Credit Market Strategist

Rate resilience

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Credit Strategy
United States

BofA Data Analytics

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Rate resilience

The rapid rise in interest rates over the past week has been negative for both stocks and credit spreads. Moreover, BofA Global Research rates strategists are now calling for the higher rates to stick with newly revised Treasury yield forecasts (see Global Rates Weekly: Steep demand curve). Despite the initial weakness, we look for IG credit spreads to remain resilient for four reasons. First, the further increase in yields should support investor demand. Second, the rapid jump in borrowing costs could discourage supply in August. Third, bond mutual fund flows have decoupled to the upside from the lackluster bond returns YtD. Fourth, spreads benefit from the lower bond dollar prices. On the other hand, higher rates mean more expensive funding costs. We screen which IG issuers could be most impacted.

Preliminary 2Q23 IG fundamentals: weaker

2Q leverage was higher on lackluster earnings growth, accelerating debt growth, and higher borrowing costs.

2Q earnings half-time update: another positive surprise

We are tracking the strongest YoY growth rate in 2Q since 1Q-2022.

July ratings: upgrades, but at a slower pace

Net ratings upgrades accelerated to +$46bn in July, up from $30bn in June excluding Credit Suisse (CS).

The July Senior Loan Officer Survey: better demand trends

Banks continue to report weaker loan demand on net but by a smaller margin.

August supply: moderate

We look for August IG supply in the $80bn-$90bn range.

Slower M&A volumes in July

M&A announcements moderated to $121bn in July from $153bn in June.

IG market technicals

Supply: $34.6bn of issuance this week, expect $25-35bn next week. **Flows**: +$1.86bn inflow this past week ending on August 2. **Weekly technicals**: expect $4.1bn of coupon payments to become effective next week. Bond maturities: $12.0bn this week, $7.4bn next week. **Dealer inventories**: +$1,170mn past week ended Thursday. Details inside.

We published the weekly CMS data and charts in the latest Situation Room report.

Recent credit strategy research

Publication	Name
Situation Room	Out of HY and stock, into HG and loans
Situation Room	Preliminary 2Q23 IG fundamentals: weaker
Situation Room	July ratings: upgrades, but at a slower pace
Situation Room	2Q earnings half-time update: another positive surprise
Monthly HG Market Review	July '23: Goldilocks
Credit Market Strategist	Jul '23 Credit Investor Survey: Bear retreating
Credit Market Strategist	Summer 2022 snapshot of the US IG corporate market

Rate resilience

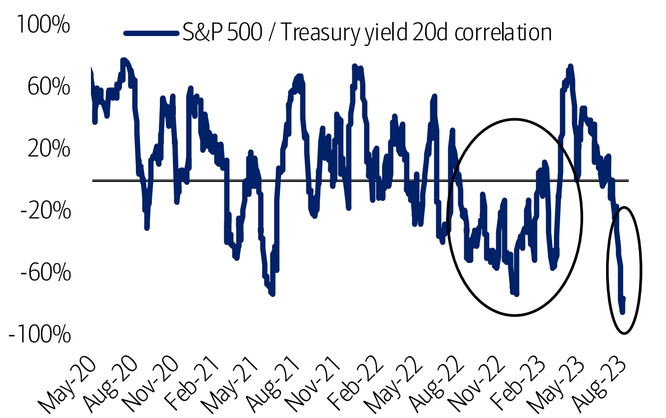
The rapid rise in interest rates over the past week has been negative for both stocks and credit spreads. Moreover, BofA Global Research rates strategists are now calling for the higher rates to stick with newly revised Treasury yield forecasts (see Global Rates Weekly: Steep demand curve). Despite the initial weakness, we look for IG credit spreads to remain resilient for four reasons. First, the further increase in yields should support investor demand. Second, the rapid jump in borrowing costs could discourage supply in August. Third, bond mutual fund flows have decoupled to the upside from the lackluster bond returns YtD. Fourth, spreads benefit from the lower bond dollar prices. On the other hand, higher rates mean more expensive funding costs. We screen which IG issuers could be most impacted.

Rate shock

Multiple factors combined to push Treasury yields sharply higher in August (Figure 3). The surprising jump in interest rates, in turn, drove risk assets lower. In fact, the negative correlation between rates and the S&P 500 currently exceeded the levels from 2022 (Figure 1). IG spread correlation versus rates also jumped well into positive territory, although it remains below 2022 highs (Figure 2).

The drivers of the big jump higher in Treasury yields are both fundamental (the outlook for a soft landing, concerns about a potential higher long-term "neutral" rate) and technical (Japan yield curve control tweak potentially lowers foreign demand, this week's refunding announcement indicates higher supply). On the back of these developments the BofA Global Research rates strategy team revised up its forecast for Treasury yields, including to 4.0% for 10-year Treasury by year-end 2023 (Figure 4, see Global Rates Weekly: Steep demand curve).

Figure 1: S&P 500 / rates correlation reaching new lows
The correlation between the S&P 500 and 10-yer Treasury yields has dropped below 2022 levels (higher yields, lower stocks).



Source: BofA Global Research, Bloomberg

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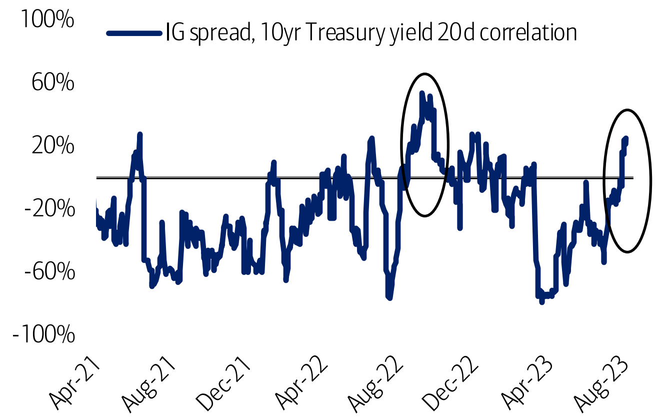
Figure 2: Spread / rates correlation is again positive
The correlation between IG spreads and 10-year Treasury yields is again positive but remains below 2022 highs (higher yields, wider spreads).



Source: BofA Global Research, Bloomberg

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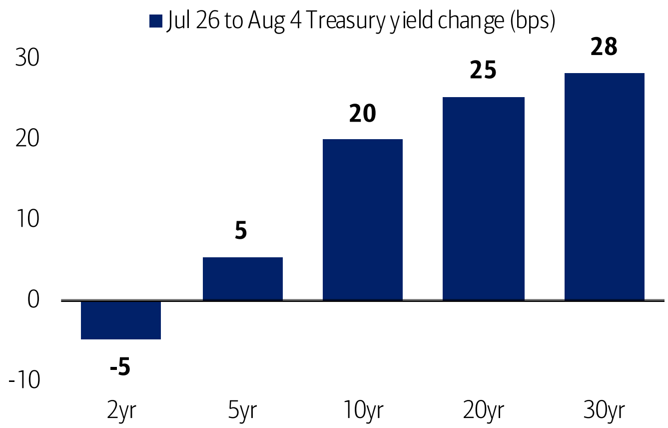
Figure 3: Treasury yield curve has bear steeped
2-year Treasury yield is lower, while 30-year yield is up 29bps since July 26.



Source: Bloomberg. Yr = year.

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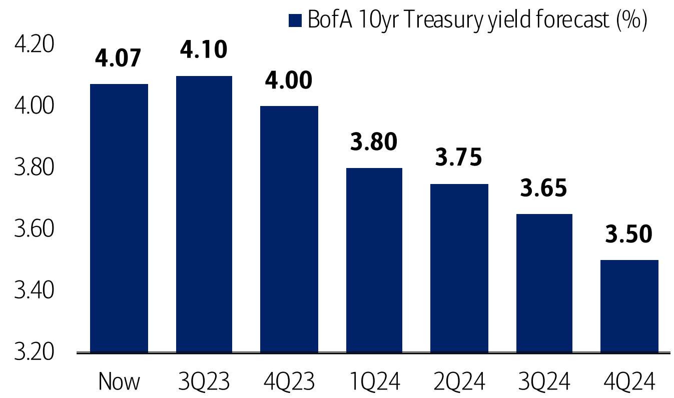
Figure 4: BofA 10yr Treasury yield forecast
BofA Global Research's forecast calls for the 10-year Treasury yield at 4.0% by year-end 2023.



Source: BofA Global Research, Bloomberg.

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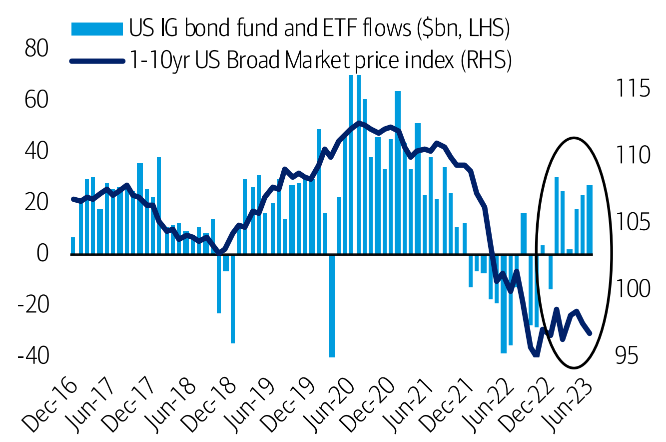
Resilient fund flows

Bond fund flows have been resilient this year despite lackluster returns. That resilience will likely continue in the near term but could erode late in the year. Bond fund flows tend to follow returns, with about a month lag. Hence, not surprisingly, HG bond funds and ETFs reported big outflows in 2022. This year, however, robust inflows returned despite lackluster returns (1- to 10-year US broad index price is down 1% YtD, Figure 5, Figure 6).

The resilience is likely due to 1) attractive yields and 2) recession fears. The yields are only getting more attractive, which should continue to support inflows. Recession fears, on other hand, are receding. That could end the rotation out of equities and HY into high grade bonds, which we have seen since late 2022 and which has been adding to the demand for IG bonds (see the report Situation Room: More into stocks, less into bonds).

