Credit Market Strategist

Demanding yield

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Credit Strategy
United States

BofA Data Analytics

Yuri Seliger
Credit Strategist
BofAS
+1 646 855 7209
yuri.seliger@bofa.com

Jean-Tiago Hamm
Credit Strategist
BofAS
jean-tiago.hamm@bofa.com

Srini Talagadadeevi
Credit Strategist
BofAS
sreenivasa.rao@bofa.com

Demanding yield

The robust IG spreads performance so far in 2024 has been all about strong investor demand. The demand is ultimately driven by a combination of 1) attractive yields and 2) the upcoming Fed rate cutting cycle. While the upside surprise to US inflation in January (see US Watch: January PCE inflation tracking) further weighed on the expected pace of the cutting cycle, the outlook for the cutting cycle itself remains well intact. As a result, the positive impact of higher yields dominates, driving IG spreads tighter despite heavy supply. This means the demand story should continue to dominate in February, keeping IG spreads resilient. Longer term the current unusually strong demand should ease. We keep our 6M spread target for IG spreads in 100 – 120bbps range on the ICE BofA IG index, compared to 97bps currently.

It's all about the yield

This week's price action illustrates the key dynamic for IG spreads currently: higher Treasury yields are supportive of IG spreads, while the stock reaction matters little.

The target of strong demand: single-A industrial 30yr

Single-A or better rated 11+yr Industrials are trading at 6th percentile since 2021 vs. 35th percentile for the overall IG index.

Jan CPI: resilient IG spreads, not Fed cuts

Higher than expected January CPI re-priced the 2024 Fed cuts, but not IG spreads.

No escape from flatland

IG spread curves should remain flat unless interest rates decline materially, which is unlikely.

4Q IG earnings final update: growth rebounding

The almost-final results show earnings were strong and improving in 4Q.

TIC update for December

Foreign investors net bought +$22.1bn of US corporate bonds in December.

IG market technicals

Supply: $37.0bn of issuance this week, expect $45-50bn next week. **Flows**: +$4.70bn inflow this past week ending on February 14. **Weekly technicals**: expect $3.4bn of coupon payments, $1.3bn of calls to become effective next week. Bond maturities: $18.3bn this week, $3.9bn next week. **Dealer inventories**: +$1,253mn past week ended Thu. Details inside.

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

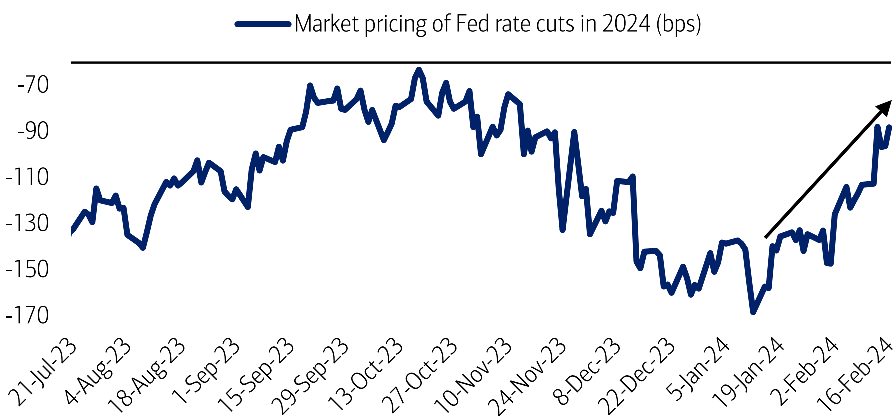
Recent credit strategy research

Publication	Name
Situation Room	Situation Room: Inflows to bonds and stocks
Situation Room	Situation Room: 4Q IG earnings final update: growth rebounding
Situation Room	Situation Room: Jan CPI: resilient IG spreads, not Fed cuts
Situation Room	Situation Room: No escape from flatland
Monthly HG Market Review	Monthly HG Market Review: Jan '24: More goldilocks
Credit Market Strategist	Credit Market Strategist: Jan '24 Credit Investor Survey: Optimistic investors
Credit Market Strategist	Summer 2023 snapshot of US IG market

Demanding yield

The robust IG spreads performance so far in 2024 has been all about strong investor demand. The demand is ultimately driven by a combination of 1) attractive yields and 2) the upcoming Fed rate cutting cycle. While the upside surprise to US inflation in January (see US Watch: January PCE inflation tracking) further weighed on the expected pace of the cutting cycle (Exhibit 1), the outlook for the cutting cycle itself remains well intact. As a result, the positive impact of higher yields dominates, driving IG spreads tighter despite heavy supply. This means the demand story should continue to dominate in February, keeping IG spreads resilient. Longer term the current unusually strong demand should ease. We keep our 6M spread target for IG spreads in 100 – 120bbps range on the ICE BofA IG index, compared to 97bps currently.

Exhibit 1: Markets are pricing 3.5 Fed cuts (-88bps) by year-end 2024.
Both market pricing and our economists continue to call for Fed to start the cutting cycle in 2024.



Source: BofA Global Research, Bloomberg.

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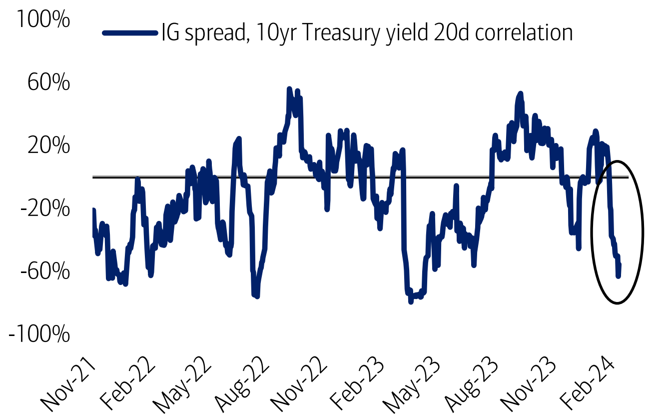
It's all about the yield

The CPI report on Tuesday triggered a selloff in stocks and a jump higher in Treasury yields. In contrast IG bond spreads closed unchanged and then traded 1 to 4bps tighter on Wednesday. That illustrates the key dynamic for IG spreads currently: higher Treasury yields are supportive of IG spreads (Exhibit 2), while the stock reaction matters little (Exhibit 3). That means a high bar for Treasury yield volatility to cause weakness in IG spreads when Treasury yields are rising. On the other hand, the bar is low bar when Treasury yields are falling.

Exhibit 2: IG spreads benefit from higher Treasury yields …
The correlation between IG spreads and 10yr Treasury yields is close to the levels post the SVB in March.



Source: BofA Global Research, Bloomberg.

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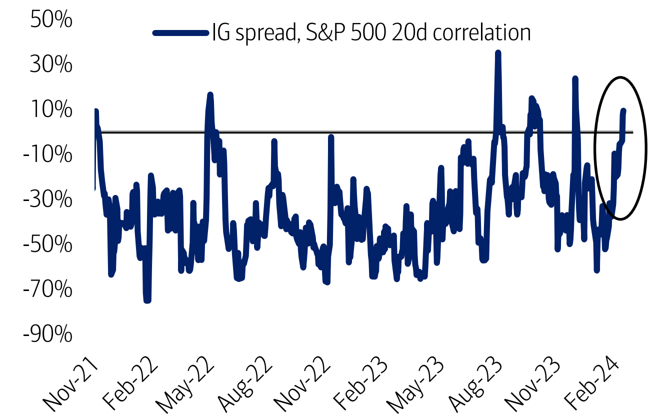
Exhibit 3: … regardless of the reaction in equity prices
The correlation between IG spreads and the S&P 500 index is currently close to zero.



Source: BofA Global Research, Bloomberg.

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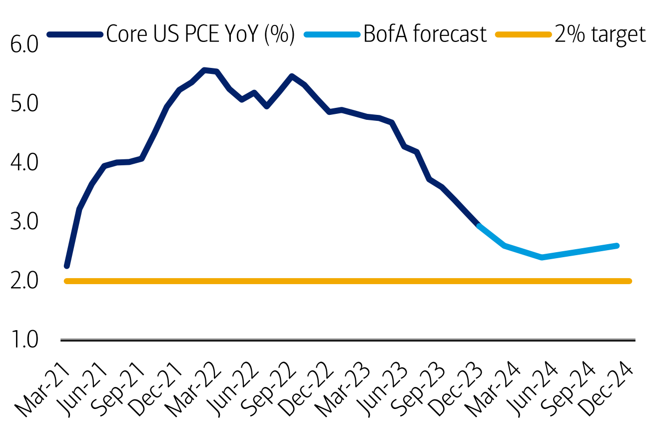
2024 > 2023

Lower interest rate risk in 2024 is another reason for the strong investor demand for IG corporate bonds. The key difference between 2022 / 2023 and 2024 is that the big progress on inflation (Exhibit 4) led the Fed pivot in December and effectively ended the hiking cycle. That, in turn, allowed interest rate implied volatility in 2024 to decline near the low end of the range since mid-2022, although it remains elevated by historical standards (Exhibit 5). Put another way, the end of the hiking cycle makes a disorderly Treasury market selloff that we saw in October 2022 and October 2023 unlikely in 2024.

Exhibit 4: US inflation is much lower in 2024
Despite the uptick in inflation during Jan-2024, US inflation has declined materially from the elevated levels in 2022.



Source: BofA Global Research, Bloomberg

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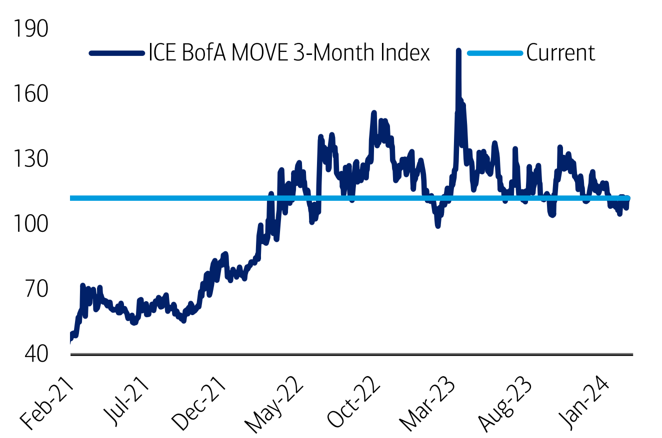
Exhibit 5: Rates vol is near the low end of the range since 2022
The 3M MOVE index is currently at 17th percentile since July 2022.



