

Situation Room

An apples-to-apples comparison to 2021 IG tights

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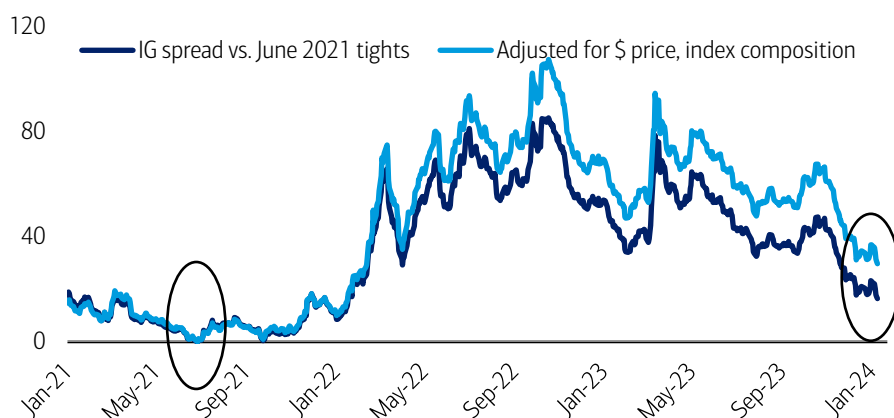
At the index level, IG spreads currently offer more value than meets the eye. That's because relative to the post-GFC (Global Financial Crisis) tights in June 2021, the index is now shorter, higher quality, and is trading at a lower average price. All these factors add up to tighten the IG index spread by 13bps relative to a pro-forma index with the composition and price as of June 2021. Put another way, the ICE BofA US IG index closed at 102bps on Friday January 12, at new post-2022 tights. That was 16bps off the 86bps tights on June 30, 2021. However, after adjusting for the index composition and prices, on an apples-to-apples comparison the IG index spread is now 30bps off the 2021 tights (Exhibit 1).

Quantifying the impact of duration, quality and \$ prices

First, lower bond dollar prices are currently tightening the IG index by 8bps vs. 2021. On June 30, 2021 the index was trading above par at an \$111.4 average price. That premium price widened index spread by 5.5bps relative to a hypothetical index trading at par. Currently the below-par \$93.2 index price is instead tightening the spread by 2.7bps (see "Modeling the impact of dollar prices" in the report: [Situation Room 13 December 2023](#)). Second, the share of 1-5yr bonds is 6.5% higher in 2024 (Exhibit 3). The shorter index maturity tightens the index spread by 2bps. Third, the share of BBBs is 4.5% lower. That's worth another 2bps. Finally, the sector composition has little impact on spreads vs. 2021 (Exhibit 2).

Exhibit 1: Adjusting for composition and \$ price, the IG index is 30bps off the June '21 tights.

At 102bps as of Friday January 12 the ICE BofA US IG index was 13bps off the post GFC tights on June 30, 2021. However, after adjusting for \$ prices and composition, we estimate the index is 30bps off the tights.



Note: the adjusted series adjusts for sector, maturity (based on 1-5yr, 5-10yr and 10+yr buckets), the share of BBBs and the bond dollar prices relative to the index on June 30, 2021.

Source: BofA Global Research, ICE Data Indices, LLC

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16 January 2024

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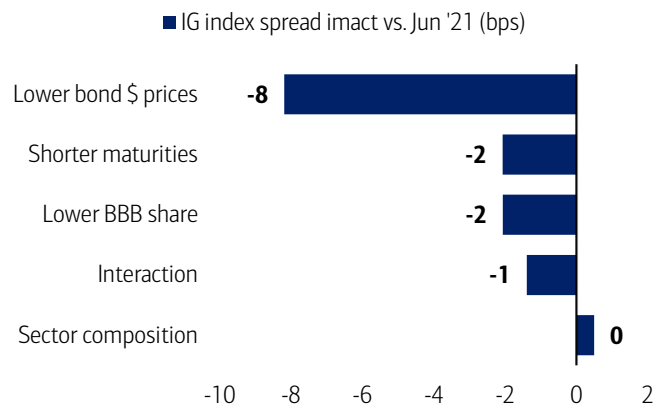
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Timestamp: 16 January 2024 06:48PM EST

Exhibit 2: Factor impact on IG spreads vs. June 2021.

Lower \$ price currently has the biggest impact (-8bps), followed by shorter maturities (-2bps) and lower BBB share (-2bps).

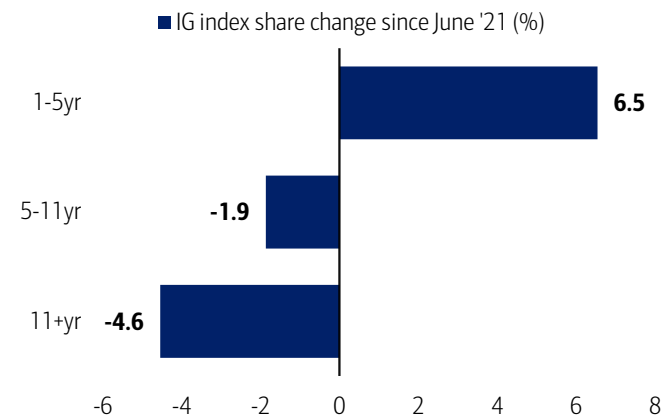


Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 3: IG index maturity distribution vs. June '21

The share of 1-5yr bonds is currently 6.5% higher compared to June 2021, while the share of 11+yr bonds is 4.6% lower.



