

Situation Room

Supply catches up to demand

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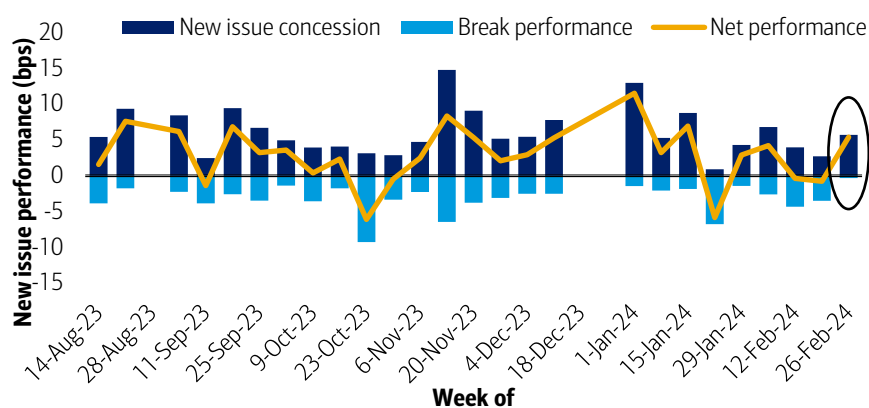
IG supply finally caught up with demand this week. As a result IG spreads are now widening after reaching the cyclical tight on Thursday February 22, new issue performance is weakening (Exhibit 1) and investors have been net sellers of bonds across maturities (Exhibit 2, Exhibit 3). That's likely a function 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 4). 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 5). Hence while heavy, February supply was still within the historical range after adjusting for the growing market size.

Exhibit 1: 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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28 February 2024

Credit Strategy
United States
Cross Product

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

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

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

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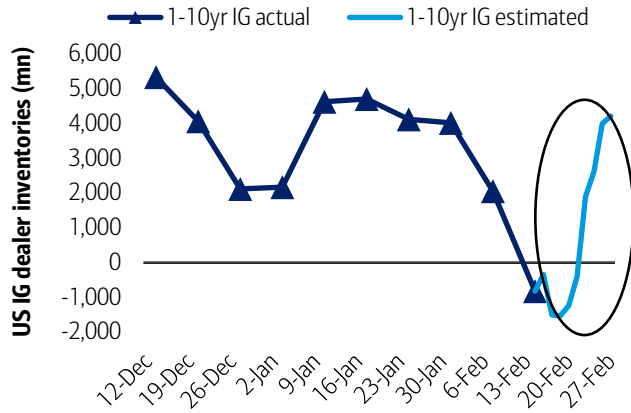
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Timestamp: 28 February 2024 05:44PM EST

Exhibit 2: 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.

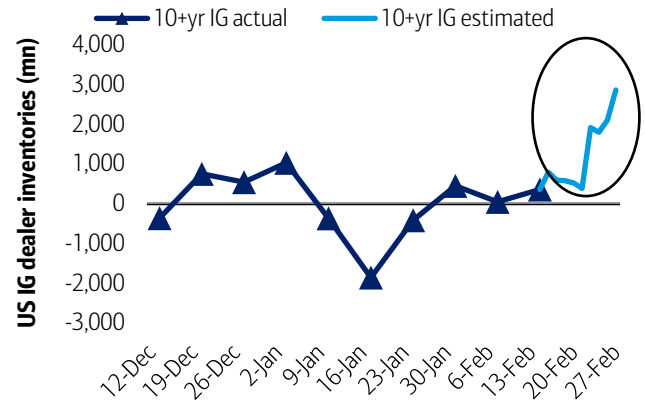


Source: BofA Global Research, TRACE

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Exhibit 3: 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.