Source: Bloomberg, ICE Data Indices, LLC

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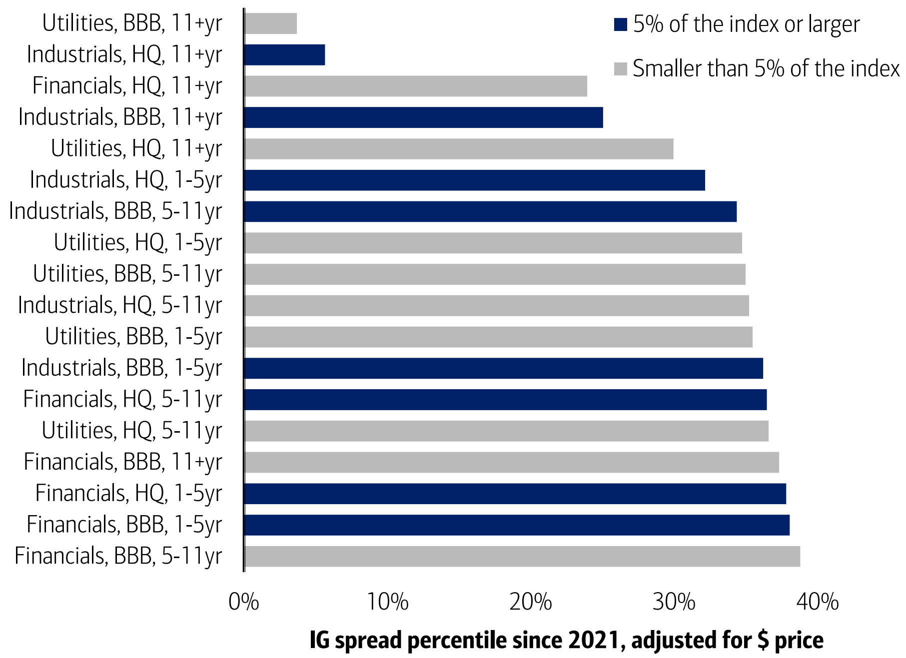
The target of strong demand: single-A industrial 30yr

Remarkably, most broad IG sector spreads trade around 35th percentile since 2021, after adjusting for bond dollar prices (Exhibit 6, Exhibit 7). The exceptions among the larger sectors are the clearly outperforming are single-A or better rated 11+yr Industrials (6th percentile) and BBB-rated 11+yr Industrials (25th percentile). On the other side of the distribution, the underperforming sectors are 1-5yr high quality (38th percentile) and

BBB-rated financials (also 38th percentile). Unlike the leaders, the laggards are just 3bps behind the median 35th percentile spread for the broad sectors.

Exhibit 6: Most broad IG sector spreads are trading around 35th percentile since 2021
Just two sectors in the back-end of the curve are trading below 10th percentile post Covid (since Jan 2021).



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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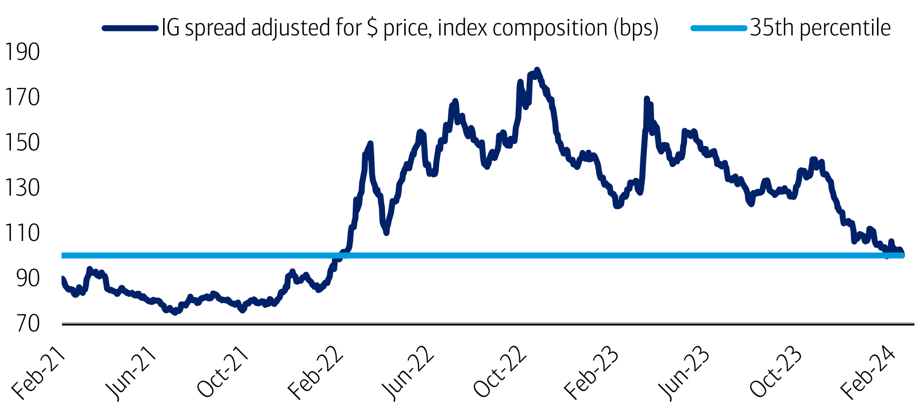
Exhibit 7: IG index spread is currently at 35th percentile post Covid (since Jan 2021)
After adjusting for the $ priced and index composition, the IG index spread is currently back to Feb 2022 levels.



Source: BofA Global Research, ICE Data Indices, LLC

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Previously published here
Situation Room: Jan CPI: resilient IG spreads, not Fed cuts

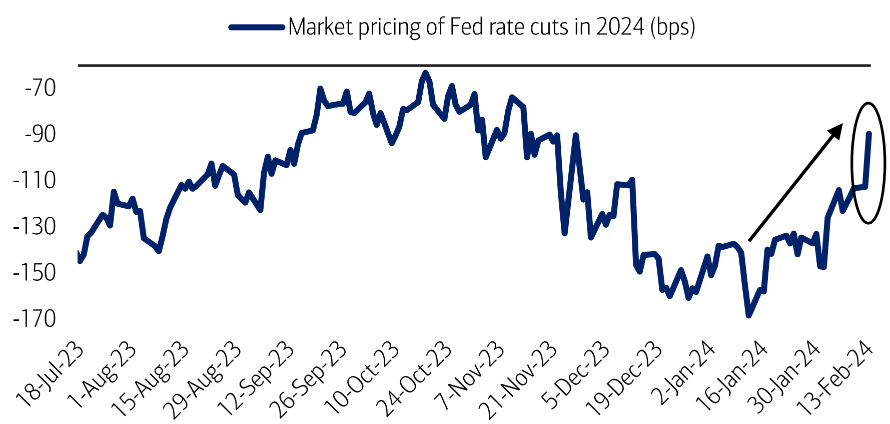
Jan CPI: resilient IG spreads, not Fed cuts

Following the stronger than expected US data so far in 2024, January CPI also surprised to the upside. Notably, much of the surprise was in the core services category (+0.66% MoM vs. +0.46% BofA forecast, see US Watch: January CPI Inflation: detour from disinflation). This matters because chair Powell effectively ruled out a March cut during the January FOMC suggesting the Fed needed more evidence that services inflation was consistent with the 2% target (see US Economic Weekly). An elevated services inflation print, therefore, subtracted almost a full cut (23bps) from the market pricing of the Fed in 2024 (Exhibit 8). On top of that 2yr inflation swaps increased by 12bps, bringing the expected inflation back to Nov 2023 levels (Exhibit 9) and suggesting potentially more Fed hawkishness ahead.

Less IG spread reaction

In contrast to the Fed expectations, IG spreads remained resilient, similar to January. We expect that to continue (see Credit Market Strategist: No cut, no problem). While S&P declined -1.4% on the day and 10yr Treasury yield jumped +14bps, IG bond spreads were generally unchanged. Moreover, IG investors on net bought $2.8bn of bonds from dealers across maturities (Exhibit 10). That suggests higher risks to growth from a more hawkish Fed are offset by more attractive yields. Spreads are also supported by the fact that interest rate volatility has remained relatively subdued (Exhibit 11).

Exhibit 8: Market pricing subtracted 23pbs from the expected Fed rate cuts in 2024
Markets are currently pricing in 90bps of rate cuts in 2024, down from 113bps on Monday February 12.



Source: BofA Global Research, Bloomberg.

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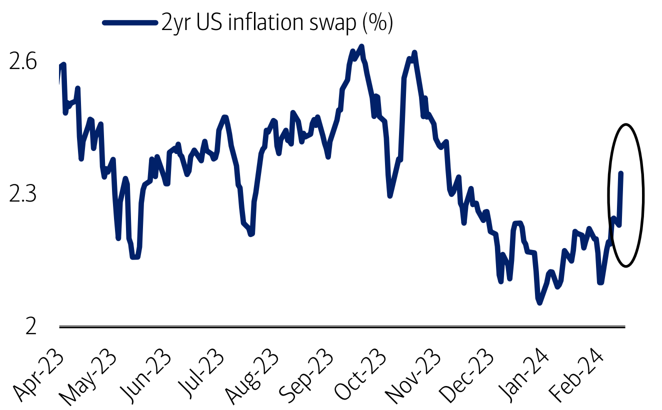
Exhibit 9: 2yr US inflation swaps increased by 12bps on Feb 13
2yr US inflation swap increased to 2.34% on Feb 13 from 2.23% on Feb 12.



Source: Bloomberg.

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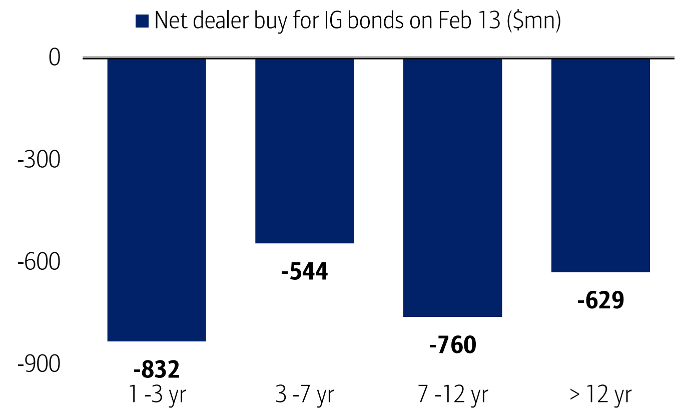
Exhibit 10: IG investors net bought bonds from dealers
On February 13 TRACE data suggests IG investors bought a net $2.8bn of bons from dealers across maturities.



Source: Bloomberg.

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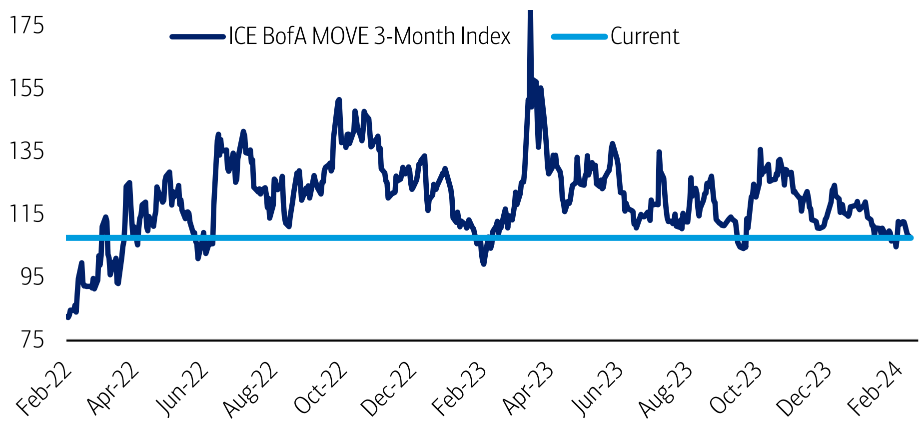
Exhibit 11: Implied interest rate volatility remains relatively subdued
Despite the recent rise in Treasury yields, the implied interest rate volatility remains in the low end of the range over the past two years.



Source: Bloomberg, ICE Data Indices, LLC

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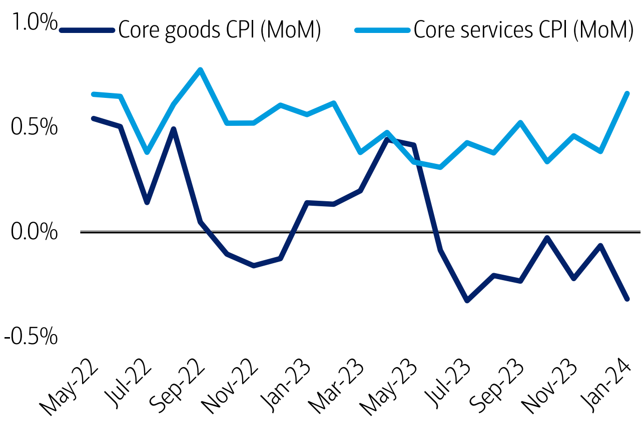
Exhibit 12: Core goods flat, services inflation in December

Core goods inflation wakame down in January (-0.32% m/m), while core services inflation rose to +0.66%.



Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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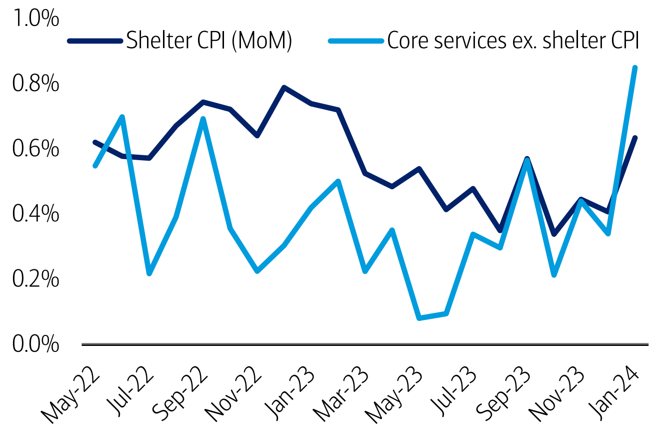
Exhibit 13: Elevated core services inflation

Core services ex. shelter CPI rose to+0.85% in Jan, while shelter inflation rose to +0.6% m/m.



Source: BofA Global Research, Bureau of Labor Statistics, Haver.

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Situation Room: No escape from flatland

No escape from flatland

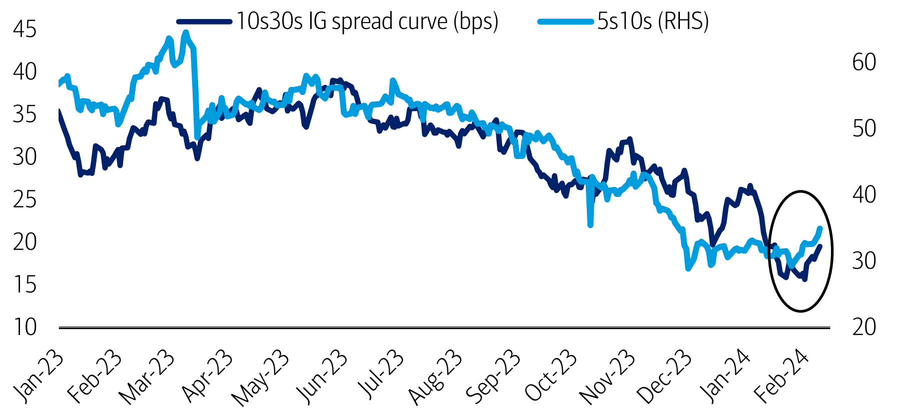
Both 5s10s and 10s30s IG spread curves bounced off the recent flats so far in February. That was due to both investors rotating out of the back end in the secondary market and more 30yr supply in the primary market. Taking a step back, however, shows that IG spread curves (especially 10s30s) remain near historically flat levels (Exhibit 18). In the near term the curves should remain flat unless long-term interest rates decline materially, which would both bring out more 30yr supply and curb investor demand for longer duration bonds. That is unlikely in the current environment of resurgent US economic growth (see US Economic Weekly: Is the US economy re-accelerating? report). Hence despite the recent bounce we look for IG spread curves to stay near historically flat levels.

Recent drivers IG spread curves: rel-val

First, in terms of secondary markets, we estimate based on TRACE that IG investors net bought from \$4.7bn of 1-10yr bonds from dealers since January 31st. At the same time they net sold \$1.0bn of 10+yr bonds to dealers. That was likely in response to record rich spread valuations in the back end of the curve (see Situation Room: New frontier in flatness report). With valuations improving (curves steepening) the relatively value should look less dislocated.

Exhibit 14: IG spread curves steepened so far in February

Both 5s10s and 10s30s IG spread curves steepened about 3bps so far in February. Note: the spread curves are adjusted for $ prices.



Source: BofA Global Research, ICE Data Indices, LLC

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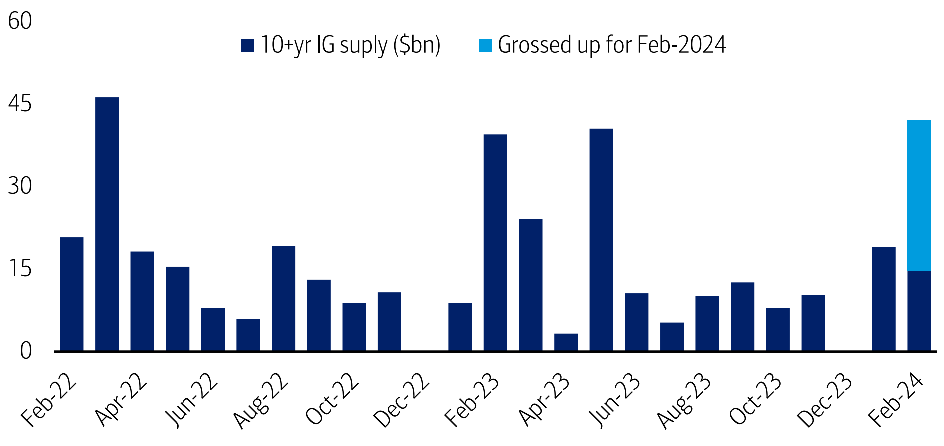
Recent drivers IG spread curves: supply

Supply has been another driver of steeper IG spread curves. Supply longer than 10yr has totaled $14.7bn through February 9. Simply grossing that up based on the remaining business days in the month results in the full-month issuance amount of $42bn, which will be in the upper end of the range over the prior two years (Exhibit 15). We can easily get there given the expectations for a number of larger M&A-related bond deals supply in February that will have issue across the entire maturity curve.

Exhibit 15: Back-end supply in February is tracking about $42bn for the full month

Extrapolating the pace of back-end supply for the remainder of the month suggests a pace at the high end of the range since 2022.



Source: BofA Global Research

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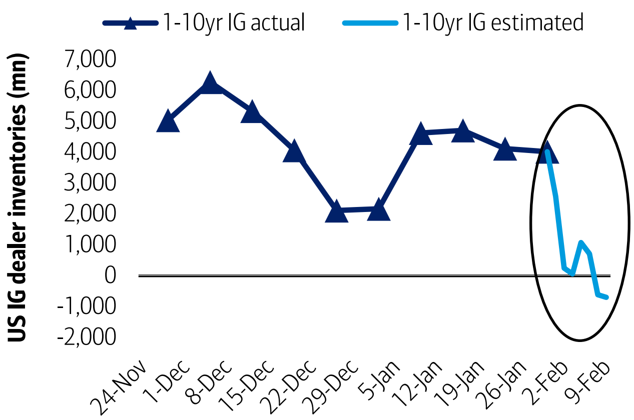
Exhibit 16: Dealers were net sellers of IG 1-10yr bonds in February
Based on TRACE we estimate IG investors net bought $4.7bn of 1-10yr bonds to dealers so far in February.



Source: BofA Global Research, NY Fed, TRACE, Bloomberg.

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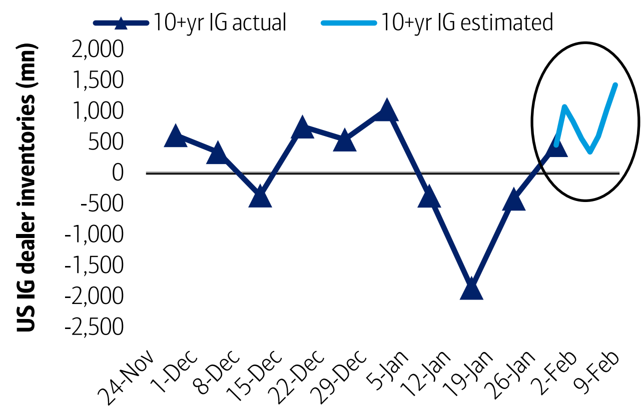
Exhibit 17: Dealers were net buyers of IG 10+yr bonds in February
Based on TRACE we estimate IG investors net sold $1.0bn of 10+yr bonds to dealers so far in February.



Source: BofA Global Research, NY Fed, TRACE, Bloomberg.

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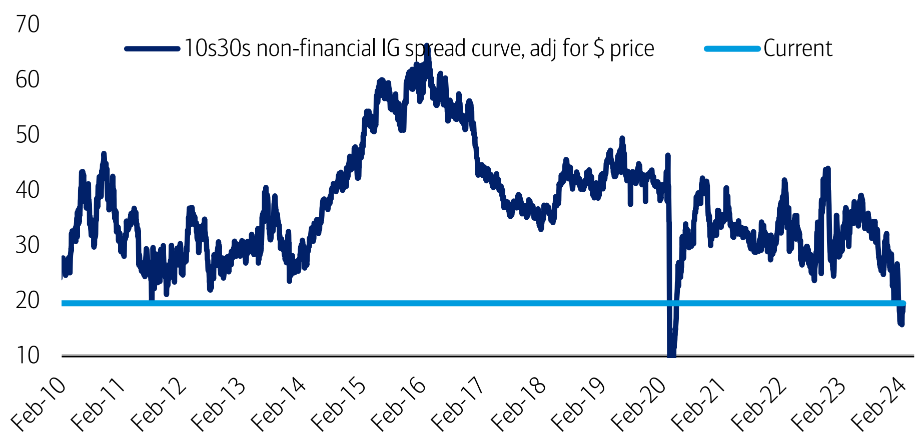
Exhibit 18: IG 10s30s spread curve is still historically flat
On a $ price adjusted basis the 10s30s IG spread curve is currently 20bps, about 4bps off the tights in January, but still near the flattest levels since 2010.



Source: BofA Global Research, ICE Data Indices, LLC

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[Situation Room: 4Q IG earnings final update: growth rebounding]

4Q IG earnings final update: growth rebounding

Most of the 4Q earnings season is now behind us. By now 72% of US IG public companies have reported, accounting for 82% of the aggregate expected 4Q earnings. These almost-final results show 4Q earnings were strong, improving, and better than expected, although the positive surprise was a bit below the historical average. Earnings came in 2.8% ahead of expectations at the start of the season, below the 3.7% pre-

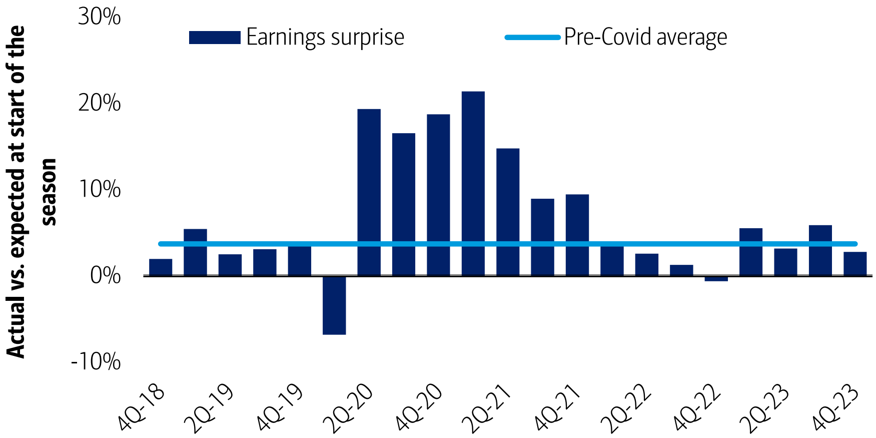
Covid average surprise (Exhibit 19). Revenues however were +0.9% above expectations, a bit higher than the +0.7% pre-Covid average (Exhibit 20), suggesting weaker than expected margins.

