

Situation Room

IG February supply: setting records

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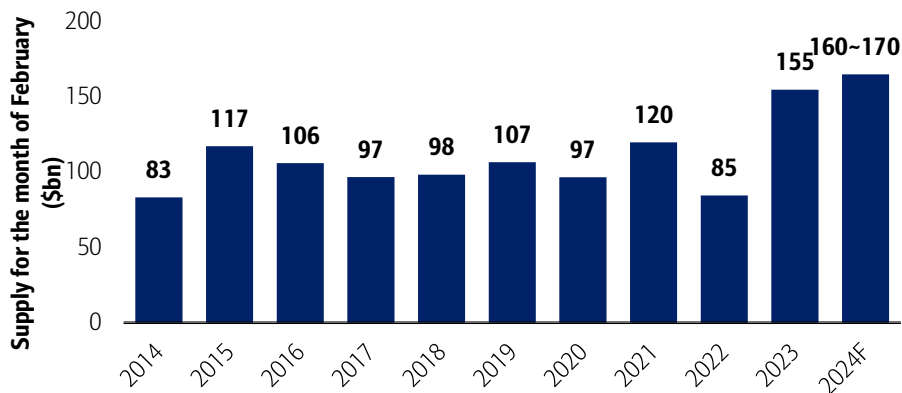
We look for February IG supply in \$160 - \$170bn range. That would be a record high for the calendar month, about 7% above the prior record of \$155bn from February of 2023. A number of factors should support heavy issuance volumes in February. First, we look for heavy M&A-related supply in February, potentially exceeding \$30bn. Second, investor demand is very strong, encouraging issuers to come to market now while conditions are unusually favorable. For example, the average IG new issue concession was close to zero last week (Exhibit 2). Third, borrowing costs are relatively attractive. IG index yield is about unchanged relative to a year ago, but is near the lower end of the range over the past 18 months, while spreads are much tighter (Exhibit 3, Exhibit 4).

January supply is smaller than it appears

Issuance has reached \$192bn so far in January. That would be the highest on record for the calendar month, ahead of the prior record of \$176bn for January 2017 (Exhibit 5). However, the IG index notional has increased 53% over the past seven years since 2017. Hence, adjusting for market size the MtD January 2024 supply was 2.21% as a share of the IG index, well below 3.09% in January 2017 and only 43rd percentile since 2010 (Exhibit 6). Still, January 2024 IG supply as a share of the index was about 20% above the average over the prior three years.

Exhibit 1: We expect February supply in \$160 - \$170bn range

That would be higher than the prior record for the calendar month of \$155bn set in 2023.



Source: BofA Global Research

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29 January 2024

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United States
Cross Product

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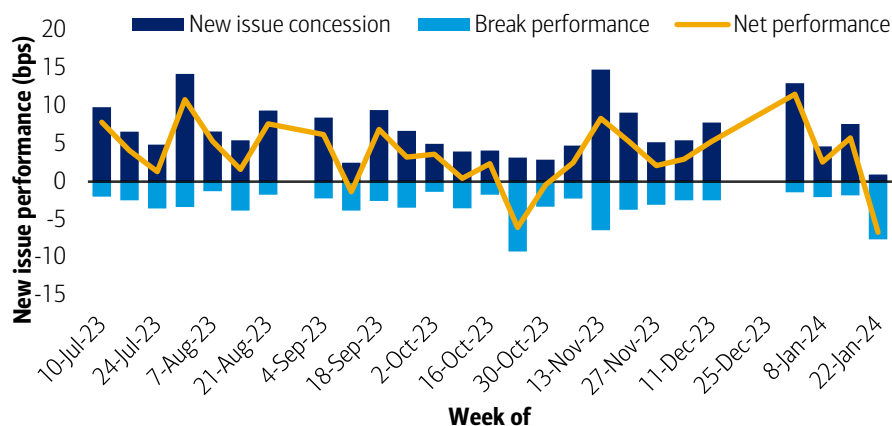
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12652420

Timestamp: 29 January 2024 06:15PM EST

Exhibit 2: IG new issue concessions collapsed towards the end of January

The average new issue concession was less than 1bps for the week of January 22, while the average break performance was a strong 7.6bps tighter.

