

Situation Room

From buying the dip to just buying

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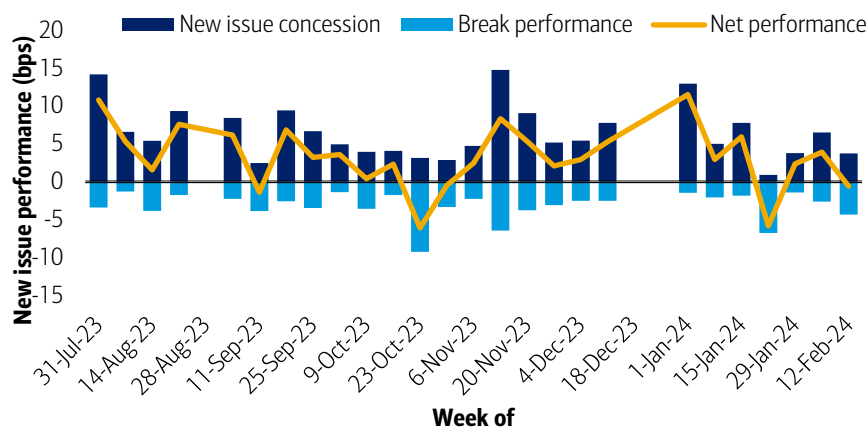
Today on Tuesday Treasury yields were relatively stable, S&P 500 index was down 0.6%, IG new issue supply was a heavy \$14.3bn. Unchanged yields and heavy supply would normally be a spread widener. Instead, IG corporate bond spreads closed 1 to 4bps tighter. This price action suggests the demand for IG corporate bonds is getting unusually strong. Note that the demand for bonds already pushed the net performance of new issues (new issue concession less break performance) close to flat last week (Exhibit 1). We highlighted in [Credit Market Strategist: Demanding yield](#) that IG spreads have been negatively correlated with Treasury yields so far in 2024 (higher yields = tighter spreads, Exhibit 2). That suggests a “buy the dips” strategy. Today we saw a “just buy” strategy, as Treasury yields were little changed (and even lower in the front-end), while the demand accelerated further.

Bubbly conditions

The unusually supportive technicals currently are unlikely to be sustainable in the longer term. That creates the risk that IG spread tightening overshoots in February. Note that new issue supply should remain seasonally strong into March.

Exhibit 1: IG new issue supply performance was already strong last week

The net performance of new issues (new issue concession less break performance) was -0.6bps last week, down from +3.9bps for the week of February 5.



Source: BofA Global Research

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20 February 2024

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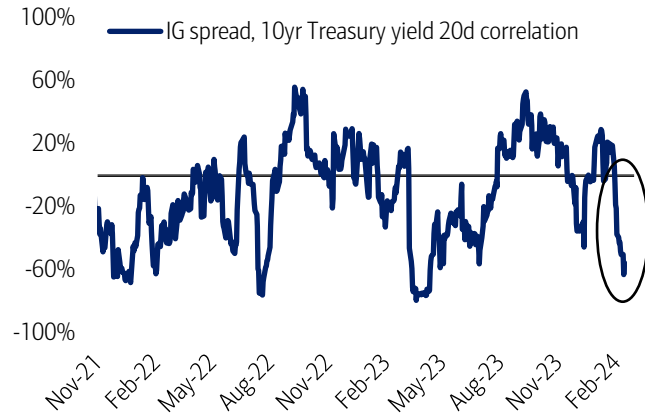
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Timestamp: 20 February 2024 07:18PM EST

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.

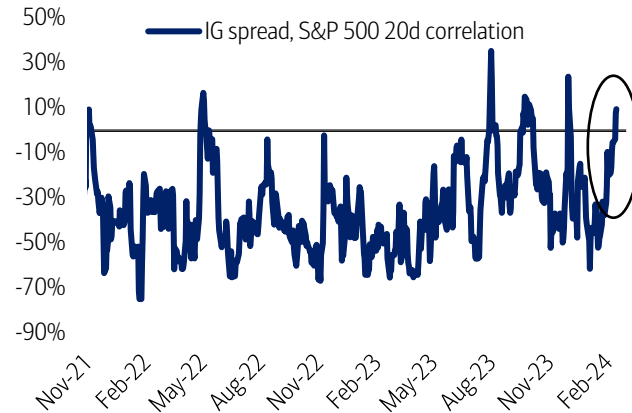


Source: BofA Global Research, Bloomberg.