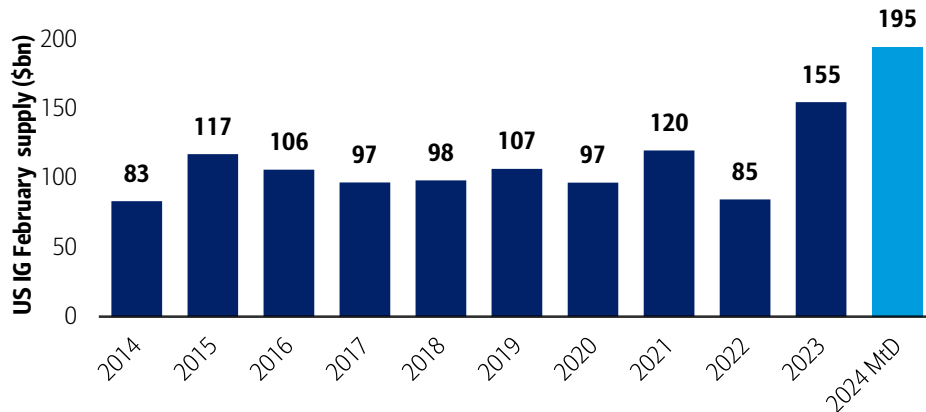


Source: BofA Global Research, TRACE

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Exhibit 4: 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.

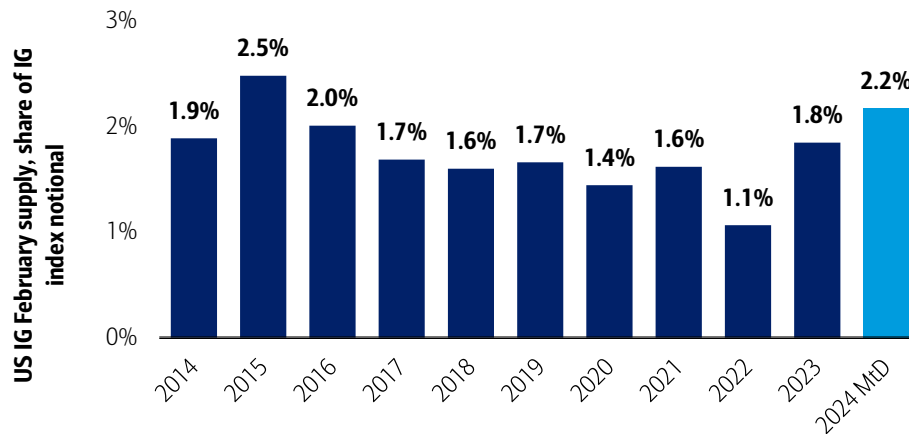


Source: BofA Global Research

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Exhibit 5: 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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Daily credit snapshot

US IG issuance totaled \$14.8bn across 9 deals today, \$49.6bn WTD and \$194.9bn MTD. The average new issue concession was 6.3bps today, while the average break performance was 0.1bps tighter today. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed -0.17%, 10-year Treasury yields -4bps, CDX IG +1.2bps, CDX HY - \$0.21pts, and cash bond spreads quoted -7/+3bp today, LQD closed 3.98bps wider today.