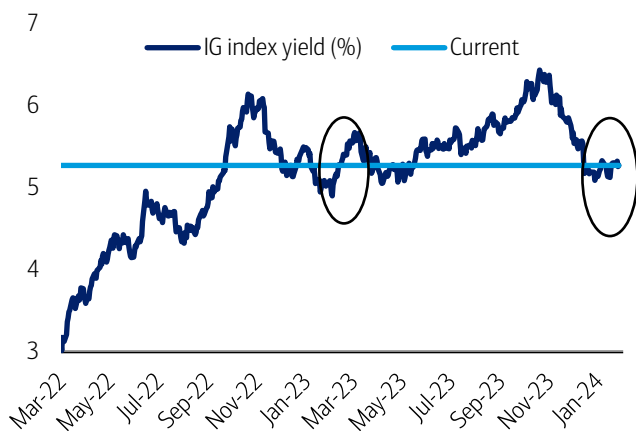


Source: BofA Global Research

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Exhibit 3: Yields are currently unchanged from Feb 2023

The US IG index yield averaged 5.31% in Feb 2023 – similar to 5.27% currently as of Jan 26, 2024.

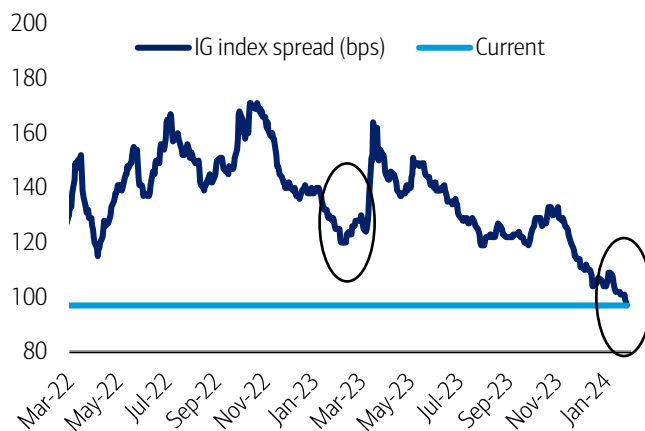


Source: ICE Data Indices, LLC

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Exhibit 4: IG spreads are currently tighter than in Feb 2023

The US IG index spread averaged 124bps in Feb 2023, wider than 97bps as of Jan 26, 2024.

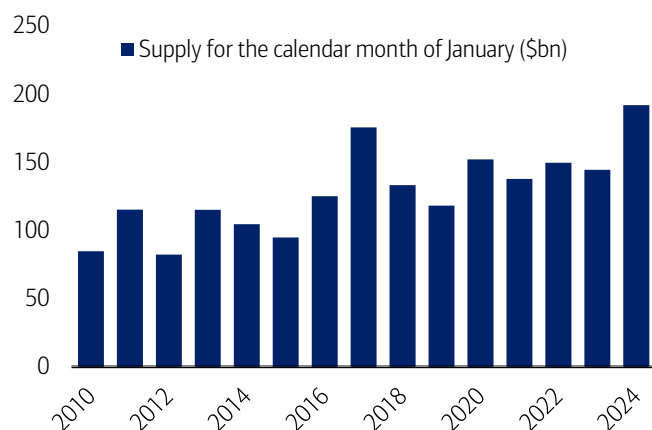


Source: ICE Data Indices, LLC

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Exhibit 5: MtD January supply of \$192bn is record high

The MtD IG supply is the record high for the month of January, above the prior record of \$176 from January 2017.

