Credit Market Strategist

Spread curve re-steepening likely done

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Credit Strategy
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Spread curve re-steepening likely done

The IG spread curves re-steepened in February for three reasons. First, spread curves reached historically flat levels in January, making relative value in the back-end of the curve unattractive (see Situation Room: New frontier in flatness). Second, the rapid increase in interest rates in January and the second half of February triggered a rotation out of duration to reduce risk. Third, the share of 10+yr IG supply jumped back to normal levels in February for the first time in over six months. Each of the three drivers should ease in March, in our view, while the relatively high yields continue stimulating yield sensitive demand for back-end bonds. As a result, we look for IG spread curves to stabilize and potentially re-flatten in the near term. A risk to this view would be a sudden decline in Treasury yields.

Share of 30yr supply should decline in March

The share of 10+yr supply jumped to 21% in February, which is close to typical levels. That's a big change from the second half of 2023 and January 2024, when the share of 10+yr supply was running at half that pace. However, we think February was an exception and 30yr issuance will slow down in March on lower M&A issuance volumes.

Supply catches up to demand

IG new issue supply finally caught up with demand this week, resulting in wider spreads and weaker new issue performance. That's due to both supply reaching record high volumes in February and demand normalizing from unusually strong levels. Going forward we look for the pace of supply to slow, while attractive yields should continue supporting demand.

IG March supply: the return of normality

We look for March IG supply in $130 - $140bn range -- above March 2023 but below March 2020 - 2022.

Final 4Q23 IG fundamentals: steady

Our close-to-final estimate of the 4Q-23 IG credit market fundamentals shows a relatively mixed picture. The positives during 4Q included higher cash, steady gross debt levels and a slowing decline in the coverage ratio. The negatives include a marginally higher gross leverage, a lackluster EBITDA growth and shortening maturities.

IG market technicals

Supply: $52.5bn of issuance this week, expect $35-40bn next week. **Flows**: +$2.94bn inflow this past week ending on February 28. **Weekly technicals**: expect $3.6bn of coupon payments, $0.7bn of calls and $1.8bn tender offer to become effective next week. Bond maturities: $17.3bn this week, $15.8bn next week. **Dealer inventories**: +$9,570mn past week ended Thu. Details inside.

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

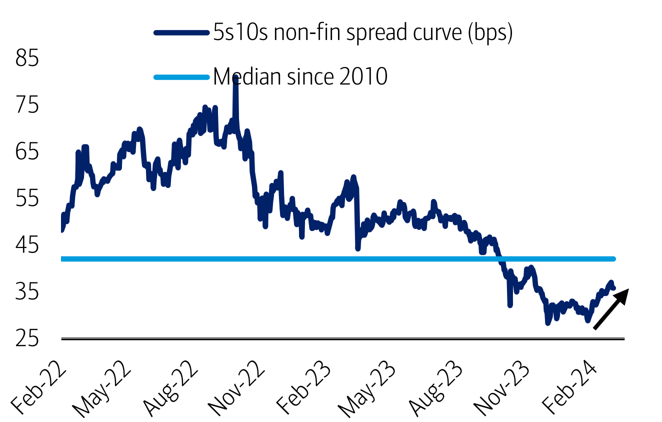
Recent credit strategy research

Publication	Name
Situation Room	Situation Room: Out of HY and into loans
Situation Room	Situation Room: Supply catches up to demand
Situation Room	Situation Room: IG March supply: the return of normality
Situation Room	Situation Room: Final 4Q23 IG fundamentals: steady
Monthly HG Market Review	Monthly HG Market Review: Feb '24: Strong data
Credit Market Strategist	Credit Market Strategist: What's working
Credit Market Strategist	Summer 2023 snapshot of US IG market

Spread curve re-steepening likely done

The IG spread curves re-steepened in February for three reasons. First, spread curves reached historically flat levels in January, making relative value in the back-end of the curve unattractive (see Situation Room: New frontier in flatness). Second, the rapid increase in interest rates in January and the second half of February triggered a rotation out of duration to reduce risk. Third, the share of 10+yr IG supply jumped back to normal levels in February for the first time in over six months. Each of the three drivers should ease in March, while the relatively high yields continue stimulating yield sensitive demand for back-end bonds. As a result, we look for IG spread curves to stabilize and potentially re-flatten in the near term. A risk to this view would be a sudden decline in Treasury yields.

Exhibit 1: IG non-financial 5s10s …
IG non-financial 5s10s spread curve steepened 4bps to 36bps in February.



Note: spread curves are based on issuer-matched, on-the-run bonds.
Source: BofA Global Research, ICE Data Indices, LLC

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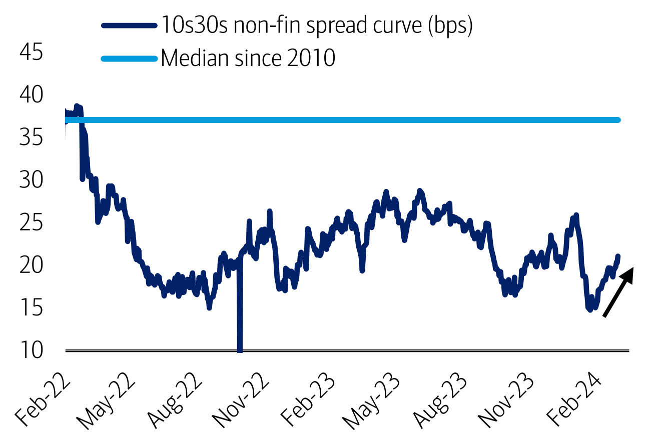
Exhibit 2: … and 10s30s spread curves steepened in February
IG non-financial 10s30s spread curve steepened 5bps to 21bps in February.



Note: spread curves are based on issuer-matched, on-the-run bonds.
Source: BofA Global Research, ICE Data Indices, LLC

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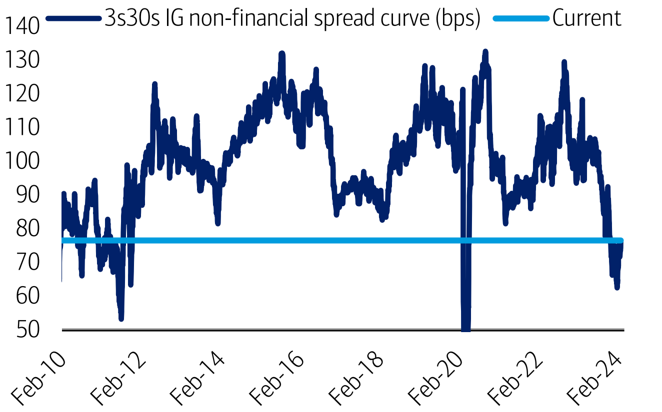
A gradual spread curve normalization

IG spread curves are clearly flat relative to the typical levels (Exhibit 3, Exhibit 4). Ultimately it would take more 30yr supply to re-steepen them. We expect the return of back-end supply to depend on two factors. The first factor is time. Companies have reduced issuance of longer-dated bonds in anticipation of lower borrowing costs as the Fed starts cutting rates. However, as rates remain higher for longer issuers will gradually give up on waiting for lower yields. The second factor is the level of interest rates. Clearly a drop in borrowing costs would encourage more 30yr issuance. The recent strong US data suggests a big drop in rates is unlikely any time soon. Hence for now 30yr supply volumes normalize only gradually over time.

Exhibit 3: The IG spread curve remains historically flat
Although IG 3s30s spread curve was 10bps steeper in February to 77bps, it remains at historically flat levels.



Note: spread curves are based on issuer-matched, on-the-run bonds.
Source: BofA Global Research, ICE Data Indices, LLC

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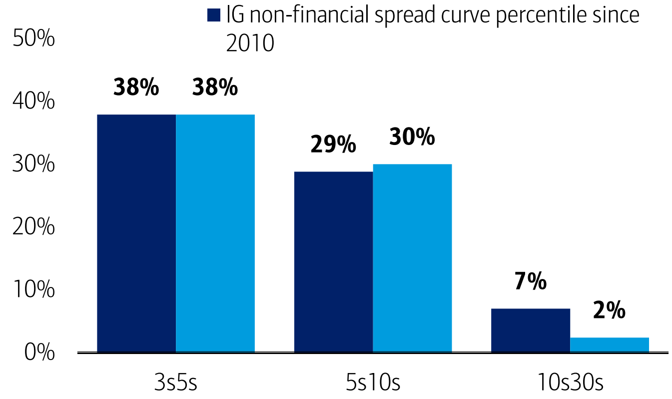
Exhibit 4: IG spread curves are especially flat in the back end
10s30s IG spread is the flattest relative to history, compared to 5s10s and 3s5s.



Note: spread curves are based on issuer-matched, on-the-run bonds.
Source: BofA Global Research, ICE Data Indices, LLC

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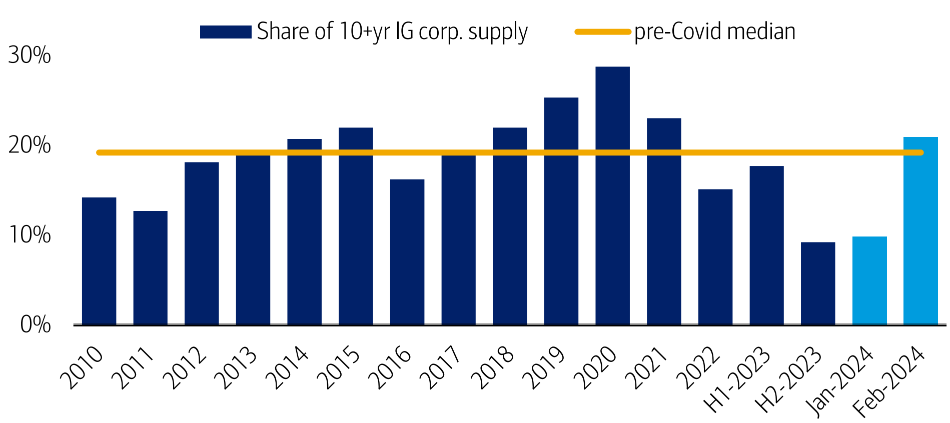
Share of 30yr supply should decline in March

The share of 10+yr supply jumped to 21% in February, which is close to typical levels. That's a big change from the second half of 2023 and January 2024, when the share of 10+yr supply was running at half that pace (Exhibit 5). However, we think February was an exception and 30yr issuance will slow down in March.

Looking at the details of February supply, we note that industrial issuers have been more willing to issue 10+yr bonds so far this year (Exhibit 6). This makes sense to us as the hope for lower rates is fading. That will likely continue. However, financial issuance was also unusually long, and M&A deals that tend to have larger 10+yr allocations also made up a large 28% of February issuance. Hence a normalization in financial issuance maturities and M&A funding volumes could push the share of 10+yr issuance closer to 14% in March (Exhibit 9).

Exhibit 5: The share of 10+yr supply jumped to typical levels in February
February share of 10+yr supply was 21%, close to 19% pre-Covid median and above 9% average in 2H-2023 and 10% in January 2024.



Source: BofA Global Research

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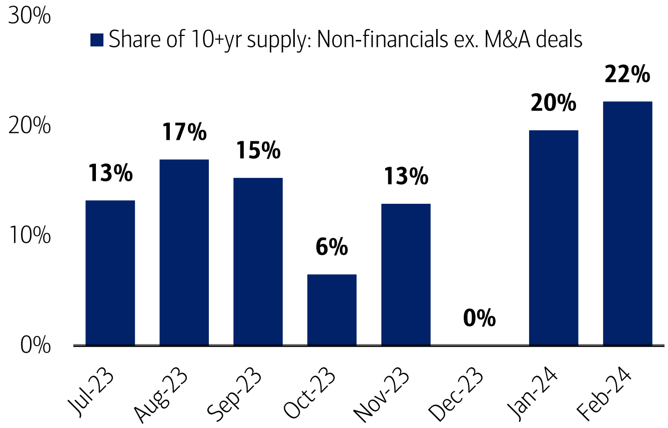
Exhibit 6: Industrial issuers have been more willing to issue 30yr bonds
The share of 10+yr supply for industrial issuers excluding M&A deals increased to 20 – 22%, above ~15% share in 2H-2023.