Earnings tracking

Based on actual results when available and the latest bottom-up consensus estimates otherwise, we are now tracking +3.4% YoY earnings growth for all US IG public issuers, and +11.7% YoY earnings growth ex. the more volatile Energy and Finance, up from +7.7% in 3Q-2023. Some of this strong earnings growth in 4Q is driven by the Tech sector (+22.0% YoY). Ex. Tech, Energy and Finance the YoY earnings slows to a still strong +7.7% YoY. On the revenue side we are tracking +3.3% and +4.4% YoY revenue growth for all issuers and issuers ex. Energy and Finance, respectively.

Exhibit 19: A positive earnings surprise in 4Q

4Q earnings surprised to the upside by +2.8%, down from +5.9% surprise in 3Q-2023 and below +3.7% pre-Covid average.



Source: BofA Global Research, FactSet

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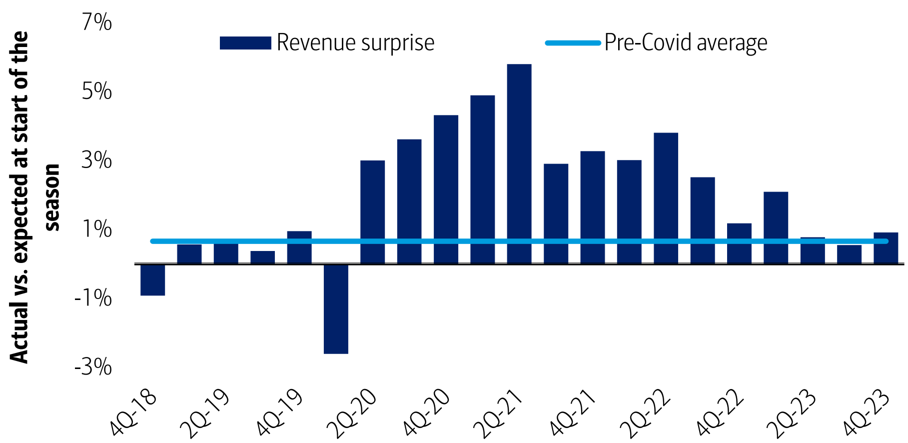
Exhibit 20: 4Q revenue surprise was above average levels

4Q revenues surprised to the upside by +0.9%, up from +0.7% surprise in 3Q-2023 and above +0.7% pre-Covid average.



Source: BofA Global Research, FactSet

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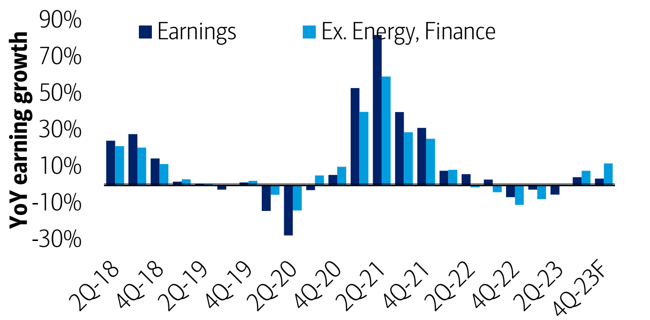
Exhibit 21: Earnings growth for US IG issuers
We are tracking 4Q-23 earnings growth of +11.7%, ex. Energy and Finance.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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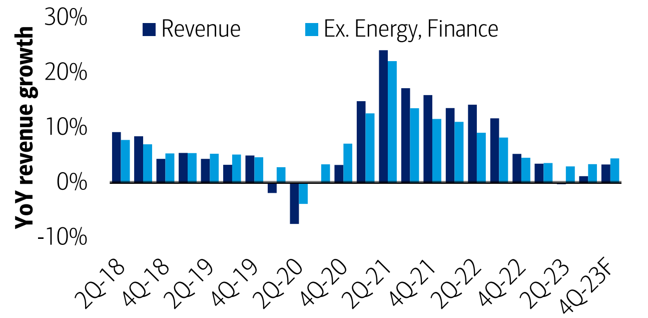
Exhibit 22: Revenue growth for US IG issuers
Revenue growth bottomed in 2Q -2023.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise.
Source: BofA Global Research, FactSet

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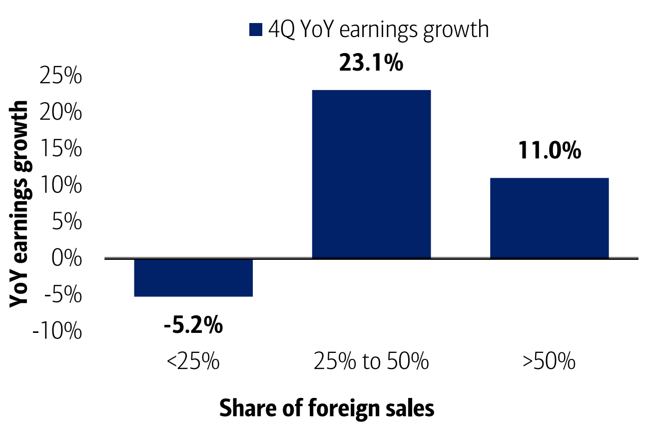
Foreign over domestic

We are tracking the strongest 4Q earnings growth for IG issuers with 25% to 50% of foreign sales, and the weakest for the more domestic issuers (Exhibit 23). Earnings surprise has been relatively similar across the share of foreign sales (Exhibit 25).

Exhibit 23: 4Q-23 consensus earnings growth by foreign sales
4Q earnings growth is tracking -5.2% YoY for the more domestic issuers, but +11.0% for the more global issuers.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise. Excluding Finance, Energy, Utilities.
Source: BofA Global Research, FactSet.

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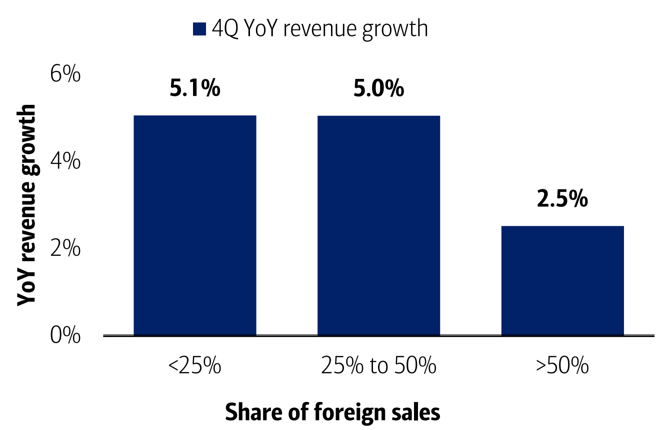
Exhibit 24: 4Q-23 consensus sales growth by foreign sales
4Q sales growth is tracking +5.1% for the more domestic issuers and 2.5% for the more global issuers.



Note: 4Q-23 based on the actual results when available and consensus estimates otherwise. Excluding Finance, Energy, Utilities.
Source: BofA Global Research, FactSet.

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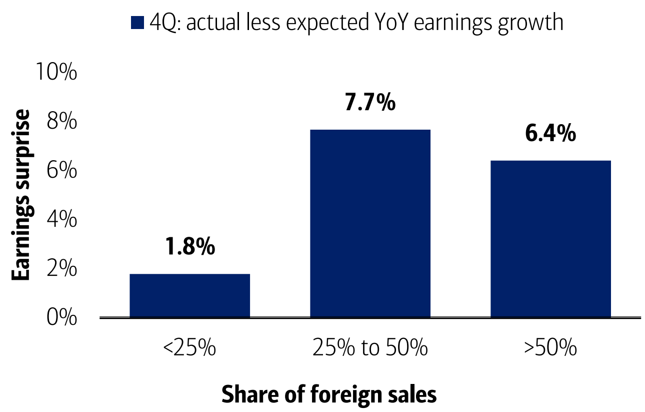
Exhibit 25: 4Q-23 earnings surprise by foreign sales
Earnings surprise was weakest for the more domestic issuers.



Note: Excluding Finance, Energy, Utilities.
Source: BofA Global Research, FactSet.

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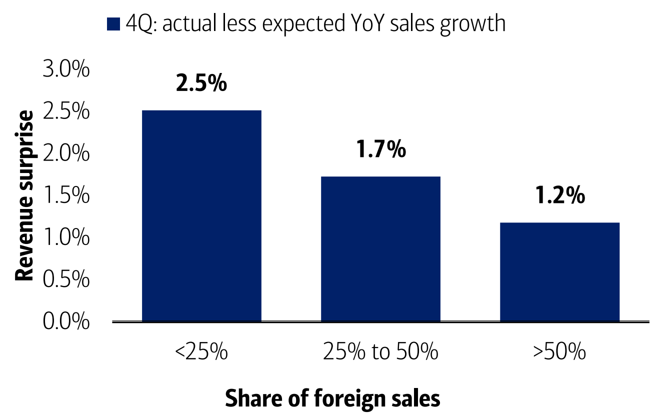
Exhibit 26: 4Q-23 sales surprise by foreign sales
Sales surprise was slightly stronger for the more domestic issuers.



Note: Excluding Finance, Energy, Utilities.
Source: BofA Global Research, FactSet.

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Results by sector

We are tracking the weakest 4Q YoY earnings growth for Banks/Brokers (-51%), Automobiles (-25%) and Energy (-24%). On the flip side we are tracking the strongest YoY earnings growth in 4Q for Media & Entertainment (+72%), Retail (+44%) and Utilities (+36%, Figure 9).

Exhibit 27: 4Q-2023 results by sector for US public IG issuers
The table lists earnings and sales growth by sector.

Sector	Earnings growth (YoY)	Sales growth (YoY)	Share of bond index value	Share of the sector that has reported
Aerospace/Defense	11.1%	7.5%	1.7%	99%
Automobiles	-24.7%	2.9%	1.3%	97%
Banks/Brokers	-51.3%	1.6%	11.6%	100%
Basic Materials	-18.4%	-4.0%	1.9%	73%
Consumer Products	5.7%	1.1%	0.7%	97%
Energy	-23.4%	-8.0%	4.2%	77%
Finance	9.9%	9.7%	2.6%	81%
Food, Bev, & Bottling	3.9%	0.1%	2.0%	81%
Health Care	-16.0%	7.7%	7.5%	95%
Industrial Products	6.1%	0.6%	1.9%	78%
Insurance	36.4%	7.5%	2.5%	89%
Media & Entertainment	72.2%	8.6%	3.2%	81%
REITs	34.2%	6.5%	3.0%	64%
Retail	44.3%	5.2%	3.3%	46%
Technology	22.0%	7.4%	5.6%	78%
Telecom	-3.7%	0.8%	2.6%	100%
Transportation	-10.7%	-1.9%	1.3%	100%
Utilities	36.2%	-0.9%	6.9%	35%
Other	-0.9%	1.6%	2.2%	81%
Total US HG public co's	**3.4%**	**3.3%**	**65.7%**	**80%**
Total ex. Financials	6.6%	2.8%	46.0%	76%
Total ex. Energy	6.9%	4.6%	61.5%	80%
Total ex. Fin. & Energy	**11.7%**	**4.4%**	**41.8%**	**76%**
Yankee and private co's	n.a.	n.a.	34.3%	n.a.
HQ ex. Financials, Utilities	13.8%	3.6%	14.9%	86%
BBB ex. Financials, Utilities	-6.9%	2.3%	23.7%	80%

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

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Surprises by sector

Earnings surprised to the upside the most for Retail (+117% surprise), Media & Entertainment (+56% surprise) and Insurance (+22% surprise). On the other hand, earnings came in the weakest relative to expectations at the start of the season for Automobiles (-44% surprise), Energy (-30% surprise), and Banks/Brokers (-19% surprise, Figure 10).