Figure 5: Robust inflows this year despite flat bond returns
Inflows to HG bond funds and ETFs have averaged $21bn per month YtD, up from -$16bn per month in 2022.



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

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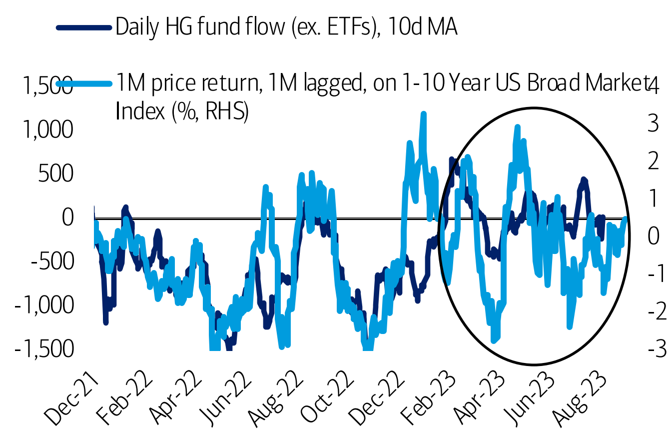
Figure 6: Limited correlation between flows and returns in 2023
Inflows remained largely positive this year despite bond prices often dropping into negative territory.



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

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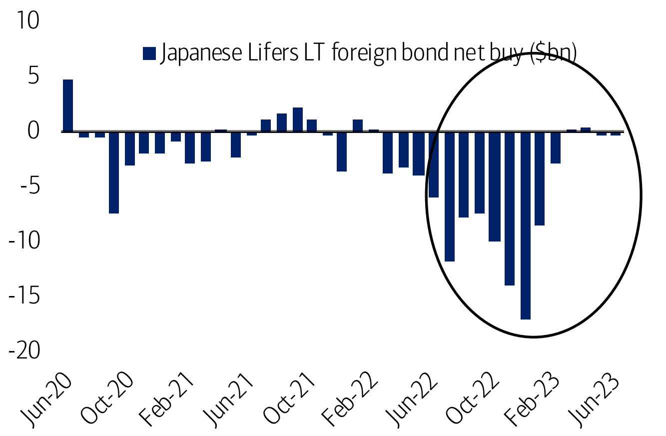
Slow reaction to the YCC tweak

The surprising yield curve control (YCC) tweak (see the report Japan Macro Watch: BoJ flexibilizes yield curve control—quick take) last week should on net be negative for Japanese investor demand for foreign bonds. However, we look for the impact to be only gradual.

First, it became clear in 1H-2022 that, on an FX hedged basis, USD IG would be unattractive for Japanese investors (Figure 9, Figure 10). As a result, the recent increase in Japanese government bond (JGB) yields is not a game changer. In fact, Japanese lifers stopped selling foreign bonds by March of this year (Figure 7).

Second, USD IG corporates remains attractive on an unhedged basis. Despite the YCC surprise, 10-year Treasury yield is up 24bps since June – similar to the 25bps increase for 10-year JGBs. Our tracker of foreign demand for USD IG corporates remains relatively strong this year and has been more correlated with interest rate volatility (Figure 8). Although rates vol increased recently, it should be on a path lower as the Fed reaches the end of the hiking cycle.

Figure 7: Selling of foreign bonds by Japanese lifers stopped in March 2023
Japanese lifers net buying of foreign bonds has been close to zero since March of this year.



Source: BofA Global Research, Japan Ministry of Finance.

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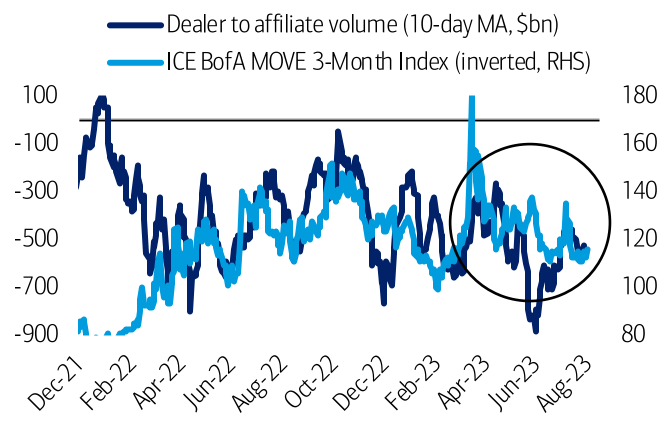
Figure 8: Foreign improved slightly this year
Our proxy for foreign buying – dealer to affiliate volumes on TRACE – shows that demand has been correlated with rates vol since 2022.



Note: dealer to affiliate volumes are correlated with foreign demand. Negative value indicates foreign buying.
Source: BofA Global Research, TRACE, Bloomberg

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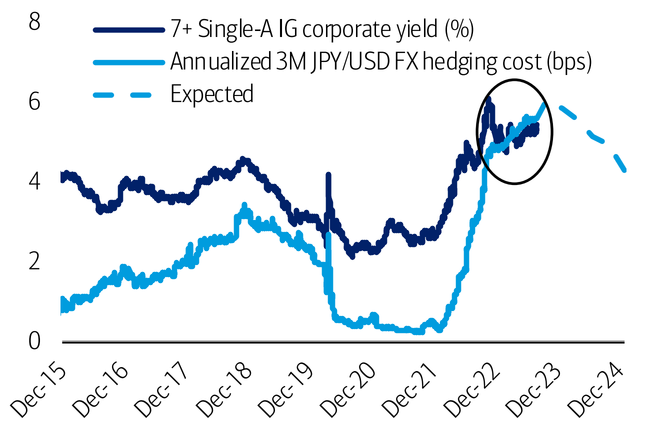
Figure 9: FX hedging costs exceeded IG yields in 2022
For Japanese investors, it became clear in 2022 that FX hedging costs would exceed US IG corporate yields during the year.



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg
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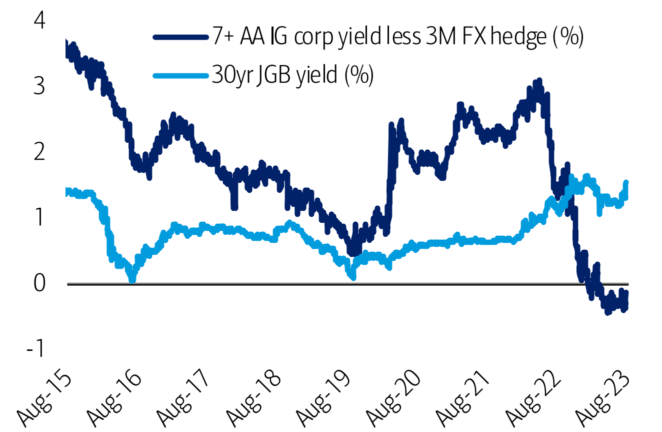
Figure 10: Hedged US IG yields have been unattractive since October 2022
FX hedged US IG corporate yields dropped below 30-year JGB yield in October 2022.



Source: BofA Global Research, ICE Data Indices, LLC, Bloomberg
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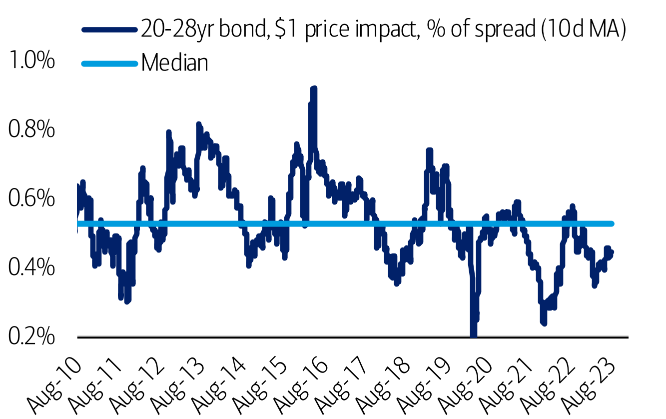
Lower dollar price to support spreads

Since June, the IG index price is down $1.6 points, while the share of bonds trading below $80 rose by 4.5% to 19.0% as of Thursday, August 3 (Figure 12). However, the impact of dollar prices is also proportional to spreads. Hence tighter spreads offset lower bond prices, keeping the overall net impact of dollar prices on the IG index spread steady at around -2.6bps since June (Figure 13). However, the average market pricing of dollar price impact on spread is currently below typical levels (Figure 11). The normalization of the dollar price spread impact, as prices remain low, should be supportive of spreads.

Figure 11: Market pricing of the spread impact of price is relatively low
The current market pricing of the impact of bond dollar prices on spreads is currently 0.45% of spread per $1, below 0.53% historical median level.



Source: BofA Global Research, ICE Data Indices, LLC
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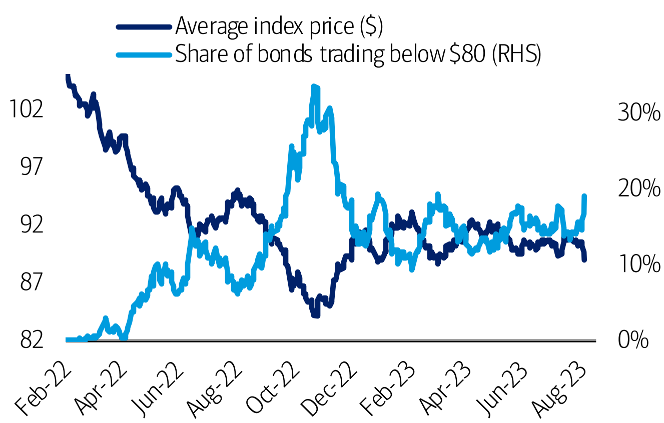
Figure 12: 19% of IG trades at $80 or lower
The share of IG bonds trading at $80 or lower increased by 4.5% since June to 19.0%.