Source: BofA Global Research

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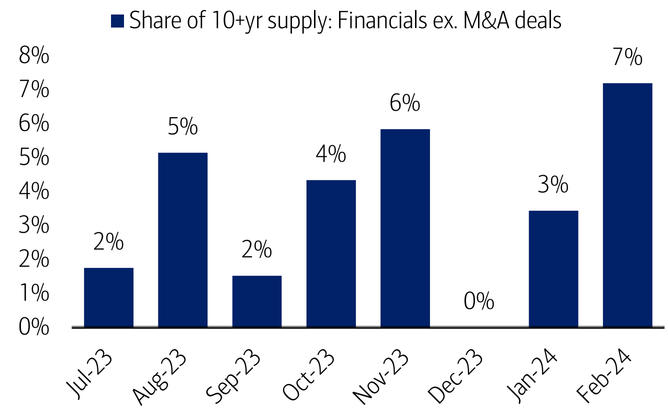
Exhibit 7: The share of back-end financial supply was also higher in Feb
The share of 10+yr supply for financial issuers ex. M&A jumped to 7% in February. It's unclear if that continues in March.



Source: BofA Global Research

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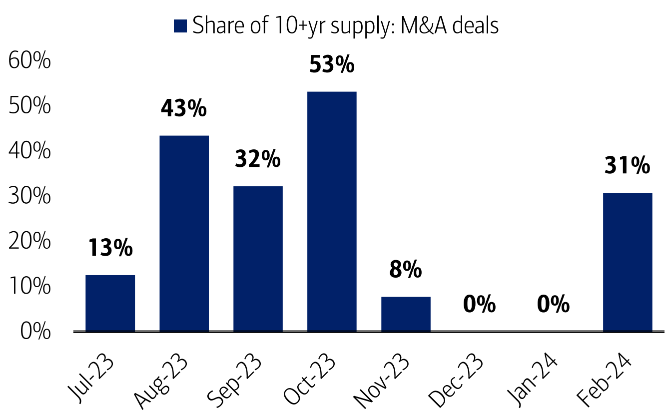
Exhibit 8: M&A new issue deals have a higher share of 30yr bonds
The share of 10+yr supply was 31% for M&A deals in February, which is high relative to 20% overall but below the levels in Oct and Apr of 2023.



Source: BofA Global Research

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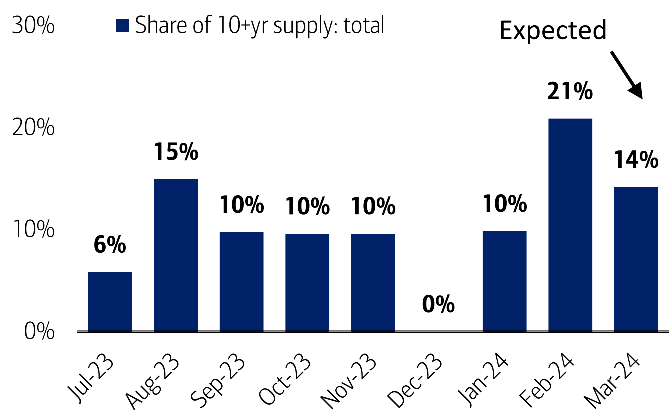
Exhibit 9: We expect a lower share of 10+yr supply in March
Assuming a more normal share of M&A supply and somewhat shorter financial issuance suggests 14% of 10+yr supply in March.



Source: BofA Global Research

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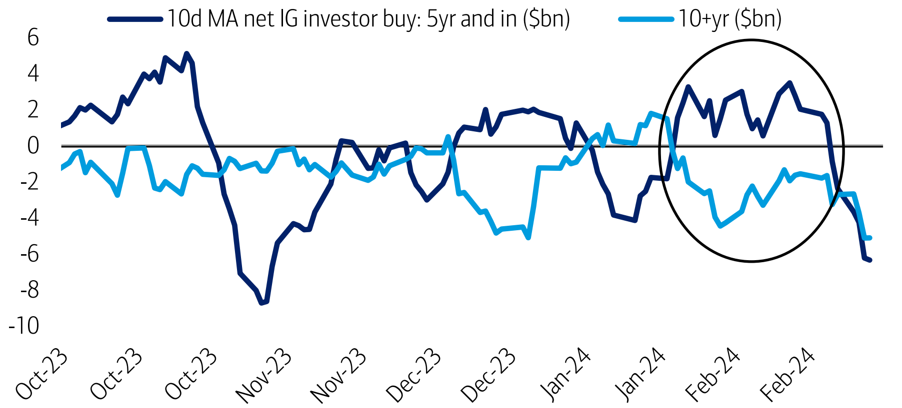
The end of the rotation out of the back end

From late January to mid-February IG investors rotated out of the back end and into the front-end. That was likely due to historically flat IG spread curves and rising interest rate risk as US data surprised to the upside (see Monthly HG Market Review: Feb '24: Strong data). This rotation is now over, with investors selling across all maturities late in February to fund heavier than expected IG new issue supply (Exhibit 10).

Exhibit 10: IG corporate investors rotated from the back end into the front-end in Jan / Feb
Net buying from dealers was positive for 5yr and in bonds and negative for 10+yr bonds for IG investors from late January to mid-February.



Source: BofA Global Research, FINRA TRACE.

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Situation Room: Supply catches up to demand

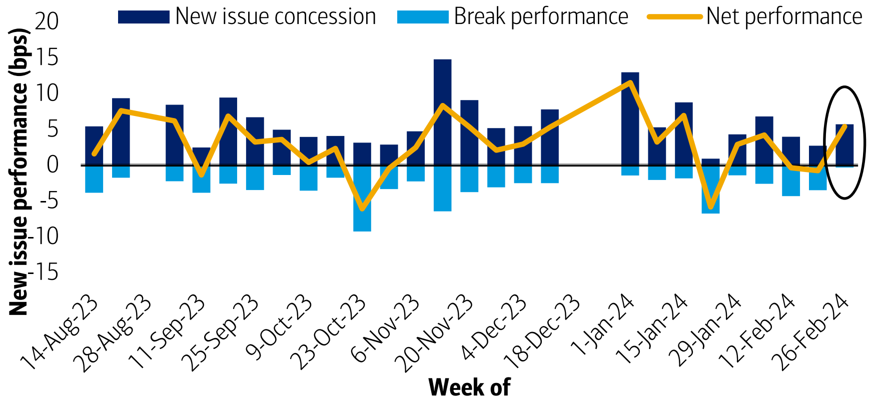
Supply catches up to demand

IG supply finally caught up with demand this week. As a result IG spreads are now widening after reaching the cyclical tights on Thursday February 22, new issue performance is weakening (Exhibit 11) and investors have been net sellers of bonds across maturities (Exhibit 12, Exhibit 13). That's likely a function of both supply reaching record high volumes in February and demand normalizing from unusually strong levels over the prior two weeks (see Situation Room: From buying the dip to just buying). Going forward we look for the pace of supply to slow (see Situation Room: IG March supply: the return of normality), while attractive yields should continue supporting demand. That means technicals on net remain supportive in March, barring a sizable decline in Treasury yields in case US data comes in weaker than expected.

Record February supply

February supply has reached $195bn through Wednesday and will likely exceed $200bn for the full month. That would be a new record high for the month of February, well above the prior record of $155bn set last year (Exhibit 14). However, the size of the IG market doubled over the prior ten years. Adjusting for the market size February 2024 issuance was 2.2% of the ICE BofA IG index notional. That was below 2.5% of the index notional ($117bn) in February 2015 (Exhibit 15). Hence while heavy, February supply was still within the historical range after adjusting for the growing market size.

Exhibit 11: IG new issue performance normalized after very strong levels in the prior two weeks.
The net performance of new issues (new issue concession less break performance) has averaged +5.4bps so far this week, compared -0.4bps and -0.3bps averages in the prior two weeks.



Source: BofA Global Research

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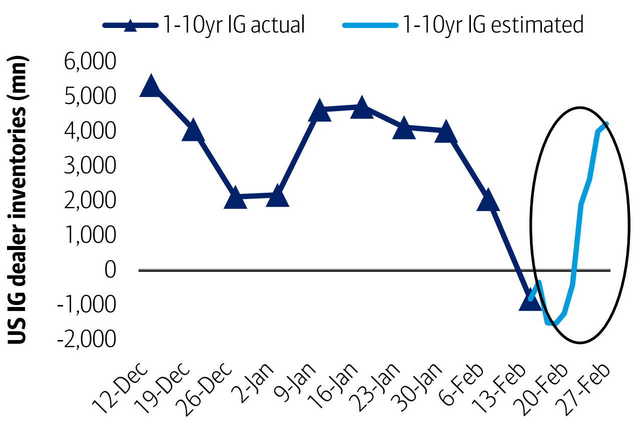
Exhibit 12: Investors net sold 1-10yr bonds since Feb 21
IG investors net sold $4.6bn of 1-10yr bonds since February 21 after net buying bonds from dealers in the prior two weeks.



Source: BofA Global Research, TRACE

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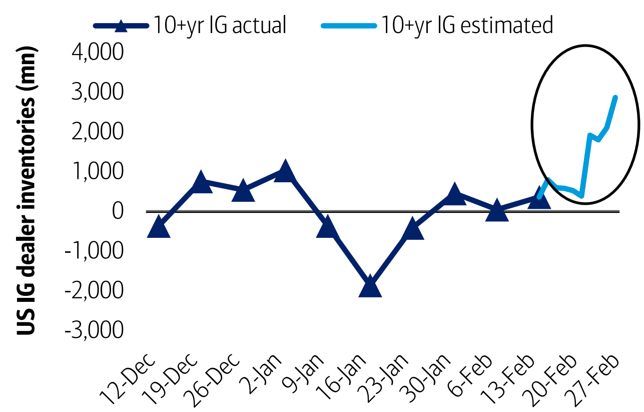
Exhibit 13: Investors net sold 10+yr bonds since Feb 21
IG investors net sold $2.5bn of back-end bonds to dealers since February 21, after staying net neutral over the prior two weeks.



Source: BofA Global Research, TRACE

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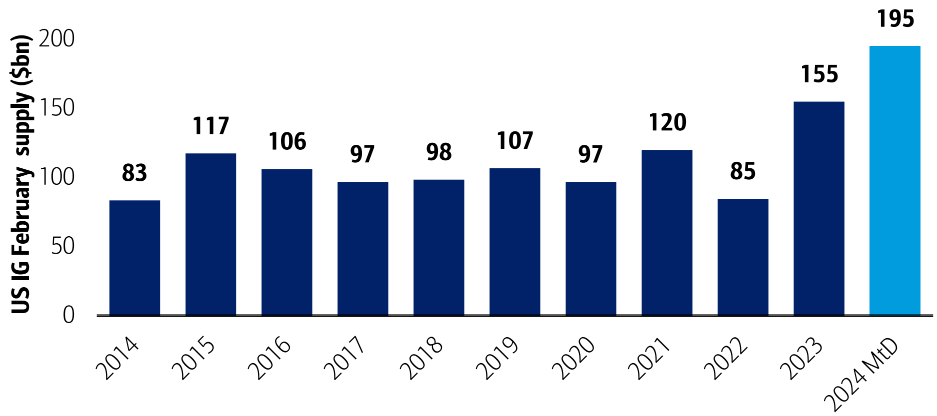
Exhibit 14: Issuance has reached $195bn so far in February
With one more day to go IG supply will likely exceed $200bn for the month – the highest on record.