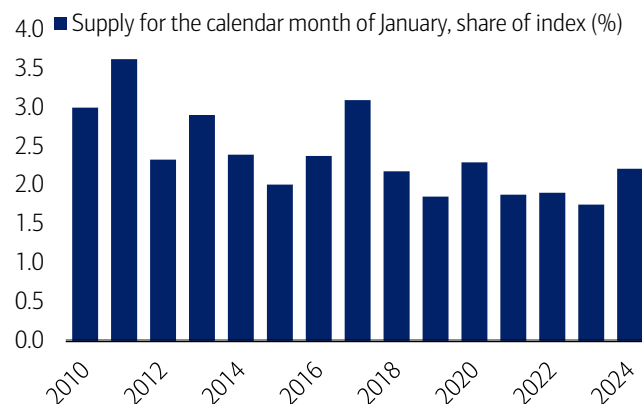


Source: BofA Global Research

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Exhibit 6: MtD January supply of 2.21% of the index is typical

MtD IG supply is just 43rd percentile since 2010, below 3.09% for January 2017, but 20% above the average over the past three years.



Source: BofA Global Research

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Daily credit snapshot

US IG issuance totaled \$19.5bn across 9 deals today, \$19.5bn WTD and \$192.0bn MTD.

The average new issue concession was 4.2bps today, while the average break performance was 0.5bps tighter today. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed +0.76%, 10-year Treasury yields -6bps, CDX IG -0.5bps, CDX HY +\$0.15pts, and cash bond spreads quoted +1/-4bps today, LQD closed 2.05bps wider today.

Exhibit 7: 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)
2024-01-29	BRKHEC	Northern Natural Gas Co	30	500	A2/A-	5.625	127	n.a.	-5	122
2024-01-29	COF	Capital One Financial Corp	6NC5	1,000	Baa1/BBB	5.7	170	0	-8	162
2024-01-29	COF	Capital One Financial Corp	11NC10	1,000	Baa1/BBB	6.051	195	-0	-7	188
2024-01-29	GBDC	Golub Capital BDC Inc	5	600	Baa3/BBB-	6	225	13	n.a.	n.a.
2024-01-29	HYUCAP	Hyundai Capital Services Inc	3	500	Baa1/BBB+	5.125	110	n.a.	n.a.	n.a.
2024-01-29	HYUCAP	Hyundai Capital Services Inc	5	500	Baa1/BBB+	5.125	120	n.a.	n.a.	n.a.
2024-01-29	IBM	IBM International Capital Pte Ltd	2	600	A3/A-	4.7	45	6	-1	44
2024-01-29	IBM	IBM International Capital Pte Ltd	3	500	A3/A-	4.6	55	9	0	55
2024-01-29	IBM	IBM International Capital Pte Ltd	5	500	A3/A-	4.6	65	n.a.	0	65
2024-01-29	IBM	IBM International Capital Pte Ltd	7	500	A3/A-	4.75	75	10	2	77
2024-01-29	IBM	IBM International Capital Pte Ltd	10	1,000	A3/A-	4.9	75	n.a.	12	87
2024-01-29	IBM	IBM International Capital Pte Ltd	20	1,000	A3/A-	5.25	85	n.a.	1	86
2024-01-29	IBM	IBM International Capital Pte Ltd	30	1,400	A3/A-	5.3	100	17	-2	98
2024-01-29	KMI	Kinder Morgan Inc	5	1,250	Baa2/BBB	5	105	n.a.	n.a.	n.a.
2024-01-29	KMI	Kinder Morgan Inc	10	1,000	Baa2/BBB	5.4	135	-2	2	137
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	2	1,000	Baa1/BBB+	0	65	-3	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	2	600	Baa1/BBB+	0	n.a.	n.a.	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	5	900	Baa1/BBB+	0	95	-12	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	10	1,100	Baa1/BBB+	0	120	4	n.a.	n.a.
2024-01-29	NEE	NextEra Energy Capital Holdings Inc	30	800	Baa1/BBB+	0	125	-4	n.a.	n.a.
2024-01-29	NOC	Northrop Grumman Corp	5	500	Baa1/BBB+	4.6	65	n.a.	n.a.	n.a.
2024-01-29	NOC	Northrop Grumman Corp	10	850	Baa1/BBB+	4.9	85	12	n.a.	n.a.
2024-01-29	NOC	Northrop Grumman Corp	30	1,150	Baa1/BBB+	5.2	90	9	n.a.	n.a.
2024-01-29	OCINCC	Blue Owl Credit Income Corp	7	750	Baa3/BBB-	6.65	290	n.a.	n.a.	n.a.



