Credit Market Strategist

Unstable equilibrium

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Credit Strategy
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BofA Data Analytics

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Unstable equilibrium

Currently markets are pricing a Goldilocks scenario of resilient US economic growth, a relatively patient Fed, higher for longer interest rates and moderating inflation. A strong, but a bit below expectations June Payrolls report is consistent with such a scenario (see our report, US Watch: June employment: Mixed, but still a strong labor market). In the near term that should lead to compression, outperformance of back-end spreads on higher yields and a less inverted US Treasury curve, and further IG spread tightening during the summer.

Risks on both sides

However, such equilibrium is unstable in the longer term. Growth surprising too much to the upside can rekindle Fed risks, and to the downside – recession risks. We are now closer to the former risk with a sharp jump in interest rates and interest rates vol, while equity / rates correlation dipped back into the negative territory. Towards 4Q-2023 and 1Q-2023 the latter recessionary risks should instead increase, as higher rates eventually weigh growth, as expected by our economists. As a result, we remain neutral on IG spreads by year-end 2023.

Curve matters

The big increase in interest rates should be a 10s30s spread curve flattener. We screen for the steepest 10s30 IG spread curves inside.

Compression and cyclicals

Lower quality spreads are already trading relatively rich, but also have room to compress further if the benign environment of resilient growth continues throughout the summer. In that scenario the more cyclical sectors could outperform, particularly those trading relatively wide: Banks, REITs, Insurance, Energy and Autos.

June ratings: CS drives upgrades in June

A slower $30bn net upgrades ex. CS in June are consistent with the declining share of IG bonds on positive outlook / watch.

Slower M&A volumes in June

North American M&A announcements moderated to $153bn in June.

IG market technicals

Supply: $12.8bn of issuance this week, expect $15-20bn next week. **Flows**: +$6.82bn inflow this past week ending on July 5. **Weekly technicals**: expect $12.8bn of coupon payments, $0.8bn of calls to become effective next week. Bond maturities: $5.2bn this week, $12.3bn next week. **Dealer inventories**: -$1,005mn 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	Big inflow into high grade
Situation Room	June ratings: CS drives upgrades in June
Monthly HG Market Review	June '23: Resilient economy, hawkish Fed
Credit Market Strategist	May '23 Credit Investor Survey: It's all about recession
Credit Market Strategist	Summer 2022 snapshot of the US IG corporate market

Timestamp: 07 July 2023 05:09PM EDT

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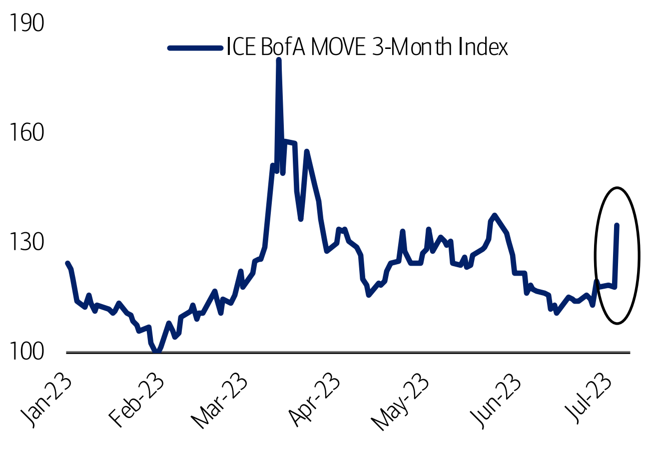
However, such equilibrium is unstable in the longer term. Growth surprising too much to the upside can rekindle Fed risks, and to the downside – recession risks. We are now closer to the former risk with a sharp jump in interest rates and interest rates vol (Figure 1), while equity / rates correlation dipped back into the negative territory (Figure 2). Towards 4Q-2023 and 1Q-2023 the latter recessionary risks should instead increase, as higher rates eventually weigh growth, as expected by our economists. As a result, we remain neutral on IG spreads by year-end 2023.

Figure 1: Interest rate volatility has increased in July
3M MOVE index jumped to 135 on July 6 from 113 on June 27.



Source: Bloomberg.

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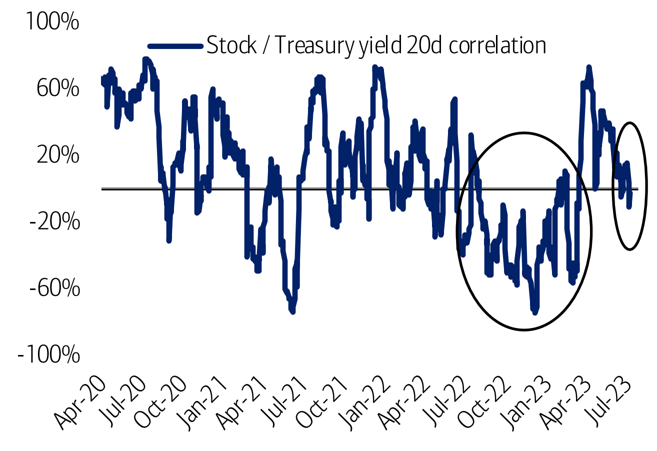
Figure 2: Stock price / Treasury yield correlation is again negative
The 20d correlation of daily SPX price changes and 10yr Treasury yield changes dipped into the negative territory so far in July.



Source: BofA Global Research

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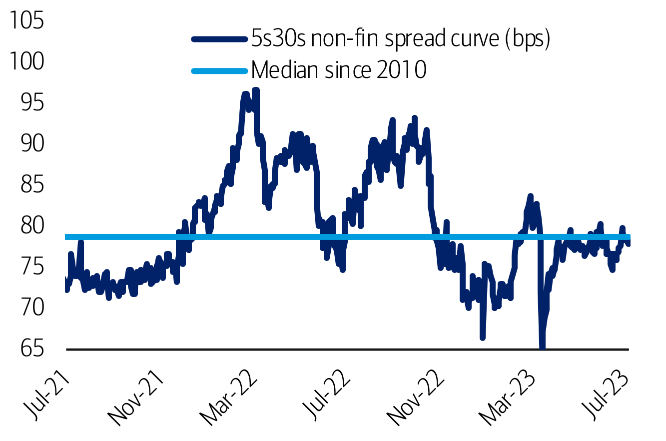
Curve matters

The big increase in interest rates should be a 10s30s spread curve flattener for three reasons. First, higher interest rates improve yield-sensitive demand, which tends to be concentrated in the back end of the curve. As a testament to that demand, the share of 10+yr supply increased from the lows in 1Q-2023 despite higher yields (Figure 5). Second, the sharp rise in interest rates and the corresponding losses (IG index price is down 1.3% MtD) should suppress inflows into high grade bond funds and ETFs, which tend to be bigger marginal buyers at the 10yr maturity point. Third, the Treasury yield curve steepened from the lows in early July, making the front-end relatively less attractive (Figure 6). We screen for the steepest 10s30 IG spread curves below (Figure 7).

Finally, the overall 5s30s IG spread curve have remained both steady and near the typical levels since May (Figure 3). That's because higher interest rates (typically a spread curve flattener) were offset by the more inverted Treasury yield curve (typically a spread curve steepener).

Figure 3: 5s30s IG spread curve is near the typical levels

5s30s IG non-financial spread curve is currently 78bps, similar to 79bps median since 2010.



Source: BofA Global Research, ICE Data Indices, LLC

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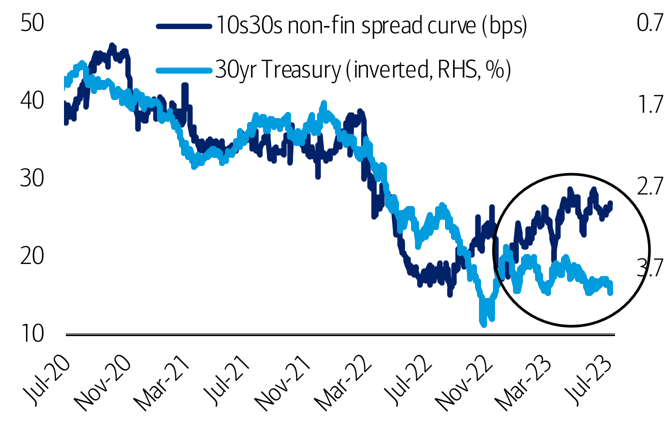
Figure 4: 10s30s IG spread curve is steep vs. rates

10s30s IG spread curve steepened YtD, while 30yr Treasury yield has increased.



Source: BofA Global Research, ICE Data Indices, LLC

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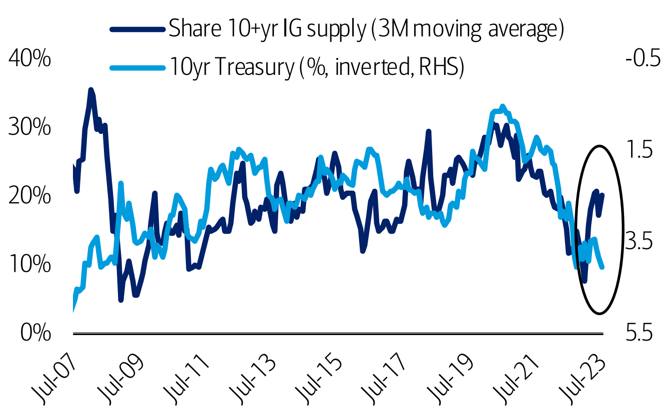
Figure 5: Higher yields, but more back-end supply

Despite higher interest rates the share of 10+yr supply has increased since May 2023.



Source: BofA Global Research

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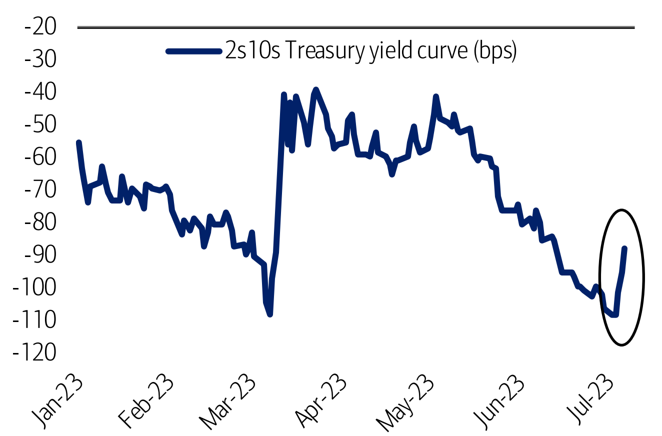
Figure 6: Treasury yield curve has steepened in July

2s10s Treasury yield curve steepened to -88bps currently from -105bps on June 30th.