Source: BofA Global Research

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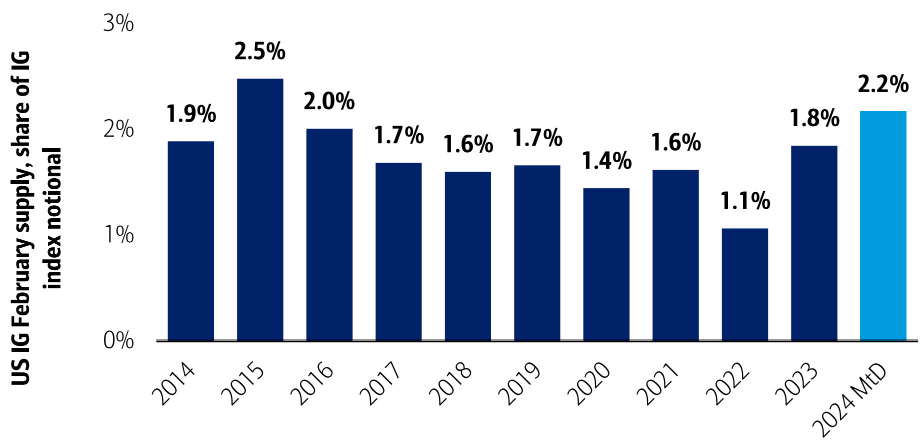
Exhibit 15: Supply for the month of February, share of the ICE BofA US IG index notional
As a share of the IG index notional supply totaled 2.2% so far in February 2024, below 2.5% in February 2015.



Source: BofA Global Research

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[Situation Room: IG March supply: the return of normality]

IG March supply: the return of normality

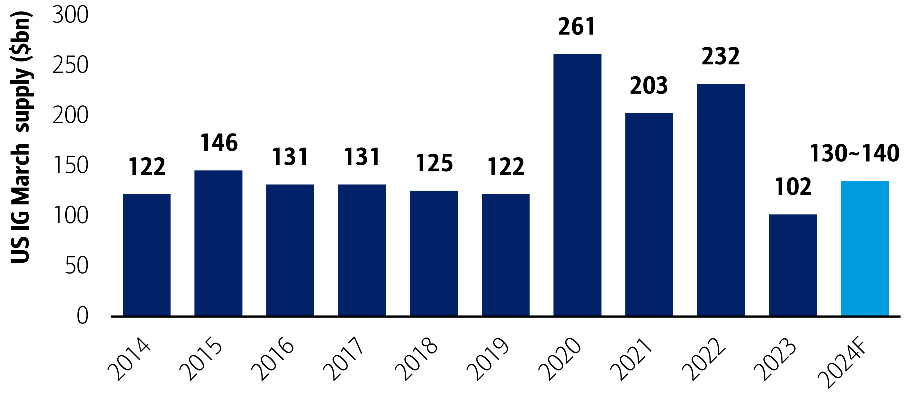
We look for March IG supply to total $130 - $140bn. That would be above than $102bn from March 2023 but well below the March supply in 2022, 2021 and 2020 (Exhibit 16). That is because over the prior four years March issuance was either unusually heavy (due to COVID in 2020, record low yields in 2021, front-loading ahead of the Fed hiking cycle in 2022), or unusually low (due to regional bank stress in 2023). We look for issuance to return finally to a more normal level in March 2024.

Demand creates supply

The combination of a big M&A deal pipeline ($49bn) and very strong investor demand (see Situation Room: From buying the dip to just buying) pushed issuance so far in February to $180bn, above our expected $160 - $170bn range. The implication of this for March supply is probably a wash. On the one hand, the heavy issuance in February means deals were potentially front-loaded from March to take advantage of the very strong investor demand (Exhibit 17). On the other hand, the strong demand could continue attracting supply in March. As a result, while we look for March 2024 supply to be higher than the last "normal" volume of $122bn in March 2019, it should be relatively modest as a share of the IG index at 1.5%. That's below 1.9% in 2019 (Exhibit 18).

Exhibit 16: We expect March supply in $130 - $140bn range

That would be higher than the prior record for the calendar month of $155bn set in 2023.



Source: BofA Global Research

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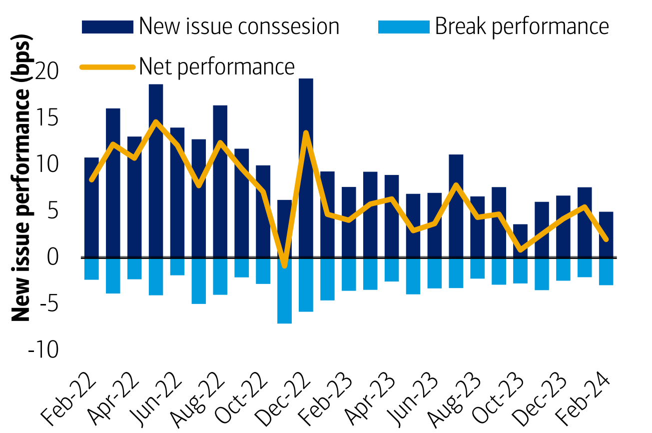
Exhibit 17: IG supply performance was strong in February

Net new issue performance (new issue concession less break performance) improved to +1.9bps so far in February from +5.5bps in January.



Source: BofA Global Research

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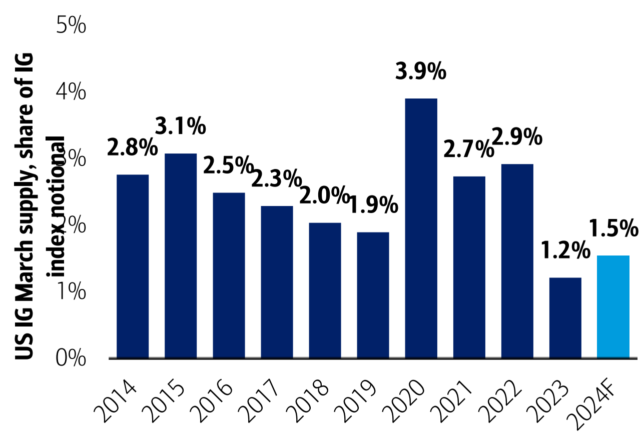
Exhibit 18: The expected March supply is relatively modest vs. index

The expected $130-$140bn for March supply is 1.5% of the index, below 1.9% for March 2019, for example.



Source: BofA Global Research, ICE Data Indices, LLC

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Situation Room: Final 4Q23 IG fundamentals: steady

Final 4Q23 IG fundamentals: steady

Our close-to-final estimate of the 4Q-23 IG credit market fundamentals shows a relatively mixed picture. The positives during 4Q included higher cash, steady gross debt levels and a slowing decline in the coverage ratio. The negatives include a marginally higher gross leverage led by single-As, a lackluster EBITDA growth and shortening maturities. Currently the results are based on data for 85% of issuers in our sample that tracks public US IG issuers ex. Financials and Utilities. Finally, these latest estimates paint a less positive compared to our preliminary estimate (see Situation Room: Preliminary 4Q23 IG fundamentals).

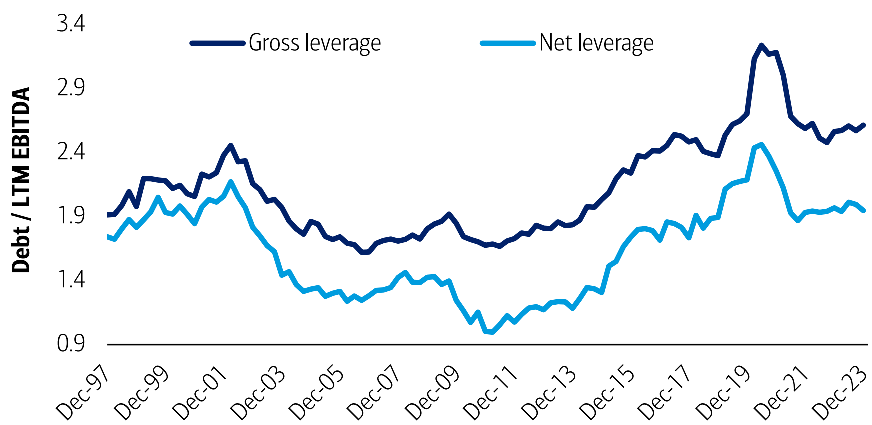
Hoarding cash

Gross leverage increased moderately to 2.61x in 4Q from 2.57x in 3Q, while net leverage declined to 1.94x from 1.99x over the same period. The divergence was driven by the drop in net debt (-3.1% YoY), while gross debt remained little changed (+0.1 YoY). That implies that cash accumulation remained robust in 4Q: cash & securities were up 7.5% YoY (Exhibit 26) and an unseasonably high +5.3% QoQ (Exhibit 28).

Lackluster earnings growth

The median YoY EBITDA growth remained relatively subdued in 4Q at +2.6%, while revenues were up 1.1% YoY, similar to +0.7% in 3Q. Margins improved a bit in 4Q, with the EBITDA margin rising to 18.7% from 18.5% in the prior quarter (Exhibit 36).

Exhibit 19: Median leverage: non-financial non-utility US IG issuers
Gross leverage decreased to 2.52x, net leverage decreased to 1.88x in 4Q-23.



Note: based on medians for US investment grade non-financial non-utility issuers. 4Q23 values are preliminary. Net debt is gross debt minus cash and marketable securities.
Source: BofA Global Research

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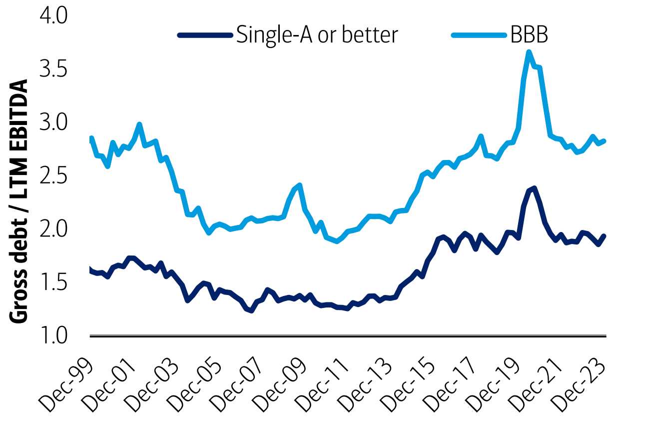
Exhibit 20: Gross leverage for BBB and single-A or better issuers
Gross leverage increased in 4Q to 2.834x for BBBs and to1.94x for A-rated issuers.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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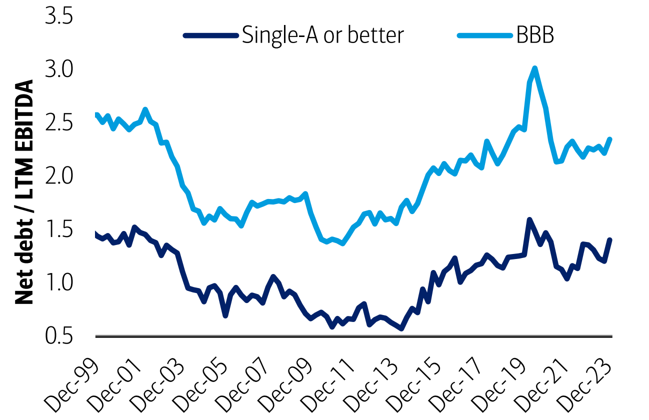
Exhibit 21: Net leverage for BBB and single-A or better issuers
Net leverage weakened in 4Q to 2.35x for BBBs and to 1.40x for single-As.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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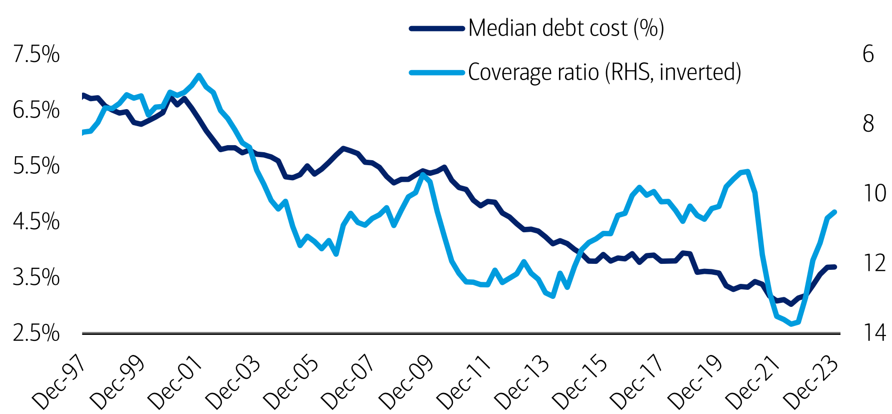
A smaller drop in coverage

After declining rapidly from the peak in 2Q-2022 the coverage ratio was more stable in 4Q-2023. In other words, the pace of decline slowed materially over the past few quarters (Exhibit 23). We estimate the coverage ratio declined to 10.51x in 4Q from 10.69x in 3Q and 11.40 in 2Q-2023. The slowing pace of declines was in part due to a pause in the increase in median LTM borrowing cost. We estimate the median LTM borrowing cost (LTM interest expense / gross debt) was 3.69% in 4Q, unchanged from 3Q (Exhibit 22).