Exhibit 6: 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.	153
2024-02-26	BPLN	BP Capital Markets PLC	PERP NC10	1,300	A2/A-	6.45	n.a.	n.a.	n.a.	206
2024-02-26	CNP	CenterPoint Energy Houston Electric LLC	10	400	A2/A	5.15	90	7	n.a.	90
2024-02-26	DANBNK	Danske Bank A/S	4NC3	1,000	A3/A+	5.427	95	n.a.	-3	92
2024-02-26	DANBNK	Danske Bank A/S	6NC5	1,250	Baa2/BBB+	5.705	140	n.a.	-2	136
2024-02-26	DUK	Duke Energy Indiana LLC	10	300	Aa3/A	5.25	100	2	-1	100
2024-02-26	EXC	Potomac Electric Power Co	10	375	A2/A	5.2	95	n.a.	2	96
2024-02-26	EXC	Potomac Electric Power Co	30	300	A2/A	5.5	110	n.a.	2	111
2024-02-26	FI	Fiserv Inc	3	750	Baa2/BBB	5.15	68	n.a.	n.a.	n.a.
2024-02-26	FI	Fiserv Inc	7	500	Baa2/BBB	5.35	105	10	n.a.	102
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
2024-02-26	HON	Honeywell International Inc	8	500	A2/A	4.95	65	n.a.	n.a.	67
2024-02-26	HON	Honeywell International Inc	11	750	A2/A	5	75	n.a.	-2	75
2024-02-26	HON	Honeywell International Inc	30	1,750	A2/A	5.25	85	n.a.	-2	84
2024-02-26	HON	Honeywell International Inc	40	650	A2/A	5.35	95	n.a.	-1	96
2024-02-26	HSBC	HSBC USA Inc	3	500	A2/A-	FRN	0	n.a.	n.a.	89
2024-02-26	HSBC	HSBC USA Inc	3	1,000	A2/A-	5.294	80	n.a.	-1	80
2024-02-26	HSBC	HSBC Holdings PLC	6NC5	1,500	A3/A-	5.546	123	n.a.	1	126
2024-02-26	HSBC	HSBC Holdings PLC	11NC10	1,250	A3/A-	5.719	143	n.a.	2	146
2024-02-26	KEY	KeyCorp	11NC10	1,000	Baa2/BBB	6.401	210	n.a.	-3	206
2024-02-26	LYB	LYB International Finance III LLC	10	750	Baa2/BBB	5.5	130	n.a.	n.a.	130
2024-02-26	NWG	NatWest Group PLC	4NC3	300	A3/BBB+	FRN	SOFR+125	n.a.	n.a.	119
2024-02-26	NWG	NatWest Group PLC	4NC3	1,000	A3/BBB+	5.583	110	0	-2	108
2024-02-26	NWG	NatWest Group PLC	11NC10	1,500	A3/BBB+	5.778	150	16	1	151
2024-02-26	PCG	Pacific Gas and Electric Co	5	850	Baa2/BBB	5.55	125	n.a.	-4	119



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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	PCG	Pacific Gas and Electric Co	10	1,100	Baa2/BBB	5.8	153	n.a.	3	154
2024-02-26	PCG	Pacific Gas and Electric Co	29	300	Baa2/BBB	6.75	170	n.a.	6	176
2024-02-26	PSX	Phillips 66 Co	7	600	A3/BBB+	5.25	100	n.a.	3	100
2024-02-26	PSX	Phillips 66 Co	9	400	A3/BBB+	5.3	110	n.a.	4	111
2024-02-26	PSX	Phillips 66 Co	30	500	A3/BBB+	5.65	125	2	3	126
2024-02-26	R	Ryder System Inc	3	350	Baa2/BBB+	5.3	83	n.a.	n.a.	81
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	77
2024-02-26	SO	Southern Co/The	10	400	Baa2/BBB	5.7	117	3	-2	117
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	124
2024-02-27	EIX	Southern California Edison Co	2	600	A2/A-	5.35	62	1	n.a.	61
2024-02-27	EIX	Southern California Edison Co	5	600	A2/A-	5.15	83	7	n.a.	82
2024-02-27	EIX	Southern California Edison Co	30	400	A2/A-	5.75	135	3	n.a.	137
2024-02-27	GMT	GATX Corp	3	350	Baa2/BBB	5.4	95	n.a.	-6	90
2024-02-27	NEE	NextEra Energy Capital Holdings Inc	31NC5	1,000	Baa2/BBB	6.7	236	n.a.	n.a.	229
2024-02-27	RABOBK	Cooperatieve Rabobank UA/NY	3	600	Aa2/A+	FRN	0	n.a.	n.a.	65
2024-02-27	RABOBK	Cooperatieve Rabobank UA/NY	3	650	Aa2/A+	5.041	55	9	-2	54
2024-02-27	RABOBK	Cooperatieve Rabobank UA	6NC5	750	A3/A-	5.447	112	-1	-1	111
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	3	350	Aa3/A+	FRN	SOFR+89	n.a.	n.a.	85
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	3	650	Aa3/A+	5.125	73	n.a.	-3	70
2024-02-27	SEB	Skandinaviska Enskilda Banken AB	5	750	A3/A-	5.375	117	n.a.	-2	115
2024-02-27	WTW	Willis North America Inc	30	750	Baa3/BBB+	5.9	150	n.a.	2	152
2024-02-28	AON	Aon North America Inc	3	600	Baa2/A-	5.125	75	n.a.	n.a.	n.a.
2024-02-28	AON	Aon North America Inc	5	1,000	Baa2/A-	5.15	90	n.a.	n.a.	n.a.
2024-02-28	AON	Aon North America Inc	7	650	Baa2/A-	5.3	105	n.a.	n.a.	n.a.
2024-02-28	AON	Aon North America Inc	10	1,750	Baa2/A-	5.45	120	n.a.	n.a.	n.a.
2024-02-28	AON	Aon North America Inc	30	2,000	Baa2/A-	5.75	140	n.a.	n.a.	n.a.
2024-02-28	CTRA	Coterra Energy Inc	10	500	Baa2/BBB	5.6	135	n.a.	1	136
2024-02-28	NWG	NatWest Group PLC	10	1,000	Baa1/BBB-	6.475	220	n.a.	3	223
2024-02-28	PEG	Public Service Electric and Gas Co	10	450	A1/A	5.2	93	n.a.	n.a.	n.a.
2024-02-28	PEG	Public Service Electric and Gas Co	30	550	A1/A	5.45	108	13	-2	106
2024-02-28	RAIZBZ	Raizen Fuels Finance SA	10	1,000	NA/BBB	6.45	220	n.a.	n.a.	n.a.
2024-02-28	RAIZBZ	Raizen Fuels Finance SA	30	500	NA/BBB	6.95	265	n.a.	n.a.	n.a.
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.	n.a.
2024-02-28	SUMITR	Sumitomo Mitsui Trust Bank Ltd	5	750	A1/A	5.2	95	n.a.	n.a.	n.a.
2024-02-28	SUMITR	Sumitomo Mitsui Trust Bank Ltd	10	500	A1/A	5.35	110	n.a.	n.a.	n.a.
2024-02-28	TPG	TPG Operating Group II LP	40	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.	n.a.	n.a.
2024-02-28	TSN	Tyson Foods Inc	10	900	Baa2/BBB	5.7	145	3	n.a.	n.a.

