

# Situation Room

## The return of IG supply

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With market volatility declining IG issuance volumes accelerated quickly to \$13.7bn on Thursday March 23 and \$10.6bn today March 27. That makes sense given 1) markets disruptions over the prior two weeks delayed about \$45bn of issuance, based on our original expectations of \$160bn issuance for March and 2) borrowing costs have declined 36bps in March, based on ICE BofA IG index yield. Hence while issuers could be finding the market more attractive, investor demand should instead be weaker due to the big increase in rates vol, lower yields, and still elevated market volatility.

Hence this supply overhang could be a negative for IG spreads in April, even should banking stress continue to normalize. Relative to the same period last year, supply year-to-date has been heavier in Tech, Health Care and Utilities, suggesting potentially smaller issuance needs in the near term. On the other hand, supply has been lighter year-to-date for US banks, Media & Entertainment, Finance and Retail. Finally, we screen for issuers that are more likely to come to the market this year based high cash needs (upcoming maturities) relative to cash sources (balance sheet cash and LTM free cash flows).

### Daily credit snapshot

US IG issuance totaled \$10.6bn across 10 deals today and \$86.9bn MTD. The average new issue concession was 10.8bps today, while the average break performance was 6.3bps tighter today. S&P 500 closed +0.16%, 10-year Treasury yields +16bps, CDX IG -1.7bps, CDX HY +\$0.08pts, and cash bond spreads quoted from Unched to 5bps tighter today, LQD closed 0.17bps tighter today.

### Daily dealer inventories update

\$2,290mn (notional), \$1,570,000 (DV01) today. Maturities and sectors inside.

### Daily foreign demand tracker

We track dealer-to-affiliate volumes on Trace that are correlated with foreign buying.

27 March 2023

Credit Strategy  
United States  
Cross Product

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**Credit Strategy**  
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# Research Overview — The Situation

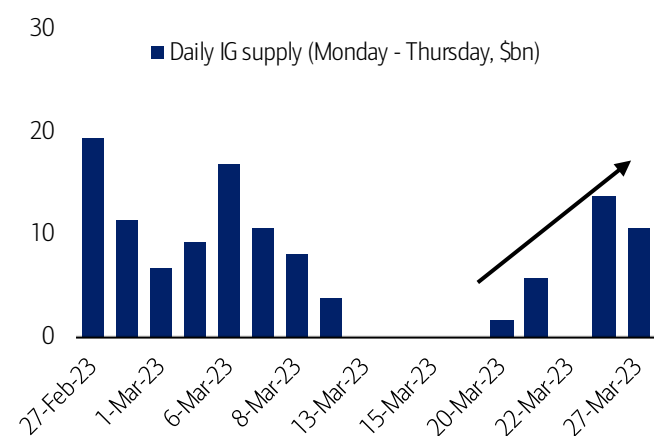
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Hence this supply overhang could be a negative for IG spreads in April, even should banking stress continue to normalize. Relative to the same period last year, supply year-to-date has been heavier in Tech, Health Care and Utilities, suggesting potentially smaller issuance needs in the near term. On the other hand, supply has been lighter year-to-date for US banks, Media & Entertainment, Finance and Retail (Figure 3). Finally, we screen for issuers that are more likely to come to the market this year based high cash needs (upcoming maturities) relative to cash sources (balance sheet cash and LTM free cash flows, Figure 4).

**Figure 1: IG supply accelerated on Mar 23 and 27.**

IG issuance volumes accelerated to \$13.7bn on March 23 and \$10.6bn March 27

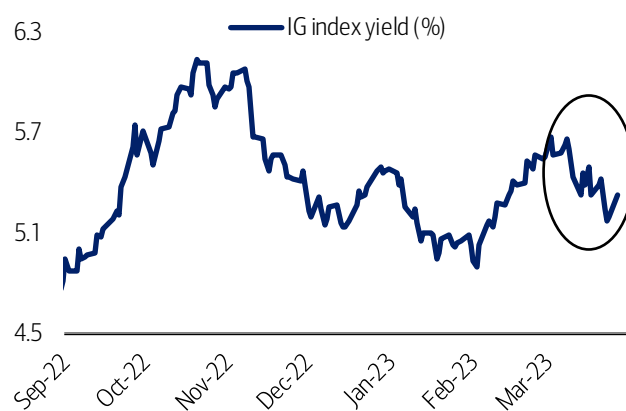


Source: BofA Global Research

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**Figure 2: IG index yield declined 36bps in March.**

ICE BofA US IG index yield declined to 5.33% today from 5.56% on February 28.