Exhibit 22: Little changed debt costs, slightly higher coverage in 4Q
The median coverage ratio increased to 10.51x in 4Q from 10.69x in 3Q. At the same time the median LTM debt cost (LTM interest expense / gross debt) was unchanged at 3.69%.



Note: Median debt cost is defined as LTM interest expense / current gross debt. 4Q23 values are preliminary.
Source: BofA Global Research

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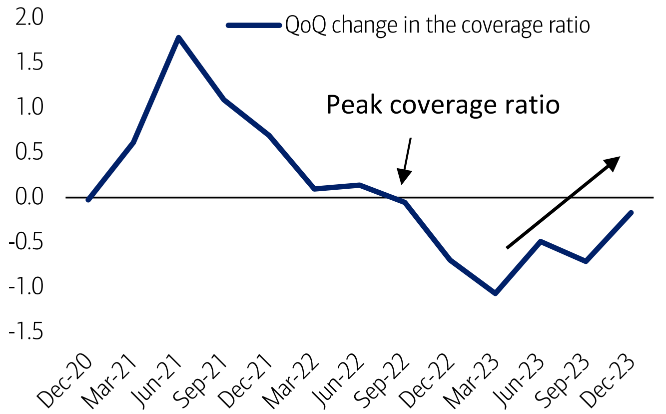
Exhibit 23: A slower pace of change in the coverage ratio
The coverage ratio declined -0.17 in 4Q, notably slower than -0.72 in 3Q.



Source: BofA Global Research

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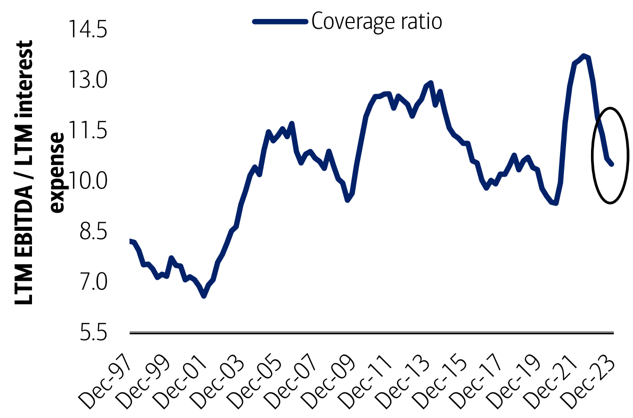
Exhibit 24: Moderately lower coverage ratio in 4Q
The coverage ratio declined to 10.51x in 4Q from 10.69x in 3Q and 11.40 in 2Q-2023.



Source: BofA Global Research

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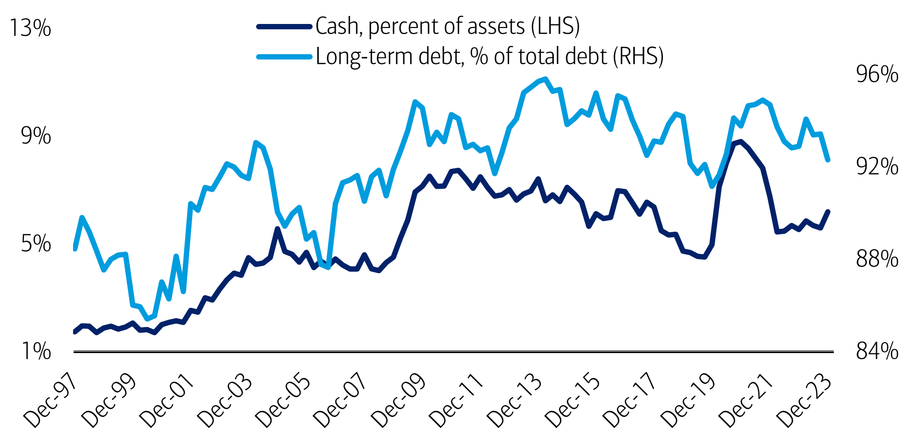
Liquidity metrics

Liquidity metrics results were mixed, with cash as % of assets rising to 6.20% in 4Q from 5.60% in 3Q, while the share of long-term debt decreased to 92.3% in 4Q from 93.4% in 3Q (Exhibit 25).

Exhibit 25: Liquidity metrics: non-financial non-utility US issuers
Cash as % of assets rose in 4Q relatively to 3Q while the share of long-term debt decreased.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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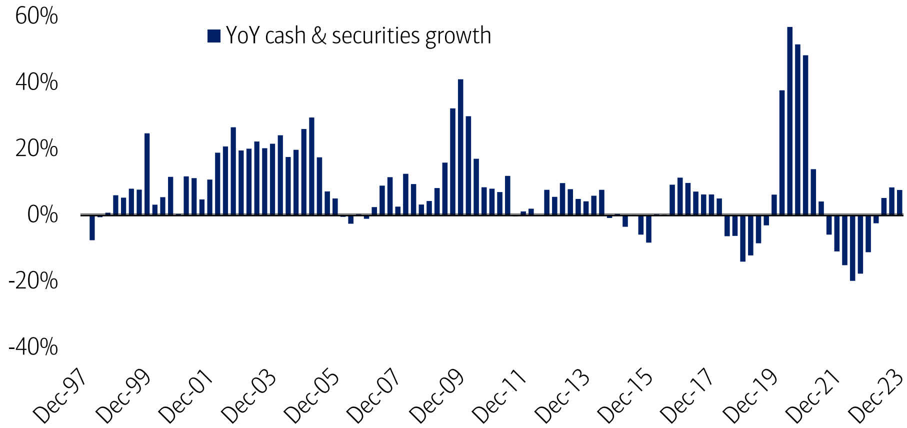
Cash and securities

The YoY change in cash & securities increased +7.5% YoY in 4Q following a +8.3% YoY rise in 3Q-2023 (Exhibit 26). On a QoQ basis cash balanced grew +5.3%, notably above the +4.7% seasonal 4Q trend (Exhibit 27, Exhibit 28).

Exhibit 26: YoY change in cash and securities increased further in 4Q
YoY cash & securities growth remained robust at +7.5% YoY in 4Q, similar to +8.3% in 3Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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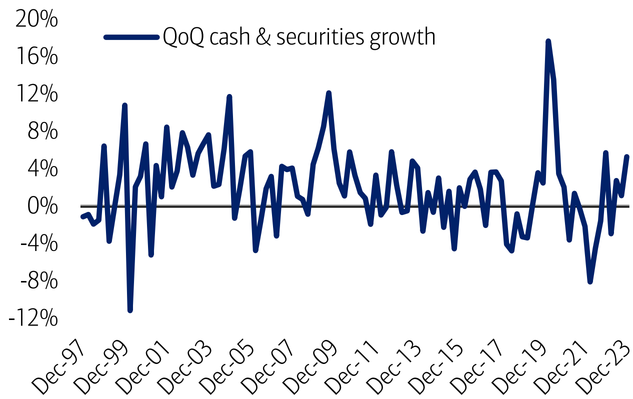
Exhibit 27: Cash increased QoQ in 4Q
Cash and securities increased to +5.3% QoQ in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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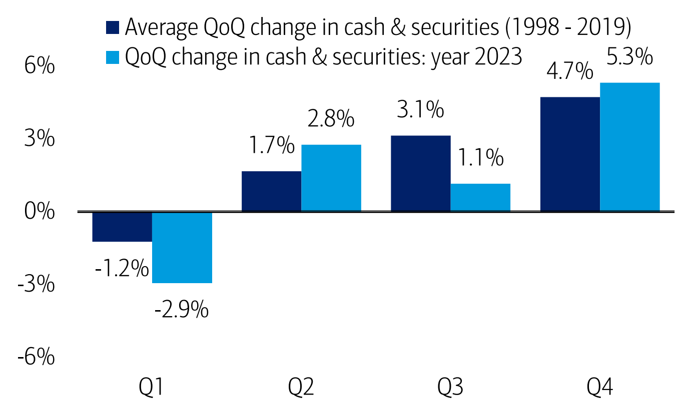
Exhibit 28: 4Q-23 QoQ cash growth was below seasonal averages
Cash typically declines in 1Q and increases in 2Q through 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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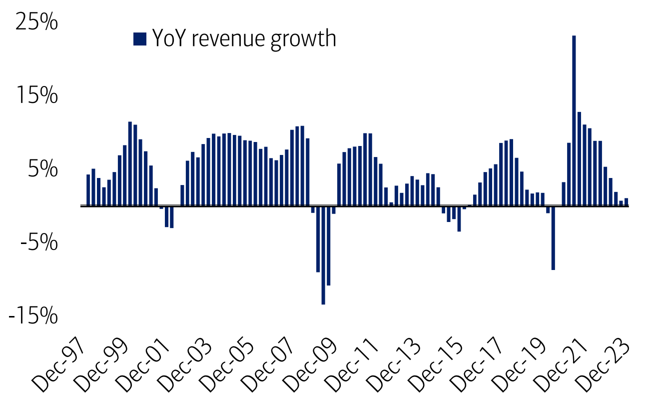
Revenue and EBITDA growth

Median YoY revenue growth remained subdued at+1.1% in 4Q, similar to +0.7% in 3Q. The median YoY EBITDA growth accelerated a bit to 2.6% in 4Q from +1.1% in 3Q (Exhibit 29, Exhibit 30). Similarly LTM revenues growth rose to +0.5% QoQ in 4Q from +0.2% QoQ in 3Q, while LTM EBITDA growth jumped to +0.9% QoQ in 4Q from +0.5% in 3Q (Exhibit 31, Exhibit 32).

