

# Situation Room

## IG credit most wanted

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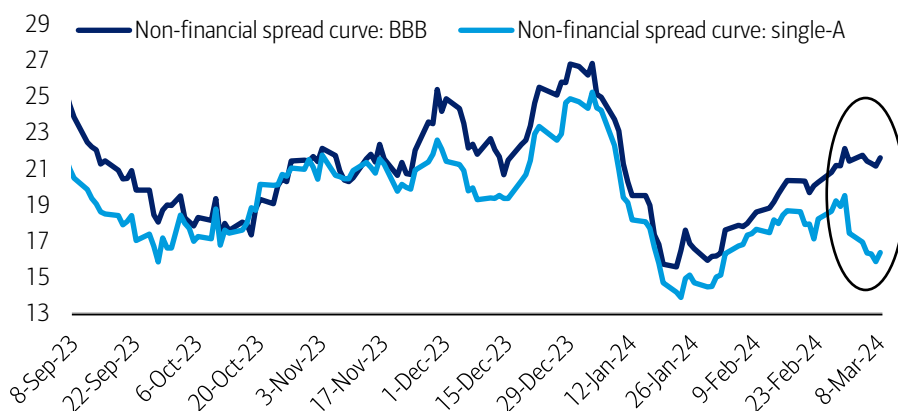
A rising tide sometimes lifts some boats more than others. In terms of the demand for IG bonds so far in 2024, the strongest buying has been for 10+yr industrial bonds rated single-A or better. One potential explanation is that the demand has been led by yield-sensitive investors that typically need duration (hence the back end), and the relatively high interest rates mean less need to extend out the credit curve (hence higher quality). The latest manifestation of this demand has been the re-flattening of the A-rated IG 10s30s industrial spread curve so far in March. Recall that the IG spread curves steepened in February in part on the back of heavier 30yr supply (see report: [Credit Market Strategist: Spread curve re-steepening likely done](#)). Then as back-end supply volumes moderated a bit so far in March the A-rated industrial 10s30s IG spread curve flattened, while the BBB spread curve remained little changed (Exhibit 1).

### Demand > supply

Notably, the A-rated 30yr spreads outperformed despite more A-rated than BBB 30yr supply in February and so far in March (Exhibit 2). Finally, among the larger slices of the IG index, back-end high-quality industrial spreads stand out in terms of how tight they trade relative to the post-Covid period. The cohort is currently trading at 15<sup>th</sup> percentile since 2021, compared to 30<sup>th</sup> percentile for the next richest cohort of BBB-rated back-end industrials (Exhibit 3).

#### Exhibit 1: Flatter A-rated 10s30s IG spread curves in March, not so much BBB-rated

We estimate A-rated IG spread curves (based on on-the-run issuer-matched bonds) flattened 3bps to 16bps in March. BBB-rated curve was 0.5bps flatter over the same period.



Source: BofA Global Research, ICE Data Indices, LLC

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Credit Strategy  
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Cross Product