Exhibit 28: 4Q-2023 earnings / sales surprises by sector for public US IG issuers

The table summarizes earnings and revenue surprises by sector.

Sector	Expected earnings growth (YoY)	Actual earnings growth (YoY)	Earnings surprise	Expected sales growth (YoY)	Actual sales growth (YoY)	Sales surprise	Percentage of the sector that has reported
Aerospace/Defense	1.4%	11.1%	9.5%	4.6%	7.3%	2.6%	99%
Automobiles	-43.5%	-26.7%	29.9%	-5.2%	2.5%	8.2%	97%
Banks/Brokers	-19.2%	-51.3%	-39.8%	2.8%	1.6%	-1.2%	100%
Basic Materials	-18.7%	-15.9%	3.4%	-3.7%	-3.5%	0.2%	73%
Consumer Products	-2.0%	5.8%	8.0%	1.0%	1.1%	0.1%	97%
Energy	-29.8%	-22.1%	11.0%	-5.6%	-8.3%	-2.9%	77%
Finance	5.1%	7.7%	2.5%	5.8%	8.0%	2.1%	81%
Food, Bev, & Bottling	1.6%	5.9%	4.2%	1.9%	1.4%	-0.5%	81%
Health Care	-20.8%	-16.8%	5.0%	4.7%	8.1%	3.2%	95%
Industrial Products	4.8%	10.2%	5.2%	-0.1%	1.3%	1.4%	78%
Insurance	21.5%	40.0%	15.2%	9.0%	6.8%	-2.0%	89%
Media & Entertainment	56.4%	64.5%	5.1%	8.5%	10.0%	1.4%	81%
REITs	-6.8%	13.8%	22.0%	5.8%	6.1%	0.3%	64%
Retail	117.4%	149.1%	14.6%	9.0%	10.7%	1.6%	46%
Technology	8.1%	14.2%	5.6%	2.5%	3.8%	1.3%	78%
Telecom	0.5%	-3.7%	-4.1%	-1.3%	0.8%	2.2%	100%
Transportation	-13.6%	-10.7%	3.3%	-1.7%	-1.9%	-0.2%	100%
Utilities	20.7%	21.6%	0.8%	0.6%	-5.4%	-6.0%	35%
Other	-3.0%	-0.1%	3.0%	1.3%	1.1%	-0.2%	81%
Total US HG public co's	**-1.1%**	**1.6%**	**2.8%**	**2.3%**	**3.3%**	**0.9%**	**80%**
Total ex. Financials	-0.4%	5.7%	6.1%	1.8%	3.0%	1.2%	76%
Total ex. Energy	2.4%	4.5%	2.1%	3.4%	4.8%	1.4%	80%
Total ex. Fin. & Energy	4.3%	10.2%	5.6%	3.0%	4.8%	1.8%	76%
HQ ex. Financials, Utilities	4.4%	11.4%	6.6%	2.7%	3.0%	0.3%	86%
BBB ex. Financials, Utilities	-10.2%	-5.1%	5.6%	1.1%	3.1%	2.0%	80%

Note: based only on companies that have released 2Q-2023 results. Earnings surprise is [Actual $ earnings] / [Expected $ earnings] - 1

Source: BofA Global Research, FactSet.

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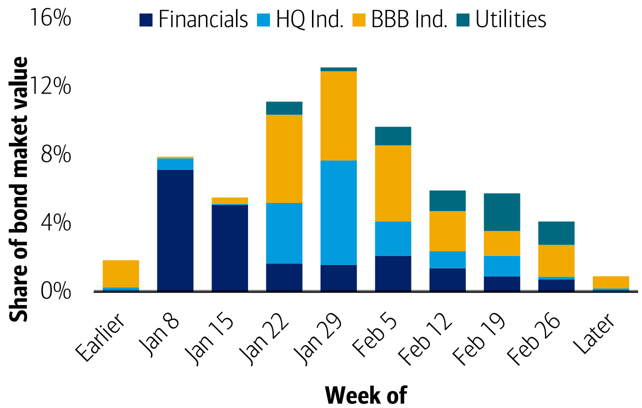
Timing of the earnings season

4Q reporting season peaks during the weeks of January 22 and January 29. The pace of reporting slows substantially during the week of February 26 and the season is virtually after that (Exhibit 29, Exhibit 30).

For the remainder of the season reporting will be concentrated in terms of the IG bond index share in BBB industrials (4.5% of index value) and Utilities (4.5% of index value).

Exhibit 29: Weekly reporting: by the share of the US IG bond index
The weeks of Jan 22 and Jan 29 are the busiest of the season.



Source: BofA Global Research, Bloomberg.

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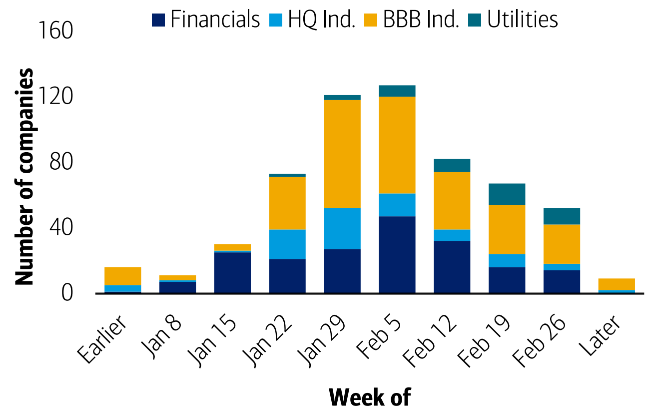
Exhibit 30: Weekly reporting: by the number of companies
The number of companies reporting peaks for the week of Feb 5.



Source: BofA Global Research, Bloomberg.

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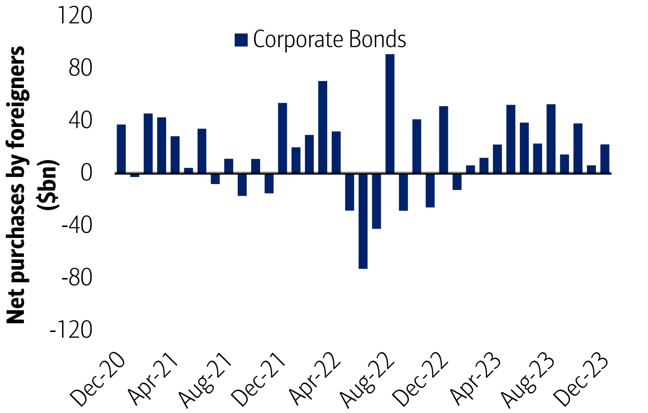
Situation Room: Inflows to bonds and stocks

TIC update for December

According to TIC (Treasury International Capital) data released today foreign investors net bought +$22.1bn of US corporate bonds (excluding ABS) in December, after net buying +$6.1bn in November (Exhibit 31). Note that the net purchase amount is based on monthly market value of securities holdings, adjusted for the price change. In December foreign investors net bought +$49.6bn of Treasuries, after net buying +$14.1bn in November. Foreign investors also net sold -$2.1bn of Agencies and net bought +$20.1bn of Agency MBS (Exhibit 32).

By region, where data includes ABS, European investors net bought +$4.8bn, Asia net bought +$14.4bn and the Caribbean net bought +$0.9bn (Exhibit 33). Within Asia, Japan net bought +$2.0bn, China net bought +$0.2bn, while the rest of Asia net bought +$12.2bn (Exhibit 34). Notice that this data on the geographical breakdown of foreign purchases is fairly useless as it tracks the money manager or the custodian – i.e. often not the root source of demand.

Exhibit 31: Foreign net purchases of corporate bonds (excl. ABS)
Foreign investor flows have been positive over the past few months.



Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.
Source: TIC system, BofA Global Research

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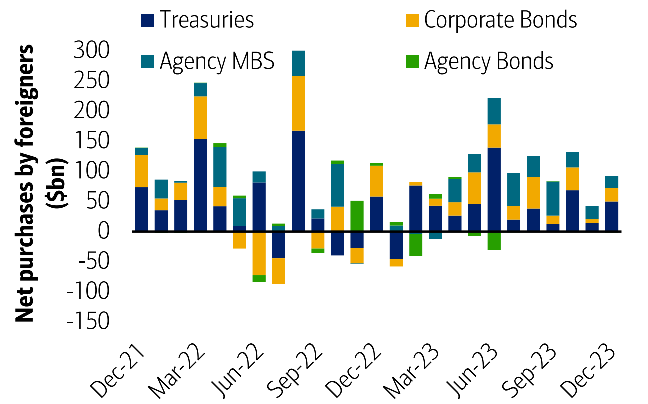
Exhibit 32: Monthly foreign net purchases of long-term US securities
Foreign investors were net buyers of US treasuries, corporate bonds and agency MBS bonds and agency bonds in December.



Note: net purchases are based on monthly market value of security holdings, adjusted for the price change. Agency MBS excludes prepayments.
Source: TIC system, BofA Global Research

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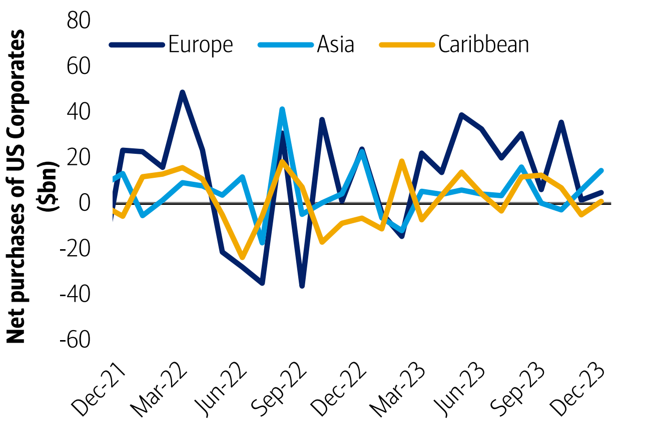
Exhibit 33: Net purchases of US corporate bonds by region (incl. ABS)
Europe, Asia and the Caribbean were net buyers of US corporate bonds in December.



Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.
Source: TIC system, BofA Global Research

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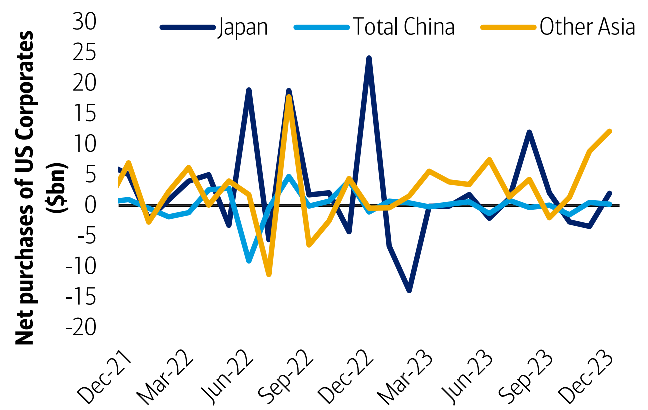
Exhibit 34: Net purchases of US corporate bonds by Asia (incl. ABS)
Japan, China and the rest of Asia were net buyers of US corporate bonds in December.



Note: net purchases are based on monthly market value of security holdings, adjusted for the price change.
Source: TIC system, BofA Global Research

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Situation Room: Inflows to bonds and stocks

Flows

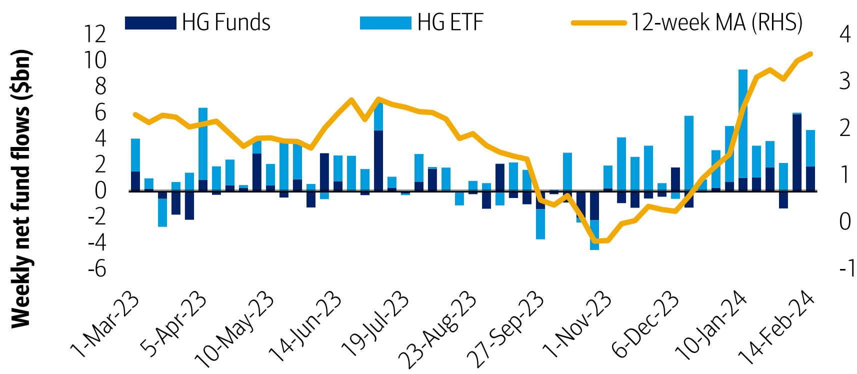
Inflows to HG...

Flows to US HG bond funds and ETFs continued this past week ending on February 14 with a +4.70bn inflow, down from +$6.03bn in the prior week. This week's inflow was split between HG funds (to +$1.91bn from +$5.92bn the prior week), and HG ETFs (to +$2.80bn from +$0.11bn). Short-term HG flows were again near flat (to +$0.63bn from +$0.04bn), while inflows continued ex. short-term (to +$4.07bn from +$5.99bn).

...and to stocks

This past week flows turned positive for equities (to +$10.37bn from -$16.67bn). On the other hand, they remained near flat for HY (to +$0.08bn from +$0.22bn) and for munis this week (to +$0.00bn from +$0.43bn). Inflows continued for loans (to +$0.27bn from +$0.24bn) while they turned negative for global EM bonds (to -$0.58bn from +$0.43bn). Finally, money markets reported a +$1.91bn inflow this past week, following a +$9.86bn inflow a week earlier.

Exhibit 35: Weekly high grade fund flows, $bn
HG ETF +$2.80bn, HG Funds +$1.91



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

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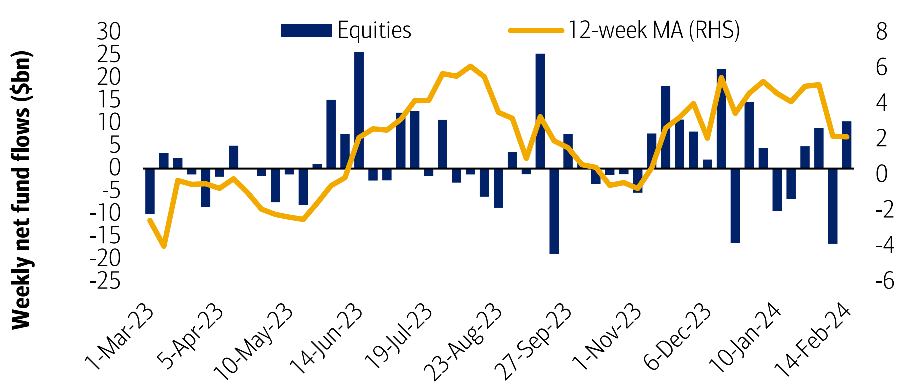
Exhibit 36: Weekly equity fund flows, $bn
Equities +$10.37bn



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

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Exhibit 37: 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	0.22%	0.7%	28.3
High grade: ex short-term	0.25%	0.9%	28.3
High yield: total	0.03%	1.1%	4.1
High yield: ETFs only	-0.46%	2.1%	1.6
Loans	0.31%	0.7%	0.9
EM	-0.12%	-0.4%	-2.7
Munis	0.00%	0.2%	2.1
All fixed income	0.17%	0.6%	36.8
Money markets	0.03%	1.9%	125.9
Equities	0.09%	0.0%	-8.9

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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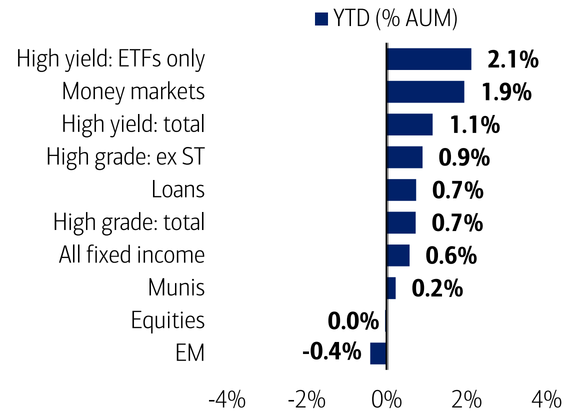
Exhibit 38: Year to date fund flows, % of AUM
EM has had the biggest outflows so far in 2023.



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

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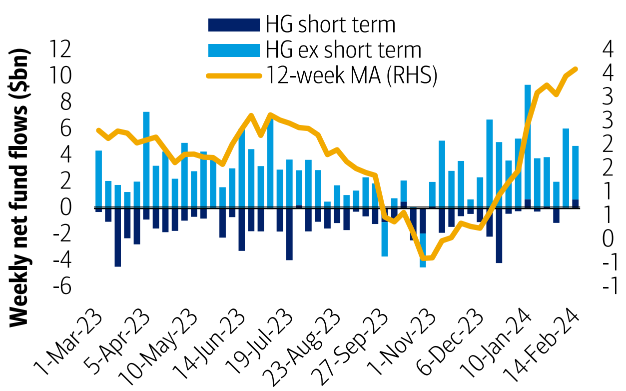
Exhibit 39: Weekly high grade fund flows, $bn
HG short-term +$0.63bn, HG ex short-term +$4.07



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

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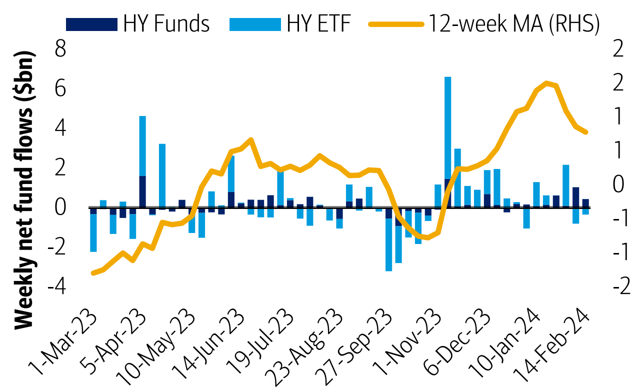
Exhibit 40: Weekly high yield fund flows, $bn
HY ETFs -$0.35bn, HY funds +$0.43



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

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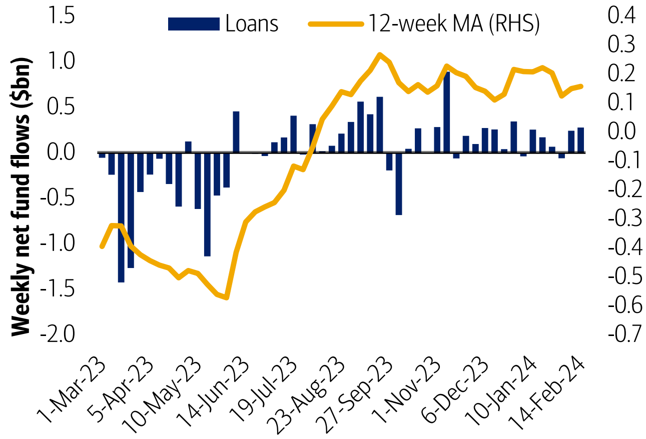
Exhibit 41: Weekly loan fund flows, $bn
Leveraged loans +$0.27bn



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

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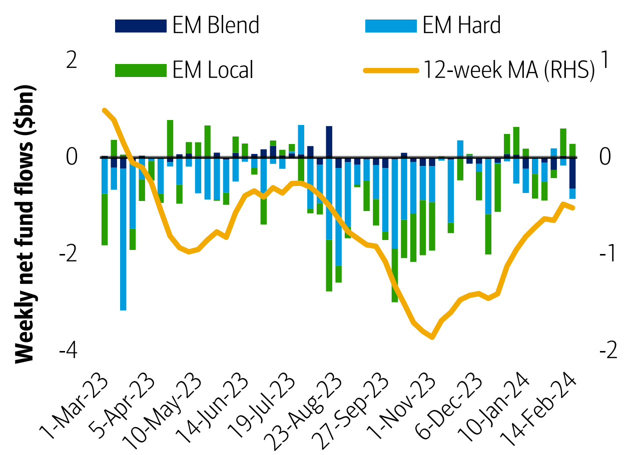
Exhibit 42: Weekly EM fund flows, $bn
Global EM bonds -$0.58bn



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

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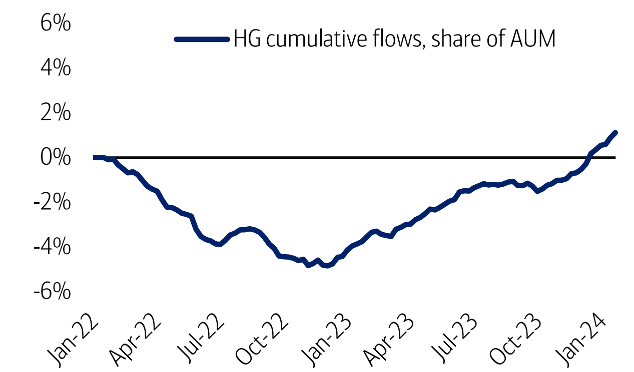
Exhibit 43: Cumulative % flows in HG over the last 2 years
Following large outflows in 2022, HG flows turn positive in 2023



Source: EPFR Global, BofA Global Research

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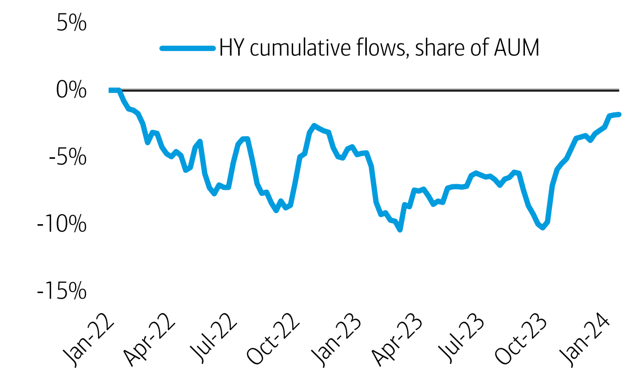
Exhibit 44: Cumulative % flows in HY over the last 2 years
2022 and 2023 have seen consequent outflows in HY