Exhibit 29: Median YoY change in revenues
YoY revenue growth remained subdued in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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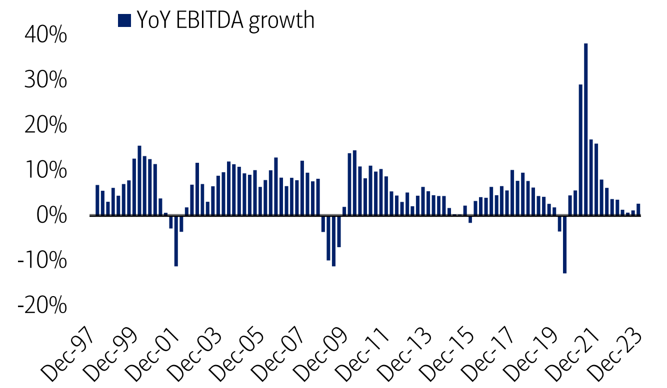
Exhibit 30: Median YoY change in EBITDA
YoY EBITDA growth was +2.6% in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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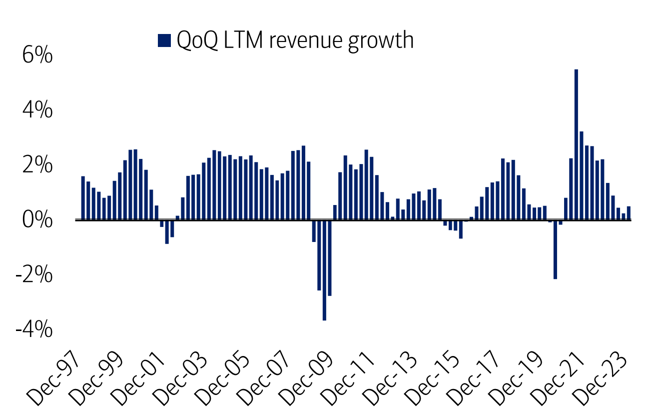
Exhibit 31: Median QoQ change in LTM revenues
Median QoQ growth in LTM revenues increased in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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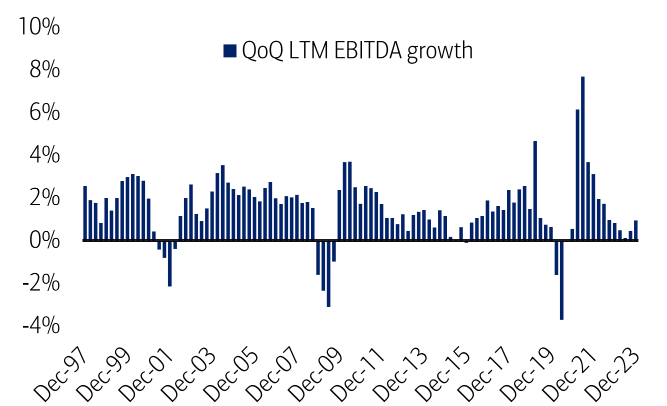
Exhibit 32: Median QoQ change in LTM EBITDA
Median QoQ growth in LTM EBITDA was a bit higher in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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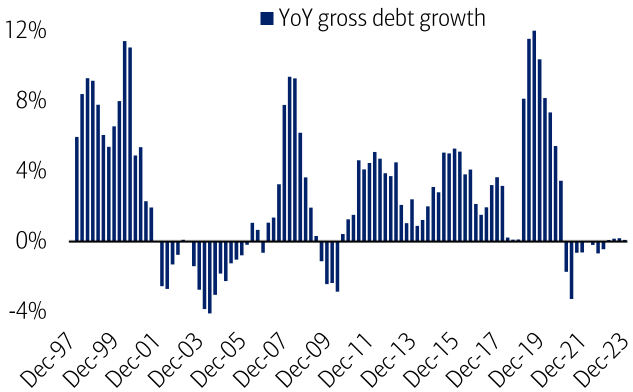
Debt growth

On a YoY basis gross debt was little changed at +0.1% YoY in 4Q and +0.2% in 3Q (Exhibit 33). In contrast net debt growth dropped to -3.1% YoY in 4Q and -1.2% YoY in 3Q (Exhibit 34).

Exhibit 33: YoY median change in gross debt
Gross debt was little changed in 4Q-2023 (+0.1% YoY).



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate. Including leases in debt due to accounting rule ASC 842 inflated YoY debt growth values in 2019.
Source: BofA Global Research

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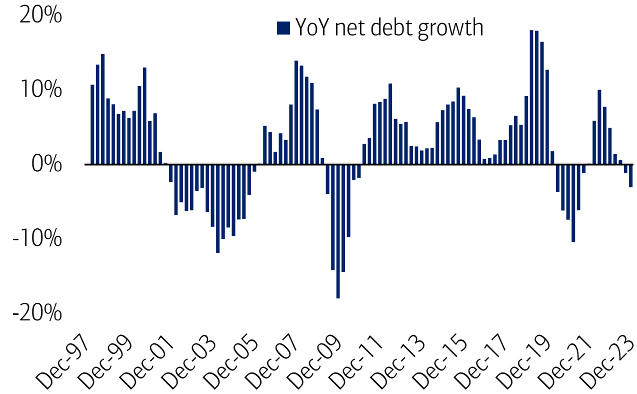
Exhibit 34: YoY median change in net debt
Net debt declined -3.1% YoY in 4Q-2023.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate. Including leases in debt due to accounting rule ASC 842 inflated YoY debt growth values in 2019.
Source: BofA Global Research

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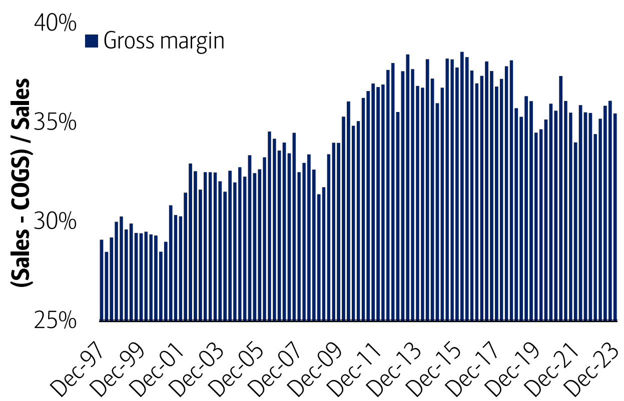
Profitability

The median gross margin decreased to 35.5% in 4Q from 36.1% in 3Q. On the other hand, EBITDA margin rose to 18.7% in 4Q from 18.5% in 3Q (Exhibit 35, Exhibit 36).

Exhibit 35: Median gross margin
Gross margin weakened in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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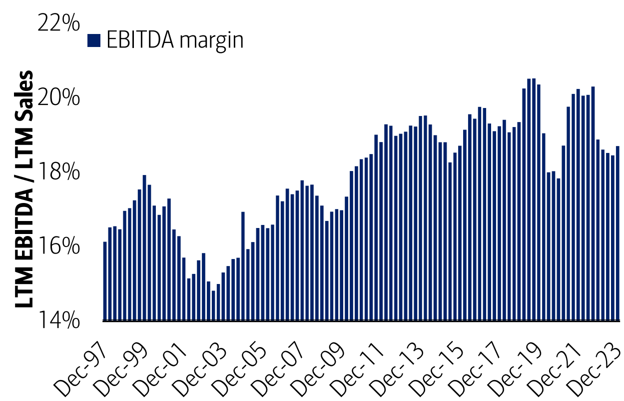
Exhibit 36: Median EBITDA margin
EBITDA margin strengthened in 4Q.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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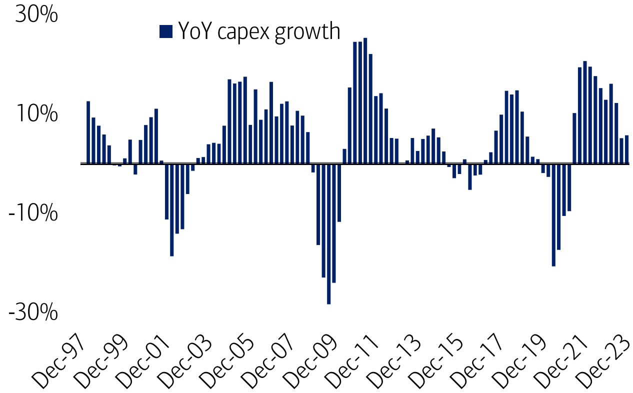
Capital spending

The median YoY capex spending growth remained relatively steady at +5.7% YoY in 4Q, up from +5.1% YoY in 3Q and down from the recent peak of +20.7% in 4Q-2021 (Exhibit 37). LTM capex as a share of EBITDA increased modestly to 24.0% in 4Q from 23.5% in 3Q (Exhibit 38).

Exhibit 37: Median YoY growth in capex
YoY capex growth moderated in 3Q and 4Q 2023.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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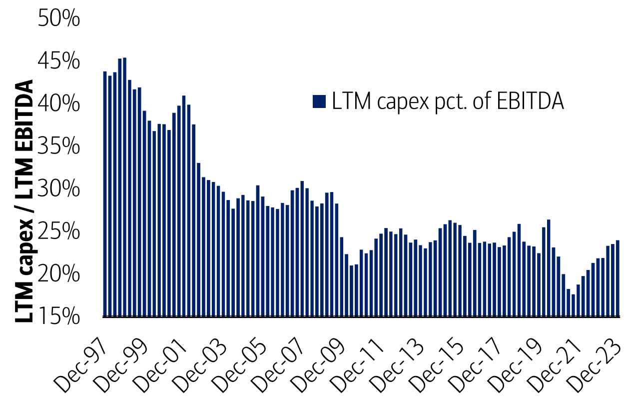
Exhibit 38: Median LTM capex as percent of LTM EBITDA
LTM capex as a share of EBITDA declined to a record low level in 3Q-21 and have rebounded since then.



Note: based on US investment grade non-financial non-utility issuers. 4Q23 data is a preliminary estimate.
Source: BofA Global Research

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Methodology

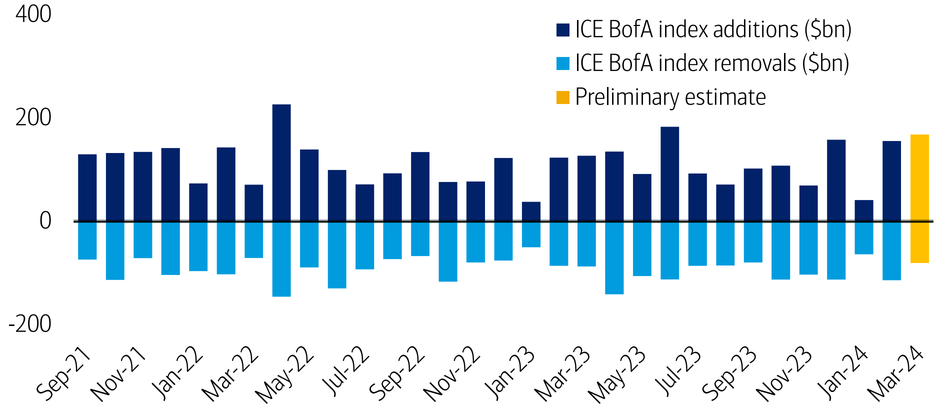
The estimates in this report are for US non-financial issuers in benchmark ICE BofA US Corporate Index C0A0 with balance sheet data available on Bloomberg. We exclude companies with large captive finance subsidiaries (CAT, DE, F, GE, and GM) and high yield issuers with secured bonds in the IG index (DELL, CHTR). We further restrict the scope of the analysis in this report to issuers excluding Utilities, which tend to have higher leverage, especially for their rating. For these US non-financial non-utility issuers actual results are currently available for 85% of the total 346 issuers. All market fundamentals are median values using GAAP measures, based on actual results when available and estimates otherwise (estimated by applying the median QoQ change for the companies with available data to the prior quarter levels of companies where data is not yet available). We use a dynamic – as opposed to static – universe of issuers in our analysis based on the constituents in ICE BofA US IG index (C0A0) at the end of each calendar quarter.

This is an excerpt from the following report
Situation Room: Final 4Q23 IG fundamentals: steady

March 2024 US IG cash index roll

We provide a preliminary estimate of the March 2024 US IG corporate cash index roll with aggregate numbers and individual bond additions and removals for the ICE BofA index.

Exhibit 39: Historical ICE BofA Index roll additions and removals
The expected March removals average at 50% of expected additions average.



Source: BofA Global Research, ICE Data Indices, LLC

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Previously published here
[Situation Room: Out of HY and into loans]

Flows

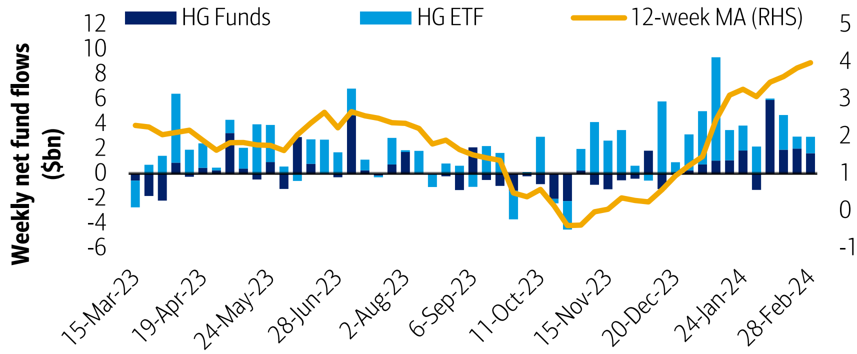
Inflows to HG continue

Inflows to US HG bond funds and ETFs continued this past week ending on February 28 with a +$2.94bn inflow, from +$2.96bn in the prior week. This week's inflow was split between HG funds (to +$1.62bn from +$1.99bn the prior week), and HG ETFs (to +$1.33bn from +$0.97bn). Short-term HG flows were near flat (to +$0.15bn from -$0.06bn), while inflows continued ex. short-term (to +$2.80bn from +$3.03bn).