Source: Bloomberg

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Figure 7: Screen: the steepest 10s30s IG spread curves

We screen for the steepest 10s30s IG non-financial spread curves, based on on-the-run bonds with notional >= $500mn

					Treasury spread (bps)			Bond price ($)		
Issuer	**10yr bond**	**30yr bond**	**Average rating**	**Sector**	**10yr**	**30yr**	**10s30s curve**	**10yr**	**30yr**	**10s30s curve, adjusted for $ price**
BAT CAPITAL CORP	BATSLN 7 3/4 10/19/32	BATSLN 5.65 03/16/52	BBB2	Tobacco	250	290	40	108.9	84.7	76
MPLX LP	MPLX 5 03/01/33	MPLX 5.65 03/01/53	BBB2	Energy	174	225	51	94.4	91.2	58
DOW CHEMICAL CO	DOW 6.3 03/15/33	DOW 6.9 05/15/53	BBB1	Basic Materials	147	208	61	105.8	110.7	57
KINDER MORGAN	KMI 5.2 06/01/33	KMI 5.45 08/01/52	BBB2	Energy	178	224	46	95.2	88.9	53
ORACLE CORP	ORCL 4.9 02/06/33	ORCL 5.55 02/06/53	BBB2	Technology	151	200	49	95.2	93.4	53
LYB INT FIN III	LYB 5 5/8 05/15/33	LYB 3 5/8 04/01/51	BBB2	Basic Materials	179	204	25	98.2	67.6	52
GLOBAL PAY INC	GPN 5.4 08/15/32	GPN 5.95 08/15/52	BBB3	Finance	197	242	45	95.9	93.7	51
DELL INT / EMC	DELL 5 3/4 02/01/33	DELL 3.45 12/15/51	BBB2	Technology	184	201	17	99.4	65.1	51
TAQA ABU DHABI	TAQAUH 4.696 04/24/33	TAQAUH 3.4 04/29/51	AA3	Utilities	483	520	37	98.4	73.8	50
INTESA SANPAOLO	ISPIM 8.248 11/21/33	ISPIM 7.778 06/20/54	BBB3	Banks/Brokers	370	402	32	103.4	96.7	48
INTEL CORP	INTC 5.2 02/10/33	INTC 5.7 02/10/53	A2	Technology	130	175	46	99.1	98.6	47

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We screen for the steepest 10s30s IG non-financial spread curves, based on on-the-run bonds with notional >= $500mn

					Treasury spread (bps)			Bond price ($)		
Issuer	10yr bond	30yr bond	Average rating	Sector	10yr	30yr	10s30s curve	10yr	30yr	10s30s curve, adjusted for $ price
FIDELITY NATL IN	FIS 5.1 07/15/32	FIS 5 5/8 07/15/52	BBB2	Finance	161	202	42	95.9	94.3	46
ELEC DE FRANCE	EDF 6 1/4 05/23/33	EDF 6.9 05/23/53	BBB1	Utilities	222	271	49	100.1	102.2	46
TARGA RESOURCES	TRGP 6 1/8 03/15/33	TRGP 6 1/2 02/15/53	BBB3	Energy	204	248	44	100.6	100.3	45
META PLATFORMS	META 4.95 05/15/33	META 5.6 05/15/53	A1	Media & Entertainment	116	160	44	98.0	99.6	43
MCDONALD'S CORP	MCD 4.6 09/09/32	MCD 5.15 09/09/52	BBB1	Retail	91	131	40	97.6	97.2	43
WILLIAMS COS INC	WMB 5.65 03/15/33	WMB 5.3 08/15/52	BBB2	Energy	170	202	32	99.7	90.4	41
HCA INC	HCA 5 1/2 06/01/33	HCA 5.9 06/01/53	BBB3	Health Care	176	214	38	97.8	96.2	41
LOWE'S COS INC	LOW 5.15 07/01/33	LOW 5 3/4 07/01/53	BBB1	Retail	137	178	41	98.1	99.4	41
QUALCOMM INC	QCOM 5.4 05/20/33	QCOM 6 05/20/53	A2	Technology	92	137	45	103.3	108.6	41

Note: steepest IG 10s30s spread curves, based on on-the-run bonds with notional >= $500mn.

Source: BofA Global Research, ICE Data Indices, LLC

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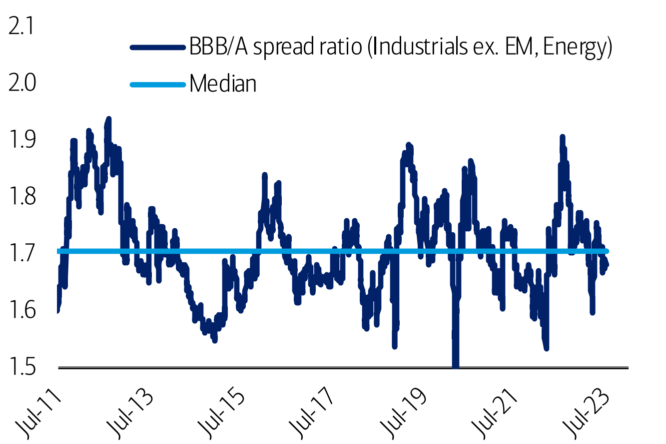
Compression and cyclicals

Both BBB/A and BB/BBB spread ration are 1) below the typical levels but also 2) above the lows over the past 12 months (Figure 8, Figure 9). That means that lower quality spreads are already trading relatively rich, but also have room to compress further if the benign environment of resilient growth continues throughout the summer. In that scenario the more cyclical sectors could outperform, particularly those trading relatively wide. Those would be the sectors in the top right corner of Figure 10, including Banks, REITs, Insurance, Energy and Autos.

Figure 8: BBB non-financials are trade relatively rich to single-As

BBB/A non-financial spread ratio is below the typical levels currently.



Note: based on maturity and sector-matched spreads. Ex. Financials, Energy.

Source: BofA Global Research, ICE Data Indices, LLC

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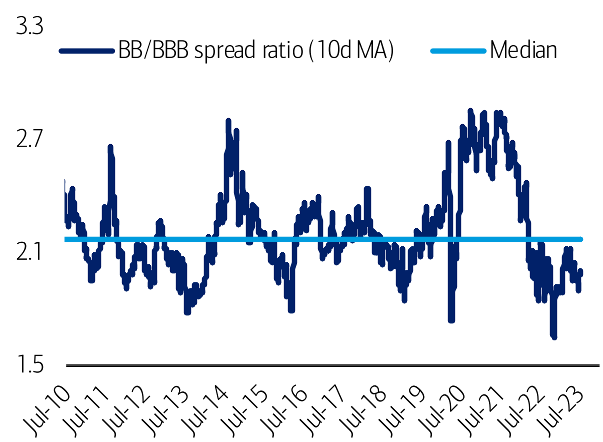
Figure 9: BB non-financials are trading relatively rich to BBBs

BB/BBB non-financial spread ratio is below the typical levels currently.



Note: based on maturity and sector-matched spreads. Ex. Financials, Energy.

Source: BofA Global Research, ICE Data Indices, LLC

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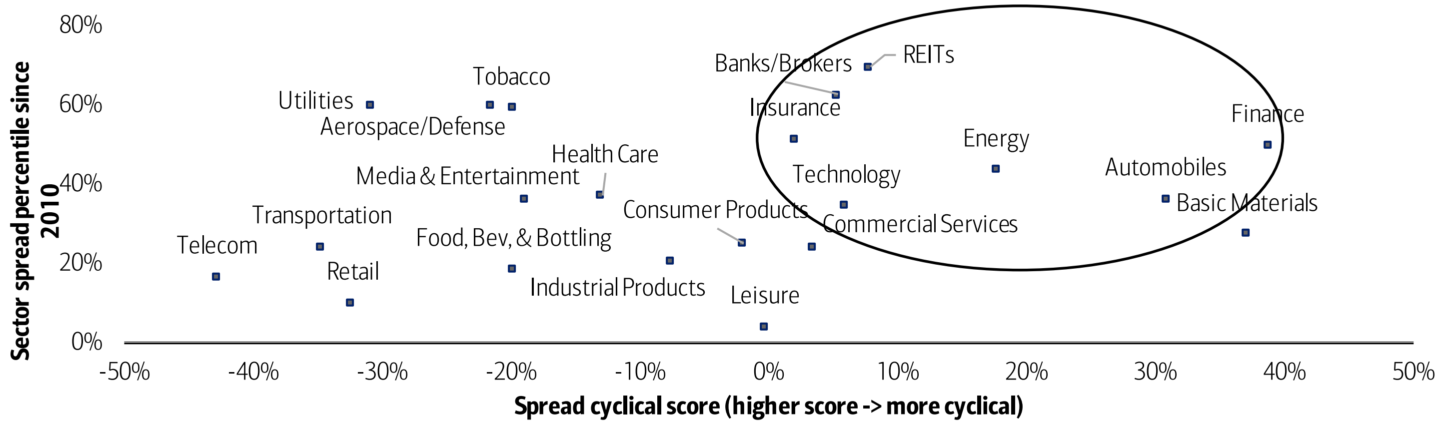
Figure 10: Resilient growth = wider and more cyclical sectors could outperform
The x-axis ranks sectors from least cyclical (negative correlation) to most cyclical (positive correlation). The



Note: the cyclical score is the correlation between the sector / market spread ratio and ISM non-manufacturing index.
Source: BofA Global Research, ICE Data Indices, LLC

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Previously published here
Situation Room: June ratings: CS drives upgrades in June 05 July 2023

June ratings: CS drives upgrades in June

Net ratings upgrades accelerated to +$114bn in June – the highest since June 2021 during the post-Covid upgrade wave – and up from +$80bn in May (Figure 13). However, the upgrade of CS (Credit Suisse) following the merger with UBS accounted for 73% of the total net upgrade in June, or $84bn (Figure 20). Ex. CS net upgrade of $30bn was instead the lowest since February 2023. That's consistent with a lower share of bonds on positive outlook / watch, which further declined in June.