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

Source: BofA Global Research, Bloomberg

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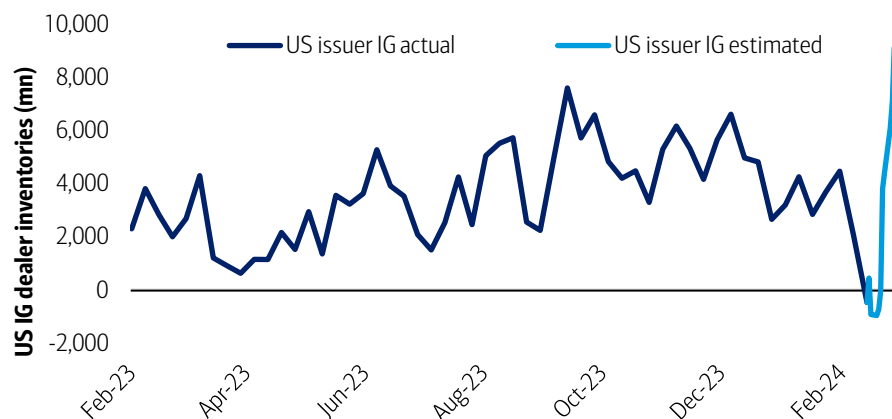
Daily dealer inventories update

Below we estimate dealer inventories for the IG corporate bonds based on TRACE data. The actual inventories of US issuer bonds based on NY Fed survey, as well as the estimated change since the latest Fed report are plotted in Exhibit 7. We estimate the corresponding DV01 equivalent in Exhibit 8. More details by sector and maturity are available in Exhibit 9 and Exhibit 10. Finally, note that the data for the current date is through about 4:40 p.m. Eastern Standard Time.



Exhibit 7: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$9.1bn currently from -\$0.5bn on Feb-14.