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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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Daily credit snapshot

US IG issuance totaled \$14.3bn across 9 deals today, \$14.3bn WTD and \$99.3bn MTD. The average new issue concession was 4.6bps today, while the average break performance was 4.4bps tighter today. This week's new issues are trading 4bps tighter on average from pricing.

S&P 500 closed -0.60%, 10-year Treasury yields 0bps, CDX IG -0.2bps, CDX HY +\$0.01pts, LQD closed 2.40bps tighter today.

Exhibit 4: Recent new issue pricing and new issue concessions

List of new issues in the IG corporate bond market today along with performance metrics.

Date	Ticker	Tenor	Size (\$mm)	Moody's/S&P Rating	Coupon (%)	Px Spread (bps)	New Issue Conc. (bps)	* Break performance	Current spread (bps)
2024-02-20	AWK	10	700	Baa1/A	5.15	92	n.a.	n.a.	n.a.
2024-02-20	AWK	30	700	Baa1/A	5.45	107	n.a.	n.a.	n.a.
2024-02-20	CBG	5	500	Baa1/BBB+	5.5	130	n.a.	-11	119
2024-02-20	DTE	3	500	Aa3/A	4.85	47	n.a.	n.a.	n.a.
2024-02-20	DTE	10	500	Aa3/A	5.2	93	12	-2	91
2024-02-20	HCA	7	1,000	Baa3/BBB-	5.45	120	n.a.	n.a.	n.a.
2024-02-20	HCA	10	1,300	Baa3/BBB-	5.6	135	4	n.a.	n.a.
2024-02-20	HCA	30	1,500	Baa3/BBB-	6	160	7	n.a.	n.a.
2024-02-20	HCA	40	700	Baa3/BBB-	6.1	170	n.a.	n.a.	n.a.
2024-02-20	MAR	5	500	Baa2/BBB	4.875	90	6	-4	86
2024-02-20	MAR	10	1,000	Baa2/BBB	5.3	120	6	n.a.	n.a.
2024-02-20	SO	3	500	Baa1/BBB+	5.004	62	n.a.	n.a.	n.a.
2024-02-20	SO	10	900	Baa1/BBB+	5.25	102	5	-3	99
2024-02-20	VZ	30	1,000	Baa1/BBB+	5.5	115	n.a.	-2	113

Source: BofA Global Research

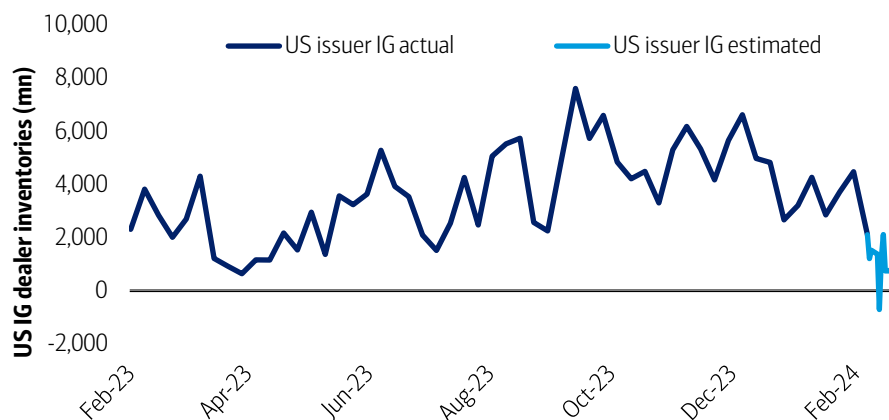
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Daily dealer inventories update

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Exhibit 5. We estimate the corresponding DV01 equivalent in Exhibit 6. More details by sector and maturity are available in Exhibit 7 and Exhibit 8. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

Exhibit 5: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds declined to \$1.5bn currently from \$2.1bn on Feb-07.