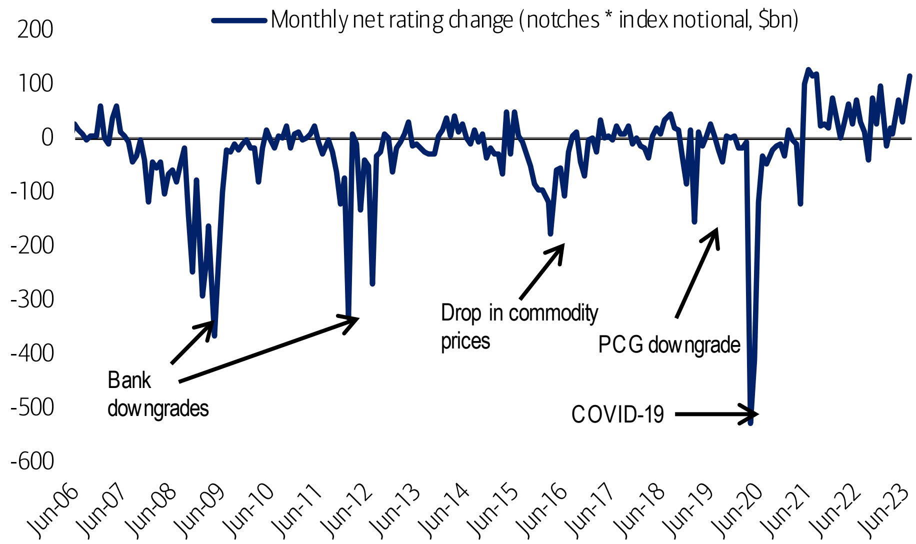
The outlook for ratings remains positive, but below the peak levels reached in 1Q-2023. The share of ratings on positive outlook/watch moderated further to 1.7% in June from 1.8% in May and record-high 3.0% in March (Figure 17). In contrast, the share of rating on negative outlook/watch remained dropped back to record-low levels at 1.9% in June (Figure 18).

The overall volume of rating actions remained robust at $217bn (Figure 15), while the share of upgrades remained elevated at 76% (Figure 16). Banks accounted for a big share of net upgrades (+$79.5bn), followed by Health Care (+$12.8bn) and Media & Entertainment (+$12.7bn). Most downgrades were concentrated in Utilities (-$8.9bn) and Industrial Products (-$3.4bn, Figure 19). BBB-rated issuers continued to drive net upgrades for non-financials (Figure 14).

Finally, no bonds were downgraded to HY and $4.7bn were upgraded to IG in June, down from the big $27.4bn rising star volume in May (Figure 22).

Figure 11: The pace of net rating upgrades accelerated in June

Net upgrades peaked at record $116bn average monthly pace from Apr to Jul 2021, 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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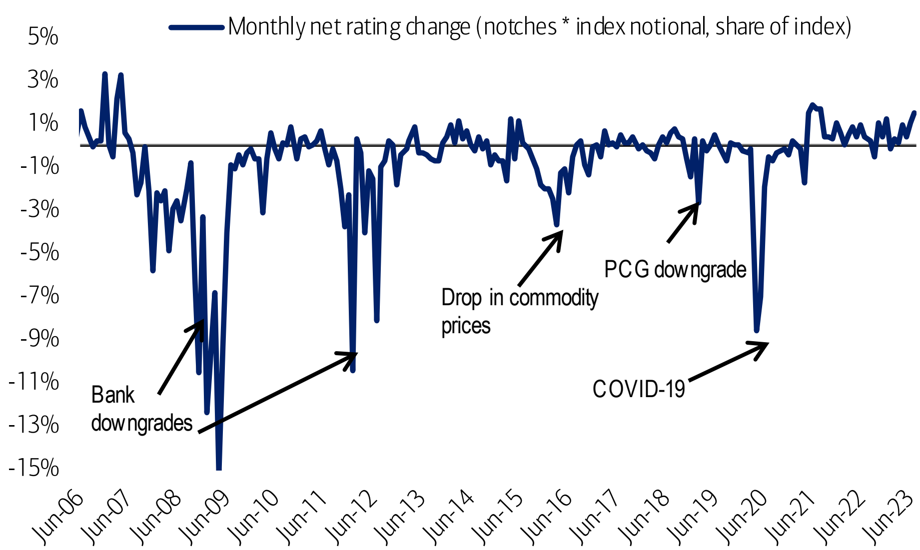
Figure 12: Net upgrades improved to 1.5% of index notional in June

Net downgrades peaked at 8.6% of index notional in March 2020 before rebounding to 1.9% peak net upgrade in May 2021.



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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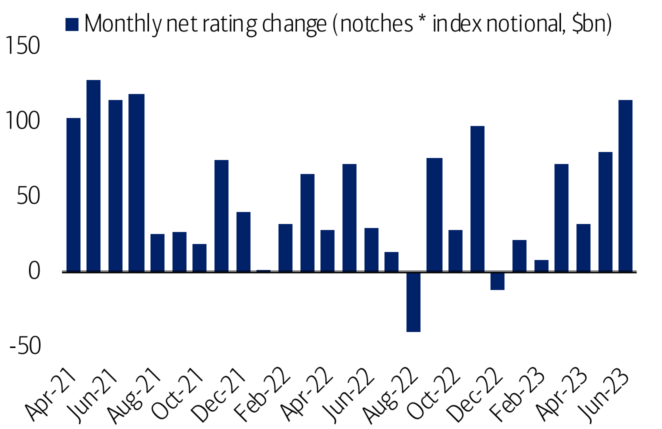
Figure 13: The pace of net upgrades accelerated in June
Net upgrades accelerated to +$114.3bn in June from +$80.0bn in May, above $40.9bn monthly average over the past 12 months.



Note: 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

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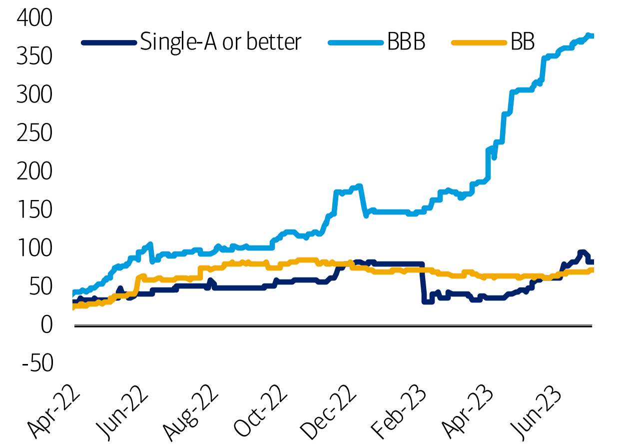
Figure 14: Cumulative net upgrade for non-financials ($bn)
Non-financials BBBs have experienced strong net upgrades so far in 2023



Source: BofA Global Research

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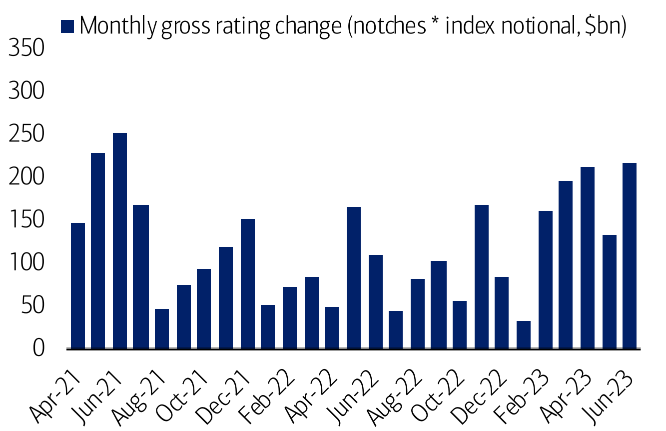
Figure 15: Gross rating actions accelerated in June
Gross rating actions accelerated to $217bn in June from $132bn in May.



Note: 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

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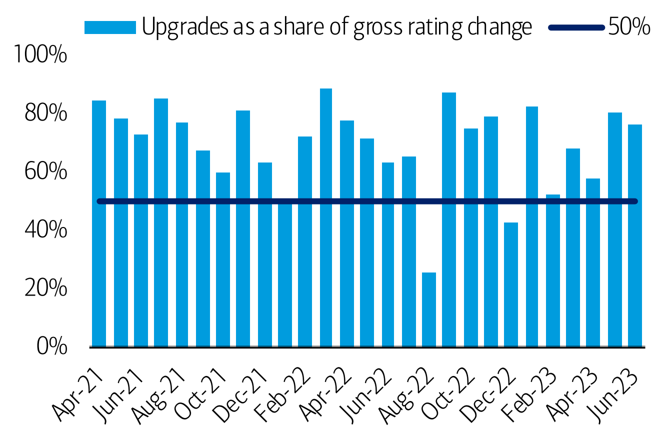
Figure 16: Share of upgrades moderated to 76% in June
Upgrades accounted for 76% of total rating actions in June – down from 80% in May.



Note: 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

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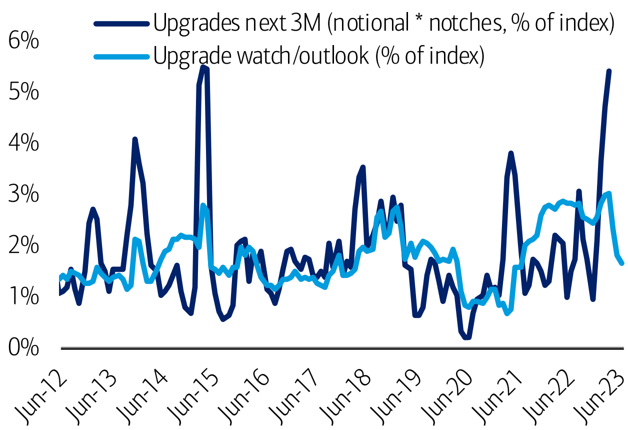
Rating watches/outlooks point to more upgrades

Our tracker for IG corporate bonds on a positive watch or outlook dropped further to 1.7% of the index in June ($132bn) from 1.8% of the index in May ($143bn). Despite this decrease the current level remains relatively high, indicating that rating agencies continue to signal a strong pace of upgrades over the next three months (Figure 17). The tracker for IG corporate bonds on a negative watch / outlook dropped to 1.9% of the index notional ($152bn) in June, falling back to historically low levels suggesting low downgrade chance (Figure 18).