Source: EPFR Global, BofA Global Research

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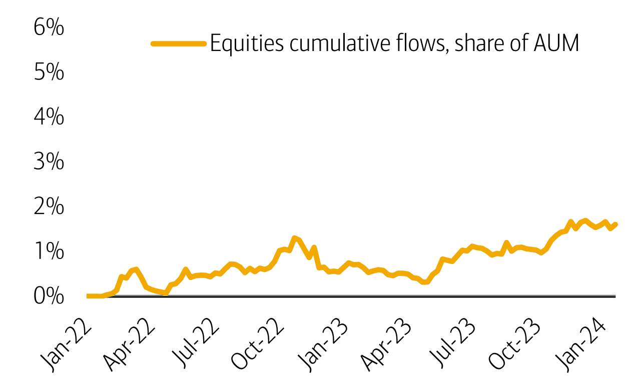
Exhibit 45: Cumulative % flows in equities over the last 2 years
Flows moderate in equities after two years of inflows



Source: EPFR Global, BofA Global Research

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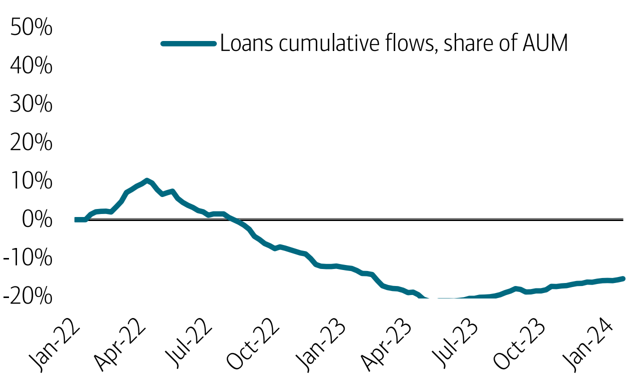
Exhibit 46: Cumulative % flows in loans over the last 2 years
After large inflows until mid-2021, loans subject to large outflows ever since



Source: EPFR Global, BofA Global Research

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Appendix: defining high grade

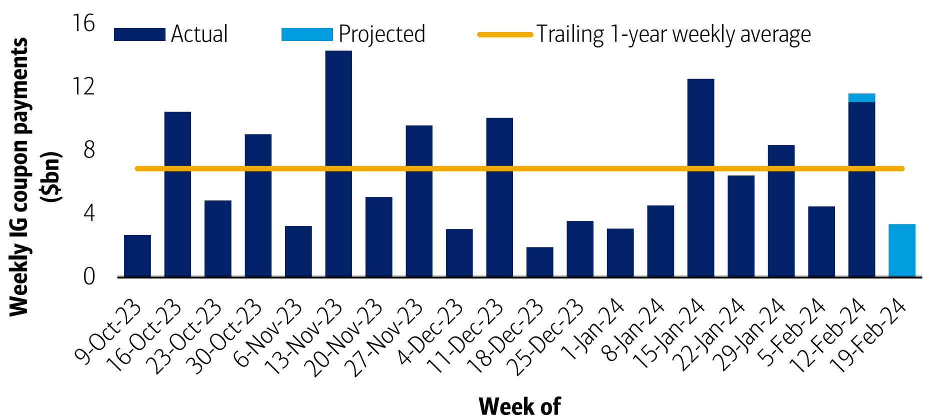
We define our high grade flows metric as a combination of "bond" and "corporate bond" fixed income funds and ETFs domiciled in the US (and investing in any currency, although the majority is invested in USD). We also exclude funds primarily focused on Government, HY, EM and MBS from the sample. The "bond" 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. On the other hand the dedicated corporate bond funds and ETFs are much smaller in terms of assets under management. We also include the "total return" bond category in our tracking of high grade flows. Finally note that "short-term" maturity refers to duration of 0 to 4 years.

Weekly technicals

The US IG corporate bond market is expected to generate $3.4bn in coupon payments next week, below the trailing 1-year weekly average of $6.9bn (Exhibit 47). In addition, $1.1bn of calls and $0.4bn of tender offers were settled and paid this week, while $1.3bn of calls are expected to become effective next week. Bond maturities: $18.3bn this week, $3.9bn next week.

Exhibit 47: Weekly US IG coupon payments

Expect $3.4bn of coupon payments next week, below the $6.9bn trailing 1-year weekly average.



Source: ICE Data Indices, LLC, BofA Global Research

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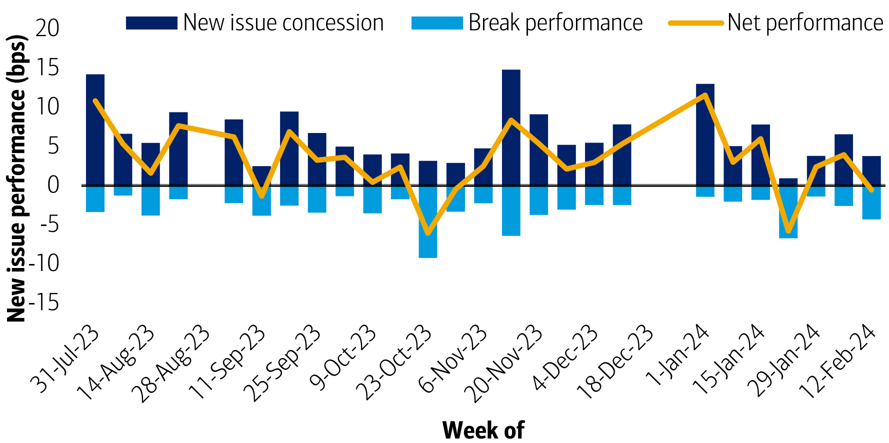
Supply

US IG gross issuance totaled $37.0bn this week, consisted of $8.8bn financials, $20.2bn high-quality industrials and $8.1bn BBB industrials. Given $85.0bn of gross issuance, $48.4bn of maturities and $2.9bn of additional redemptions, net issuance is tracking $33.7bn MTD. We look for the strong supply momentum to continue next week despite a holiday on Monday, supported by strong investor demand and expectations for larger M&A-related deals. We look for issuance in $40-$50bn range, well above seasonal levels in the second half of February (Exhibit 49).

New issue performance improved this week. The average new issue concession decreased to 3.8bps from 6.5bps last week, while the average break performance tightened to 4.3bps this week from 2.6bps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, weakened to 0.6bps tighter this week from 3.9bps wider last week (Exhibit 48). This week's new issues are trading 4bps tighter on average from pricing.

Exhibit 48: Weekly new issue supply performance

For the week of Feb 12 2024: new issue concession = 3.8bps; break performance = -4.3bps; net performance = -.6bps.



Source: BofA Global Research

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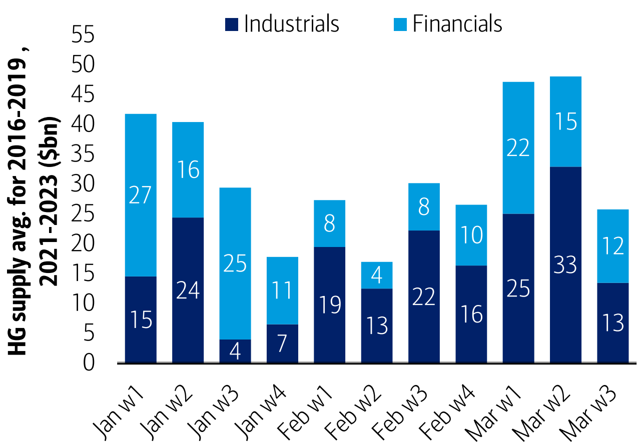
Exhibit 49: Weekly Supply seasonality

Supply volumes pick tend to pick up during 1st half of March.



Source: Bloomberg, BofA Global Research

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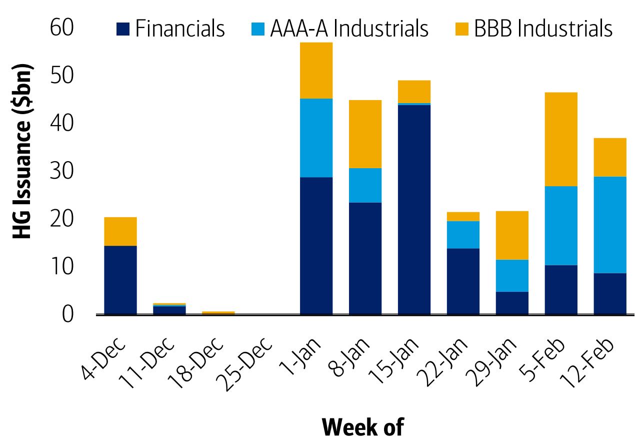
Exhibit 50: Weekly Supply

This week's supply consisted of $8.8bn financials, $20.2bn high-quality industrials and $8.1bn BBB industrials.



Source: Bloomberg, BofA Global Research

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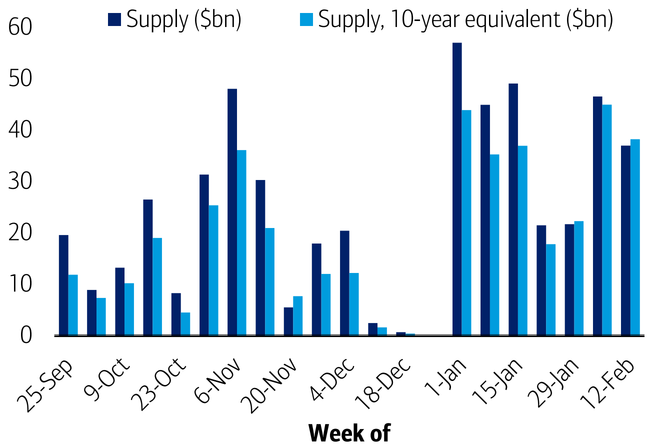
Exhibit 51: Weekly gross and 10-year equivalent supply volumes

10-year equivalent supply = $38.3bn WTD



Source: BofA Global Research, Bloomberg

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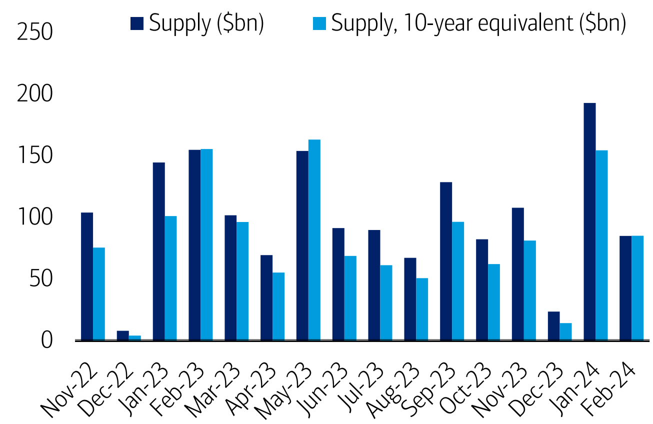
Exhibit 52: Monthly gross and 10-year equivalent supply volumes