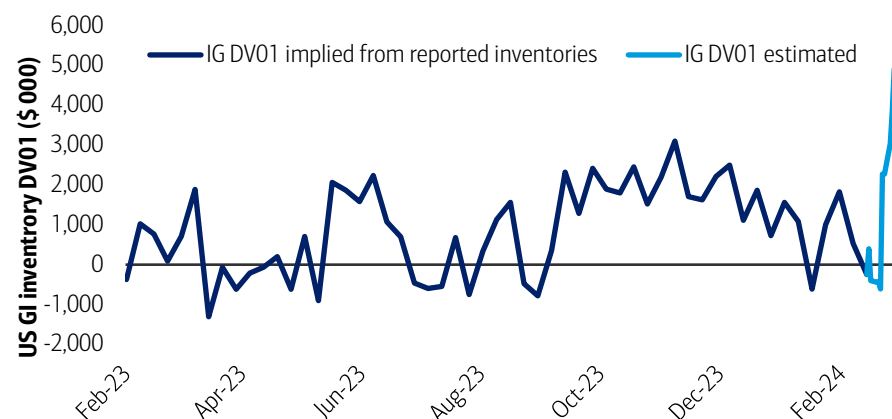
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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Exhibit 8: Estimated dealer inventory DV01 for IG corporate bonds.

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$4.9mn currently from -\$0.3bn on Feb-14.



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

We estimate IG dealer inventories increased \$3,053mn today and increased \$12,478mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 28-Feb-24 (\$mn)			
	28-Feb	27-Feb	1 W	2 W	4 W	28-Feb	27-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	3,053	1,235	12,478	12,842	7,386	1,662	928	7,510	6,883	5,540	15,574	12,521	8,550	36,646
<3yr	1,172	261	3,096	3,956	1,150	173	39	508	647	68	3,006	1,834	1,592	6,432
3-5yr	462	142	2,725	2,313	1,572	185	39	991	786	439	2,855	2,393	1,906	7,154
5-11yr	582	-116	2,542	2,629	-1,182	348	-182	1,457	1,397	-965	5,169	4,586	3,019	12,774
11+yr	836	949	4,116	3,943	5,846	955	1,031	4,553	4,053	5,998	4,544	3,708	2,033	10,285
Fin	1,650	650	5,831	4,757	894	812	411	2,945	2,086	605	5,812	4,162	2,944	12,917
Non-Fin	1,404	585	6,647	8,085	6,492	850	517	4,564	4,797	4,935	9,763	8,359	5,606	23,728
Fixed	3,097	1,228	12,291	12,667	7,457	1,677	928	7,583	6,962	5,657	15,409	12,313	8,473	36,195
Floating	-44	7	187	175	-71	-15	0	-73	-78	-117	165	209	77	451
US issuers	2,049	980	9,139	9,573	5,449	1,089	782	5,506	5,146	3,750	12,014	9,965	6,946	28,924
DM Yankees	949	176	2,889	2,636	802	514	84	1,639	1,255	988	3,147	2,198	1,426	6,771
EM Yankees	55	79	451	633	1,135	59	62	365	482	802	414	359	179	951

Exhibit 9: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$3,053mn today and increased \$12,478mn over the prior week.

Net dealer buy (\$mn)**Net dealer DV01 change (\$thousand)****Trading volumes on 28-Feb-24 (\$mn)**

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

Source: BofA Global Research, FINRA, TRACE.

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Exhibit 10: Estimated changes in IG dealer inventories by sector.