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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)
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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.

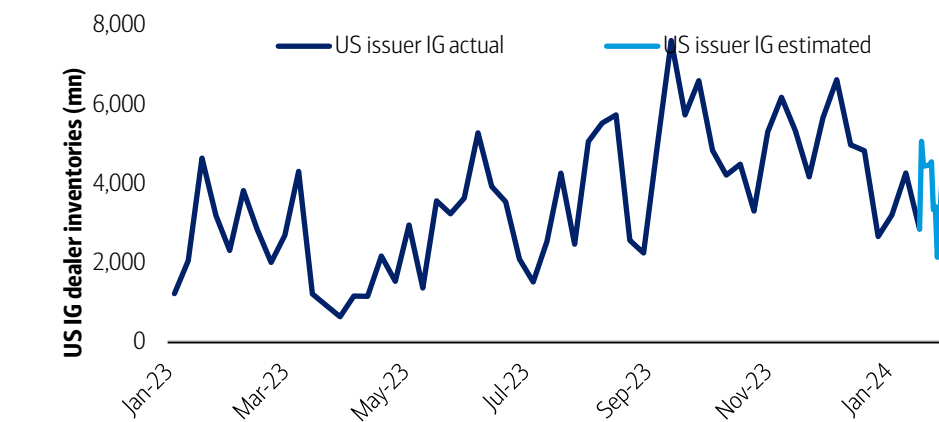
Source: BofA Global Research, Bloomberg

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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 8. We estimate the corresponding DV01 equivalent in Exhibit 9. More details by sector and maturity are available in Exhibit 10 and Exhibit 11. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 8: Estimated dealer inventories of IG corporate bonds.
We estimate IG dealer inventories of US issuer bonds increased to \$4.6bn currently from \$2.9bn on Jan-17.



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.

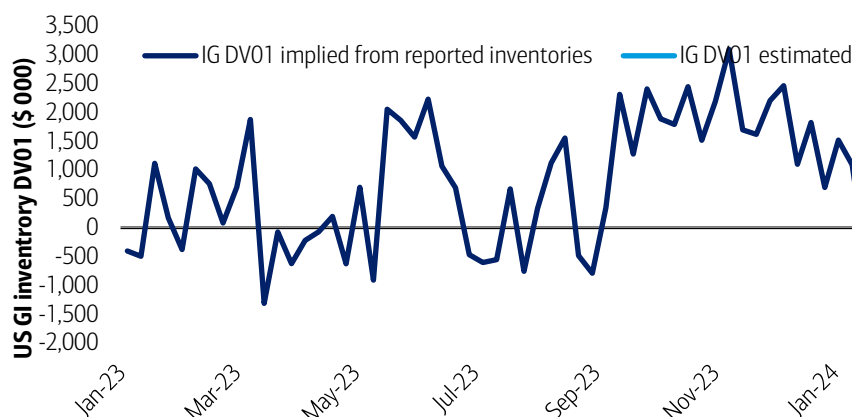
Source: BofA Global Research, FINRA, TRACE, Federal Reserve

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Exhibit 9: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$2.1mn currently from -\$0.6bn on Jan-17.