Source: BofA Global Research, ICE Data Indices, LLC
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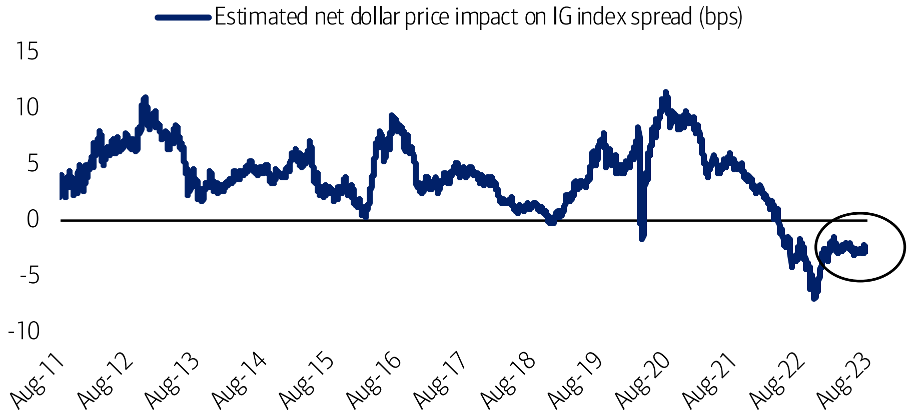
Figure 13: The dollar price impact on spread has been stable around -2.6bps since June
We estimate that the net impact of dollar prices on IG spreads has been relatively stable recently, as tighter spreads offset lower dollar prices.



Source: BofA Global Research, ICE Data Indices, LLC

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Refi impact screen

Higher for longer interest rates will increase borrowing costs for IG issuers (see the report Situation Room: Higher for longer will dent IG coverage). We screen for US industrial issuers that could be impacted the most. For our screen, we assume that all index-eligible bonds maturing in 2024 and 2025 (in both USD and other currencies) are refinanced at the current IG index yield of 5.6%. We then compare the current annual interest expense to our hypothetical refi scenario. On average, we estimate interest expense would increase by 11%, although it could rise as much as 50% for some issuers (Figure 14).

Figure 14: US IG issuers with the biggest potential increase in borrowing costs
We screen for US IG non-financial issuers with the highest potential increase in borrowing costs if all 2024 / 2025 bonds are refinanced at 5.6%, which is the current IG index yield.

Ticker	Name	Sector	Index debt ($bn)	Avg coupon: 2024 / 2025	Avg. coupon: 2026 and longer	Potential borrowing cost increase
TMO	Thermo Fisher Scientific Inc	Health Care	28.49	0.93	2.08	53%
BAX	Baxter International Inc.	Health Care	11.5	2.58	2.20	51%
CVX	Chevron Corporation	Energy	15.0	2.83	2.58	50%
MDLZ	Mondelez International Inc.	Food, Bev, & Bottling	17.0	1.68	1.77	41%
SYK	Stryker Corporation	Health Care	11.2	2.73	2.51	39%
GOOGL	Alphabet Inc.	Media & Entertainment	12.9	1.75	1.76	31%
XOM	Exxon Mobil Corporation	Energy	34.7	3.15	2.94	27%
AAPL	Apple Inc.	Technology	107.2	2.90	2.74	26%
SLB	Schlumberger N.V.	Energy	11.4	2.39	2.35	25%
MDT	Medtronic Global Holdings SCA	Health Care	23.9	2.56	2.34	24%
PG	The Procter & Gamble Company	Consumer Products	24.2	2.67	2.43	24%
DHR	Danaher Corp	Health Care	16.8	1.81	1.86	23%
BKNG	Booking Holdings Inc	Leisure	13.4	3.68	3.29	23%
VTRS	Viatris Inc	Health Care	17.3	3.55	3.22	22%
LIN	Linde PLC	Basic Materials	13.2	1.58	1.92	21%

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Ticker	Name	Sector	Index debt ($bn)	Avg coupon: 2024 / 2025	Avg. coupon: 2026 and longer	Potential borrowing cost increase
HON	Honeywell International Inc.	Industrial Products	18.3	3.23	3.01	20%
KDP	Keurig Dr Pepper Inc	Food, Bev, & Bottling	11.0	3.92	3.59	18%
PEP	Pepsico Inc	Food, Bev, & Bottling	38.6	2.85	2.78	18%
MMM	3M Company	Industrial Products	13.7	3.07	3.00	18%
AMZN	Amazon.com Inc.	Retail	66.4	3.24	3.15	18%
	Avg. for all US ind. issuers			**3.02**	**3.79**	**11%**

Source: BofA Global Research, ICE Data indices, LLC. Avg. = average. Disclaimer: The screen above is intended to be an indicative metric only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This screen was not created to act as a benchmark. Note: This screen is not a recommended list either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions.

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This is an excerpt from the following report:
[Situation Room: Preliminary 2Q23 IG fundamentals: weaker 02 August 2023]

Preliminary 2Q23 IG fundamentals: weaker

Our preliminary estimates show that credit fundamentals weakened in 2Q-2023. The results are based on data for 50% of issuers in our sample, which tracks public US IG issuers excluding Financials and Utilities. These preliminary values show higher gross leverage for single-A but more so for BBB-rated issuers, while the coverage ratio took another leg lower. The changes were a result of lackluster earnings growth, accelerating debt growth, and higher borrowing costs. Companies are again beginning to accumulate cash. Finally, EBITDA margin weakened, while capex spending remained strong.

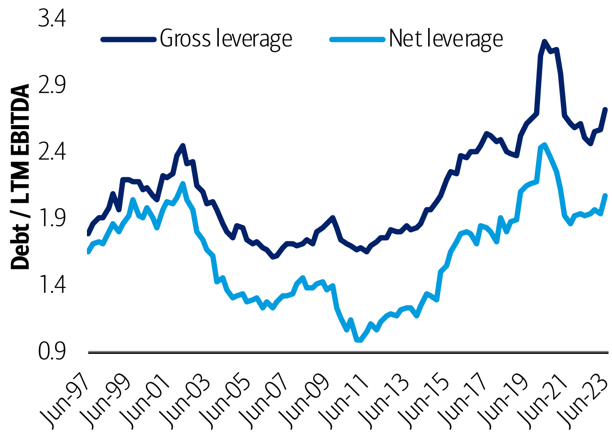
Rising debt costs

Both the median IG debt cost and coverage ratio have re-traced back to 1Q-2021 levels. The median IG debt cost, which we measure as the ratio of last 12 months (LTM) interest expense to gross debt, increased to 3.43% in 2Q from 3.36% in 1Q and up from the record low of 3.02% in 2Q-2022. At the same time, the coverage ratio declined to 10.77x from 11.90x in 1Q and the record high of 13.73x also in 2Q-2022 (Figure 16).

Higher leverage

Our preliminary estimates show higher values in 2Q relative to 1Q for both gross leverage (to 2.72x from 2.57x) and net leverage (to 2.08x from 1.95x). Prior to that, leverage was little changed from 4Q-22 to 1Q-23. Gross debt was up +0.6% YoY – the biggest increase since 4Q-2020. At the same time, YoY EBITDA growth remained sluggish at +1.3% – unchanged from 1Q. Cash jumped +7.2% YoY in 2Q – the first increase since 2Q-2021. That has allowed net leverage to remain little changed YtD for single-A rated issuers, even as gross leverage was higher (Figure 18).

Figure 15: Median leverage: non-financial non-utility US IG issuers
Gross leverage increased to 2.72x, net leverage increased to 2.08x in 2Q 2023.



Note: based on medians for US investment grade non-financial non-utility issuers. 2Q23 values are preliminary. Net debt is gross debt minus cash and marketable securities.
Source: BofA Global Research

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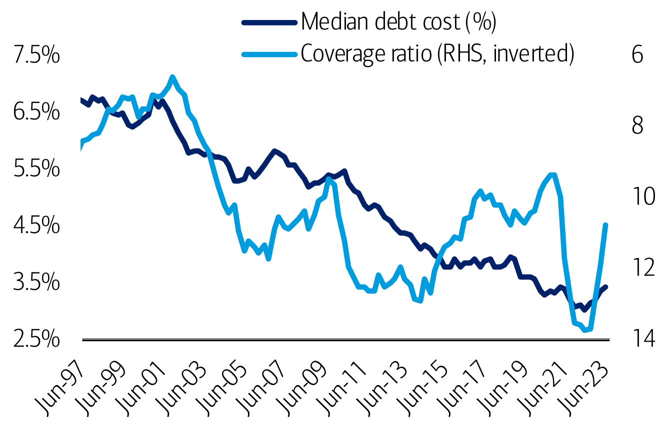
Figure 16: Higher debt costs and lower coverage in 2Q
The median debt cost (LTM interest expense / gross debt) in 2Q increased to the highest levels since 1Q 2021.



Note: Debt rate is LTM interest expense / gross debt. 2Q23 values are preliminary.
Source: BofA Global Research

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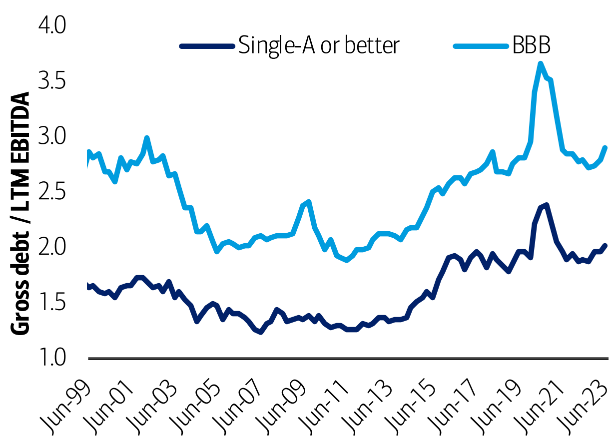
Figure 17: Higher 2Q gross leverage for single-A and BBB issuers
Gross leverage increased in 2Q to 2.02x for single-A and 2.91x for BBB-rated issuers.