10-year equivalent supply = $85.1bn in February



Source: BofA Global Research, Bloomberg

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Exhibit 53: 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)
2024-02-12	AJG	Arthur J Gallagher & Co	10	500	Baa2/BBB	5.45	132	6	-2	127
2024-02-12	AJG	Arthur J Gallagher & Co	30	500	Baa2/BBB	5.75	147	8	-1	142
2024-02-12	AXP	American Express Co	4NC3	300	A2/BBB+	FRN	SOFR+100	n.a.	n.a.	n.a.
2024-02-12	AXP	American Express Co	4NC3	1,700	A2/BBB+	5.098	85	2	n.a.	76
2024-02-12	BCECN	Bell Telephone Co of Canada or Bell Canada	10	700	Baa1/BBB+	5.2	105	10	5	109
2024-02-12	BCECN	Bell Telephone Co of Canada or Bell Canada	30	750	Baa1/BBB+	5.55	120	2	7	126
2024-02-12	BNP	BNP Paribas SA	6NC5	1,750	Baa1/A-	5.497	138	-11	-1	135
2024-02-12	BNP	BNP Paribas SA	11NC10	1,500	Baa1/A-	5.738	158	n.a.	-1	156
2024-02-12	DTE	DTE Energy Co	5	1,200	Baa2/BBB	5.1	103	7	n.a.	98
2024-02-12	EL	Estee Lauder Cos Inc/The	10	650	A1/A	5	87	13	3	90
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	3	300	A1/A+	FRN	SOFR+56	n.a.	n.a.	n.a.
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	3	550	A1/A+	4.65	40	5	n.a.	38
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	5	450	A1/A+	4.55	45	4	n.a.	45
2024-02-12	PEP	Pepsico Singapore Financing I Pte Ltd	10	450	A1/A+	4.7	55	-1	n.a.	59
2024-02-14	BMY	Bristol-Myers Squibb Co	2	500	A2/A	FRN	SOFR+49	n.a.	n.a.	n.a.
2024-02-14	BMY	Bristol-Myers Squibb Co	2	1,000	A2/A	4.95	40	5	-7	33
2024-02-14	BMY	Bristol-Myers Squibb Co	3	1,000	A2/A	4.9	55	n.a.	-7	49
2024-02-14	BMY	Bristol-Myers Squibb Co	5	1,750	A2/A	4.9	70	11	-8	64
2024-02-14	BMY	Bristol-Myers Squibb Co	7	1,250	A2/A	5.1	85	10	-9	79
2024-02-14	BMY	Bristol-Myers Squibb Co	10	2,500	A2/A	5.2	95	6	-9	89
2024-02-14	BMY	Bristol-Myers Squibb Co	20	500	A2/A	5.5	100	0	-14	94
2024-02-14	BMY	Bristol-Myers Squibb Co	30	2,750	A2/A	5.55	115	6	-4	109
2024-02-14	BMY	Bristol-Myers Squibb Co	40	1,750	A2/A	5.65	125	2	-4	119
2024-02-14	BNP	BNP Paribas SA	PERP NC8	1,500	Ba1/BBB-	8	n.a.	n.a.	n.a.	363
2024-02-14	CAH	Cardinal Health Inc	5	650	Baa2/BBB	5.125	90	n.a.	-5	85
2024-02-14	CAH	Cardinal Health Inc	10	500	Baa2/BBB	5.45	120	n.a.	n.a.	119
2024-02-14	CMI	Cummins Inc	5	500	A2/A	4.9	70	n.a.	-6	64
2024-02-14	CMI	Cummins Inc	10	750	A2/A	5.15	93	n.a.	-6	87
2024-02-14	CMI	Cummins Inc	30	1,000	A2/A	5.45	105	n.a.	-8	98
2024-02-14	MMC	Marsh & McLennan Cos Inc	10	500	A3/A-	5.15	90	7	n.a.	89
2024-02-14	MMC	Marsh & McLennan Cos Inc	30	500	A3/A-	5.45	103	5	n.a.	102
2024-02-15	BATSLN	BAT Capital Corp	7	850	Baa2/BBB+	5.834	158	13	-16	142
2024-02-15	BATSLN	BAT Capital Corp	10	850	Baa2/BBB+	6	183	5	-9	174
2024-02-15	EMN	Eastman Chemical Co	10	750	Baa2/BBB	5.625	142	2	0	142
2024-02-15	INTC	Intel Corp	7	500	A3/A-	5	82	5	-4	78
2024-02-15	INTC	Intel Corp	10	900	A3/A-	5.15	95	4	-4	91
2024-02-15	INTC	Intel Corp	30	1,150	A3/A-	5.6	120	2	-5	115

Exhibit 53: 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)
2024-02-15	KD	Kyndryl Holdings Inc	10	500	Baa2/BBB-	6.35	213	-15	n.a.	n.a.
2024-02-15	MDLZ	Mondelez International Inc	5	550	Baa1/BBB	4.75	65	-8	n.a.	n.a.
2024-02-15	WCNCN	Waste Connections Inc	10	750	Baa1/BBB+	5	92	5	0	92

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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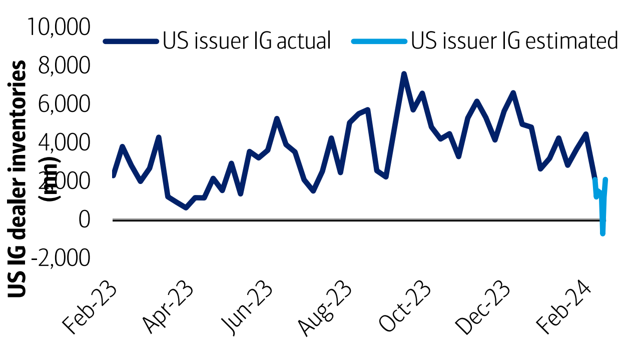
Dealer inventories

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Exhibit 54 and Exhibit 55. We estimate the corresponding DV01 equivalent in Exhibit 55. More details by sector and maturity are available in Exhibit 56 and Exhibit 57. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 54: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to $2.1bn currently from $2.1bn on Feb-07.



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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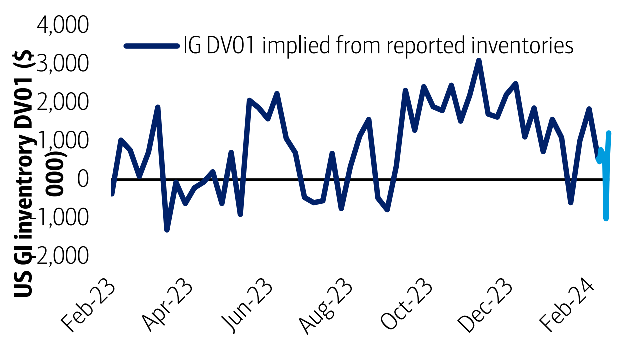
Exhibit 55: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to $1.2mn currently from $0.5bn on Feb-07.



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

We estimate IG dealer inventories increased $1,406mn today and increased $1,253mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 15-Feb-24 ($mn)			
Sector	15-Feb	14-Feb	1 W	2 W	4 W	15-Feb	14-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	**1,406**	**2,192**	**1,253**	**-3,098**	**-4,948**	**760**	**1,854**	**999**	**-431**	**765**	**15,013**	**13,608**	**10,833**	**39,454**
<3yr	830	165	492	-1,787	-1,821	147	21	58	-371	-463	2,616	1,787	2,053	6,457
3-5yr	-465	-2	-659	-1,059	-2,543	-203	-8	-296	-469	-930	2,884	3,349	2,295	8,528
5-11yr	568	821	17	-1,848	-6,582	304	451	-52	-1,136	-4,352	5,297	4,729	3,802	13,827
11+yr	472	1,209	1,402	1,596	5,998	512	1,390	1,289	1,545	6,510	4,216	3,743	2,683	10,642
Fin	131	367	-805	-2,892	-6,752	-167	354	-440	-1,197	-2,143	5,569	5,438	3,497	14,504
Non-Fin	1,275	1,826	2,058	-206	1,804	927	1,500	1,439	766	2,908	9,445	8,170	7,335	24,950
Fixed	1,359	2,166	1,200	-2,979	-4,455	756	1,839	980	-425	823	14,785	13,426	10,754	38,965
Floating	47	26	52	-120	-493	4	14	18	-7	-57	228	181	79	488

Exhibit 56: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased $1,406mn today and increased $1,253mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 15-Feb-24 ($mn)			
Sector	**15-Feb**	**14-Feb**	**1 W**	**2 W**	**4 W**	**15-Feb**	**14-Feb**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
US issuers	914	1,905	901	-2,381	-3,897	649	1,578	746	-518	441	11,666	10,751	9,002	31,419
DM Yankees	449	272	129	-1,196	-1,799	90	272	116	-202	-166	2,989	2,541	1,732	7,262
EM Yankees	43	15	222	479	748	21	3	137	289	490	358	316	99	773

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 57: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased $224mn for Banks/Brokers and increased $91mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 15-Feb-24 ($mn)			
Sector	**15-Feb**	**14-Feb**	**1 W**	**2 W**	**4 W**	**15-Feb**	**14-Feb**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Aerospace/Defense	30	296	266	265	728	4	201	135	223	657	277	247	187	711
Automobiles	14	72	42	-230	-472	21	62	53	-150	-276	431	417	475	1,323
Banks/Brokers	224	221	-460	-1,668	-5,662	-152	187	-480	-893	-2,274	4,266	4,042	2,440	10,748
Basic Materials	72	76	65	-27	405	51	61	70	-46	324	487	415	315	1,217
Commercial Services	-1	0	-28	-85	-114	9	25	42	-5	44	115	116	98	329
Energy	91	163	-22	-673	-724	105	191	68	-280	-149	827	736	725	2,287
Finance	-9	29	-166	-568	-783	-17	40	-48	-298	-218	671	680	557	1,909
Food, Bev, & Bottling	158	232	275	-26	-269	105	196	262	29	-129	475	317	306	1,098
Health Care	102	424	212	312	924	244	308	112	629	1,073	1,782	1,680	1,231	4,693
Industrial Products	226	188	148	-47	-92	201	139	124	22	71	764	538	708	2,009
Insurance	86	159	336	-17	175	60	184	399	300	593	430	344	263	1,037
Media & Entertainment	-82	-26	-216	-326	-143	-73	-62	-330	-381	-165	475	558	460	1,494
REITs	-170	-42	-516	-639	-483	-58	-58	-310	-307	-245	201	371	238	811
Retail	52	15	38	129	513	-38	64	65	143	482	476	424	403	1,302
Technology	31	-18	-202	-573	166	-122	-7	-339	-386	250	883	853	833	2,570
Telecom	1	73	213	-36	-459	12	38	179	75	-226	483	482	290	1,255
Tobacco	60	36	342	332	228	21	7	155	94	78	352	293	279	924
Transportation	110	103	224	296	332	98	121	259	359	345	304	194	151	650
Utilities	400	179	643	464	700	286	112	496	353	430	1,078	678	684	2,441
Other	12	12	57	19	82	3	46	87	86	100	235	223	191	650

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:
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
CPI: Consumer Price Index
FOMC: The Federal Open Market Committee

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