Figure 17: Positive watch/outlook is still relatively high
The volume of IG corporate bonds on positive watch/outlook decreased in June but remains relatively high



Note: watch/outlook is computed as 0.66 * notional for a watch and 0.33 * notional for an outlook. Upgrades are tracking rating changes only (ignoring outlook and watch changes).
Source: BofA Global Research

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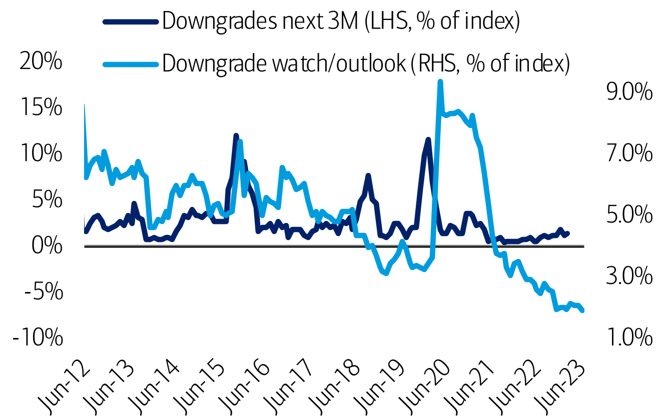
Figure 18: Negative watch/outlook is near record lows
The volume of IG corporate bonds on negative watch/outlook remains near record low levels in 2023.



Note: watch/outlook is computed as 0.66 * notional for a watch and 0.33 * notional for an outlook. Downgrades are tracking rating changes only (ignoring outlook and watch changes).
Source: BofA Global Research

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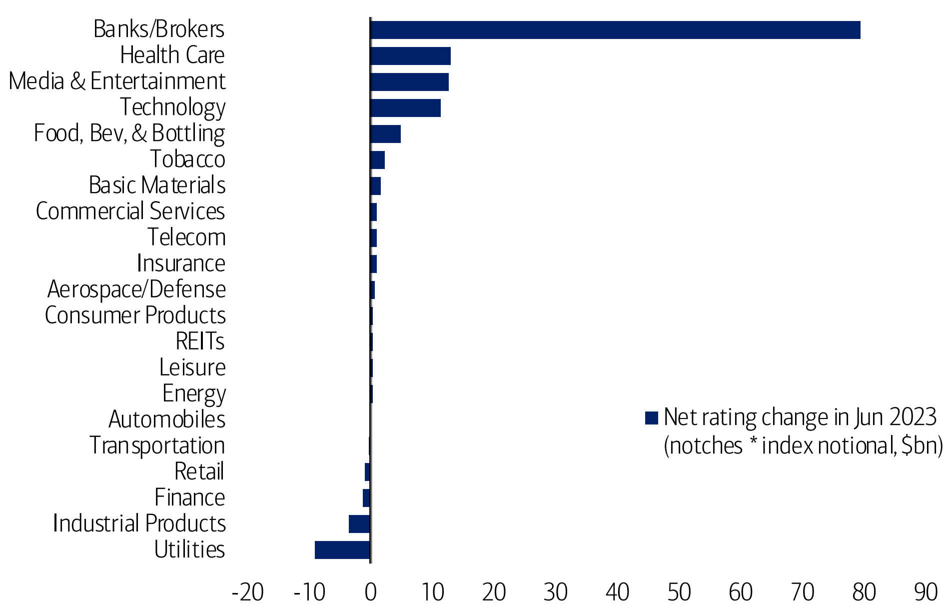
Sector/issuer level

Sectors with most upgrades in June included Banks/Brokers ($79.5bn), Health Care (+$12.8bn) and Media & Entertainment (+$12.7bn). Sectors with most downgrades in June included Utilities (-$8.9bn) and Industrial Products (-$3.4bn). Issuers with the biggest June upgrades included CS (Credit Suisse), DIS (Walt Disney Co) and NVDA (Nvidia, Figure 20). For issuers with the biggest June downgrades see Figure 21.

Figure 19: June 2023 net rating changes by sector (notional * notches, $bn)
Top net upgrades in June by volume were Banks/Brokers (+$79.5bn).



Note: 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

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Figure 20: Issuers with largest ratings upgrades in June-23
Top 15 issuers by rating upgrades.

Ticker	Sector	Issuer notional ($bn)	Rating change: notches	Rating change: notional * notches, $bn
CS	Banks/Brokers	44.9	1.9	84.0
DIS	Media & Entertainment	38.2	0.3	12.7
NVDA	Technology	9.8	1.0	9.8
ABT	Health Care	11.8	0.5	5.9
SIEGR	Industrial Products	16.7	0.3	5.6
TACHEM	Health Care	13.0	0.3	4.4
MQGAU	Banks/Brokers	18.8	0.2	4.2
MO	Tobacco	20.6	0.1	2.3
BG	Food, Bev, & Bottling	2.9	0.8	2.2
ALCSW	Health Care	4.1	0.5	2.0
PH	Industrial Products	9.1	0.2	2.0
BMO	Banks/Brokers	17.6	0.1	1.9
STLD	Basic Materials	3.0	0.6	1.8
WCNCN	Commercial Services	4.9	0.3	1.6
SJM	Food, Bev, & Bottling	4.4	0.3	1.4

Note: 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

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Figure 21: Issuers with largest ratings downgrades in June-23
Top 15 issuers by rating downgrades.

Ticker	Sector	Issuer notional ($bn)	Rating change: notches	Rating change: notional * notches, $bn
MMM	Industrial Products	11.0	-1.0	-11.0
BRKHEC	Utilities	33.6	-0.3	-11.0
USB	Banks/Brokers	26.4	-0.3	-8.8
NDAQ	Finance	2.9	-1.0	-2.9
UBS	Banks/Brokers	31.9	-0.1	-2.4
DOW	Basic Materials	10.7	-0.1	-1.1
VFC	Retail	2.6	-0.3	-0.9
AAP	Retail	1.8	-0.3	-0.6
BR	Commercial Services	2.3	-0.2	-0.5
BRKHEC	Energy	2.9	-0.2	-0.5
MITSRE	Real Estate Dev & Mgt	1.1	-0.3	-0.4
BACARD	Food, Bev, & Bottling	3.1	-0.1	-0.3
YAHEAL	Health Care	0.4	-0.3	-0.1
CHRW	Transportation	0.6	-0.2	-0.1
KCN	Basic Materials	0.7	-0.1	-0.1

Note: 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

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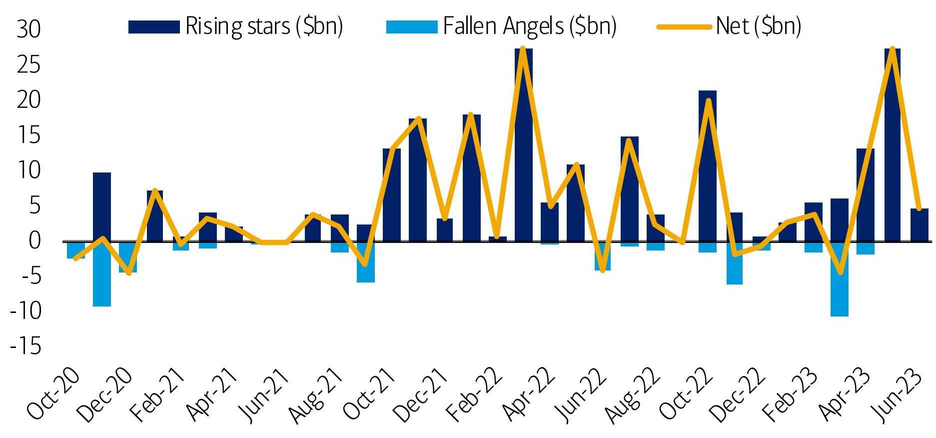
Rising stars and fallen angels

Based on ICE BofA indices ex. EM $4.7bn of bonds were upgraded from HY to IG in June (rising stars), after coming close to the highest level on record in May. On the other hand, no bonds were downgraded from IG to HY (fallen angels) in June (Figure 22, Figure 23, Figure 24).

Figure 22: Monthly rising star and fallen angel volumes
$4.7.bn of rising stars, $0.0bn fallen angels in June (ex. EM).



Note: excluding EM issuers.
Source: BofA Global Research, ICE Data Indices, LLC

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Figure 23: June rising stars
The table lists issuers upgraded to IG from HY during the month (ex. EM)

Ticker	Sector	Rating	N Bonds	Par, $mn	Avg. Price	Avg. Yield (%)	Avg. OAS (bps)
APA	Energy	BBB3	7	3,830	82.69	6.94	295
ESGR	Insurance	BBB3	2	850	79.37	10.13	586

Source: BofA Global Research, ICE Data Indices, LLC

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Figure 24: June fallen angels
The table lists issuers downgraded to HY from IG during the month (ex. EM)

Ticker	Sector	Rating	N Bonds	Par, $mn	Avg. Price	Avg. Yield (%)	Avg. OAS (bps)
None	0	0	0	0	0.00	0.00	0

Source: BofA Global Research, ICE Data Indices, LLC

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Methodology

To track these rating changes in a comprehensive way we normalize for the magnitude of the ratings change. Specifically we report the product of the change in ratings, measured in notches (averaging across Moody's, S&P and Fitch, if available) and the bond notional. Effectively that means rating changes measured in 1-notch equivalents. We also include the watch as 2/3 of a notch and outlook as 1/3 of a notch.