Note: based on US investment grade non-financial non-utility issuers. 2Q23 data is a preliminary estimate.
Source: BofA Global Research

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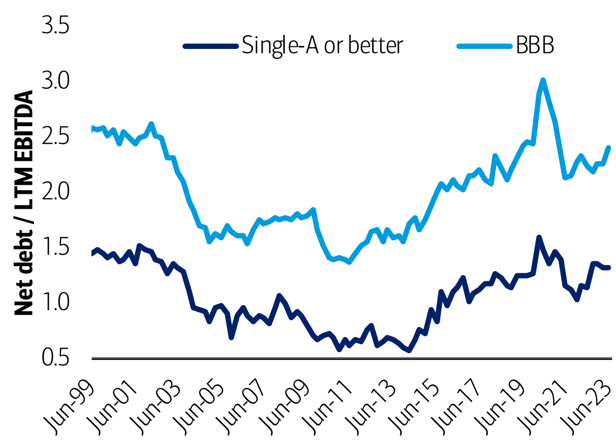
Figure 18: Net leverage: stable for single-As, higher for BBBs
Net leverage remained mostly stable for single-A rated issuers in 2Q at 1.33x, but increased to 2.41x for BBB-rated issuers.



Note: based on US investment grade non-financial non-utility issuers. 2Q23 data is a preliminary estimate.
Source: BofA Global Research

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This is an excerpt from the following report:
[Situation Room: July ratings: upgrades, but at a slower pace 01 August 2023]

July ratings: upgrades, but at a slower pace

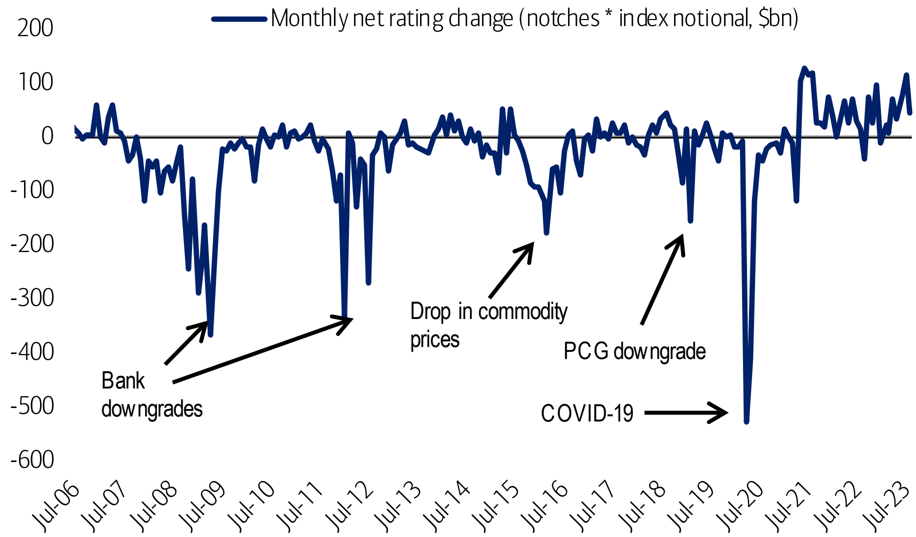
Net ratings upgrades accelerated to +$46bn in July, up from $30bn in June excluding Credit Suisse (CS) but down from +$80bn in May. Recall that net upgrades in June were dominated by the $84bn CS upgrade. Importantly, the relatively lower net upgrades in July were driven by a slowdown in the overall rating activity. The share upgrades remained elevated, and upgrades were diversified over a number of sectors rather than concentrated in a single issuer as in June.

Slower activity, positive outlook

Gross rating actions (upgrades + downgrades) declined to $79bn in July – the slowest pace since January 2023 – from $217bn in June and $132bn in May. The outlook for rating upgrades is stabilizing at lower but still-strong levels, after peaking in March. Currently, 1.6% of the IG index is on a positive outlook / watch, down from 1.7% in June and 3.0% in March 2023. In contrast the share of ratings on negative outlook / watch reached a new record-low level in July of 1.8% in June. Finally, no developed market (DM)-issuer bonds were downgraded to HY, and $1.0bn was upgraded to IG in July, down from $4.7bn in June.

Figure 19: The pace of net rating upgrades slowed in July

Net upgrades peaked at record $116bn average monthly pace from April to Jul y2021, before slowing in 2022 and into 2023.



Note: net rating change equals upgrades less downgrades. Based on the average of Moody's, S&P and Fitch, if available. We also include the watch as 2/3 of a notch and the outlook as 1/3 of a notch. Restricted to DM bonds in ICE BofA IG corporate index C0A0.
Source: BofA Global Research, Bloomberg.

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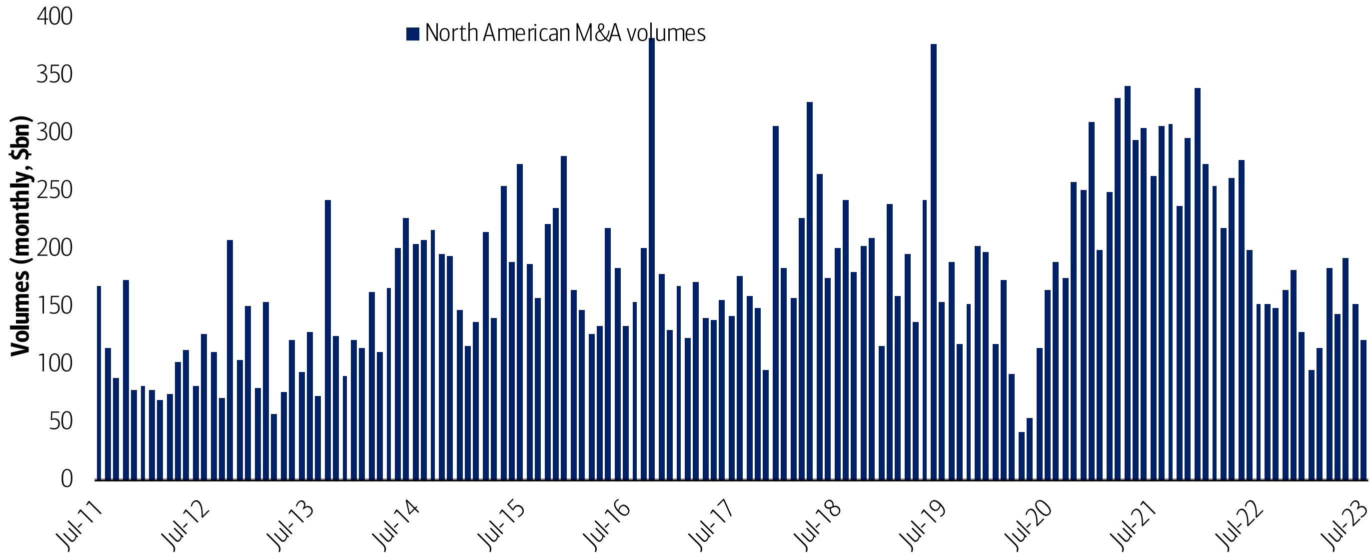
This is an excerpt from the following report:
Situation Room: July ratings: upgrades, but at a slower pace 01 August 2023

Slower M&A volumes in July

North American M&A announcements moderated to $121bn in July from $153bn in June and a relatively high $193bn in May (Figure 20). The pipeline of announced deals with potential IG funding implications declined to $330bn in July from $334bn in June (deal NAV, Figure 21). M&A-related IG issuance remained modest in July at $8.8bn, similar to $7.8bn in June, but down from the very high $40.5bn priced in May (Figure 22). See details of the current deal list in the full report noted above.

Figure 20: Monthly North American M&A volumes

North American M&A announcement volume declined to $121bn in July from $152bn in June.



Note: limited to pending and closed deals only. Cancelled deals are excluded.

Source: Bloomberg

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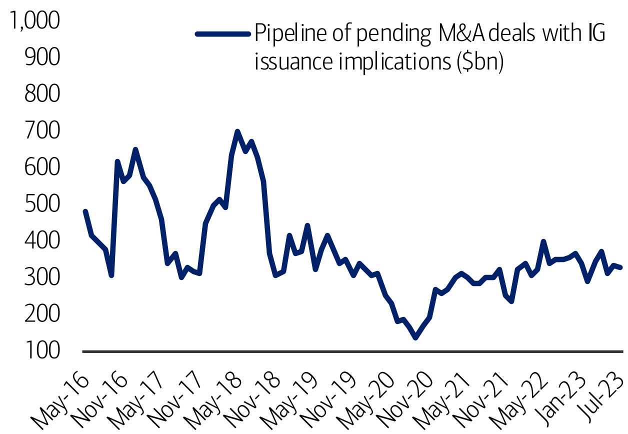
Figure 21: Pipeline of pending M&A deals with IG funding implications

The pipeline of pending M&A deals with US IG funding implications declined marginally to $330bn in July.



Source: BofA Global Research, Bloomberg

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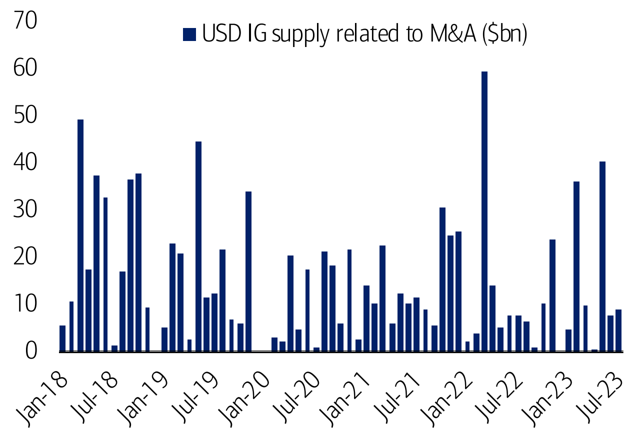
Figure 22: US IG M&A related supply

US IG M&A-related supply remained modest at $8.8bn in July, up from $7.8bn in June.