Source: ICE Data Indices, LLC

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**Figure 3: Supply by sector YtD 2023 compared to the same period last year**

YtD supply vs. the same period last year was lighter for US banks, Media & Entertainment and Finance, while it was heavier for Tech, Healthcare and Utilities.

Sector	2022 YtD supply (\$bn)	2023 YtD supply (\$bn)	2023 less 2022 YtD supply (\$bn)
US banks	81.1	28.3	-52.8
Media & Entertainment	36.8	2.5	-34.3
Finance	35.0	12.9	-22.1
Retail	15.1	4.8	-10.3
Insurance	23.7	13.5	-10.3
Automobiles	18.4	11.1	-7.3
Telecom	10.5	6.0	-4.5
Yankee banks	89.2	87.0	-2.2
Transportation	5.5	5.5	0.0
Energy	20.8	21.1	0.3
Leisure	0.0	0.8	0.8
Consumer Products	10.2	12.0	1.8

**Figure 3: Supply by sector YtD 2023 compared to the same period last year**

YtD supply vs. the same period last year was lighter for US banks, Media & Entertainment and Finance, while it was heavier for Tech, Healthcare and Utilities.

Sector	2022 YtD supply (\$bn)	2023 YtD supply (\$bn)	2023 less 2022 YtD supply (\$bn)
REITs	6.5	8.4	1.9
Tobacco	2.3	5.3	3.0
Food, Bev, & Bottling	5.4	8.6	3.2
Commercial Services	0.5	4.7	4.2
Aerospace/Defense	0.0	5.8	5.8
Industrial Products	6.4	13.8	7.4
Basic Materials	6.1	13.6	7.5
Utilities	30.5	39.4	8.9
Health Care	25.0	51.4	26.4
Technology	2.4	30.0	27.6
<b>Total</b>	<b>431.0</b>	<b>386.0</b>	<b>-45.0</b>

Source: BofA Global Research

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**Figure 4: US IG issuers with large debt maturities relative to sources of cash**

The table lists issuers with the lowest ratio of liquidity sources to maturities over the next 12 months.

Ticker	Name	Sector	Index rating	Cash & securities (\$mn)	LTM free cash flow (\$mn)	Next 12M index maturities (\$mn)	Cash + FCF / maturities
BG	Bunge Ltd	Food, Bev, & Bottling	BBB2	1,223	-6,104	864	-5.7
VFC	VF Corp	Retail	BBB1	571	-928	918	-0.4
R	Ryder System Inc	Transportation	BBB2	267	-321	750	-0.1
IFF	International Flavors & Fragra	Basic Materials	BBB3	483	-217	300	0.9
MCHP	Microchip Technology Inc	Technology	BBB2	289	3,171	3,400	1.0
EMN	Eastman Chemical Co	Basic Materials	BBB2	493	364	810	1.1
BDX	Becton Dickinson & Co	Health Care	BBB2	612	1,366	1,619	1.2
HPE	Hewlett Packard Enterprise Co	Technology	BBB2	2,530	548	2,250	1.4
ECL	Ecolab Inc	Basic Materials	A3	599	1,076	1,121	1.5
TSN	Tyson Foods Inc	Food, Bev, & Bottling	BBB2	654	-51	400	1.5
CAG	Conagra Brands Inc	Food, Bev, & Bottling	BBB3	40	820	500	1.7
ROK	Rockwell Automation Inc	Industrial Products	A2	472	773	600	2.1
ROP	Roper Technologies Inc	Technology	BBB2	793	664	700	2.1
MLM	Martin Marietta Materials Inc	Basic Materials	BBB2	1,063	509	700	2.2
PKI	PerkinElmer Inc	Health Care	BBB2	465	588	467	2.3
JCI	Johnson Controls International	Industrial Products	BBB2	1,509	711	959	2.3
H	Hyatt Hotels Corp	Leisure	BBB3	1,149	473	654	2.5
MCD	McDonald's Corp	Retail	BBB1	2,584	5,488	3,213	2.5
KR	Kroger Co/The	Retail	BBB2	916	1,869	1,100	2.5
HOG	Harley-Davidson Inc	Automobiles	BBB2	1,433	397	702	2.6
BA	Boeing Co/The	Aerospace/Defense	BBB3	17,220	2,290	7,400	2.6
K	Kellogg Co	Food, Bev, & Bottling	BBB2	299	1,163	550	2.7
GIS	General Mills Inc	Food, Bev, & Bottling	BBB2	644	2,448	1,040	3.0
HSY	Hershey Co/The	Food, Bev, & Bottling	A2	464	1,808	750	3.0
SYF	Sysco Corp	Food, Bev, & Bottling	BBB2	500	1,157	540	3.1
MKC	McCormick & Co Inc/MD	Food, Bev, & Bottling	BBB2	334	442	250	3.1
LHX	L3Harris Technologies Inc	Aerospace/Defense	BBB2	880	1,517	741	3.2
AVY	Avery Dennison Corp	Basic Materials	BBB2	167	683	250	3.4
TDY	Teledyne Technologies Inc	Aerospace/Defense	BBB3	638	393	300	3.4
GD	General Dynamics Corp	Aerospace/Defense	A3	1,242	3,465	1,250	3.8