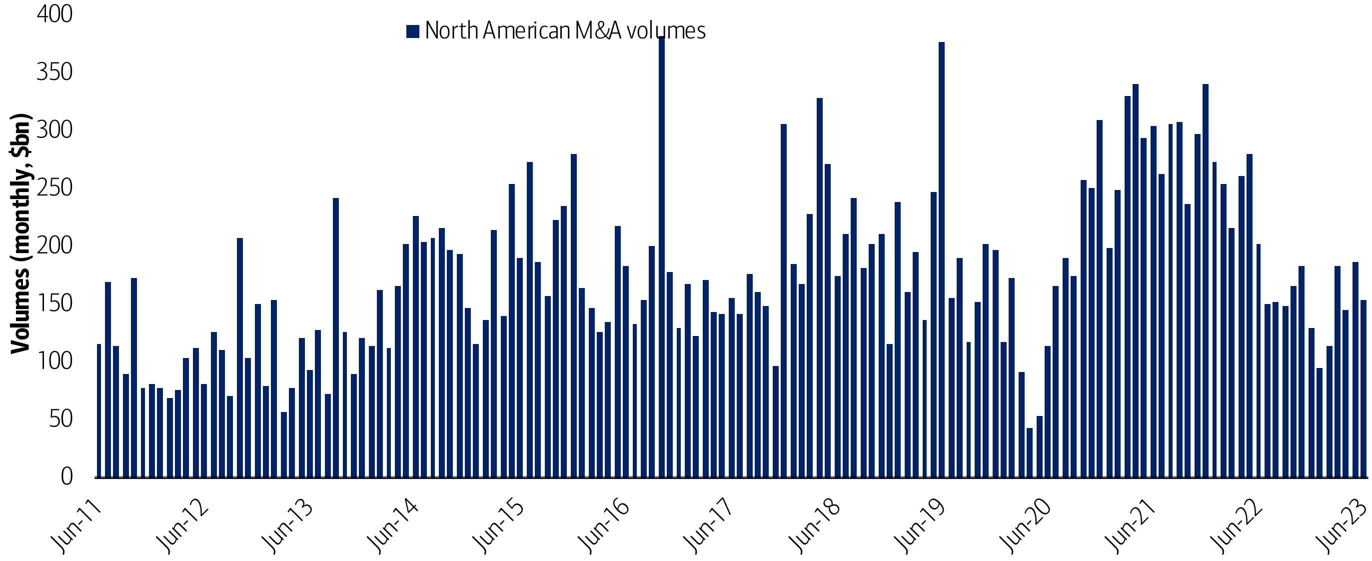
For example, suppose a $500mn bond rated by Moody's and S&P is downgraded one notch by Moody's only. In that case the average rating change is ½ a notch and would result in a $250mn downgrade amount in the analysis above. If both Moody's and S&P downgrade by one notch, the average rating change would be one notch and the downgrade amount would be $500mn. Finally, if Moody's placed the bond on a negative watch the average ratings change would be (2/3) / 2 = 1/3, with the corresponding downgrade amount of $167mn.

Previously published here
[Situation Room: Big inflow into high grade 06 July 2023]

Slower M&A volumes in June

North American M&A announcements moderated to $153bn in June from a relatively high $188bn in May (Figure 25). The pipeline of announced deals with potential IG funding implications, increased moderately to $334bn in June from $313bn in May (deal NAV, Figure 26). M&A-related IG issuance declined to a more typical $7.8bn in June from the very high $40.5bn priced in May (Figure 27). See details of the current deal list in the Pipeline of M&A deals with IG issuance implications section.

Figure 25: Monthly North American M&A volumes
North American M&A announcement volume declined to $153bn in June from $187bn in May.



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

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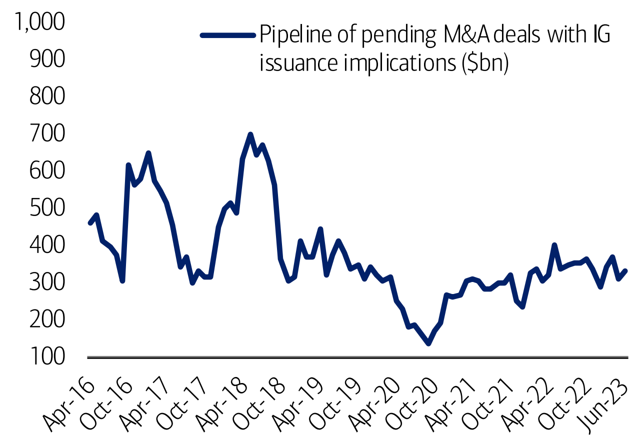
Figure 26: Pipeline of pending M&A deals with IG funding implications
The pipeline of pending M&A deals with US IG funding implications increased marginally to $334bn in June.



Source: BofA Global Research, Bloomberg

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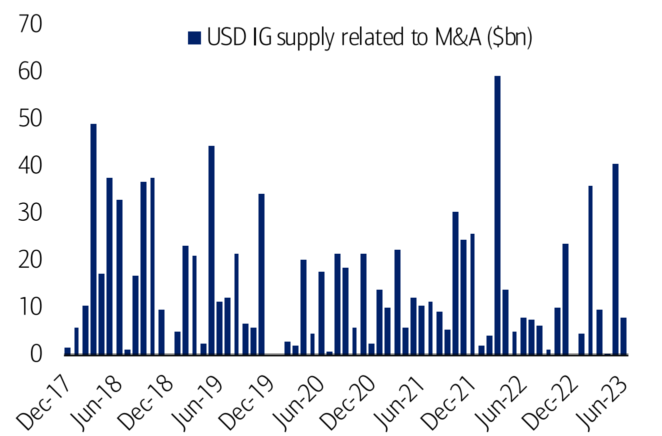
Figure 27: US IG M&A related supply
US IG M&A-related supply moderated to $7.8bn in June from $40.5bn in May



Source: BofA Global Research

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Pipeline of M&A deals with IG issuance implications

Microsoft (MSFT) announced the acquisition of Activision Blizzard (ATVI) on January 18 2022. Our analyst Jason Kilgariff thinks MSTF could issue $20-30bn to fund the deal (see: High Grade Telecom, Media & Technology Weekly: The TMT Weekly Rewind 18 January 2022)

Kroger (KR). On October 14 2022 Kroger announced it entered into a definitive agreement to acquire Albertsons Cos (ACI) in an all-cash transaction for $34.10/share. Our analyst Brian Callen expects the deal to be funded with $15bn of new debt, including $10-11bn of bonds and $4-5bn term loans (see Kroger Co.: Stocking the cart; re-leveraging for rival 17 October 2022).

Our criteria for inclusion in the list of announced deals listed in Figure 28 consists of deals at least $1bn in size (in terms of EV) announced by USD high grade issuers. We further restrict the list to deals with a cash component, suggesting to us that the company may choose to fund all or portion of that cash component in the high grade bond market. Finally the list excludes deals that have already been funded in the corporate bond market, deals that have been rejected by regulators and those that have closed.

Figure 28: M&A deals with potential high grade bond funding needs
A list of pending M&A deals with potential IG bond funding implications

Deal announcement date	Acquirer Ticker	Acquirer Name	Target Ticker	Target Name	Announced deal value ($bn)	Expected completion date
1-Sep-21	BARC LN	Barclays PLC	n.a.	US Credit Card Portfolio	3.8	Jun-22
13-Jul-22	RPRX US	Royalty Pharma PLC	2105326D US	Theravance Respiratory Co LLC	1.3	Jul-22
28-Feb-22	WPC US	WP Carey Inc	CPYA US	Corporate Property Associates	2.8	Sep-22
20-Sep-22	WBA US	Walgreens Boots Alliance Inc	1717936D US	Shields Health Solutions Holdi	1.4	Dec-22
29-Mar-22	UNH US	UnitedHealth Group Inc	LHCG US	LHC Group Inc	6.2	Feb-23
17-Jun-22	UNH US	UnitedHealth Group Inc	EMIS LN	EMIS Group PLC	1.4	Mar-23
15-Nov-22	EL US	Estee Lauder Cos Inc/The	993366Z US	Tom Ford	2.3	Apr-23
27-Mar-23	ET US	Energy Transfer LP	1579203D US	Lotus Midstream LLC	1.5	May-23
16-Feb-23	BP/ LN	BP PLC	TA US	TravelCenters of America Inc	3.0	May-23
3-Apr-23	4614Z US	Mars Inc	HSKA US	Heska Corp	1.3	Jun-23
16-Apr-23	MRK US	Merck & Co Inc	RXDX US	Prometheus Biosciences Inc	8.8	Jun-23
28-Oct-22	NEE US	NextEra Energy Inc	n.a.	Portfolio of operating landfil	1.1	Jun-23
18-Jan-22	MSFT US	Microsoft Corp	ATVI US	Activision Blizzard Inc	67.9	Jun-23
6-Mar-23	O US	Realty Income Corp	n.a.	415 single tenant convenience	1.5	Jun-23
18-Apr-23	GSK LN	GSK PLC	BLU CN	BELLUS Health Inc	1.5	Jun-23
20-Jun-23	LLY US	Eli Lilly & Co	DICE US	DICE Therapeutics Inc	1.7	Jul-23
2-May-23	DD US	DuPont de Nemours Inc	0062841D US	Spectrum Plastics Group Inc	1.8	Sep-23
27-Apr-23	SU CN	Suncor Energy Inc	2253611D CN	TotalEnergies EP Canada Ltd	5.5	Sep-23
14-May-23	OKE US	ONEOK Inc	MMP US	Magellan Midstream Partners LP	18.9	Sep-23
26-May-23	COP US	ConocoPhillips	5981330Z CN	Surmont Sand & Gravel Ltd	3.0	Sep-23
26-May-22	AVGO US	Broadcom Inc	VMW US	VMware Inc	70.2	Nov-23
21-Oct-20	AGR US	Avangrid Inc	PNM US	PNM Resources Inc	7.6	Dec-23
15-Sep-22	ADBE US	Adobe Inc	1349863D US	Figma Inc	20.0	Dec-23
18-Dec-22	LHX US	L3Harris Technologies Inc	AJRD US	Aerojet Rocketdyne Holdings In	4.7	Dec-23
6-Mar-23	VST US	Vistra Corp	ENGH US	Energy Harbor Corp	6.8	Dec-23
26-Apr-23	CARR US	Carrier Global Corp	2253458D GR	Viessmann Climate Solutions SE	12.0	Dec-23
26-Jun-23	IBM US	International Business Machine	APTI US	Apptio Inc	4.6	Dec-23
12-Jun-23	NOVN SW	Novartis AG	KDNY US	Chinook Therapeutics Inc	2.4	Dec-23
14-Oct-22	KR US	Kroger Co/The	ACI US	Albertsons Cos Inc	25.4	Jan-24
12-Apr-23	EMR US	Emerson Electric Co	NATI US	National Instruments Corp	8.2	Mar-24
26-Jun-23	UNH US	UnitedHealth Group Inc	AMED US	Amedisys Inc	3.7	Jun-24
13-Jun-23	BG US	Bunge Ltd	1882583D NA	Viterra Ltd	17.8	Jun-24
15-Feb-22	INTC US	Intel Corp	TSEM IT	Tower Semiconductor Ltd	5.4	n.a.
15-Jan-22	4614Z US	Mars Inc	1618192D US	NomNomNow Inc	1.0	n.a.
5-Aug-22	AMZN US	Amazon.com Inc	IRBT US	iRobot Corp	1.6	n.a.
21-Nov-22	NSC US	Norfolk Southern Corp	2210036D US	Cincinnati Southern Railway Co	1.6	n.a.
13-Mar-23	1990508D KY	Olympus Water Holding I LP	1524092D US	Diamond BC BV	4.6	n.a.