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

We estimate IG dealer inventories increased \$3,669mn today and increased \$587mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 29-Jan-24 (\$mn)			
	29-Jan	26-Jan	1 W	2 W	4 W	29-Jan	26-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	3,669	-1,526	587	1,699	14,743	2,301	-824	1,923	2,762	9,989	15,599	11,931	8,027	35,557
<3yr	1,452	-382	558	-306	-180	229	-75	39	-61	-74	3,475	2,023	1,458	6,956
3-5yr	687	-387	-1,432	-1,359	2,067	261	-152	-499	-482	780	3,039	2,352	1,526	6,917
5-11yr	59	-739	-1,569	494	10,251	74	-525	-1,026	194	6,441	4,638	4,578	2,849	12,065
11+yr	1,470	-19	3,029	2,870	2,605	1,738	-71	3,410	3,112	2,842	4,448	2,978	2,193	9,619
Fin	1,397	-559	-897	-1,464	3,527	727	-308	292	462	2,711	6,696	5,299	3,122	15,117
Non-Fin	2,272	-966	1,484	3,162	11,216	1,574	-516	1,631	2,300	7,279	8,904	6,632	4,905	20,440
Fixed	3,704	-1,486	748	1,935	15,323	2,307	-823	1,943	2,737	10,010	15,518	11,814	7,981	35,312
Floating	-36	-40	-161	-237	-580	-6	-1	-20	25	-21	81	117	46	244
US issuers	2,474	-1,283	148	2,020	10,930	1,655	-698	1,510	2,423	7,243	12,112	9,637	6,644	28,394
DM Yankees	1,106	-280	298	-567	3,469	570	-183	251	144	2,445	3,170	2,063	1,281	6,514
EM Yankees	88	37	141	245	344	77	57	162	196	300	318	230	102	649

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 11: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$963mn for Banks/Brokers and increased \$198mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 29-Jan-24 (\$mn)			
	29-Jan	26-Jan	1 W	2 W	4 W	29-Jan	26-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	88	63	497	379	154	72	127	514	304	74	406	318	261	985
Automobiles	114	-63	135	37	656	27	-38	32	88	347	489	375	261	1,125
Banks/Brokers	963	-361	-933	-2,013	827	390	-191	15	176	1,278	4,843	3,881	2,081	10,805
Basic Materials	56	52	528	919	1,424	57	48	446	713	1,039	424	368	234	1,026
Commercial Services	50	-44	-2	15	-13	41	-34	-33	16	-25	150	100	76	326
Energy	198	-273	-203	-416	31	27	-151	-51	-261	-136	1,138	940	649	2,727
Finance	305	-45	-201	190	1,153	214	-54	146	181	646	1,118	814	607	2,539
Food, Bev, & Bottling	131	-18	92	-44	517	92	-23	67	42	446	661	530	310	1,502
Health Care	348	168	535	1,024	1,789	339	110	430	532	997	1,207	859	825	2,891
Industrial Products	238	-36	243	207	761	151	12	158	234	559	451	213	182	846
Insurance	129	-65	62	-104	152	123	-24	98	-40	123	362	233	228	822
Media & Entertainment	102	-215	-42	444	668	99	-204	47	444	540	484	382	374	1,239
REITs	0	-88	175	463	1,394	1	-39	34	145	663	372	372	205	949
Retail	144	-50	111	324	859	75	-27	103	286	713	479	336	271	1,085

Exhibit 11: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$963mn for Banks/Brokers and increased \$198mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 29-Jan-24 (\$mn)			
Technology	277	-50	130	612	1,470	228	5	172	382	855	971	694	423	2,088
Telecom	-16	-180	-312	-314	652	-42	-163	-132	-244	356	464	480	214	1,158
Tobacco	7	-23	-110	-107	192	13	-5	-18	-2	173	100	93	108	301
Transportation	83	-20	34	120	144	52	14	39	58	102	233	149	144	526
Utilities	425	-322	-283	-266	1,413	312	-218	-223	-432	966	1,080	655	459	2,194
Other	29	44	130	228	499	31	30	80	141	271	167	139	113	419

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

Source: BofA Global Research, FINRA, TRACE.