**Yuri Seliger**  
Credit Strategist  
BofAS  
+1 646 855 7209  
[yuri.seliger@bofa.com](mailto:yuri.seliger@bofa.com)

**Jean-Tiago Hamm**  
Credit Strategist  
BofAS  
[jean-tiago.hamm@bofa.com](mailto:jean-tiago.hamm@bofa.com)

**Srini Talagadeevi**  
Credit Strategist  
BofAS  
[sreenivasa.rao@bofa.com](mailto:sreenivasa.rao@bofa.com)

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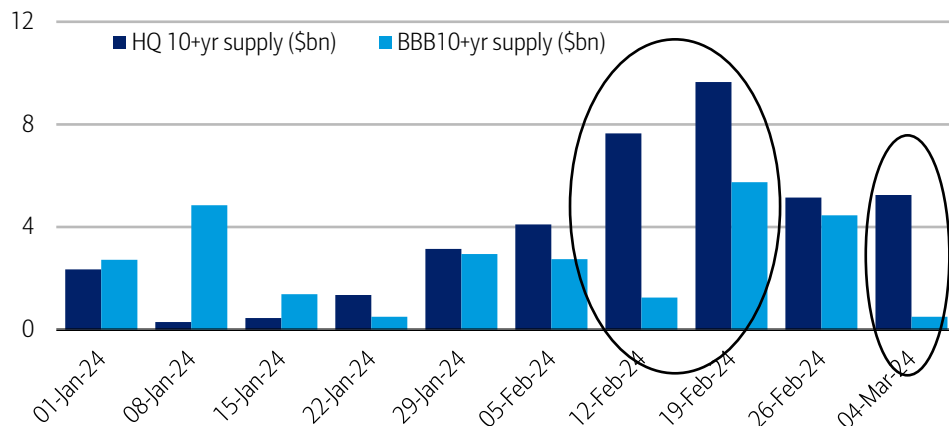
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Timestamp: 11 March 2024 06:34PM EDT

**Exhibit 2: Back-end weekly supply was more concentrated among A-rated issuers**

Since the week of January 29 10+yr issuance has totaled \$30bn for high quality (A-rated or better) bonds and \$18bn of BBB-rated bonds.

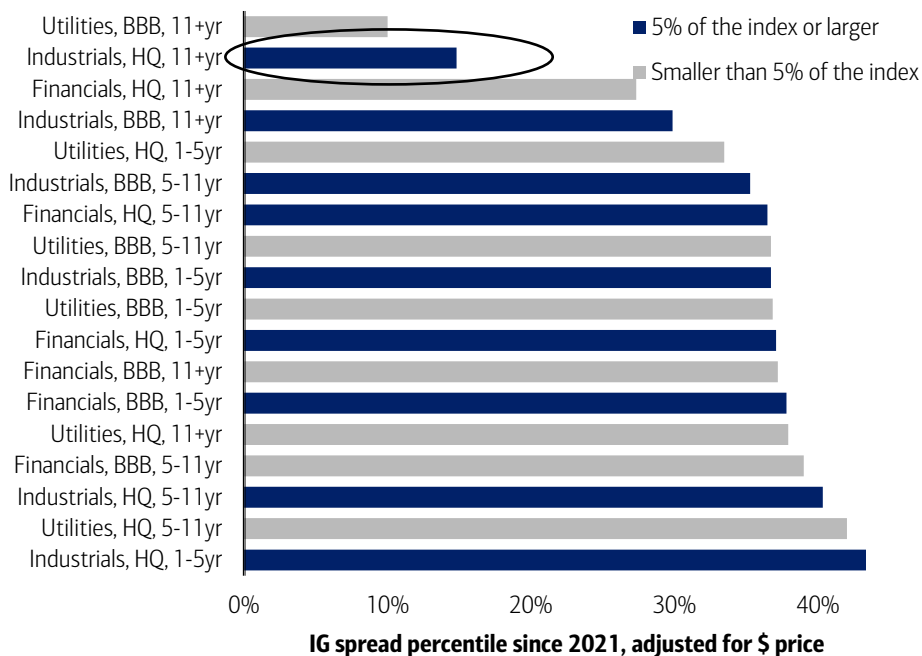


Source: BofA Global Research

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**Exhibit 3: High quality back-end industrials is one of the richest sectors in IG**

Among larger sectors HQ 11+yr industrial spreads stand out by trading at just 15<sup>th</sup> percentile post-Covid (since 2021). That compares to the median percentile across sector / quality / maturity cohorts of 37%.



Note: "HQ" stands for high quality, or single-A or better rated bonds.

Source: BofA Global Research, ICE Data Indices, LLC

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## Daily credit snapshot

US IG issuance totaled \$21.9bn across 13 deals today, \$21.9bn WTD and \$73.8bn MTD. The average new issue concession was 12.0bps today, while the average break performance was 3.0bps tighter today. This week's new issues are trading 6.0bps tighter on average from pricing.

S&P 500 closed -0.11%, 10-year Treasury yields +2bps, CDX IG -0.1bps, CDX HY +\$0.02pts, and cash bond spreads quoted Unched today, LQD closed 1.41bps tighter today.