Source: BofA Global Research

BofA GLOBAL RESEARCH

This is an excerpt from the following report:

Situation Room: 2Q earnings half-time update: another positive surprise 31 July 2023

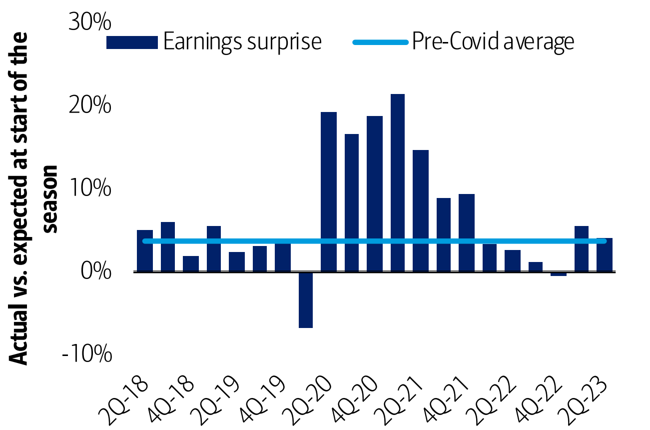
2Q earnings half-time update: another positive surprise

The 2Q earnings reporting season is in full swing. By now, half of US IG issuers have released results, accounting for 61% of the aggregate expected 2Q earnings. The results reported so far have been strong. First, earnings have surprised to the upside by 4.1%. That's a bit below +5.5% positive surprise in 1Q-2023 but stronger than any quarter in 2022 (Figure 23, Figure 24).

Stabilizing growth

Second, based on actual results when available and the latest bottom-up consensus estimates otherwise, we are currently tracking 2Q earnings growth of -2.0% YoY on a +3.0% YoY increased in revenues, excluding the volatile Energy and Finance sectors. That's the strongest YoY growth rate since 1Q-2022. Including Energy and Finance, 2Q growth is coming in at -8.7% and -1.0% YoY for earnings and revenues, respectively (Figure 25, Figure 26). Finally, we are tracking the weakest 2Q earnings growth for the more global issuers, but these issuers have also delivered the biggest positive earnings surprise (+8.5%).

Figure 23: A much stronger earnings surprise so for in 1Q
1Q earnings surprise is +4.1% -- down from +5.5% in 1Q-2023 but stronger than any quarter during 2022.



Source: BofA Global Research, FactSet

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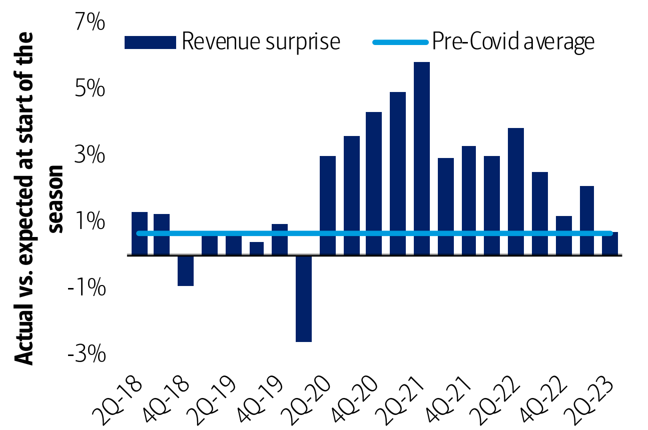
Figure 24: Sales surprise was also strong
Sales surprise in 2Q was +0.7%, in line with +0.7% pre-Covid average but below the strong +2.1% surprise in 1Q-2023.



Source: BofA Global Research, FactSet

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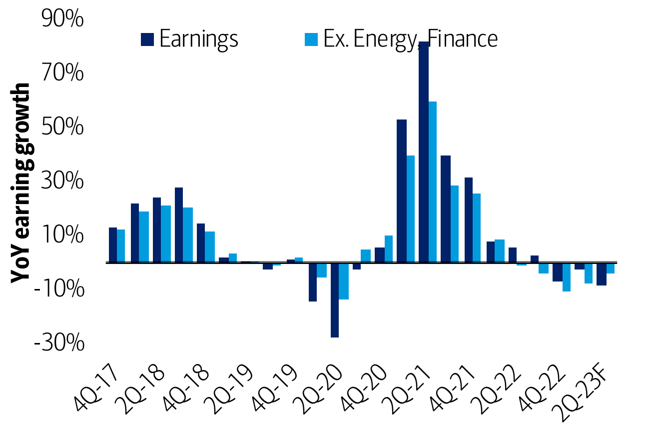
Figure 25: Earnings growth for US IG issuers
We are tracking 2Q-23 earnings growth that is the highest since 1Q-2022, ex. Energy and Finance.



Note: 2Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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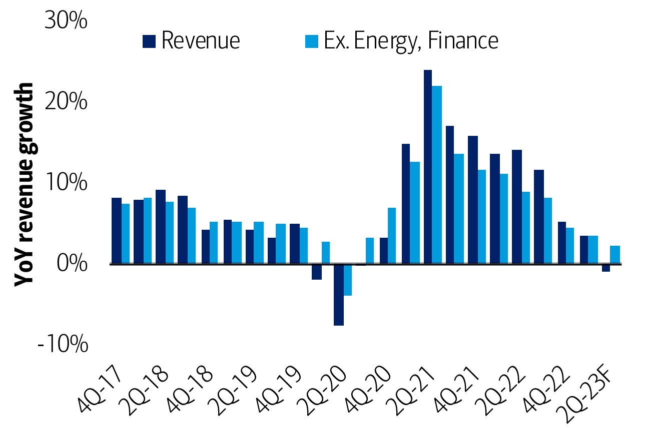
Figure 26: Revenue growth for US IG issuers
Revenue growth continued to decline in 2Q-23.



Note: 2Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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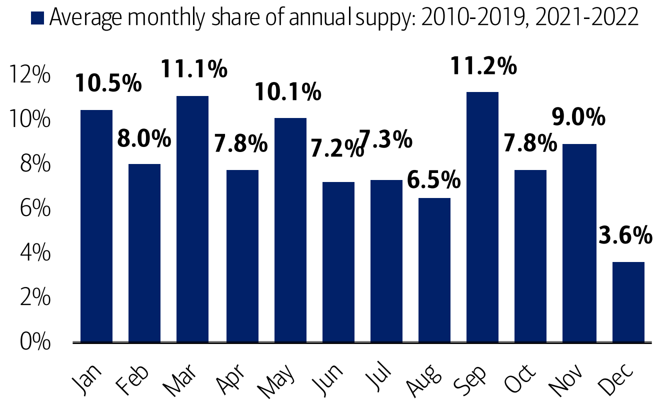
This is an excerpt from the following report:

[Situation Room: 2Q earnings half-time update: another positive surprise 31 July 2023]

August supply: moderate

We look for August IG supply in $80bn-$90bn range, which is near the low end of the range over the past five years (Figure 28). August issuance should be moderate for two reasons. First, the momentum in non-financial supply has been relatively slow. Non-financial supply totaled just $30bn in July, similar to July 2022 but below the $43bn median since 2015 (Figure 30). As issuance is typically dominated by non-financials in August (Figure 29), the recent slower momentum implies a potentially slower August as well. Second, the jump in interest rates during July, should it persist, should be negative for issuance volumes due to a higher price shock for borrowers.

Figure 27: July tends to be a relatively slow month for issuance
July typically accounts for 7.3% of the annual supply, similar to 7.3% in June.



Source: BofA Global Research

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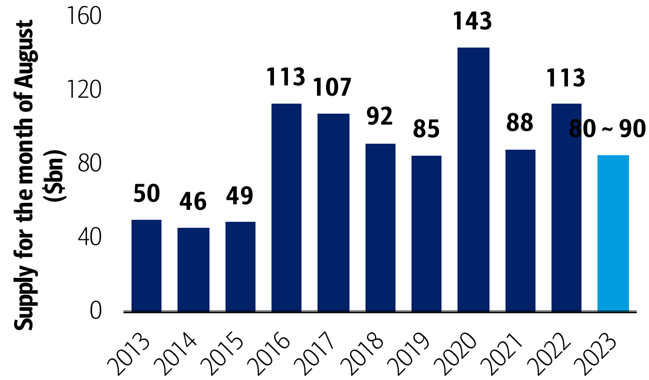
Figure 28: We look for June supply in $85bn-$95bn range
Issuance for the calendar month of July has been steady at around $90bn over the prior two years, and we expect that to continue.



Source: BofA Global Research

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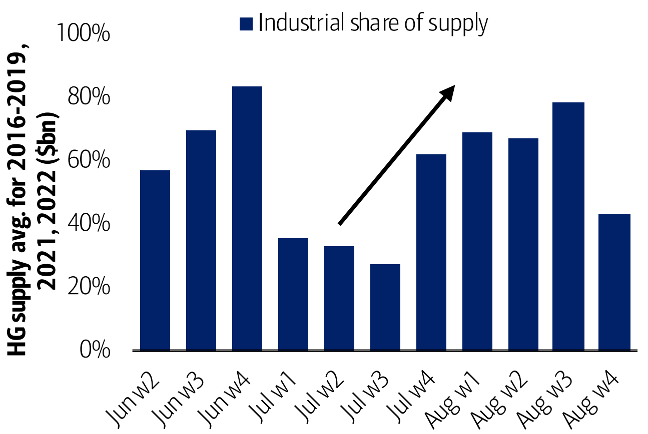
Figure 29: Share of industrial supply is higher in August
The average share of industrial supply increases from 28% during the third week of July to 67% in the second week of August.



Source: BofA Global Research

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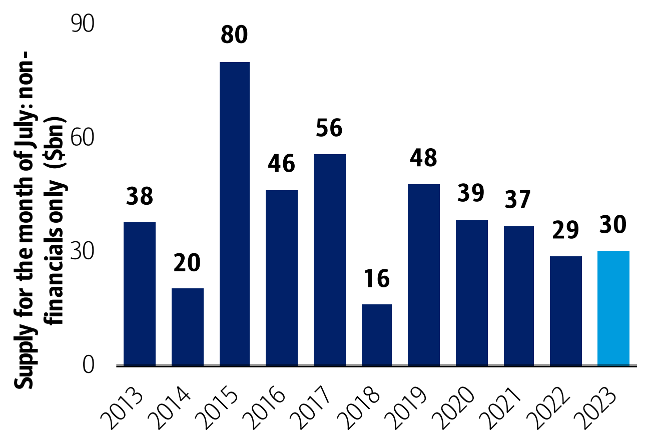
Figure 30: Little non-financial issuance in July
Non-financial supply in July was near the low end of the recent historical range.