Note: restricted to US IG corporate issuers ex. Financials, Utilities, Energy with at least \$2bn of debt in ICE BofA US IG corporate bond index.

Source: BofA Global Research, Bloomberg, ICE Data Indices, LLC.

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# Credit Strategy

## Daily credit snapshot

US IG issuance totaled \$10.6bn across 10 deals today and \$86.9bn MTD. The average new issue concession was 10.8bps today, while the average break performance was 6.3bps tighter today.

S&P 500 closed +0.16%, 10-year Treasury yields +16bps, CDX IG -1.7bps, CDX HY +\$0.08pts, and cash bond spreads quoted from Unched to 5bps tighter today, LQD closed 0.17bps tighter today.

**Figure 5: 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)
2023-03-27	APH	Amphenol Corp	3	350	A3/BBB+	4.75	107	n.a.	-6	101
2023-03-27	BERY	Berry Global Inc	5	500	NA/BBB-	5.5	210	n.a.	n.a.	n.a.
2023-03-27	GIS	General Mills Inc	10	1,000	Baa2/BBB	4.95	145	7	-8	137
2023-03-27	KOROIL	Korea National Oil Corp	3	550	Aa2/AA	4.75	120	n.a.	n.a.	n.a.
2023-03-27	KOROIL	Korea National Oil Corp	5	450	Aa2/AA	4.875	135	n.a.	n.a.	n.a.
2023-03-27	LNT	Wisconsin Power and Light Co	10	300	A3/A	4.95	145	28	n.a.	n.a.
2023-03-27	MBGGR	Mercedes-Benz Finance North America LLC	2	300	A2/A-	FRN	SOFR+93	n.a.	n.a.	n.a.
2023-03-27	MBGGR	Mercedes-Benz Finance North America LLC	2	700	A2/A-	4.95	95	n.a.	n.a.	n.a.
2023-03-27	MBGGR	Mercedes-Benz Finance North America LLC	3	1,000	A2/A-	4.8	105	n.a.	n.a.	n.a.
2023-03-27	MBGGR	Mercedes-Benz Finance North America LLC	5	1,000	A2/A-	4.8	123	n.a.	n.a.	n.a.
2023-03-27	PCAR	PACCAR Financial Corp	3	500	A1/A+	4.45	68	n.a.	n.a.	n.a.
2023-03-27	PENSKE	Penske Truck Leasing Co Lp / PTL Finance Corp	5	750	Baa2/BBB	5.55	205	n.a.	-6	199
2023-03-27	PSX	Phillips 66	5	750	A3/BBB+	4.95	140	-1	n.a.	n.a.
2023-03-27	PSX	Phillips 66	10	500	A3/BBB+	5.3	182	14	n.a.	n.a.
2023-03-27	PXD	Pioneer Natural Resources Co	3	1,100	Baa1/BBB	5.1	132	n.a.	-5	127
2023-03-27	XEL	Public Service Co of Colorado	30	850	A1/A	5.25	155	6	n.a.	n.a.

Note: We calculate new issue concessions by estimating the difference between new issue bond spread and interpolated G spread from comparable liquid secondary bonds of the same issuer prior to the new issue deal announcement, adjusted for the spread impact of dollar prices deviating from par. Break performance is computed as the difference between new issue pricing and secondary closing spread on the first day of trading.