### Exhibit 4: 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)
2024-03-11	AEP	AEP Transmission Co LLC	10	450	A2/BBB+	5.15	105	n.a.	-4	101
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	2	1,250	Aa2/AA-	-	47	n.a.	n.a.	n.a.
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	2	1,250	Aa2/AA-	-	n.a.	n.a.	n.a.	n.a.
2024-03-11	ANZ	Australia & New Zealand Banking Group Ltd	11NC6	1,000	A3/BBB+	-	165	n.a.	n.a.	n.a.
2024-03-11	DUK	Duke Energy Progress LLC	10	500	Aa3/A	5.1	103	4	-3	100
2024-03-11	DUK	Duke Energy Ohio Inc	30	425	A2/A	5.55	130	12	-3	127
2024-03-11	HNDA	American Honda Finance Corp	3	300	A3/A-	FRN	SOFR+77	n.a.	n.a.	n.a.
2024-03-11	HNDA	American Honda Finance Corp	3	700	A3/A-	4.9	63	18	n.a.	n.a.
2024-03-11	HNDA	American Honda Finance Corp	5	750	A3/A-	4.9	83	n.a.	n.a.	n.a.
2024-03-11	HUM	Humana Inc	7	1,250	Baa2/BBB	5.375	127	n.a.	-7	120
2024-03-11	HUM	Humana Inc	30	1,000	Baa2/BBB	5.75	147	14	-4	100
2024-03-11	INTNED	ING Groep NV	6NC5	1,500	Baa1/A-	5.335	125	24	-3	122
2024-03-11	INTNED	ING Groep NV	11NC10	1,500	Baa1/A-	5.55	145	11	-1	144
2024-03-11	LHX	L3Harris Technologies Inc	5	750	Baa2/BBB	5.05	100	14	n.a.	n.a.
2024-03-11	LHX	L3Harris Technologies Inc	7	750	Baa2/BBB	5.25	115	16	-3	112
2024-03-11	LHX	L3Harris Technologies Inc	10	750	Baa2/BBB	5.35	125	14	-5	120
2024-03-11	LNC	Lincoln National Corp	10	350	Baa2/BBB+	5.852	175	n.a.	n.a.	n.a.
2024-03-11	MSI	Motorola Solutions Inc	5	400	Baa2/BBB	5	95	n.a.	-2	93
2024-03-11	MSI	Motorola Solutions Inc	10	900	Baa2/BBB	5.4	130	4	n.a.	n.a.
2024-03-11	MTB	M&T Bank Corp	8NC7	850	Baa1/BBB+	6.082	198	-9	-6	192
2024-03-11	NI	NISource Inc	10	650	Baa2/BBB+	5.35	128	7	n.a.	n.a.
2024-03-11	SANTAN	Banco Santander SA	4NC3	400	Baa1/A-	FRN	SOFR+138	n.a.	n.a.	n.a.
2024-03-11	SANTAN	Banco Santander SA	4NC3	1,100	Baa1/A-	5.552	125	16	-1	124
2024-03-11	SANTAN	Banco Santander SA	6NC5	1,250	Baa1/A-	5.538	145	23	0	145
2024-03-11	SANTAN	Banco Santander SA	10	1,250	Baa1/A-	6.35	225	n.a.	0	225
2024-03-11	SRE	Sempra	31NC5	600	Baa3/BBB-	6.875	156	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

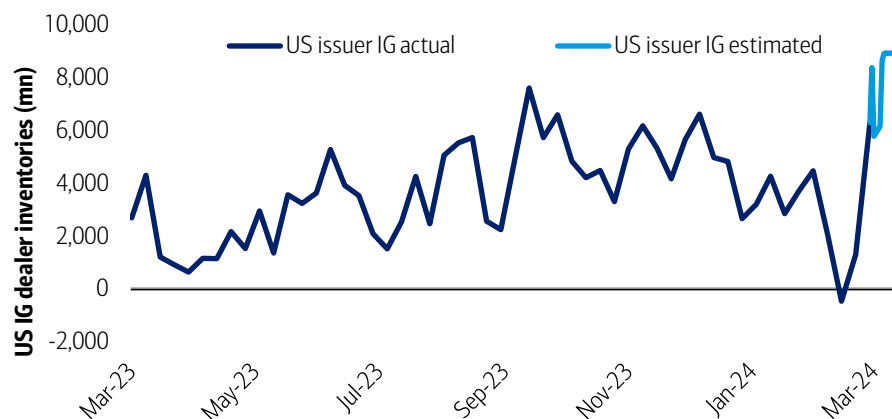
Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

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 5. We estimate the corresponding DV01 equivalent in Exhibit 6. More details by sector and maturity are available in Exhibit 7 and Exhibit 8. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



**Exhibit 5: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds increased to \$9.0bn currently from \$6.3bn on Feb-28.