Source: BofA Global Research

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This is an excerpt from the following report:

Situation Room: 2Q earnings half-time update: another positive surprise
31 July 2023

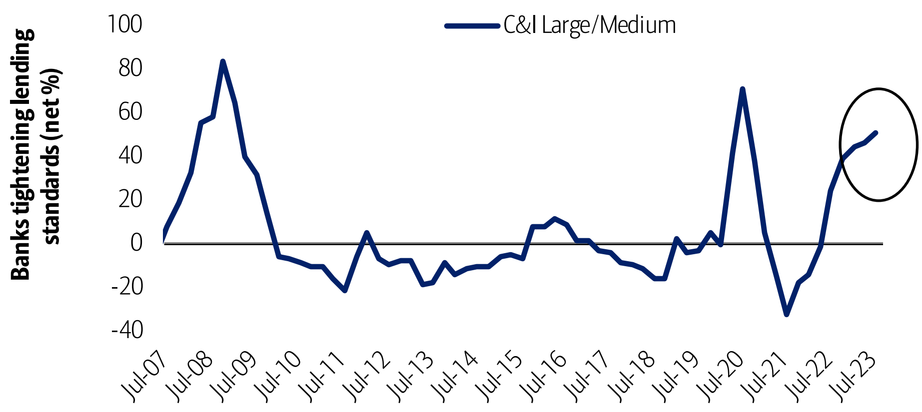
The July Senior Loan Officer Survey: better demand trends

The Fed's July senior loan officer survey shows an even higher net share of banks is tightening lending standards for commercial and industrial (C&I) loans relative to the prior survey in April. However, the net share tightening standards for commercial real estate (CRE) loans was little changed (at a high net 68%), while the share declined for Auto loans (to 14.6% in July from 27.5% in April).

Improving demand trend

Banks generally continue to report weaker loan demand on net but by a smaller margin. The net share reporting weaker demand for C&I loans moderated for first time during this tightening cycle during the July survey (Figure 33). For residential mortgages, the net share declined for the second survey in a row (Figure 35). Finally, the net share reporting weaker demand for credit cards reached zero in July (Figure 37).

Figure 31: Net share reporting tighter C&I lending standards increased further in July
An even higher net share of banks reported tighter lending standards in July (net 50.8%) compared to April (net 46.0%).



Source: Federal Reserve

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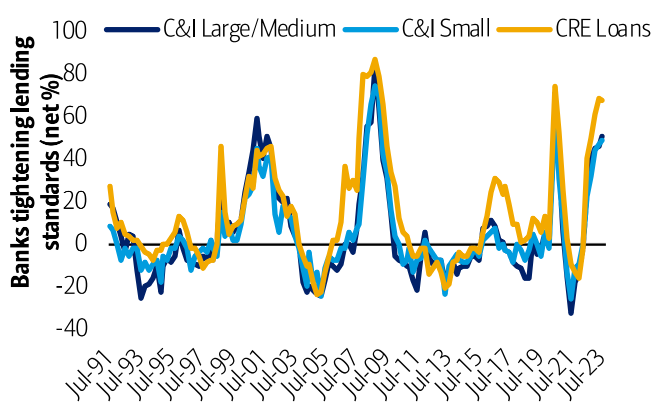
Figure 32: Lending standards: C&I loans
Banks further tightened standards on C&I loans in July.



Source: Federal Reserve

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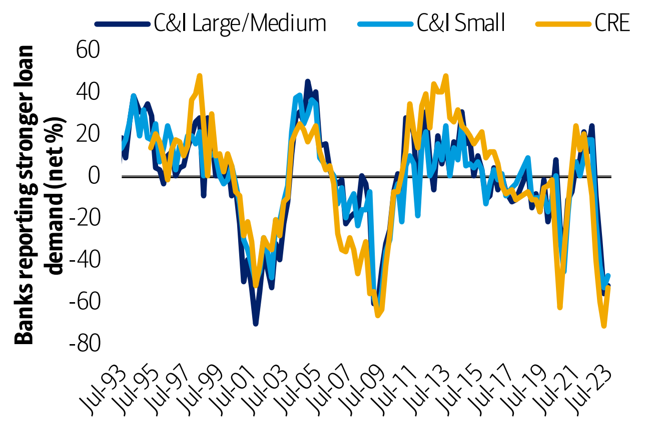
Figure 33: Loan demand: C&I loans
Demand was weaker across C&I and CRE loans in July but by a smaller margin than in April.



Source: Federal Reserve

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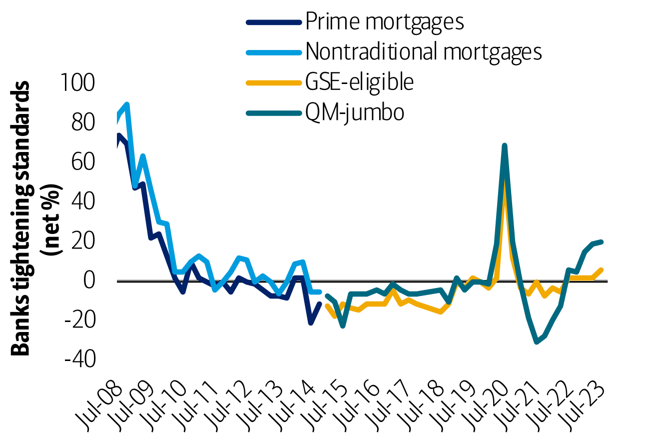
Figure 34: Lending standards: residential mortgages
The net share tightening standards mortgage loans remained relatively low in July.



Source: Federal Reserve

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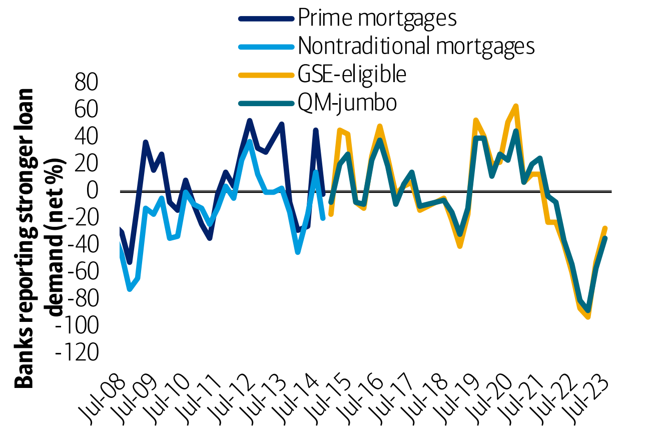
Figure 35: Loan demand: residential mortgages
On net, fewer banks are reporting weaker demand for residential mortgages.



Source: Federal Reserve

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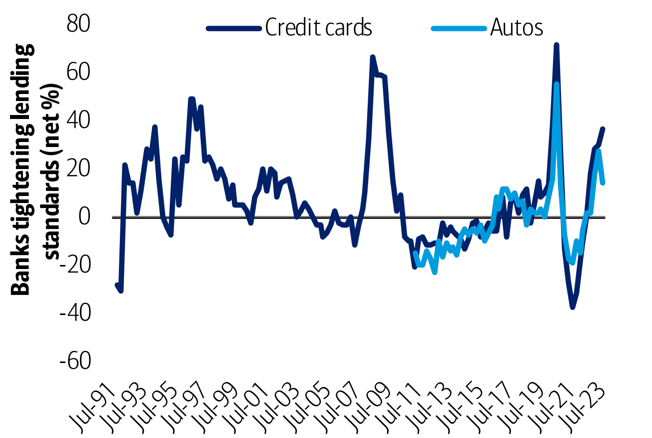
Figure 36: Lending standards: consumer loans
On net, fewer banks are tightening lending standards for auto loans than in April.



Source: Federal Reserve

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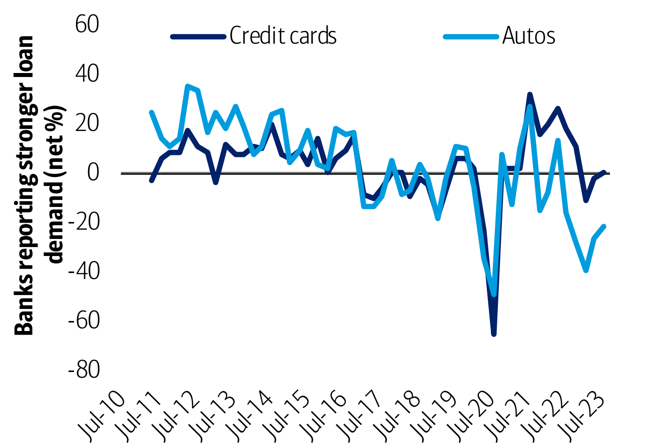
Figure 37: Loan demand: consumer loans
Demand was stable for credit card loans, weaker for auto loans but by a smaller margin than in April.



Source: Federal Reserve

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This is an excerpt from the following report:
[Situation Room: Out of HY and stock, into HG and loans 03 August 2023]

Flows

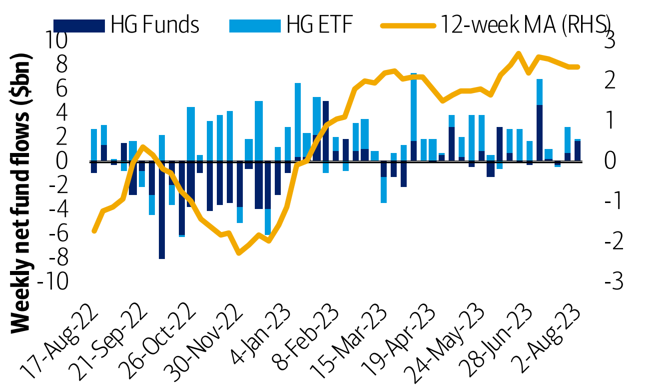
Out of HY and stock, into HG and loans

Inflows to US HG bond funds and ETFs moderated to +$1.86bn this past week ending on August 2, down from a +$2.85bn inflow in the prior week. Stronger inflows to funds (to +$1.72bn from +$0.73bn) were offset by weaker inflows to HG ETFs (to +$0.14bn from

+$2.13bn). Notably, inflows ex. short-term accelerated to +$3.65bn this past week from +$2.65bn a week earlier, while flows turned negative for short-term HG (to -$1.79bn from +$0.21bn).