Source: BofA Global Research, Bloomberg

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Previously published here

[Credit Market Strategist: From bank stress to growth risks 26 March 2023](#)

## Credit Market Strategist:

### From bank stress to growth risks

Fed emergency bank liquidity usage was little changed this past week. Spreads and stock prices of US regional and big six banks stabilized, albeit at wider / lower levels. In contrast European banks came under additional pressure on Friday, led by Deutsche Bank. Overall, that suggests banking stress continues to abate from the more acute levels last week.

The next question is the extent of the spillover from bank stress into the real economy. In the base case the negative impact on growth from tighter lending standards is offset by a less hawkish Fed. However, risks to growth are now higher due to the additional uncertainties regarding potentially impaired bank lending. Relative to their cyclical scores, REITs, Leisure, Utilities, Insurance and Transportation screen cheap in March.

### Bank stress tracker

The key hard data we got on the state of bank stress included 1) Fed emergency bank liquidity was little changed this past week, 2) Chair Powell stating that deposit flows "have stabilized over the last week" and 3) money market funds continue to report elevated inflows.

### No underperformance in cyclical sectors

Despite potential risks to growth from tighter bank lending standards and wider spreads, the more cyclical non-financial sectors trade about in line with non-cyclicals. As a result, we prefer rotating out of more cyclical and into less cyclical sectors. Details inside.

### Lower yields, higher tail risk redux

A dovish FOMC and Secretary Yellen saying no plans to insure all deposits drove yields and regional bank stocks lower on Wednesday March 22.

### Progress on both sides of the Atlantic

UBS will acquire Credit Suisse. The negative surprise was CS Alternative Tier 1 (AT1) securities were written down to zero.

### Bonds over CDS

Adjusting for the wider level of spreads industrial bonds screen wide to CDS by about 10bps. Bond spreads for the big six US banks screen relatively tight.

### IG market technicals

**Supply:** \$21.1bn of issuance this week, expect \$15-25bn next week. **Flows:** -\$0.51bn outflow this past week ending on February 15. **Weekly technicals:** expect \$10.8n of coupon payments, \$2.0bn of calls to become effective next week. **Bond maturities:** \$3.1bn this week, \$15.6bn next week. Dealer inventories: +\$1,607mn past week ended Thu. Details inside.

We published the weekly CMS data and charts in [Situation Room](#).

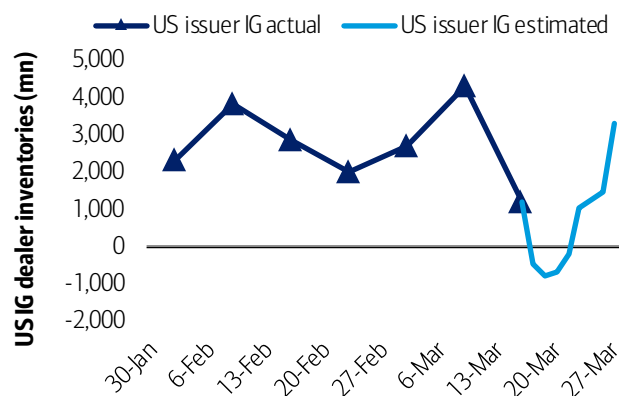
## Daily dealer inventories update

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 Figure 6 and Figure 7. We estimate the corresponding DV01 equivalent in Figure 7. More details by sector and maturity are available in Figure 8 and Figure 9. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



**Figure 6: Estimated dealer inventories of IG corporate bonds.**

We estimate IG dealer inventories of US issuer bonds increased to \$3.3bn currently from \$1.2bn on Mar-15.



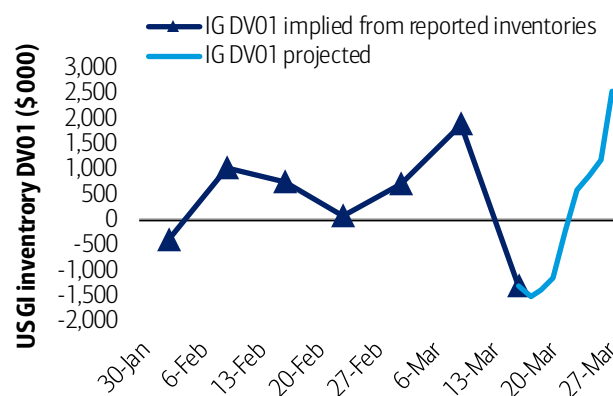
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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**Figure 7: Estimated dealer inventory DV01 for IG corporate bonds.**

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$2.5mn currently from -\$1.3bn on Mar-15.