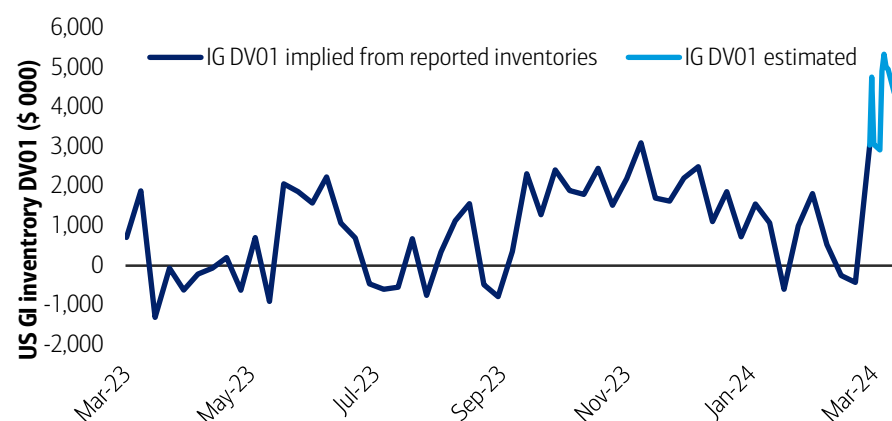
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Exhibit 6: Estimated dealer inventory DV01 for IG corporate bonds.**

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$4.4mn currently from \$3.0bn on Feb-28.



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

We estimate IG dealer inventories increased \$158mn today and increased \$3,335mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 11-Mar-24 (\$mn)			
	11-Mar	8-Mar	1 W	2 W	4 W	11-Mar	8-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>158</b>	<b>-196</b>	<b>3,335</b>	<b>6,626</b>	<b>15,139</b>	<b>-632</b>	<b>-206</b>	<b>1,117</b>	<b>3,110</b>	<b>7,624</b>	<b>11,622</b>	<b>11,464</b>	<b>10,166</b>	<b>33,252</b>
<3yr	386	95	1,469	1,713	3,791	82	-20	245	186	526	2,270	1,885	1,511	5,666
3-5yr	63	47	890	1,660	3,376	5	50	315	597	1,158	2,603	2,541	1,756	6,900
5-11yr	705	-520	725	855	2,849	420	-375	340	167	1,251	3,927	3,223	3,279	10,429
11+yr	-995	182	252	2,398	5,124	-1,140	139	217	2,159	4,689	2,821	3,816	3,620	10,258
Fin	597	-290	1,629	3,283	5,411	295	-248	724	1,642	2,511	4,815	4,218	3,383	12,416
Non-Fin	-440	95	1,706	3,342	9,728	-927	42	392	1,468	5,113	6,807	7,247	6,783	20,837
Fixed	25	-121	3,278	6,687	14,942	-670	-192	968	2,982	7,534	11,354	11,329	10,096	32,780
Floating	133	-75	57	-61	197	38	-14	149	128	90	268	135	70	473
US issuers	43	-28	2,800	5,378	11,743	-601	-39	1,441	3,076	6,347	8,956	8,913	8,241	26,110
DM Yankees	133	-174	485	970	2,591	28	-167	-265	-107	748	2,266	2,132	1,744	6,141
EM Yankees	-19	6	51	278	805	-59	0	-59	141	529	400	419	181	1,001

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

We estimate IG dealer inventories increased \$158mn today and increased \$3,335mn over the prior week.