In contrast to HG, flows turned negative for equities (to -$3.19bn from +$10.69bn), global EM bonds (to -$0.92bn from +$0.17bn), and munis (to -$0.96bn from +$0.73bn) and remained negative for high yield (to -$0.37bn from -$0.38bn). Following the Fitch US downgrade, inflows to US government bonds decelerated to +$1.09bn from +$3.72bn. Loans were the only asset class with stronger flows on the week (to +$0.31bn from -$0.02bn). Finally, money markets reported a +$11.36bn inflow this past week following a +$32.81bn inflow a week earlier.

Figure 38: Weekly high grade fund flows, $bn
HG ETF +$0.14bn, HG Funds +$1.72



EPFR Global. Note: data are for US-domiciled funds only.

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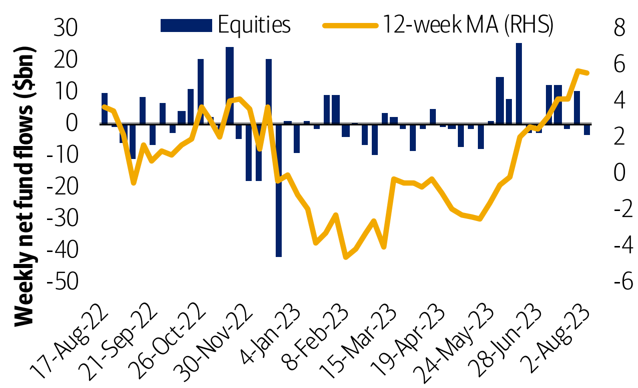
Figure 39: Weekly equity fund flows, $bn
Equities -$3.19bn



EPFR Global. Note: data are for US-domiciled funds only.

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Figure 40: Fund flows summary
YTD fund flows summary by asset class

Asset class	Last week (% of AUM for weekly reporting funds/ETFs)	YTD (% of AUM for all funds/ETFs)	YTD ($bn)
High grade: total	0.09%	3.8%	137.1
High grade: ex short-term	0.25%	7.0%	193.1
High yield: total	-0.16%	-0.5%	-1.5
High yield: ETFs only	-1.41%	-5.4%	-3.6
Loans	0.40%	-11.4%	-13.6
EM	-0.19%	-0.2%	-1.5
Munis	-0.19%	1.1%	9.8
All fixed income	0.08%	3.6%	214.6
Money markets	0.19%	14.2%	760.5
Equities	-0.03%	0.0%	-6.3

Note: Last week flow as % of AUM is based on AUM for weekly reporting funds / ETFs only. YTD flow as % of AUM is based on AUM for the full fund/ ETF universe as of December 31 2020. Global EM funds, US-domiciled funds only for other fund types.
Source: EPFR Global, BofA Global Research

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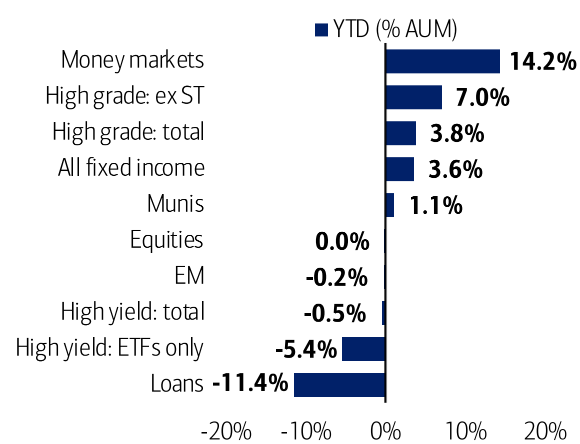
Figure 41: Year-to-date fund flows, % of assets under management (AUM)
HY ETFs have had the biggest outflows so far in 2023.



Note: Global EM funds, US-domiciled funds only for other fund types.
Source: EPFR Global, BofA Global Research

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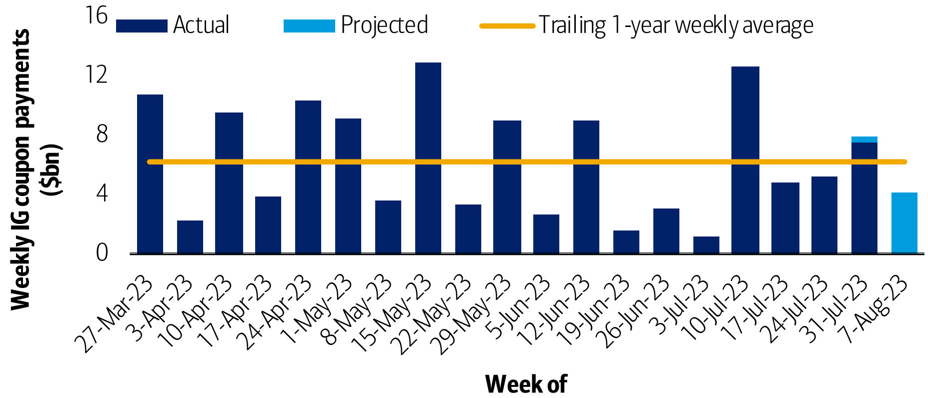
Weekly technicals

The US IG corporate bond market is expected to generate $4.1bn in coupon payments next week, below the trailing 1-year weekly average of $6.2bn (Figure 42). Bond maturities were $12.0bn this week, $7.4bn next week.

Figure 42: Weekly US IG coupon payments
We expect $4.1bn of coupon payments next week, below the $6.2bn trailing 1-year weekly average.



Source: ICE Data Indices, LLC, BofA Global Research

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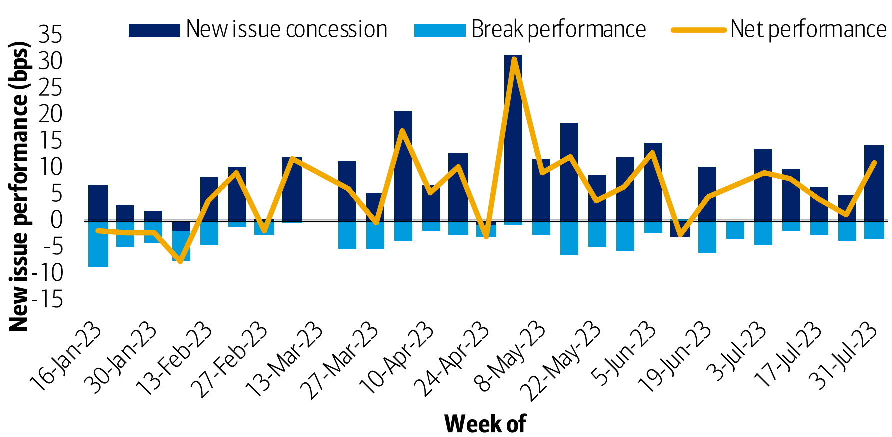
Supply

US IG gross issuance totaled $34.6bn this week, consisting of $12.8bn financials, $6.3bn high-quality industrials, and $15.6bn BBB industrials. Given $820.4bn of gross issuance, $457.5bn of maturities and $51.2bn of additional redemptions, net issuance is tracking $311.7bn YTD. IG supply accelerates seasonally in the first half of August, as most companies exit issuance blackouts related to the 2Q earnings reporting season. Hence we look for the strong supply momentum to continue, with issuance in $25-$35 range next week – in line with historical averages (Figure 44).

New issue performance weakened this week. The average new issue concession increased to 14.2bps from 4.9bps last week, while the average break performance moderated to 3.4bps tighter this week from 3.6bps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, widened to 10.8bps this week from 1.3bps wider last week (Figure 43). This week's new issues are trading 6bps tighter on average from pricing.

Figure 43: Weekly new issue supply performance
For the week of July 31, 2023, new issue concession = 14.2bps; break performance = -3.4bps; net performance = 10.8bps.



Source: BofA Global Research

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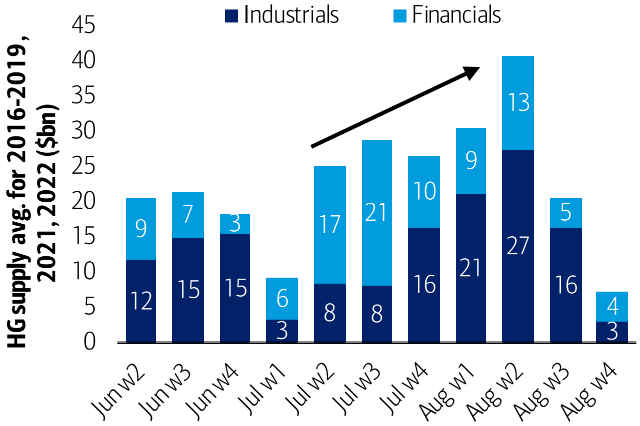
Figure 44: Weekly Supply seasonality
Supply volumes pick tend to pick up after the 1st week of July.



Source: Bloomberg, BofA Global Research

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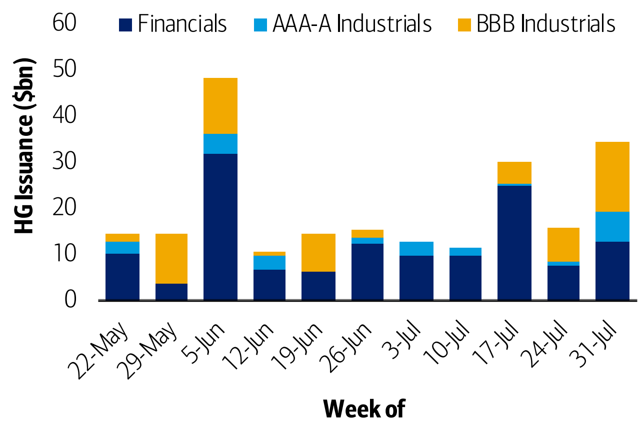
Figure 45: Weekly Supply
This week's supply consisted of $12.8bn financials, $6.3bn high-quality industrials, and $15.6bn BBB industrials.