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

We estimate IG dealer inventories increased \$2,290mn today and increased \$4,410mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Mar-23 (\$mn)			
	27-Mar	24-Mar	1 W	2 W	4 W	27-Mar	24-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
<b>High grade (13M+)</b>	<b>2,290</b>	<b>-62</b>	<b>4,410</b>	<b>-437</b>	<b>6,149</b>	<b>1,570</b>	<b>135</b>	<b>3,966</b>	<b>2,417</b>	<b>5,612</b>	<b>10,065</b>	<b>7,775</b>	<b>6,197</b>	<b>24,038</b>
<3yr	564	0	980	-565	984	99	-14	149	-216	79	1,878	1,314	1,066	4,258
3-5yr	338	-285	198	-2,235	-1,156	124	-109	71	-791	-506	1,707	1,369	1,311	4,386
5-11yr	670	-99	861	-850	2,976	450	-74	644	-496	1,915	3,543	2,873	2,225	8,641
11+yr	718	322	2,371	3,214	3,345	897	333	3,101	3,920	4,125	2,937	2,220	1,596	6,753
Fin	918	-39	2,172	1,288	3,339	569	99	1,353	1,125	2,167	4,329	3,411	2,260	10,000
Non-Fin	1,372	-23	2,237	-1,725	2,810	1,001	37	2,613	1,292	3,446	5,736	4,364	3,937	14,038
Fixed	2,333	-7	4,643	-153	6,399	1,582	144	3,992	2,438	5,606	10,016	7,683	6,160	23,859
Floating	-43	-56	-234	-284	-250	-12	-9	-26	-20	6	49	92	37	178
US issuers	1,847	227	3,991	-913	3,043	1,366	296	3,671	2,145	3,869	7,716	5,869	4,943	18,528
DM Yankees	447	-324	347	365	2,589	217	-185	208	186	1,431	2,089	1,641	1,147	4,877
EM Yankees	-5	34	72	112	517	-13	25	86	86	312	260	265	107	633

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

We estimate today IG dealer inventories increased \$478mn for Banks/Brokers and increased \$81mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Mar-23 (\$mn)			
	27-Mar	24-Mar	1 W	2 W	4 W	27-Mar	24-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	114	-57	164	46	23	84	-55	151	164	130	208	94	98	399
Automobiles	24	-32	29	-175	345	3	5	0	-84	80	127	103	125	355
Banks/Brokers	478	-326	1,340	952	1,950	242	-216	730	846	1,039	2,877	2,400	1,408	6,685
Basic Materials	34	-96	77	-309	-157	8	-118	117	-19	-25	444	409	281	1,134
Commercial Services	8	-17	135	80	54	6	-11	81	24	31	50	42	53	145
Energy	81	-4	-334	-311	842	52	-3	-210	-140	518	415	334	347	1,095
Finance	113	43	125	-343	-24	20	7	-9	-181	-8	586	473	306	1,365
Food, Bev, & Bottling	95	44	138	-169	59	96	58	223	194	325	390	294	240	923
Health Care	243	27	537	-548	-191	178	22	635	29	-38	962	719	554	2,235
Industrial Products	44	37	366	350	505	31	47	280	290	361	270	226	145	641
Insurance	242	302	670	842	1,427	258	332	631	643	1,179	556	314	412	1,281
Media & Entertainment	41	110	242	-132	192	18	118	257	112	304	406	365	283	1,054
REITs	85	-57	37	-163	-14	49	-25	0	-182	-44	310	225	134	669

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Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 27-Mar-23 (\$mn)			
	27-Mar	24-Mar	1 W	2 W	4 W	27-Mar	24-Mar	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Retail	54	89	48	-577	-291	40	78	77	-165	-50	348	295	297	940
Technology	200	67	184	-143	718	171	27	230	227	859	827	627	527	1,982
Telecom	108	48	150	-1	-34	42	19	78	103	80	287	178	247	712
Tobacco	34	-18	111	58	160	4	-2	52	22	69	101	67	70	239
Transportation	10	-47	-18	41	-87	-3	-34	68	211	46	185	176	94	455
Utilities	292	-126	440	229	533	270	-91	574	395	638	635	344	472	1,452
Other	-9	-49	-32	-163	138	1	-24	3	-71	118	82	91	104	276

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

Source: BofA Global Research, FINRA, TRACE.