**Net dealer buy (\$mn)****Net dealer DV01 change (\$thousand)****Trading volumes on 11-Mar-24 (\$mn)**

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 8: Estimated changes in IG dealer inventories by sector.**

We estimate today IG dealer inventories increased \$465mn for Banks/Brokers and increased \$98mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 11-Mar-24 (\$mn)			
	11-Mar	8-Mar	1 W	2 W	4 W	11-Mar	8-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	119	24	213	-80	416	60	35	135	-92	152	304	184	205	692
Automobiles	119	-91	152	273	883	37	-70	-35	20	326	366	247	317	931
Banks/Brokers	465	-272	886	1,672	3,611	272	-195	336	560	1,114	3,379	2,914	2,401	8,694
Basic Materials	-110	-48	-2	264	690	-113	-48	-40	104	361	252	362	223	838
Commercial Services	43	14	82	-120	-73	51	25	73	25	97	151	107	121	379
Energy	98	-81	73	878	1,504	-6	-64	-208	399	777	684	586	646	1,916
Finance	167	-8	307	361	742	32	-29	111	227	441	790	623	452	1,865
Food, Bev, & Bottling	-121	8	139	316	887	-135	-7	-34	166	614	332	453	418	1,203
Health Care	-360	158	165	-308	126	-452	150	98	-475	-695	1,297	1,657	1,222	4,176
Industrial Products	-16	50	-95	-171	591	-17	2	-166	-185	405	191	207	225	623
Insurance	-29	-41	177	500	803	5	-2	225	510	890	304	332	247	882
Media & Entertainment	-243	86	53	408	420	-220	76	79	353	212	317	561	592	1,470
REITs	-6	30	259	750	255	-14	-22	52	345	66	342	349	284	975
Retail	-3	-125	-66	-29	6	-15	-132	-132	-68	9	261	264	272	797
Technology	84	187	524	510	1,321	62	179	529	434	831	834	749	891	2,474
Telecom	2	31	278	173	186	15	-14	180	114	105	405	403	464	1,272
Tobacco	-57	-14	-82	-75	3	-51	-2	-46	-36	-30	128	186	110	424
Transportation	-32	3	139	193	503	-22	8	112	118	487	138	171	141	450
Utilities	22	-105	143	1,132	2,282	-112	-106	-193	641	1,483	971	949	815	2,735
Other	15	-2	-9	-23	-16	-7	11	42	-48	-20	176	161	120	457

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

Source: BofA Global Research, FINRA, TRACE.

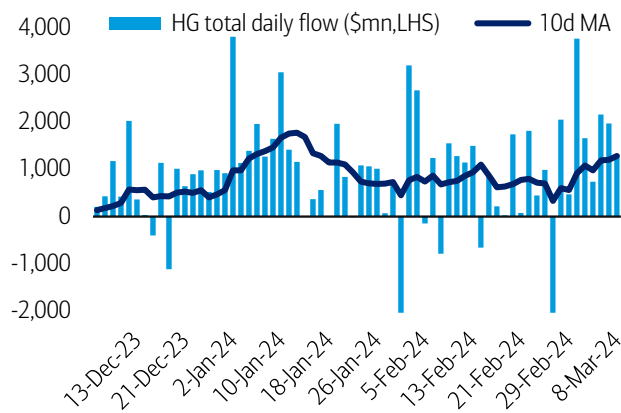
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## Daily HG fund flows

We define our high grade flows as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" category refers to the broad high grade market, which includes Treasuries, mortgages and agencies in addition to corporate bonds. This category accounts for the majority of AUM and flows.

**Exhibit 9: Daily HG fund flows**

The chart plots daily HG fund flows as well as a 10-day average trend.

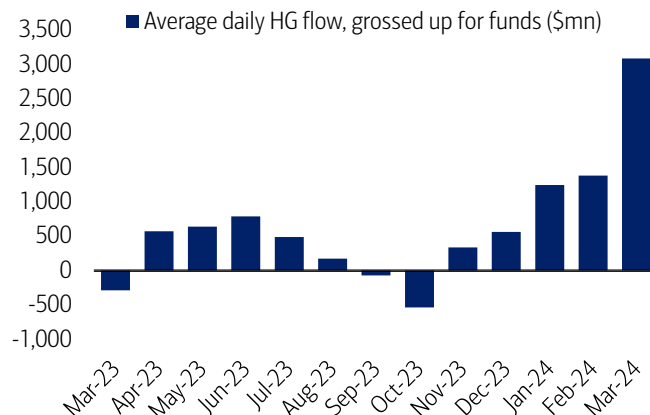


Source: EPFR Global, BofA Global Research

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**Exhibit 10: Average daily HG flows by month**

The chart plots the average daily ETF flows plus double the average daily fund flow, as only about half of funds report flows daily.