Out of HY and into loans

This past week outflows from HY were a record -$1.14bn (the strongest weekly outflow in eight weeks from +$0.70bn the previous week), while inflows to loans were a record +$0.61bn (the strongest inflow since November 2023, from +$0.01bn the prior week). Inflows moderated for equities (to +$7.66bn, from a record +$12.71bn a week earlier) and for munis (to +$0.27bn from +$0.57bn). Outflows from global EM bonds also moderated (to -$0.42bn from -$0.74bn). Finally, money markets reported a +$53.97bn inflow this past week, following a +$1.73bn inflow a week earlier.

Exhibit 40: Weekly high grade fund flows, $bn
HG ETF +$1.33bn, HG Funds +$1.62



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

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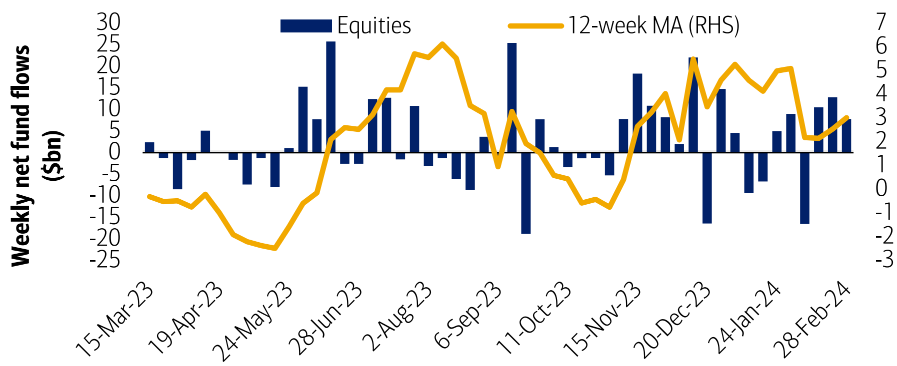
Exhibit 41: Weekly equity fund flows, $bn
Equities +$7.66bn



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

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Exhibit 42: 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	0.14%	1.4%	55.6
High grade: ex short-term	0.17%	1.8%	56.5
High yield: total	-0.34%	1.3%	4.6
High yield: ETFs only	-1.50%	1.1%	0.8
Loans	0.69%	1.5%	1.8
EM	-0.09%	-0.5%	-3.5
Munis	0.05%	0.6%	5.3
All fixed income	0.14%	1.2%	74.9
Money markets	0.83%	2.3%	150.8
Equities	0.07%	0.0%	8.6

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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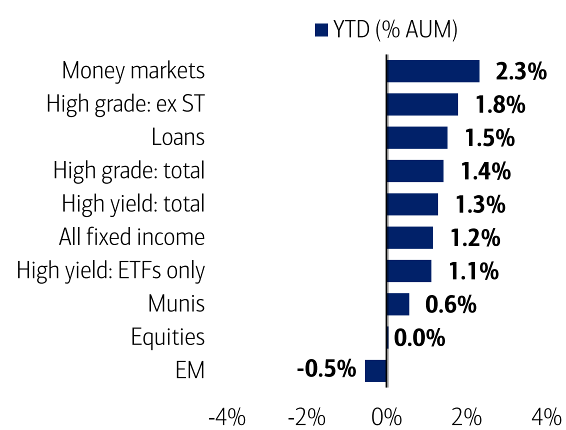
Exhibit 43: Year to date fund flows, % of AUM
EM has had the biggest outflows so far in 2023.



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

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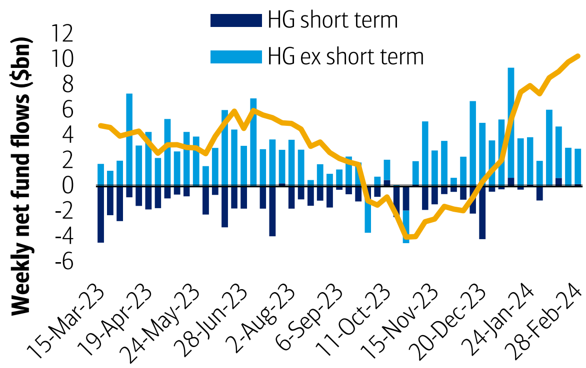
Exhibit 44: Weekly high grade fund flows, $bn

HG short-term +$0.15bn, HG ex short-term +$2.80



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

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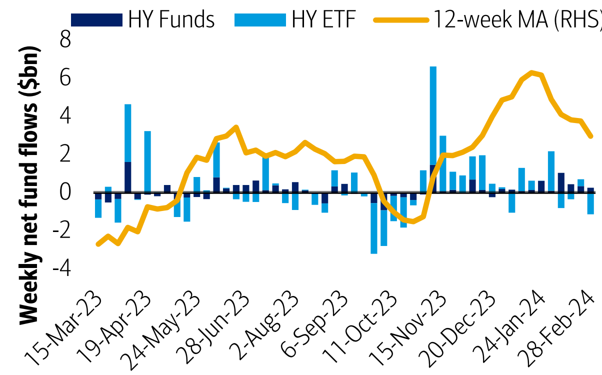
Exhibit 45: Weekly high yield fund flows, $bn

HY ETFs -$1.14bn, HY funds +$0.25



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

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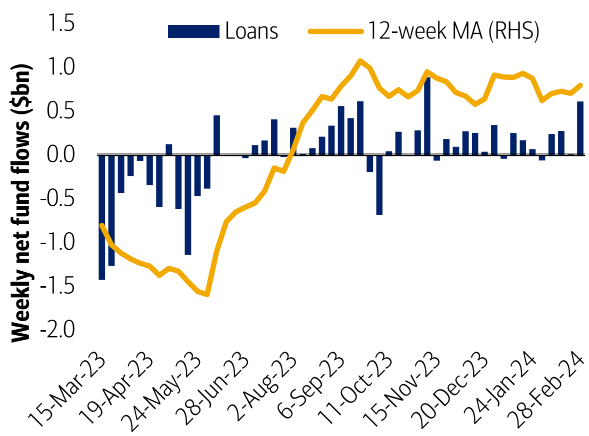
Exhibit 46: Weekly loan fund flows, $bn

Leveraged loans +$0.61bn



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

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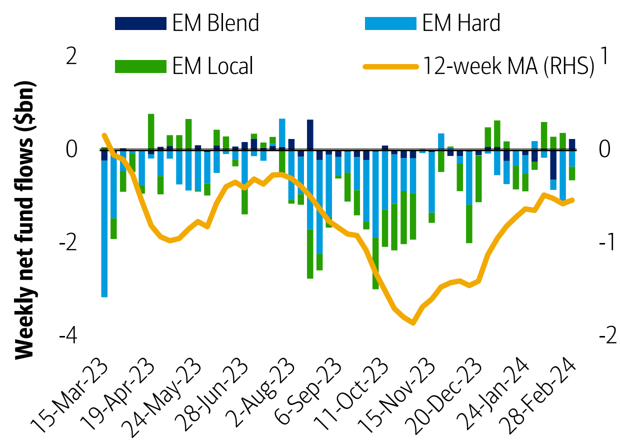
Exhibit 47: Weekly EM fund flows, $bn

Global EM bonds -$0.42bn



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

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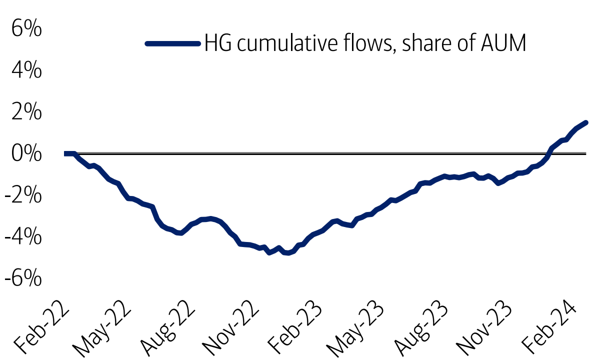
Exhibit 48: Cumulative % flows in HG over the last 2 years

Following large outflows in 2022, HG flows turn positive in 2023



Source: EPFR Global, BofA Global Research

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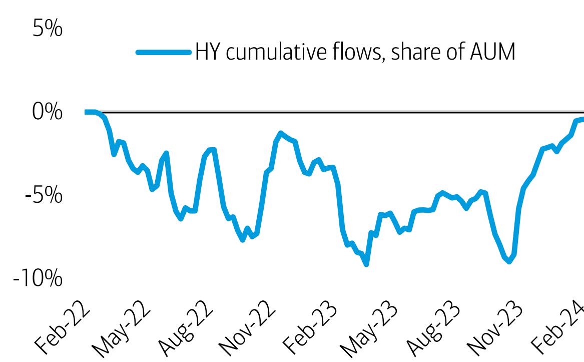
Exhibit 49: Cumulative % flows in HY over the last 2 years

2022 and 2023 have seen consequent outflows in HY



Source: EPFR Global, BofA Global Research

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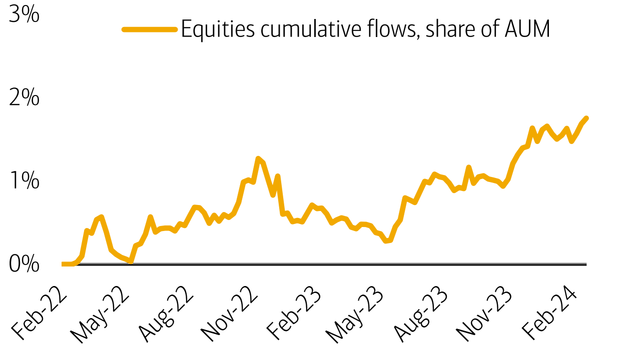
Exhibit 50: Cumulative % flows in equities over the last 2 years
Flows moderate in equities after two years of inflows



Source: EPFR Global, BofA Global Research

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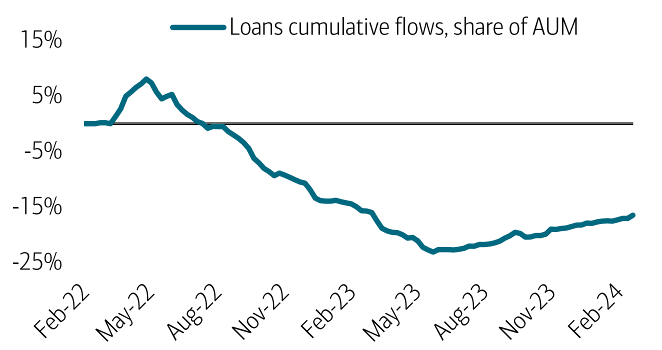
Exhibit 51: Cumulative % flows in loans over the last 2 years
After large inflows until mid-2021, loans subject to large outflows ever since



Source: EPFR Global, BofA Global Research

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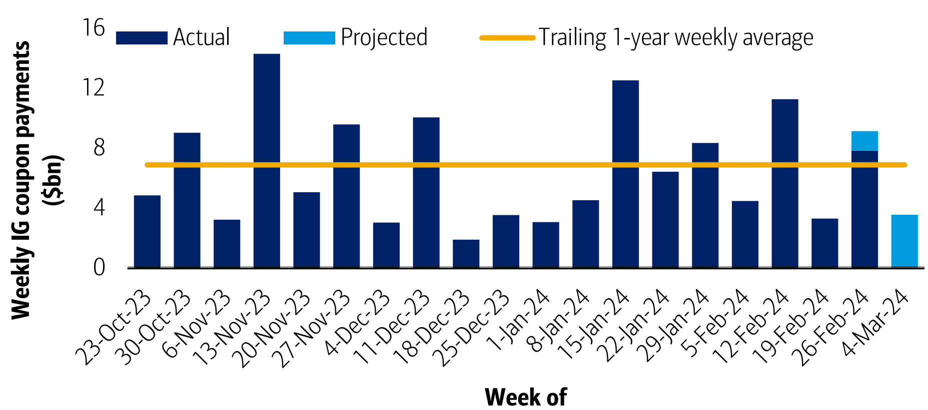
Appendix: defining high grade

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 $3.6bn in coupon payments next week, below the trailing 1-year weekly average of $6.9bn (Exhibit 52). In addition, $1.1bn of calls were settled and paid this week, while $0.7bn of calls and a $1.8bntender offer are expected to become effective next week. Bond maturities: $17.3bn this week, $15.8bn next week.