We estimate today IG dealer inventories increased \$1,203mn for Banks/Brokers and increased \$310mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 28-Feb-24 (\$mn)			
	28-Feb	27-Feb	1 W	2 W	4 W	28-Feb	27-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	-25	2	105	226	399	9	-6	127	115	301	127	152	87	366
Automobiles	165	72	631	779	457	53	21	245	323	133	498	333	292	1,124
Banks/Brokers	1,203	481	4,365	3,772	1,178	618	163	2,038	1,355	232	4,186	2,983	2,044	9,212
Basic Materials	105	62	489	627	403	3	65	272	322	158	491	386	289	1,165
Commercial Services	39	-91	54	8	-54	44	-43	84	56	68	191	152	107	449
Energy	310	206	988	1,119	343	225	173	620	745	344	924	614	591	2,128
Finance	180	-12	598	556	-123	65	64	311	302	-59	782	602	520	1,904
Food, Bev, & Bottling	104	-16	430	538	356	87	9	373	366	296	489	385	290	1,164
Health Care	242	-114	795	568	738	149	-90	376	-31	437	1,666	1,423	997	4,086
Industrial Products	-87	7	276	719	384	-74	46	215	588	348	570	657	249	1,476
Insurance	142	114	525	420	306	50	150	435	383	627	413	271	174	857
Media & Entertainment	91	207	747	474	361	45	155	544	281	145	941	849	399	2,188
REITs	124	67	344	9	-466	79	33	161	46	-195	431	307	206	944
Retail	66	72	191	244	388	50	78	230	195	461	460	394	310	1,164
Technology	133	72	864	1,174	792	51	74	587	694	602	827	694	531	2,052
Telecom	-20	-263	-212	-347	-408	-14	-256	-257	-344	-233	844	864	410	2,118
Tobacco	-56	45	-45	17	309	-33	9	-60	-20	52	84	140	95	319
Transportation	28	73	188	341	581	0	58	181	295	609	230	202	100	532
Utilities	280	285	1,050	1,508	1,400	247	245	1,005	1,222	1,162	1,194	914	689	2,797
Other	27	-33	96	90	43	7	-21	22	-10	52	228	201	170	599

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

Source: BofA Global Research, FINRA, TRACE.

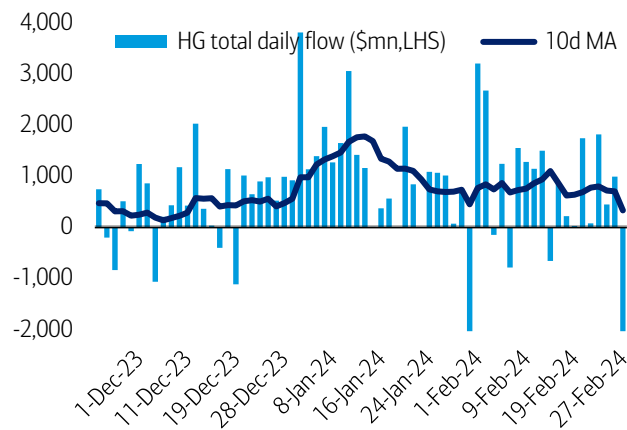
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Daily HG fund flows

We define our high grade flows 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.

Exhibit 11: Daily HG fund flows

The chart plots daily HG fund flows as well as a 10-day average trend.

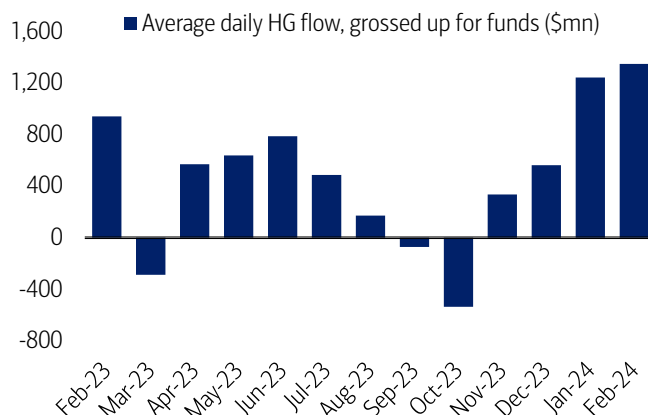


Source: EPFR Global, BofA Global Research

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Exhibit 12: Average daily HG flows by month

The chart plots the average daily ETF flows plus double the average daily fund flow, as only about half of funds report flows daily.



Source: EPFR Global, BofA Global Research

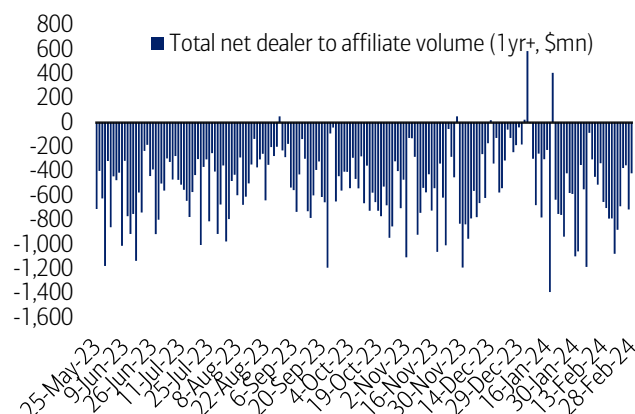
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Daily foreign demand tracker