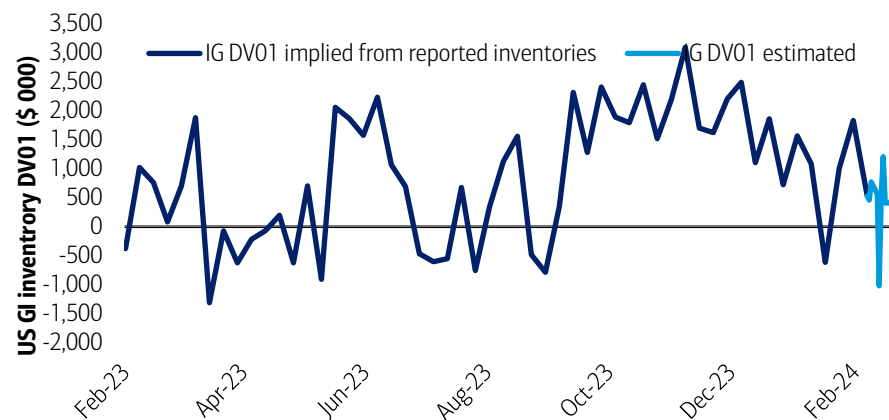
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$0.9mn 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 7: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$736mn today and increased \$2,766mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 20-Feb-24 (\$mn)			
	20-Feb	19-Feb	1 W	2 W	4 W	20-Feb	19-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	736	0	2,766	-870	-5,203	563	0	2,260	860	-218	11,027	10,291	8,162	29,481
<3yr	-112	0	509	-907	-1,125	-24	0	69	-205	-361	1,581	1,694	1,544	4,820
3-5yr	160	0	-742	-1,295	-2,849	53	0	-341	-576	-1,098	2,125	1,966	1,885	5,976
5-11yr	362	0	1,347	-899	-6,121	218	0	724	-694	-4,001	4,360	3,999	2,934	11,293
11+yr	327	0	1,652	2,231	4,893	318	0	1,808	2,335	5,242	2,960	2,633	1,799	7,392
Fin	-228	0	-384	-3,145	-6,441	-81	0	-155	-1,274	-2,283	3,978	4,206	3,201	11,385
Non-Fin	964	0	3,150	2,275	1,238	644	0	2,415	2,134	2,064	7,049	6,086	4,961	18,096
Fixed	749	0	2,692	-857	-4,823	562	0	2,238	850	-170	10,943	10,194	8,110	29,247
Floating	-13	0	74	-13	-380	1	0	22	10	-48	84	97	52	234
US issuers	712	0	2,165	-759	-4,049	481	0	1,908	551	-304	8,620	7,908	6,365	22,894
DM Yankees	-96	0	424	-567	-1,934	-29	0	250	17	-437	1,993	2,089	1,644	5,727
EM Yankees	120	0	177	456	779	111	0	103	292	522	414	294	153	860

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

Source: BofA Global Research, FINRA, TRACE.

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

We estimate today IG dealer inventories declined -\$197mn for Banks/Brokers and increased \$23mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 20-Feb-24 (\$mn)			
	20-Feb	19-Feb	1 W	2 W	4 W	20-Feb	19-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	89	0	409	453	823	9	0	174	217	632	252	163	139	554
Automobiles	45	0	154	59	-323	20	0	130	61	-271	329	284	284	897
Banks/Brokers	-197	0	-28	-1,823	-4,714	-52	0	-156	-1,012	-2,150	2,710	2,906	2,140	7,756
Basic Materials	64	0	122	142	227	38	0	100	54	185	395	331	246	971
Commercial Services	-8	0	-43	-143	-176	6	0	11	-34	-14	172	181	86	439
Energy	23	0	108	-462	-1,008	49	0	235	-177	-452	624	601	557	1,782
Finance	90	0	-43	-521	-896	72	0	62	-120	-199	767	677	518	1,963
Food, Bev, & Bottling	44	0	347	218	-185	10	0	216	191	-197	311	266	237	814
Health Care	165	0	660	412	788	122	0	625	441	970	1,318	1,154	987	3,459
Industrial Products	89	0	545	248	181	89	0	474	262	216	377	289	194	860
Insurance	-63	0	91	-106	-6	-68	0	141	195	448	220	283	250	753
Media & Entertainment	-25	0	-230	-128	-405	1	0	-191	-159	-321	389	414	332	1,136
REITs	-58	0	-404	-694	-825	-32	0	-202	-337	-382	281	339	292	912
Retail	-43	0	-63	-18	229	-35	0	-83	65	307	318	360	306	984
Technology	207	0	177	-26	230	168	0	98	11	389	684	477	466	1,627
Telecom	-11	0	-43	211	-533	-8	0	-57	207	-284	502	513	220	1,234
Tobacco	34	0	104	388	233	22	0	42	170	78	155	121	148	424
Transportation	6	0	226	256	428	-6	0	185	236	424	167	161	93	420
Utilities	256	0	648	749	620	141	0	425	587	304	873	617	517	2,007
Other	28	0	29	-85	109	19	0	30	2	99	183	154	149	487

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

Source: BofA Global Research, FINRA, TRACE.