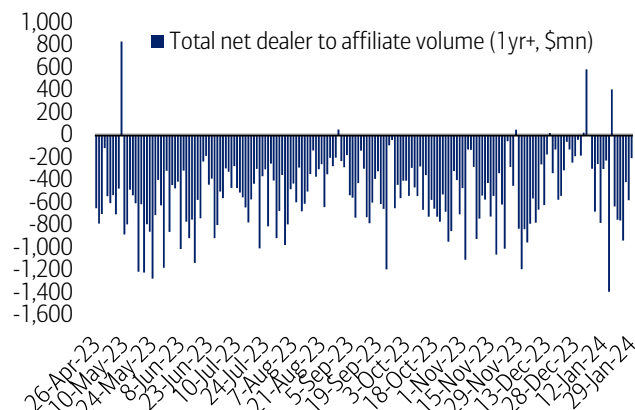
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Daily foreign demand tracker

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 12 shows the overall daily dealer-to-affiliate volumes while Exhibit 13, Exhibit 14 and Exhibit 15 show subsets of this data. In particular Exhibit 13 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 14 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 15 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 12: Net dealer buying from affiliate (1yr+)

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



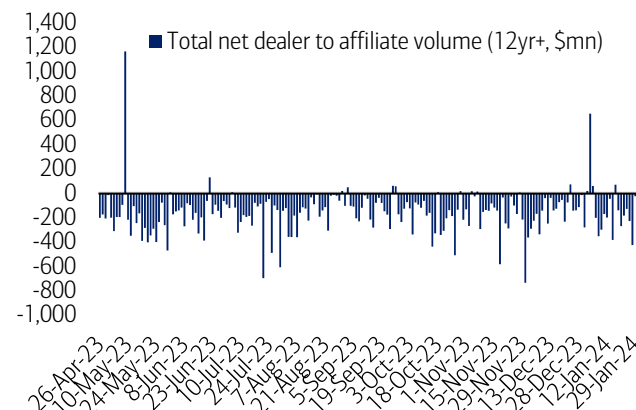
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 13: Net dealer buying from affiliate (12yr+)

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



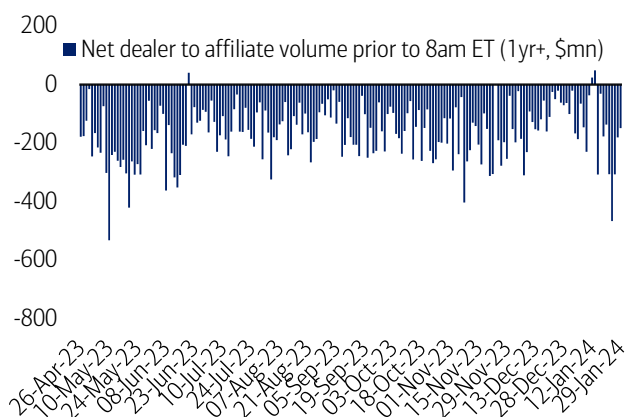
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 14: 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



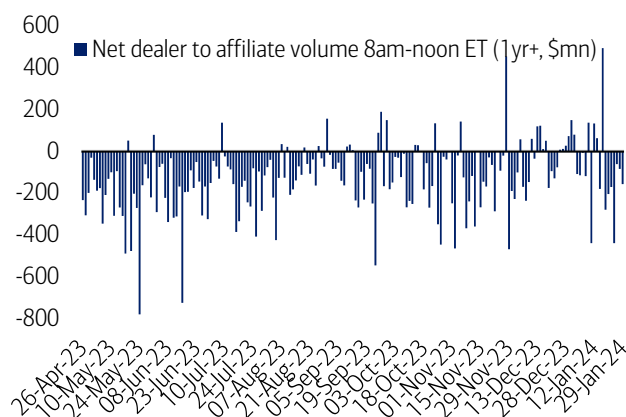
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 15: 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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