Source: BofA Global Research, Bloomberg

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[Situation Room: Big inflow into high grade 06 July 2023]

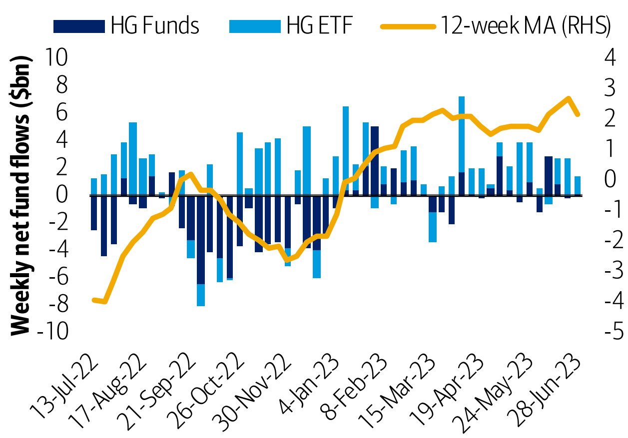
Flows

Big inflow into high grade

Flows for US HG funds and ETFs were strong this past week ending on July 5 with a +$6.82bn inflow, up from a +$1.39bn inflow in the prior week. This inflow was mostly due to inflows to HG funds turning positive (to +$4.67bn from -$0.31bn), while flows to HG ETFs also accelerated (to +$2.15bn from +$1.70bn). Much like during the previous weeks, all the inflow was from ex short-term HG (to +$6.92bn from +$3.18bn), while short-term flows remained negative (to -$0.10bn from -$1.79bn).

Flows to equities turned positive with a +$12.28bn outflow vs. a -$2.69bn outflow in the prior week. Away from HG and Equities flows remained generally steady. Flows remained near flat levels for HY (to +$0.13bn from -$0.09bn) and loans (to +$0.11bn from -$0.04bn), while flows turned slightly positive for global EM bonds (to +$0.22bn from -$1.22bn). On the other hand, inflows to munis turned slightly negative (to -$0.54bn from +$0.04bn). Finally, money markets reported a +$47.72bn inflow this past week, up from a -$13.10bn outflow a week earlier.

Figure 29: High grade fund and ETF flows, $bn
HG ETF +$2.15bn, HG Funds +$4.67



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

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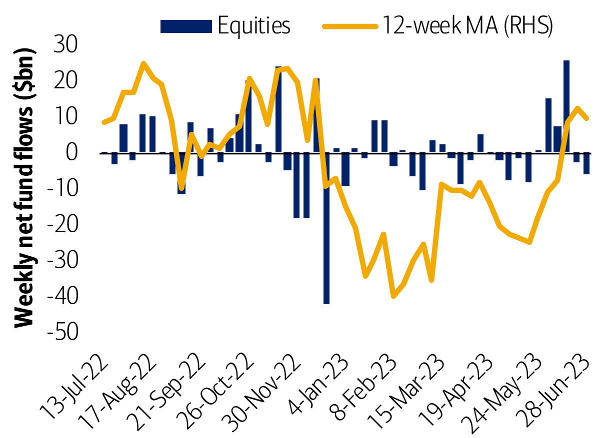
Figure 30: Weekly equity fund flows, $bn
Equities +$12.28bn



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

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Figure 31: 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	0.13%	1.9%	68.6
High grade: ex short-term	0.34%	3.7%	102.9
High yield: total	-0.02%	-3.1%	-10.2
High yield: ETFs only	-0.90%	-11.7%	-7.8
Loans	-0.13%	-8.7%	-10.4
EM	-0.46%	-0.4%	-2.5
Munis	0.00%	0.9%	8.6
All fixed income	0.08%	2.0%	117.8
Money markets	0.15%	10.3%	548.7
Equities	-0.11%	0.1%	9.1

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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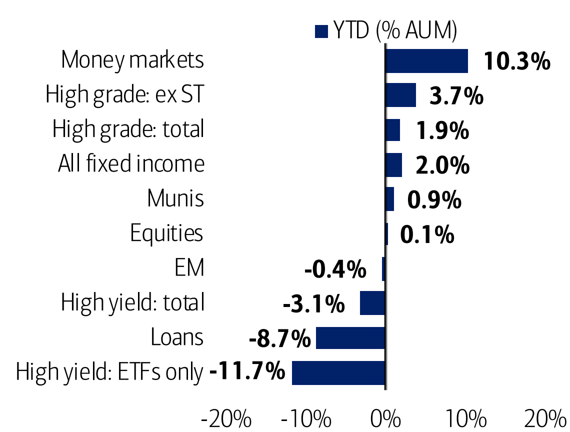
Figure 32: Year to date fund flows, % of AUM
HY ETFs have had the biggest outflows so far in 2023.



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

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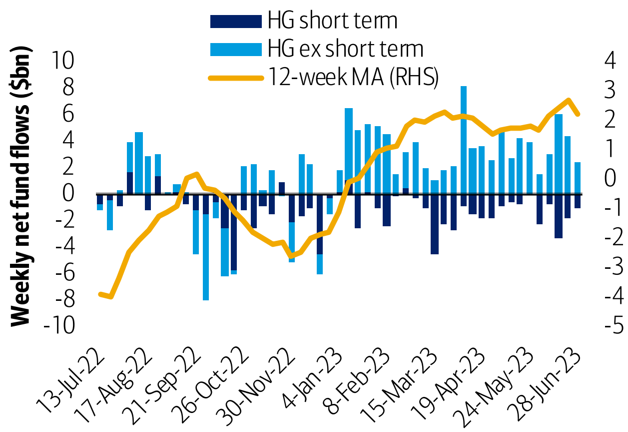
Figure 33: Weekly high grade fund flows, $bn
HG short-term -$0.10bn, HG ex short-term +$6.92



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

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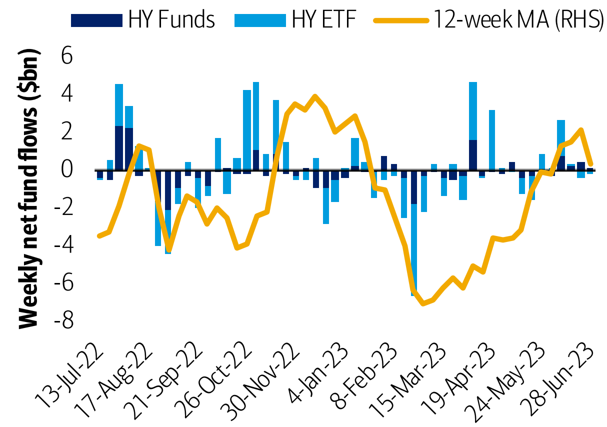
Figure 34: Weekly high yield fund flows, $bn
HY ETFs -$0.50bn, HY funds +$0.62bn



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

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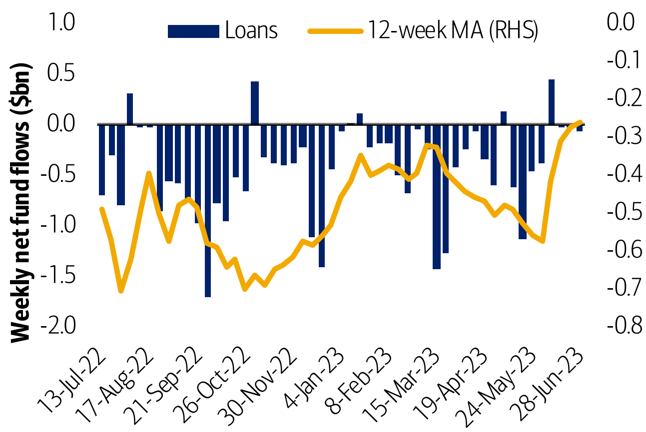
Figure 35: Weekly loan fund flows, $bn
Leveraged loans +$0.11bn



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

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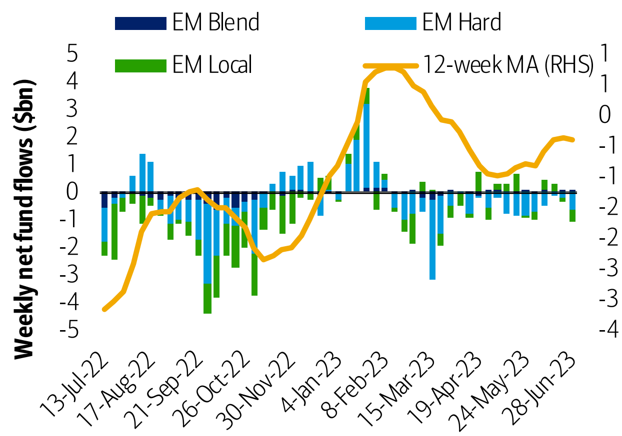
Figure 36: Weekly EM fund flows, $bn
Global EM bonds +$0.22bn



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

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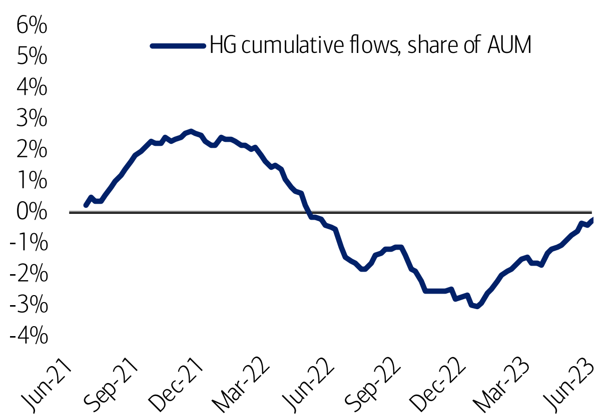
Figure 37: Cumulative % flows in HG over the last 2 years
Following large outflows in 2022, HG flows turn positive in 2023