Exhibit 52: Weekly US IG coupon payments
Expect $3.6bn 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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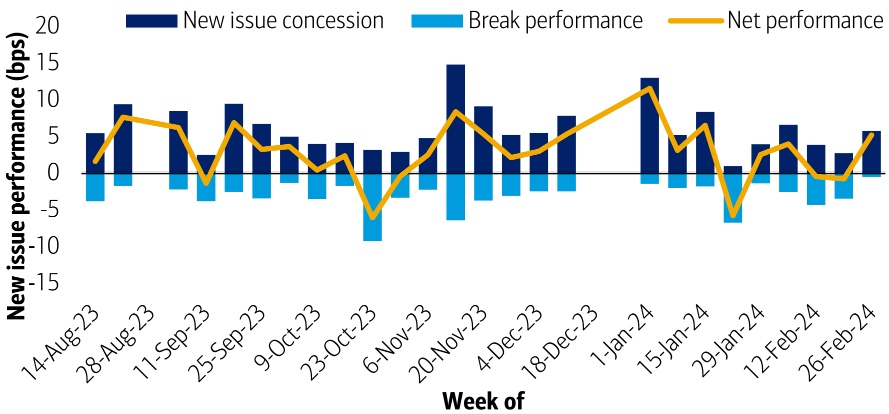
Supply

US IG gross issuance totaled $52.5bn this week, consisted of $31.1bn financials, $9.4bn high-quality industrials and $12.0bn BBB industrials. Given $390.5bn of gross issuance, $135.4bn of maturities and $5.7bn of additional redemptions, net issuance is tracking $249.4bn YTD. The YTD issuance is 24% above the 2023 issuance ($299.4bn) for the same period. IG supply volumes are typically relatively heavy in the first two weeks of March (Exhibit 54). However, elevated volumes in February suggest some of the deals were pulled forward from March. As a result, we look for more moderate supply volumes next week in the $35-$40bn range.

New issue performance weakened this week. The average new issue concession increased to 5.7bps from 2.7bps last week, while the average break performance moderated to 0.6bps tighter this week from 3.5bps tighter last week. As a result, the overall new issue performance, which we measure as new issue concession plus break performance, widened to +5.2bps this week from -0.8bps tighter last week (Exhibit 53).

Exhibit 53: Weekly new issue supply performance

For the week of Feb 26 2024: new issue concession = 5.7bps; break performance = -.6bps; net performance = 5.2bps.



Source: BofA Global Research

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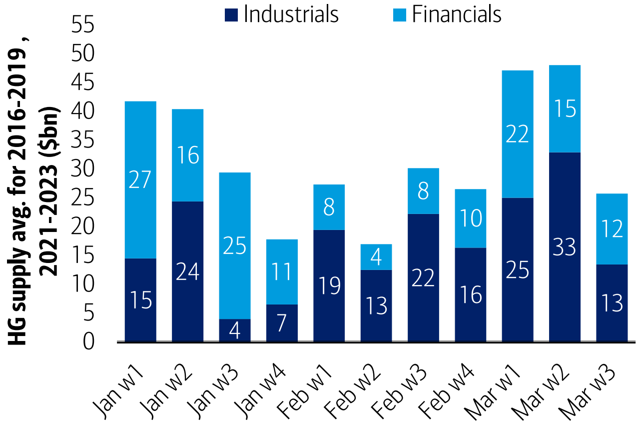
Exhibit 54: Weekly Supply seasonality
Supply volumes pick tend to be heavy during first half of March.



Source: Bloomberg, BofA Global Research

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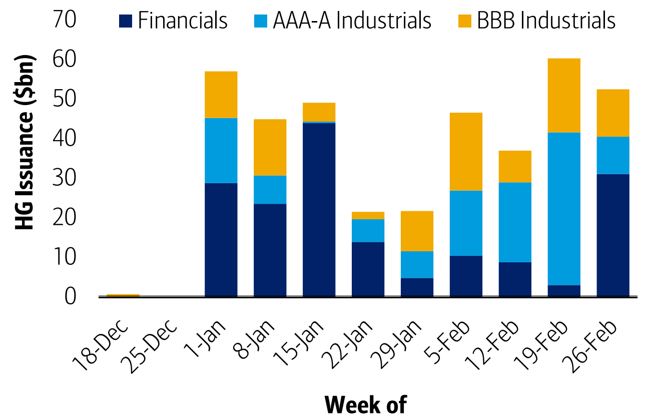
Exhibit 55: Weekly Supply
This week's supply consisted of $31.1bn financials, $9.4bn high-quality industrials and $12.0bn BBB industrials.



Source: Bloomberg, BofA Global Research

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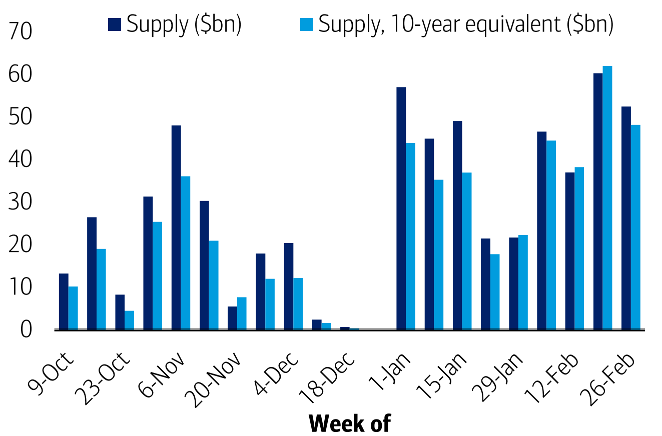
Exhibit 56: Weekly gross and 10-year equivalent supply volumes
10-year equivalent supply = $48.2bn WTD



Source: BofA Global Research, Bloomberg

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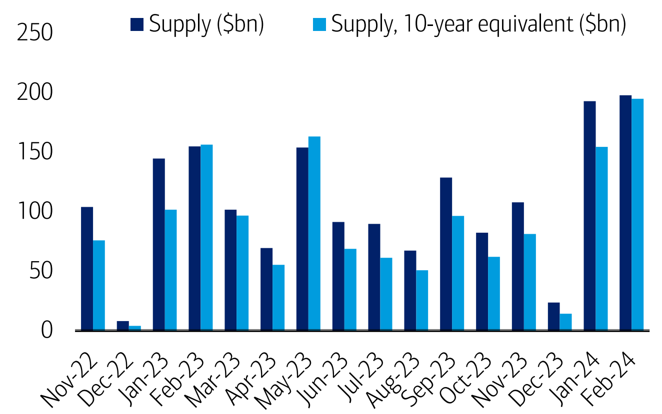
Exhibit 57: Monthly gross and 10-year equivalent supply volumes
10-year equivalent supply = $194.8bn in February



Source: BofA Global Research, Bloomberg

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Exhibit 58: 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)
2024-02-26	BNCN	Brookfield Finance Inc	30	750	A3/A-	5.968	155	13	n.a.	155
2024-02-26	BPLN	BP Capital Markets PLC	PERP NC10	1,300	A2/A-	6.45	n.a.	n.a.	n.a.	207
2024-02-26	CNP	CenterPoint Energy Houston Electric LLC	10	400	A2/A	5.15	90	7	n.a.	94
2024-02-26	DANBNK	Danske Bank A/S	4NC3	1,000	A3/A+	5.427	95	n.a.	-3	94
2024-02-26	DANBNK	Danske Bank A/S	6NC5	1,250	Baa2/BBB+	5.705	140	n.a.	-2	140
2024-02-26	DUK	Duke Energy Indiana LLC	10	300	Aa3/A	5.25	100	2	-1	103
2024-02-26	EXC	Potomac Electric Power Co	10	375	A2/A	5.2	95	n.a.	2	102
2024-02-26	EXC	Potomac Electric Power Co	30	300	A2/A	5.5	110	n.a.	2	116
2024-02-26	FI	Fiserv Inc	3	750	Baa2/BBB	5.15	68	n.a.	n.a.	69
2024-02-26	FI	Fiserv Inc	7	500	Baa2/BBB	5.35	105	10	n.a.	111
2024-02-26	FI	Fiserv Inc	10	750	Baa2/BBB	5.45	115	4	n.a.	100
2024-02-26	HON	Honeywell International Inc	6	500	A2/A	4.875	55	n.a.	0	55