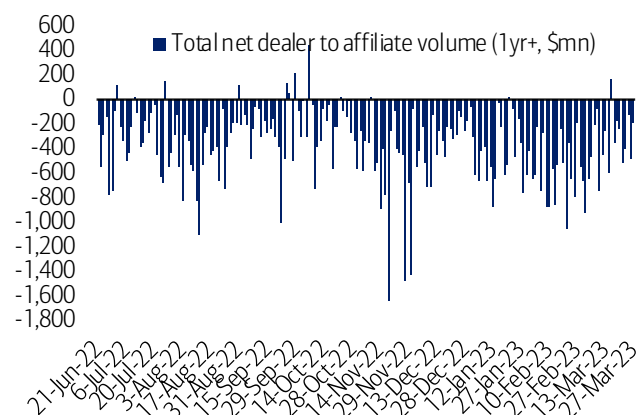
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**Daily foreign demand tracker**

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 (See: [Credit Market Strategist: One year round-trip in spreads 15 July 2016](#)). Figure 10 shows the overall daily dealer-to-affiliate volumes while Figure 11, Figure 12 and Figure 13 show subsets of this data. In particular Figure 11 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Figure 12 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Figure 13 shows the subset of net trades reported between 8am and noon (biased toward European buying).

**Figure 10: Net dealer buying from affiliate (1yr+)**

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

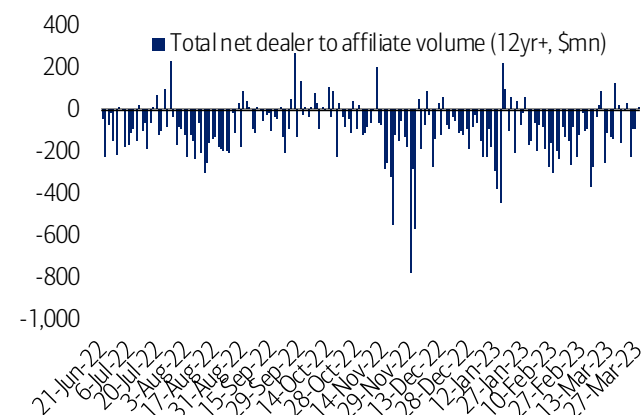


Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying. Source: Bloomberg, TRACE

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**Figure 11: Net dealer buying from affiliate (12yr+)**

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

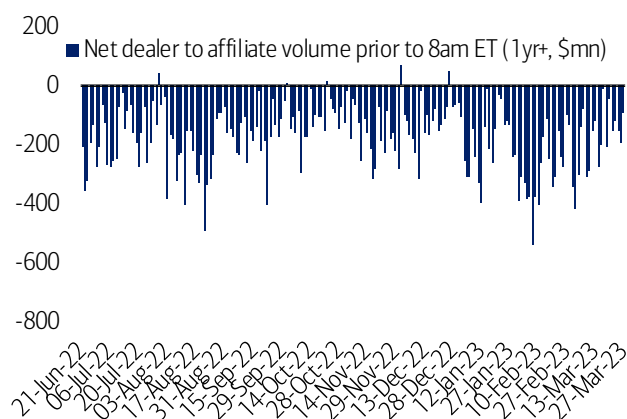


Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying. Source: Bloomberg, TRACE

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**Figure 12: 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



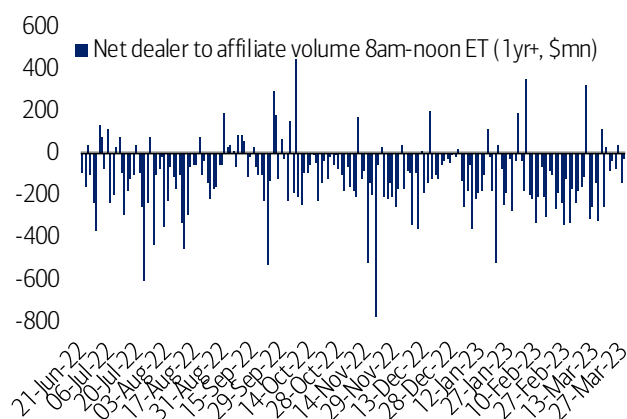
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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**Figure 13: 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

Unched: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee



# Disclosures

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