Source: EPFR Global, BofA Global Research

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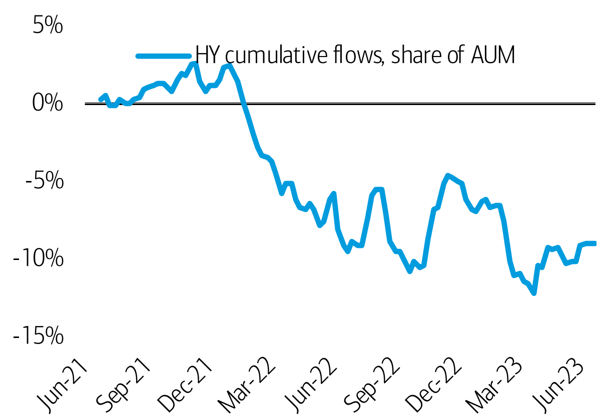
Figure 38: Cumulative % flows in HY over the last 2 years
2022 and 2023 have seen consequent outflows in HY



Source: EPFR Global, BofA Global Research

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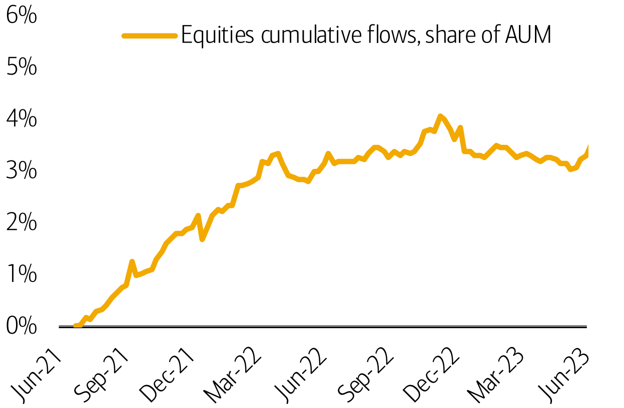
Figure 39: Cumulative % flows in equities over the last 2 years
Flows moderate in equities after two years of inflows



Source: EPFR Global, BofA Global Research

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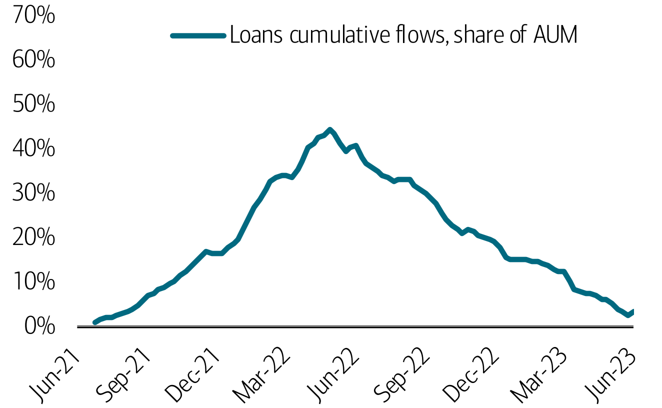
Figure 40: Cumulative % flows in loans over the last 2 years
After large inflows until mid-2021, loans subject to large outflows ever since



Source: EPFR Global, BofA Global Research

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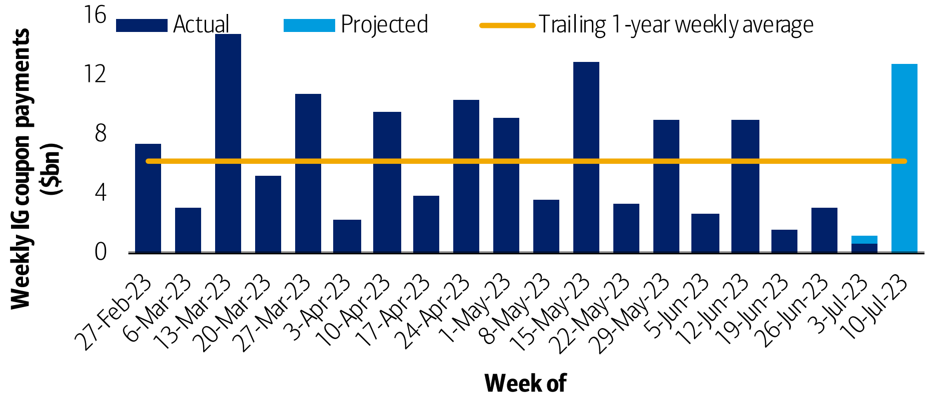
Appendix: defining high grade

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 $12.8bn in coupon payments next week, above the trailing 1-year weekly average of $6.2bn (Figure 41). In addition, $4.2bn of calls were settled and paid this week, while $0.8bn of calls are expected to become effective next week. Bond maturities: $5.2bn this week, $12.3bn next week.

Figure 41: Weekly US IG coupon payments
Expect $12.8bn of coupon payments next week, above the $6.2bn trailing 1-year weekly average.



Source: ICE Data Indices, LLC, BofA Global Research

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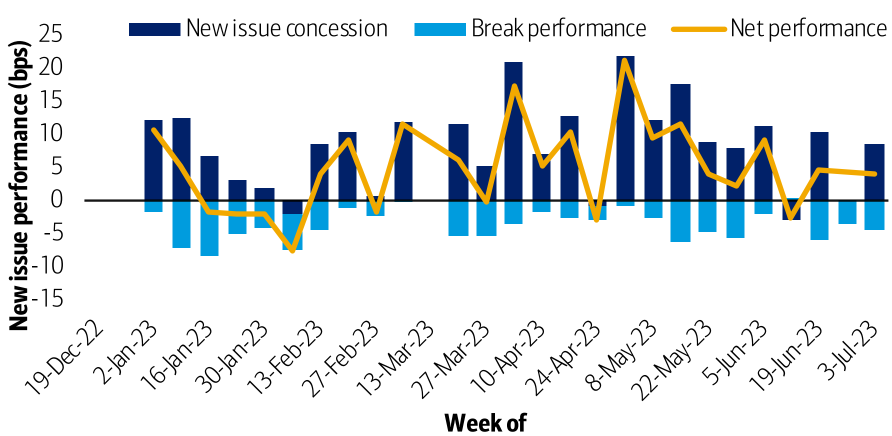
Supply

US IG gross issuance was $12.8bn this week, consisted of $9.6bn financials, $3.3bn high-quality industrials. Given $728.4bn of gross issuance, $409.7bn of maturities and $44.3bn of additional redemptions, net issuance is tracking $274.4bn YTD. We look for issuance pace to pick up to $15-$20bn next week, more in line with seasonal levels (Figure 43). Note that the CPI report could push issuance out of Wednesday and into other Monday, Tuesday and Thursday.

New issue performance remained moderate this week (we have compared with 19-Jun week as there were no concessions for the week of 26-Jun). The average new issue concession decreased to 8.6bps from 10.4bps last week, while the average break performance tightened to 4.5bps this week from 5.9bps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, moderated to 4.1bps this week from 4.5bps wider last week (Figure 42). This week's new issues are trading 3bps tighter on average from pricing.

Figure 42: Weekly new issue supply performance
For the week of Jul 3 2023: new issue concession = 8.6bps; break performance = -4.5bps; net performance = 4.1bps.



Source: BofA Global Research

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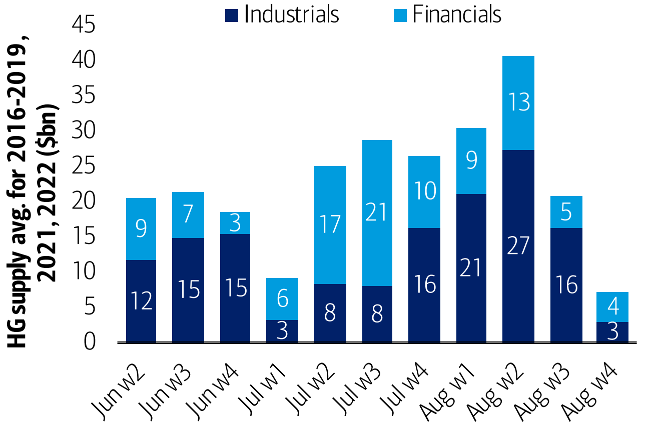
Figure 43: Weekly Supply seasonality

Supply volumes pick tend to pick up after the 1st week of July.



Source: Bloomberg, BofA Global Research

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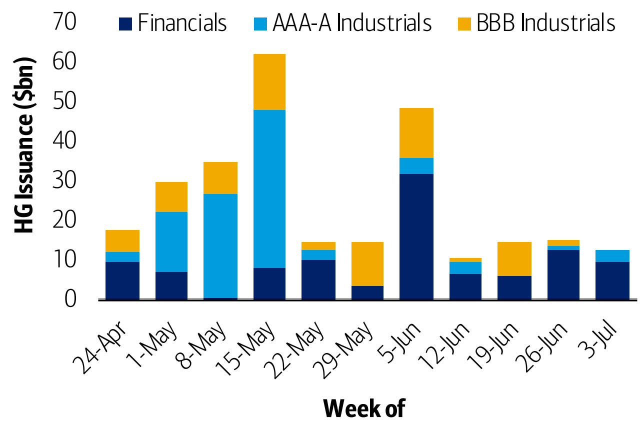
Figure 44: Weekly Supply

This week's supply consisted of $9.6bn financials, $3.3bn high-quality industrials and $0.0bn BBB industrials.