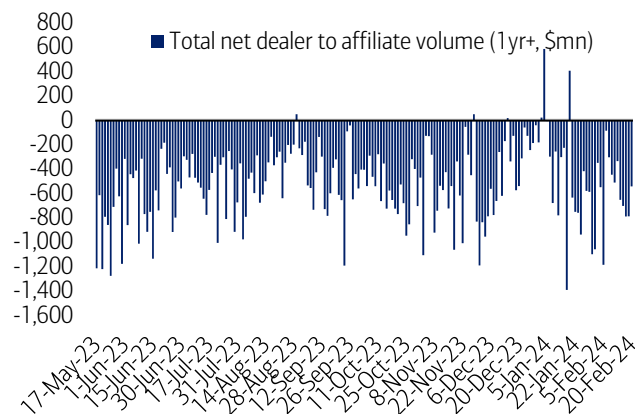
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Daily foreign demand tracker

We believe net dealer-to-affiliate volumes from Trace are correlated with foreign buying of US HG corporate bonds - i.e., negative numbers mean foreign investor buying (US dealers taking down inventory in favor of foreign affiliates). For supporting material see our "primer" on tracking foreign inflows. Exhibit 9 shows the overall daily dealer-to-affiliate volumes while Exhibit 10, Exhibit 11 and Exhibit 12 show subsets of this data. In particular Exhibit 10 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 11 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 12 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 9: Net dealer buying from affiliate (1yr+)

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



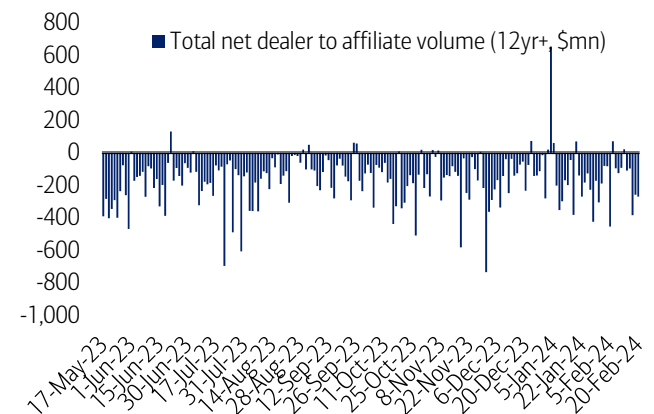
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 10: Net dealer buying from affiliate (12yr+)

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



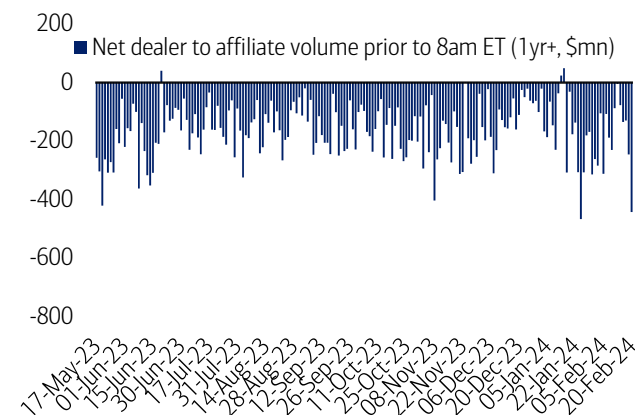
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 11: Net dealer-to-affiliate trading volumes before 8am ET

Foreign buying before 8am NY time is dominated by Asia and has been consistent this year



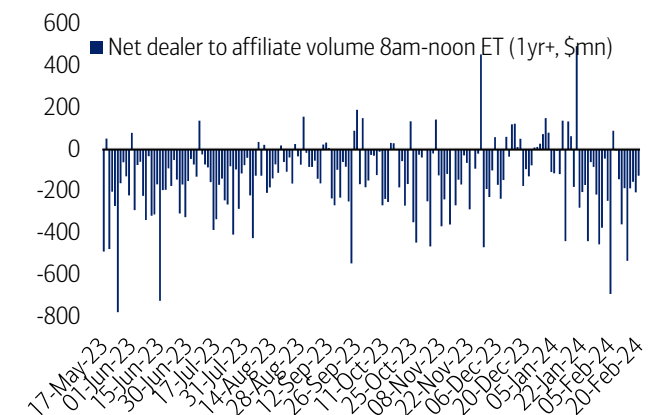
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 12: Net dealer-to-affiliate trading volumes 8am - noon ET

Foreign buying 8am-noon NY time is dominated by Europe and has been inconsistent this year



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

Source: BofA Global Research, TRACE

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Common abbreviations:

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



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