We believe net dealer-to-affiliate volumes from Trace are correlated with foreign buying of US HG corporate bonds - i.e., negative numbers mean foreign investor buying (US dealers taking down inventory in favor of foreign affiliates). For supporting material see our “primer” on tracking foreign inflows. Exhibit 13 shows the overall daily dealer-to-affiliate volumes while Exhibit 14, Exhibit 15 and Exhibit 16 show subsets of this data. In particular Exhibit 14 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 15 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 16 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 13: Net dealer buying from affiliate (1yr+)

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



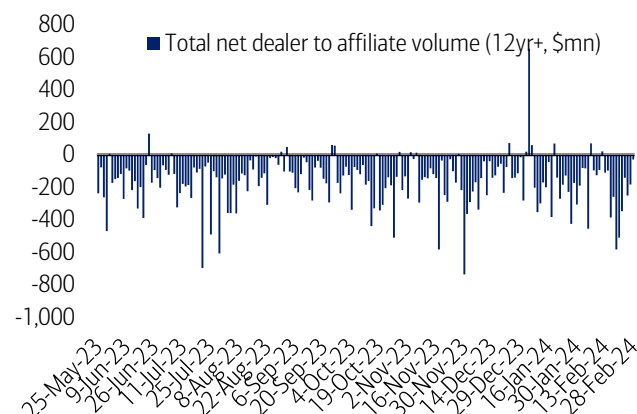
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 14: Net dealer buying from affiliate (12yr+)

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



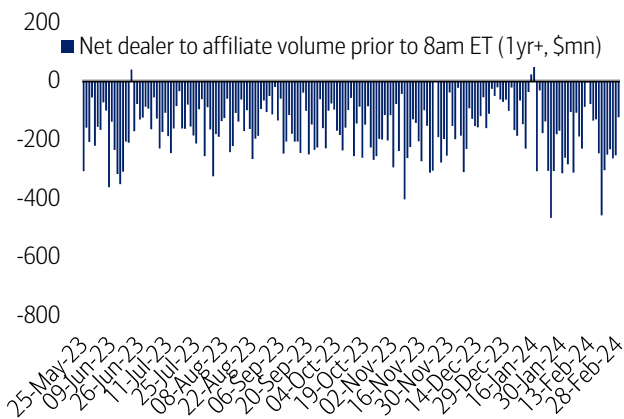
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 15: Net dealer-to-affiliate trading volumes before 8am ET

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



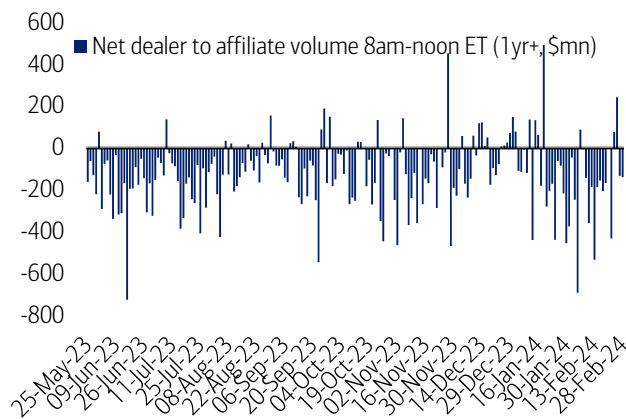
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 16: Net dealer-to-affiliate trading volumes 8am - noon ET

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



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

Source: BofA Global Research, TRACE

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Common abbreviations:

IG: Investment Grade

HG: High Grade

LQD: iShares iBoxx \$ Investment Grade Corporate Bond ETF

DV01: Dollar value of a basis point

CDX IG: The Markit CDX North America Investment Grade Index

CDX HY: Markit CDX North America High Yield Index

ECB: European Central Bank

QE: Quantitative Easing

CSPP: corporate sector purchase programme

Unchd: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

AUM: Assets under management

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