Exhibit 58: Recent new issue pricing and new issue concessions

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

2024-02-26	HON	Honeywell International Inc	8	500	A2/A	4.95	65	n.a.	n.a.	71
2024-02-26	HON	Honeywell International Inc	11	750	A2/A	5	75	n.a.	-2	80
2024-02-26	HON	Honeywell International Inc	30	1,750	A2/A	5.25	85	n.a.	-2	92
2024-02-26	HON	Honeywell International Inc	40	650	A2/A	5.35	95	n.a.	-1	101
2024-02-26	HSBC	HSBC USA Inc	3	500	A2/A-	FRN	0	n.a.	n.a.	n.a.
2024-02-26	HSBC	HSBC USA Inc	3	1,000	A2/A-	5.294	80	n.a.	-1	84
2024-02-26	HSBC	HSBC Holdings PLC	6NC5	1,500	A3/A-	5.546	123	n.a.	1	130
2024-02-26	HSBC	HSBC Holdings PLC	11NC10	1,250	A3/A-	5.719	143	n.a.	2	152
2024-02-26	KEY	KeyCorp	11NC10	1,000	Baa2/BBB	6.401	210	n.a.	-3	214
2024-02-26	LYB	LYB International Finance III LLC	10	750	Baa2/BBB	5.5	130	n.a.	n.a.	136
2024-02-26	NWG	NatWest Group PLC	4NC3	300	A3/BBB+	FRN	SOFR+125	n.a.	n.a.	n.a.
2024-02-26	NWG	NatWest Group PLC	4NC3	1,000	A3/BBB+	5.583	110	0	-2	113
2024-02-26	NWG	NatWest Group PLC	11NC10	1,500	A3/BBB+	5.778	150	16	1	156
2024-02-26	PCG	Pacific Gas and Electric Co	5	850	Baa2/BBB	5.55	125	n.a.	-4	121
2024-02-26	PCG	Pacific Gas and Electric Co	10	1,100	Baa2/BBB	5.8	153	n.a.	3	159
2024-02-26	PCG	Pacific Gas and Electric Co	29	300	Baa2/BBB	6.75	170	n.a.	6	184
2024-02-26	PSX	Phillips 66 Co	7	600	A3/BBB+	5.25	100	n.a.	3	103
2024-02-26	PSX	Phillips 66 Co	9	400	A3/BBB+	5.3	110	n.a.	4	117
2024-02-26	PSX	Phillips 66 Co	30	500	A3/BBB+	5.65	125	2	3	136
2024-02-26	R	Ryder System Inc	3	350	Baa2/BBB+	5.3	83	n.a.	n.a.	n.a.
2024-02-26	R	Ryder System Inc	5	550	Baa2/BBB+	5.375	105	n.a.	n.a.	n.a.
2024-02-26	SO	Southern Co/The	5	400	Baa2/BBB	5.5	85	6	-5	88
2024-02-26	SO	Southern Co/The	10	400	Baa2/BBB	5.7	117	3	-2	123
2024-02-26	WAB	Westinghouse Air Brake Technologies Corp	10	500	Baa3/BBB	5.611	132	n.a.	n.a.	n.a.
2024-02-26	XEL	Xcel Energy Inc	10	800	Baa1/BBB+	5.5	125	n.a.	-1	153
2024-02-27	EIX	Southern California Edison Co	2	600	A2/A-	5.35	62	1	n.a.	n.a.
2024-02-27	EIX	Southern California Edison Co	5	600	A2/A-	5.15	83	7	n.a.	n.a.
2024-02-27	EIX	Southern California Edison Co	30	400	A2/A-	5.75	135	3	n.a.	142
2024-02-27	GMT	GATX Corp	3	350	Baa2/BBB	5.4	95	n.a.	-6	91
2024-02-27	NEE	NextEra Energy Capital Holdings Inc	31NC5	1,000	Baa2/BBB	6.7	236	n.a.	n.a.	251
2024-02-27	RABOBK	Cooperatieve Rabobank UA/NY	3	600	Aa2/A+	FRN	0	n.a.	n.a.	67
2024-02-27	RABOBK	Cooperatieve Rabobank UA/NY	3	650	Aa2/A+	5.041	55	9	-2	61
2024-02-27	RABOBK	Cooperatieve Rabobank UA	6NC5	750	A3/A-	5.447	112	-1	-1	118
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	3	350	Aa3/A+	FRN	SOFR+89	n.a.	n.a.	84
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	3	650	Aa3/A+	5.125	73	n.a.	-3	76
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	5	750	A3/A-	5.375	117	n.a.	-2	122
2024-02-27	WTW	Willis North America Inc	30	750	Baa3/BBB+	5.9	150	n.a.	2	156
2024-02-28	AON	Aon North America Inc	3	600	Baa2/A-	5.125	75	n.a.	-2	72
2024-02-28	AON	Aon North America Inc	5	1,000	Baa2/A-	5.15	90	n.a.	-2	88
2024-02-28	AON	Aon North America Inc	7	650	Baa2/A-	5.3	105	n.a.	-1	104
2024-02-28	AON	Aon North America Inc	10	1,750	Baa2/A-	5.45	120	n.a.	-1	119
2024-02-28	AON	Aon North America Inc	30	2,000	Baa2/A-	5.75	140	n.a.	-6	135
2024-02-28	CTRA	Coterra Energy Inc	10	500	Baa2/BBB	5.6	135	n.a.	1	139
2024-02-28	NWG	NatWest Group PLC	10	1,000	Baa1/BBB-	6.475	220	n.a.	3	219
2024-02-28	PEG	Public Service Electric and Gas Co	10	450	A1/A	5.2	93	n.a.	n.a.	92
2024-02-28	PEG	Public Service Electric and Gas Co	30	550	A1/A	5.45	108	13	-2	107
2024-02-28	RAIZBZ	Raizen Fuels Finance SA	10	1,000	NA/BBB	6.45	220	n.a.	n.a.	624
2024-02-28	RAIZBZ	Raizen Fuels Finance SA	30	500	NA/BBB	6.95	265	n.a.	n.a.	685
2024-02-28	RDN	Radian Group Inc	5	625	Baa3/BBB-	6.2	195	n.a.	n.a.	n.a.
2024-02-28	SUMITR	Sumitomo Mitsui Trust Bank Ltd	3	1,000	A1/A	5.2	80	n.a.	n.a.	81
2024-02-28	SUMITR	Sumitomo Mitsui Trust Bank Ltd	5	750	A1/A	5.2	95	n.a.	n.a.	90
2024-02-28	SUMITR	Sumitomo Mitsui Trust Bank Ltd	10	500	A1/A	5.35	110	n.a.	n.a.	101
2024-02-28	TPG	TPG Operating Group II LP	40NC5	400	NA/NA	6.95	n.a.	n.a.	n.a.	n.a.
2024-02-28	TSN	Tyson Foods Inc	5	600	Baa2/BBB	5.4	115	n.a.	-3	112
2024-02-28	TSN	Tyson Foods Inc	10	900	Baa2/BBB	5.7	145	3	1	145
2024-02-29	BMO	Bank of Montreal	60NC5	1,000	Baa3/BBB-	7.7	n.a.	n.a.	n.a.	n.a.
2024-02-29	PROTAR	Prologis Targeted US Logistics Fund LP	5	500	A3/BBB+	5.25	110	n.a.	n.a.	n.a.
2024-02-29	PROTAR	Prologis Targeted US Logistics Fund LP	10	500	A3/BBB+	5.5	135	n.a.	n.a.	n.a.
2024-02-29	SAFE	Safehold GL Holdings LLC	10	300	A3/BBB+	6.1	200	n.a.	n.a.	195
2024-02-29	TPG	TPG Operating Group II LP	10	600	NA/BBB+	5.875	165	n.a.	n.a.	163

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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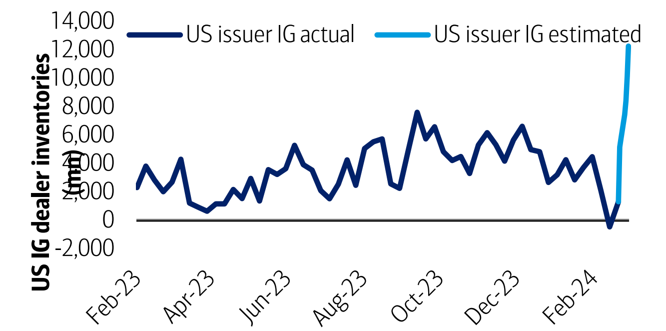
Dealer inventories

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 59 and Exhibit 60. We estimate the corresponding DV01 equivalent in Exhibit 60. More details by sector and maturity are available in Exhibit 61 and Exhibit 62. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.

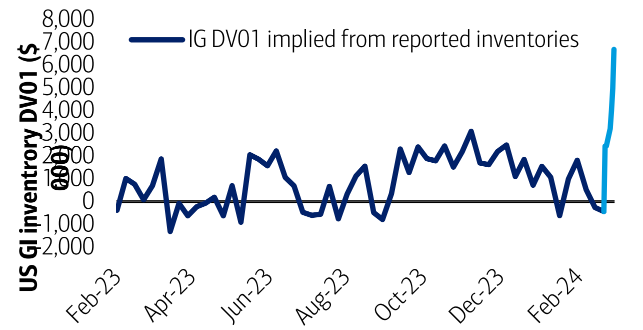
Exhibit 59: Estimated dealer inventories of IG corporate bonds.
We estimate IG dealer inventories of US issuer bonds increased to $12.3bn currently from $1.3bn on Feb-21.



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

BofA GLOBAL RESEARCH

Exhibit 60: Estimated dealer inventory DV01 for IG corporate bonds.
We estimate IG dealer inventory DV01 of US issuer bonds increased to $6.7mn currently from -$0.4bn on Feb-21.



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 61: Estimated changes in IG dealer inventories by maturity and broad sector.
We estimate IG dealer inventories increased $2,501mn today and increased $9,570mn over the prior week.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 29-Feb-24 ($mn)			
Sector	**29-Feb**	**28-Feb**	**1 W**	**2 W**	**4 W**	**29-Feb**	**28-Feb**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
High grade (13M+)	**2,501**	**2,564**	**9,570**	**13,449**	**10,375**	**1,997**	**1,369**	**5,631**	**7,823**	**7,404**	**23,951**	**21,450**	**15,345**	**60,746**
<3yr	-169	958	2,292	2,743	956	-74	145	309	399	28	3,579	3,748	2,554	9,880
3-5yr	447	406	1,856	3,183	2,146	158	169	664	1,138	678	4,525	4,078	3,078	11,681
5-11yr	1,023	447	2,036	2,935	1,090	623	246	1,101	1,603	469	8,914	7,891	5,821	22,626
11+yr	1,201	753	3,386	4,588	6,184	1,289	809	3,558	4,684	6,229	6,934	5,733	3,893	16,560
Fin	890	1,490	4,956	5,358	2,465	573	651	2,355	2,665	1,468	9,195	8,305	5,292	22,792
Non-Fin	1,611	1,073	4,613	8,091	7,910	1,423	718	3,276	5,157	5,935	14,756	13,145	10,053	37,955
Fixed	2,519	2,584	9,344	13,315	10,361	2,000	1,377	5,668	7,901	7,489	23,749	21,230	15,200	60,179
Floating	-17	-20	226	134	15	-3	-9	-37	-78	-85	202	219	146	567
US issuers	2,090	1,753	7,085	10,452	8,071	1,714	982	4,234	6,104	5,586	18,865	16,775	12,758	48,399
DM Yankees	338	768	2,206	2,345	1,174	259	337	1,153	1,242	1,052	4,310	3,972	2,116	10,398
EM Yankees	74	43	278	652	1,130	24	50	245	477	765	776	702	471	1,950

Note: data for maturities 13M or longer. Changes in inventories are estimated based on TRACE.
Source: BofA Global Research, FINRA, TRACE.

BofA GLOBAL RESEARCH

Exhibit 62: Estimated changes in IG dealer inventories by sector.
We estimate today IG dealer inventories increased $526mn for Banks/Brokers and increased $253mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 29-Feb-24 ($mn)			
Sector	**29-Feb**	**28-Feb**	**1 W**	**2 W**	**4 W**	**29-Feb**	**28-Feb**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Aerospace/Defense	-14	-33	30	172	437	29	4	109	134	357	325	339	252	917

Exhibit 62: Estimated changes in IG dealer inventories by sector.
We estimate today IG dealer inventories increased $526mn for Banks/Brokers and increased $253mn for Energy.

	Net dealer buy ($mn)					Net dealer DV01 change ($thousand)					Trading volumes on 29-Feb-24 ($mn)			
Sector	**29-Feb**	**28-Feb**	**1 W**	**2 W**	**4 W**	**29-Feb**	**28-Feb**	**1 W**	**2 W**	**4 W**	**Buy**	**Sell**	**Dealer**	**Total**
Automobiles	-88	151	392	663	434	-11	53	145	292	142	451	539	325	1,316
Banks/Brokers	526	1,128	3,742	3,999	2,331	243	504	1,544	1,635	743	6,550	6,024	3,724	16,297
Basic Materials	54	95	238	599	573	27	-8	61	288	242	669	615	398	1,682
Commercial Services	-100	21	-182	-110	-195	-35	35	-32	1	-4	203	303	151	656
Energy	253	330	1,038	1,301	628	235	239	682	890	610	1,216	963	1,004	3,182
Finance	-46	133	336	472	-96	8	40	242	303	5	1,146	1,192	821	3,159
Food, Bev, & Bottling	80	94	337	450	423	77	88	313	338	368	812	732	691	2,235
Health Care	215	110	367	549	861	124	86	6	-214	415	3,306	3,091	2,021	8,418
Industrial Products	66	-123	-122	523	475	34	-89	-75	406	428	895	829	664	2,387
Insurance	99	112	322	402	385	114	31	257	418	719	733	634	424	1,791
Media & Entertainment	65	55	751	586	259	44	25	561	378	-2	902	837	619	2,358
REITs	311	118	557	485	-154	208	76	312	309	2	767	455	323	1,545
Retail	-44	18	-39	99	228	-53	35	50	165	309	548	593	426	1,567
Technology	256	87	729	1,354	805	243	11	529	1,014	640	1,114	858	763	2,736
Telecom	362	-50	-416	-16	-52	358	-38	-228	-21	54	1,623	1,261	1,129	4,013
Tobacco	93	-55	61	51	383	53	-31	7	14	108	328	235	210	774
Transportation	-1	14	163	216	512	-9	-19	104	169	528	286	287	123	696
Utilities	352	359	1,225	1,539	2,004	288	335	1,077	1,312	1,665	1,729	1,377	1,060	4,167
Other	63	1	41	114	134	18	-9	-31	-11	76	349	286	216	851

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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