Source: EPFR Global, BofA Global Research

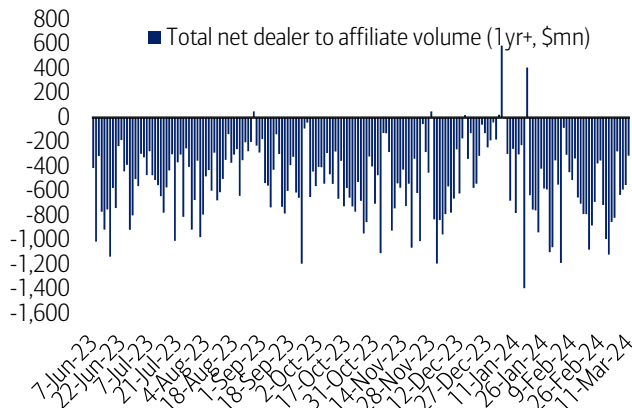
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## Daily foreign demand tracker

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 11 shows the overall daily dealer-to-affiliate volumes while Exhibit 12, Exhibit 13 and Exhibit 14 show subsets of this data. In particular Exhibit 12 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 13 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 14 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Exhibit 11: Net dealer buying from affiliate (1yr+)**

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



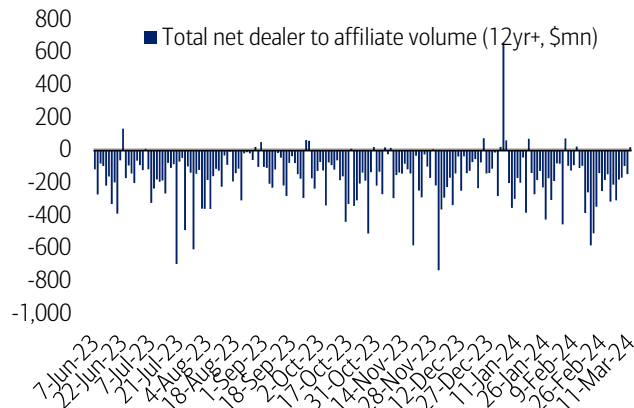
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



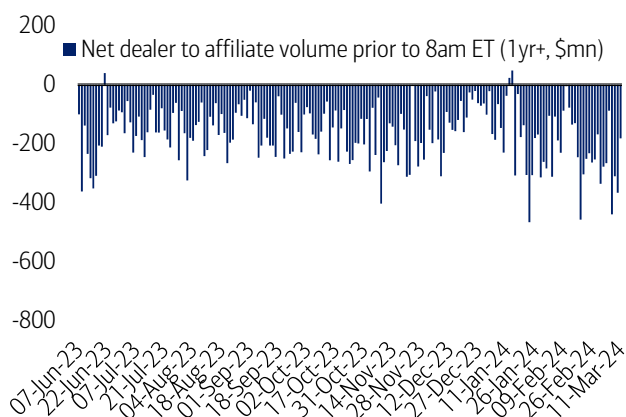
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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**Exhibit 13: 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



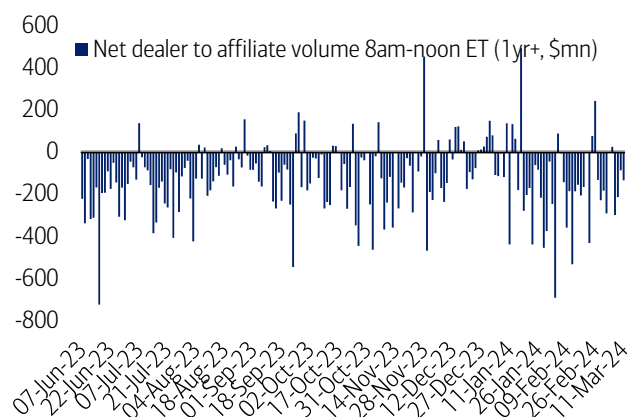
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Exhibit 14: 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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