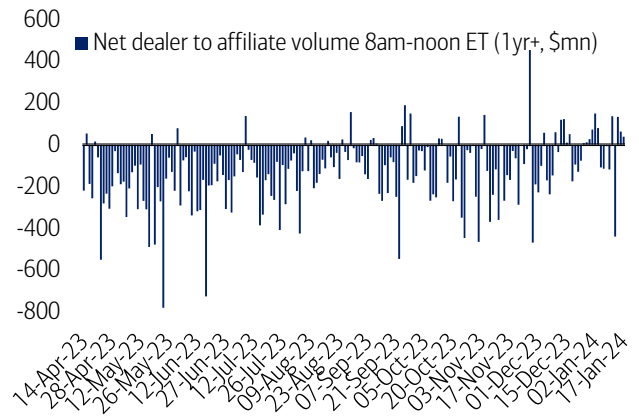
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Exhibit 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  
 Unchd: Unchanged  
 CPI: Consumer Price Index  
 FOMC: The Federal Open Market Committee

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