Bloomberg, BofA Global Research

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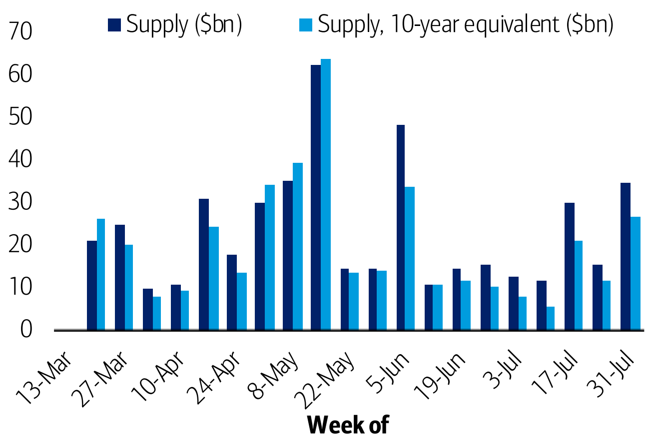
Figure 46: Weekly gross and 10-year equivalent supply volumes
10-year equivalent supply = $26.9bn WTD



BofA Global Research, Bloomberg

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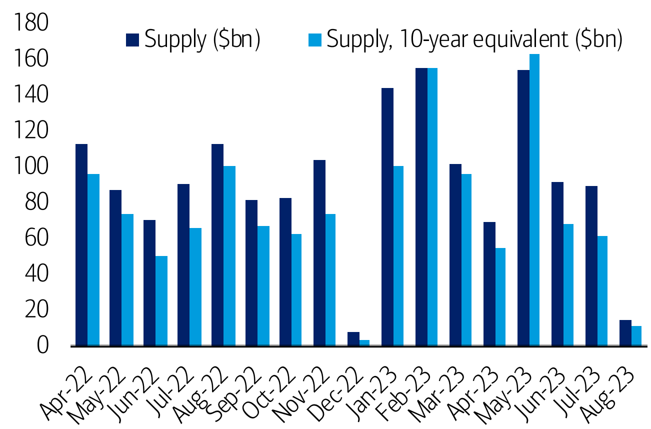
Figure 47: Monthly gross and 10-year equivalent supply volumes
10-year equivalent supply = $11.7bn in August



BofA Global Research, Bloomberg

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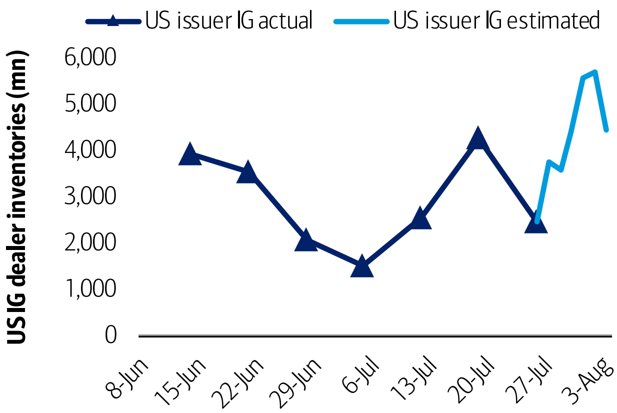
Dealer inventories

Below, we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on the NY Fed survey as well as the estimated change since the latest Fed report are plotted in Figure 48 and Figure 49. We estimate the corresponding DV01 equivalent in Figure 49. More details by sector and maturity are available in Figure 50 and Figure 51. Finally, we note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Figure 48: Estimated dealer inventories of IG corporate bonds
We estimate that IG dealer inventories of US issuer bonds increased to $4.5bn currently from $2.5bn on July 26.



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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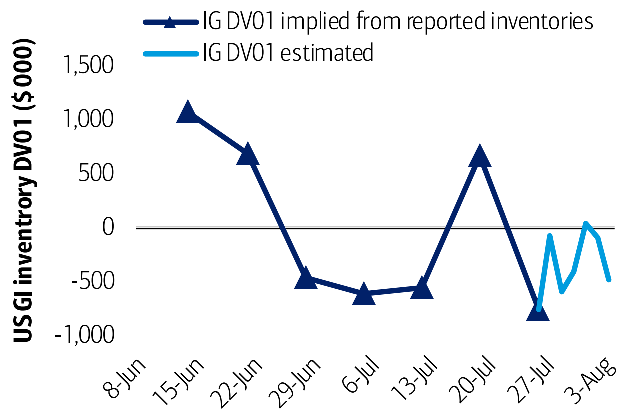
Figure 49: Estimated dealer inventory DV01 for IG corporate bonds
We estimate that IG dealer inventory DV01 of US issuer bonds increased to -$0.5mn currently from -$0.8bn on July 26.



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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Figure 50: Estimated changes in IG dealer inventories by maturity and broad sector
We estimate that IG dealer inventories declined -$1,762mn today and increased $1,170mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 3-Aug-23 ($mn)			
Sector	**3-Aug**	**2-Aug**	**1 W**	**2 W**	**4 W**	**3-Aug**	**2-Aug**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
High grade (13M+)	**-1,762**	**439**	**1,170**	**3,093**	**11,411**	**-676**	**-40**	**-471**	**225**	**5,350**	**10,853**	**12,615**	**7,647**	**31,116**
<3yr	-358	738	1,780	2,345	3,424	-72	134	297	400	626	1,622	1,980	1,221	4,823
3-5yr	-716	247	-35	926	3,119	-251	91	-18	307	1,057	1,625	2,342	1,472	5,439
5-11yr	-825	-622	85	161	3,042	-429	-436	10	-84	1,585	3,675	4,500	2,755	10,930
11+yr	137	75	-660	-339	1,826	76	171	-760	-398	2,082	3,931	3,794	2,199	9,924
Fin	-1,111	72	-235	263	1,864	-483	-112	-541	-225	600	3,669	4,780	2,873	11,322
Non-Fin	-651	367	1,405	2,830	9,546	-193	72	70	450	4,750	7,184	7,835	4,775	19,793
Fixed	-1,847	440	1,043	3,094	11,543	-712	-54	-489	250	5,336	10,680	12,528	7,516	30,723
Floating	85	-1	127	-2	-132	36	14	17	-25	13	173	88	132	393
US issuers	-1,234	148	717	1,889	7,898	-394	-124	-389	26	3,904	8,573	9,807	6,295	24,676
DM Yankees	-542	275	216	702	2,614	-268	73	-231	-67	922	1,939	2,481	1,241	5,661
EM Yankees	13	16	237	502	899	-15	11	149	265	523	340	327	112	779

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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Figure 51: Estimated changes in IG dealer inventories by sector
We estimate that IG dealer inventories declined -$556mn for Banks/Brokers and increased $12mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 3-Aug-23 ($mn)			
Sector	**3-Aug**	**2-Aug**	**1 W**	**2 W**	**4 W**	**3-Aug**	**2-Aug**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Aerospace/Defense	-27	-66	59	77	48	27	-37	99	93	130	151	178	60	388
Automobiles	22	39	102	200	564	22	-5	7	-8	73	268	246	283	798
Banks/Brokers	-556	147	34	-147	801	-175	-90	-393	-299	49	2,466	3,022	1,975	7,463
Basic Materials	-108	-40	-255	-121	-45	-8	-50	-182	-182	-222	382	490	281	1,153
Commercial Services	-54	-16	107	182	294	-36	-15	37	87	109	103	157	94	354
Energy	12	41	476	702	1,482	44	24	286	376	857	551	538	443	1,532
Finance	-197	-18	-206	69	351	-83	-4	-39	10	277	577	773	499	1,849
Food, Bev, & Bottling	-239	52	-85	-64	527	-215	58	-121	-193	53	256	495	237	989
Health Care	-97	-21	158	576	1,562	-60	-74	-273	-106	646	1,307	1,404	840	3,551
Industrial Products	-56	21	-71	-227	6	-12	-10	-90	-204	-54	822	878	460	2,160
Insurance	-141	15	-98	42	100	-79	3	-67	15	55	320	461	187	968
Media & Entertainment	14	13	29	214	822	80	-38	14	136	559	588	575	340	1,503
REITs	-217	-73	34	299	612	-146	-21	-43	49	218	307	524	211	1,043
Retail	-66	126	269	525	922	-36	95	136	361	764	274	340	250	865

Figure 51: Estimated changes in IG dealer inventories by sector

We estimate that IG dealer inventories declined -$556mn for Banks/Brokers and increased $12mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 3-Aug-23 ($mn)			
Sector	**3-Aug**	**2-Aug**	**1 W**	**2 W**	**4 W**	**3-Aug**	**2-Aug**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Technology	-47	51	26	-108	1,166	2	32	-103	-313	423	578	625	516	1,719
Telecom	-72	-37	65	23	935	-20	-18	50	75	769	581	654	307	1,542
Tobacco	-6	47	124	132	255	2	15	69	67	182	64	71	60	195
Transportation	-39	23	5	346	502	-26	25	0	198	454	223	262	128	613
Utilities	98	146	385	194	85	28	62	132	-43	-229	868	769	359	1,996
Other	13	-10	12	178	423	14	7	9	106	236	166	153	117	436

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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Common abbreviations

CDX HY: Markit CDX North America High Yield Index
CDX IG: The Markit CDX North America Investment Grade Index
CPI: Consumer Price Index
CSPP: corporate sector purchase programme
DV01: Dollar value of a basis point
ECB: European Central Bank
FOMC: The Federal Open Market Committee IG: Investment Grade
HG: High Grade
LQD: iShares iBoxx $ Investment Grade Corporate Bond ETF

QE: Quantitative Easing
YtD: year to date

Disclosures

Important Disclosures

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