Bloomberg, BofA Global Research

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Figure 45: Weekly gross and 10-year equivalent supply volumes

10-year equivalent supply = $7.8bn WTD

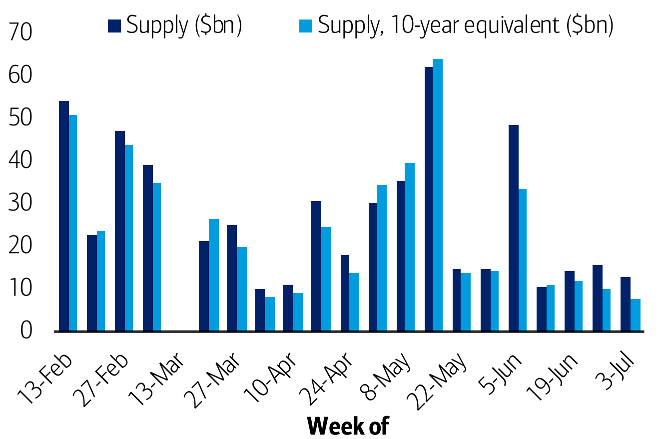

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Figure 46: Monthly gross and 10-year equivalent supply volumes

10-year equivalent supply = $7.8bn in July

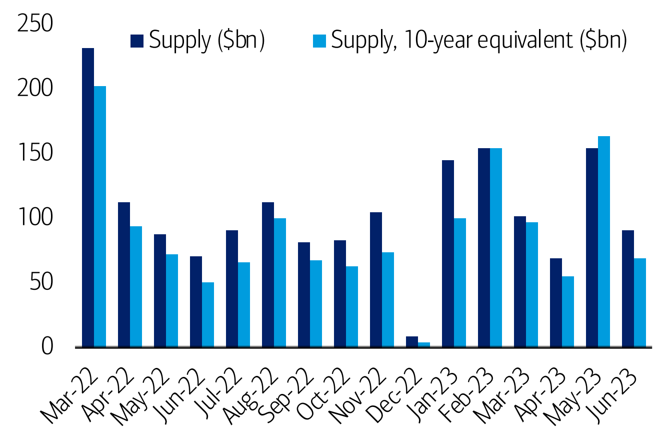

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Figure 47: Recent new issue pricing and new issue concessions

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)
2023-07-05	BFCM	Banque Federative du Credit Mutuel SA	3	350	Aa3/A+	FRN	SOFR+140	n.a.	n.a.	n.a.
2023-07-05	BFCM	Banque Federative du Credit Mutuel SA	3	1,400	Aa3/A+	5.896	130	20	-4	128
2023-07-05	BFCM	Banque Federative du Credit Mutuel SA	5	750	Aa3/A+	5.79	155	n.a.	-2	154
2023-07-05	HNDA	American Honda Finance Corp	3	950	A3/A-	5.25	70	26	-4	69
2023-07-05	HNDA	American Honda Finance Corp	5	800	A3/A-	5.125	90	-4	-4	90
2023-07-05	NOMURA	Nomura Holdings Inc	5	900	NA/BBB+	6.07	183	n.a.	2	185
2023-07-05	NOMURA	Nomura Holdings Inc	10	600	NA/BBB+	6.087	215	12	12	223
2023-07-06	DB	Deutsche Bank AG/New York NY	4NC3	1,250	Baa1/BBB-	7.146	245	-22	-18	223
2023-07-06	SUMIBK	Sumitomo Mitsui Financial Group Inc	3	400	A1/NA	FRN	SOFR+130	n.a.	n.a.	n.a.
2023-07-06	SUMIBK	Sumitomo Mitsui Financial Group Inc	3	850	A1/NA	5.88	120	2	-5	117
2023-07-06	SUMIBK	Sumitomo Mitsui Financial Group Inc	5	750	A1/NA	5.8	145	18	-1	144
2023-07-06	SUMIBK	Sumitomo Mitsui Financial Group Inc	7	650	A1/NA	5.852	165	26	-10	164

Figure 47: 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)
2023-07-06	SUMIBK	Sumitomo Mitsui Financial Group Inc	10	650	A1/NA	5.776	175	21	-6	174
2023-07-06	SUMIBK	Sumitomo Mitsui Financial Group Inc	20	1,000	A2/BBB+	6.184	195	n.a.	-17	178
2023-07-06	TOYOTA	Toyota Motor Corp	3	500	A1/A+	5.275	58	3	n.a.	n.a.
2023-07-06	TOYOTA	Toyota Motor Corp	5	500	A1/A+	5.118	75	-4	n.a.	n.a.
2023-07-06	TOYOTA	Toyota Motor Corp	10	500	A1/A+	5.123	108	4	n.a.	106

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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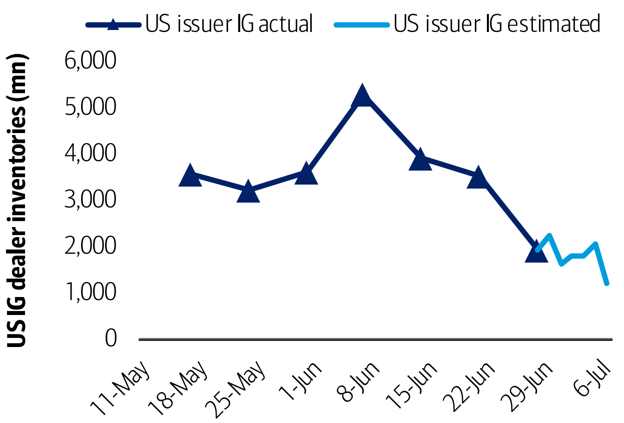
Dealer inventories

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 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, 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 IG dealer inventories of US issuer bonds declined to $1.2bn currently from $1.9bn on Jun-28.



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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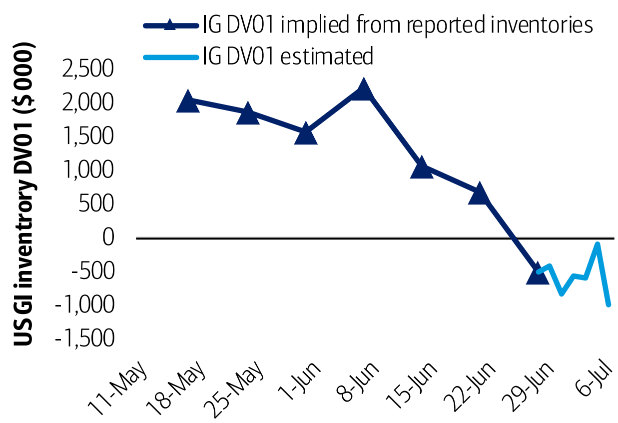
Figure 49: Estimated dealer inventory DV01 for IG corporate bonds.
We estimate IG dealer inventory DV01 of US issuer bonds declined to -$1.0mn currently from -$0.5bn on Jun-28.



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 IG dealer inventories declined -$783mn today and declined -$1,005mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 6-Jul-23 ($mn)			
Sector	6-Jul	5-Jul	1 W	2 W	4 W	6-Jul	5-Jul	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	**-783**	**309**	**-1,005**	**-970**	**-1,026**	**-970**	**620**	**-512**	**-723**	**99**	**9,381**	**10,164**	**6,802**	**26,348**
<3yr	58	-207	-246	700	-999	18	-22	-49	152	-102	1,597	1,539	1,405	4,541
3-5yr	-137	46	-284	-633	-183	-59	32	-95	-288	-127	1,849	1,986	1,270	5,106
5-11yr	126	133	-214	-1,889	-1,057	77	117	-84	-1,354	-949	3,438	3,312	2,410	9,159

Figure 50: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories declined -$783mn today and declined -$1,005mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 6-Jul-23 ($mn)			
Sector	**6-Jul**	**5-Jul**	**1 W**	**2 W**	**4 W**	**6-Jul**	**5-Jul**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
11+yr	-829	337	-261	852	1,213	-1,004	492	-284	767	1,277	2,497	3,327	1,718	7,542
Fin	278	-50	236	822	122	39	84	116	178	604	4,067	3,790	2,506	10,363
Non-Fin	-1,060	359	-1,240	-1,792	-1,148	-1,009	536	-628	-902	-505	5,314	6,374	4,296	15,984
Fixed	-799	254	-1,050	-1,087	-1,313	-976	582	-531	-741	62	9,236	10,035	6,722	25,993
Floating	17	55	45	117	287	6	38	19	17	37	146	129	80	355
US issuers	-841	254	-1,008	-2,225	-3,081	-898	496	-561	-1,242	-1,066	6,947	7,788	5,419	20,155
DM Yankees	109	61	-44	925	1,330	-37	134	36	369	861	2,122	2,013	1,314	5,450
EM Yankees	-50	-6	47	329	725	-34	-10	13	150	304	312	362	69	743

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 today IG dealer inventories increased $542mn for Banks/Brokers and declined -$191mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 6-Jul-23 ($mn)			
Sector	**6-Jul**	**5-Jul**	**1 W**	**2 W**	**4 W**	**6-Jul**	**5-Jul**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Aerospace/Defense	-5	52	98	0	159	-15	54	97	11	182	183	188	158	528
Automobiles	22	-75	-111	-61	333	-4	-22	-39	22	102	257	235	186	679
Banks/Brokers	542	179	968	1,183	596	197	177	449	373	678	2,998	2,456	1,714	7,168
Basic Materials	-20	40	53	107	319	-5	56	107	78	134	340	360	267	966
Commercial Services	5	6	20	-71	-110	-1	-2	-1	-44	-78	140	135	66	342
Energy	-191	-64	-281	-239	32	-95	11	-70	-56	56	484	675	546	1,706
Finance	-177	-104	-361	123	337	-113	-60	-130	162	261	594	771	483	1,848
Food, Bev, & Bottling	-126	73	-61	-194	-375	-152	67	-88	-151	-232	363	489	242	1,093
Health Care	10	62	-127	-288	-460	-8	130	23	-160	-198	1,030	1,020	702	2,753
Industrial Products	-54	-42	-196	-142	-272	-24	-25	-106	-83	-123	186	240	157	583
Insurance	34	-95	-155	-194	-258	28	-39	-104	-178	-109	253	219	152	624
Media & Entertainment	-55	82	137	166	181	-60	68	88	195	170	388	443	259	1,090
REITs	-122	-30	-217	-289	-553	-72	5	-99	-179	-226	222	344	158	724
Retail	-117	-43	-112	-356	-803	-100	26	-58	-247	-604	232	348	284	864
Technology	-135	146	-152	476	1,054	-184	96	-233	327	982	576	712	534	1,822
Telecom	-41	103	18	-238	-517	-53	68	30	-77	-292	344	385	210	938
Tobacco	-43	-12	-66	67	62	-31	-20	-58	37	79	42	85	55	182
Transportation	-51	-11	-92	-307	-353	-50	-7	-50	-275	-345	154	205	109	468
Utilities	-159	64	-167	-429	-115	-181	41	-185	-337	-119	522	681	386	1,589
Other	-101	-23	-200	-281	-284	-45	-4	-85	-141	-219	72	173	137	382

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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