Source: BofA Global Research, ICE Data Indices, LLC

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Daily credit snapshot

US IG issuance totaled \$30.4bn across 11 deals today, \$30.4bn WTD and \$132.3bn MTD. The average new issue concession was 6.8bps today, while the average break performance was 3.0bps tighter today. This week's new issues are trading 3.0bps tighter on average from pricing.

S&P 500 closed -0.37%, 10-year Treasury yields +12bps, CDX IG +1.3bps, CDX HY - \$0.35pts, and cash bond spreads quoted +/- 2bps today, LQD closed 1.65bps wider today.

Exhibit 4: Recent new issue pricing and new issue concessions

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

Date	Ticker	Name	Tenor	Size (\$mm)	Moody's/S&P Rating	Coupon (%)	Px Spread (bps)	New Issue Conc. (bps)	* Break performance	Current spread (bps)
2024-01-16	ARCC	Ares Capital Corp	5	1,000	Baa3/BBB-	5.875	210	n.a.	n.a.	n.a.
2024-01-16	AVOL	Avolon Holdings Funding Ltd	5	1,150	Baa3/BBB-	5.75	200	n.a.	n.a.	n.a.
2024-01-16	COXENT	Cox Communications Inc	5	350	Baa2/BBB	5.45	155	n.a.	n.a.	n.a.
2024-01-16	COXENT	Cox Communications Inc	9	300	Baa2/BBB	5.7	197	n.a.	n.a.	n.a.
2024-01-16	COXENT	Cox Communications Inc	30	850	Baa2/BBB	5.8	148	n.a.	n.a.	n.a.
2024-01-16	ES	Eversource Energy	3	350	Baa2/BBB+	5	100	n.a.	-3	97
2024-01-16	ES	Connecticut Light and Power Co/The	5	350	A1/A+	4.65	75	n.a.	-3	72
2024-01-16	ES	Eversource Energy	10	650	Baa2/BBB+	5.5	150	n.a.	n.a.	n.a.
2024-01-16	EXR	Extra Space Storage LP	10	600	Baa2/BBB+	5.4	135	n.a.	n.a.	n.a.
2024-01-16	GIS	General Mills Inc	3	500	Baa2/BBB	4.7	70	-3	-2	68
2024-01-16	JPM	JPMorgan Chase & Co	4NC3	500	A1/A-	FRN	SOFR+120	n.a.	n.a.	n.a.
2024-01-16	JPM	JPMorgan Chase & Co	4NC3	2,500	A1/A-	5.04	103	10	-3	100
2024-01-16	JPM	JPMorgan Chase & Co	6NC5	2,500	A1/A-	5.012	108	6	-1	107
2024-01-16	JPM	JPMorgan Chase & Co	11NC10	3,000	A1/A-	5.336	128	9	-3	125
2024-01-16	MS	Morgan Stanley Bank NA	4NC3	450	Aa3/A+	FRN	SOFR+108	n.a.	n.a.	n.a.
2024-01-16	MS	Morgan Stanley Bank NA	4NC3	1,550	Aa3/A+	4.952	92	n.a.	-4	88
2024-01-16	MS	Morgan Stanley	6NC5	2,250	A1/A-	5.173	122	-4	-3	119
2024-01-16	MS	Morgan Stanley	11NC10	2,500	A1/A-	5.466	140	14	-6	134
2024-01-16	POHANG	POSCO	3	500	Baa1/A-	4.875	110	n.a.	n.a.	n.a.
2024-01-16	VALIAE	Buffalo Energy Mexico Holdings / Buffalo Energy In	15	530	Baa3/BBB	7.875	243	n.a.	n.a.	n.a.
2024-01-16	WFC	Wells Fargo Bank NA	2	450	Aa2/A+	FRN	SOFR+71	n.a.	n.a.	n.a.
2024-01-16	WFC	Wells Fargo Bank NA	2	1,800	Aa2/A+	4.811	60	14	n.a.	n.a.

Exhibit 4: Recent new issue pricing and new issue concessions

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

Date	Ticker	Name	Tenor	Size (\$mm)	Moody's/S&P Rating	Coupon (%)	Px Spread (bps)	New Issue Conc. (bps)	* Break performance	Current spread (bps)
2024-01-16	WFC	Wells Fargo & Co	6NC5	2,750	A1/BBB+	5.198	127	6	n.a.	n.a.
2024-01-16	WFC	Wells Fargo & Co	11NC10	3,000	A1/BBB+	5.499	145	9	-2	143

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

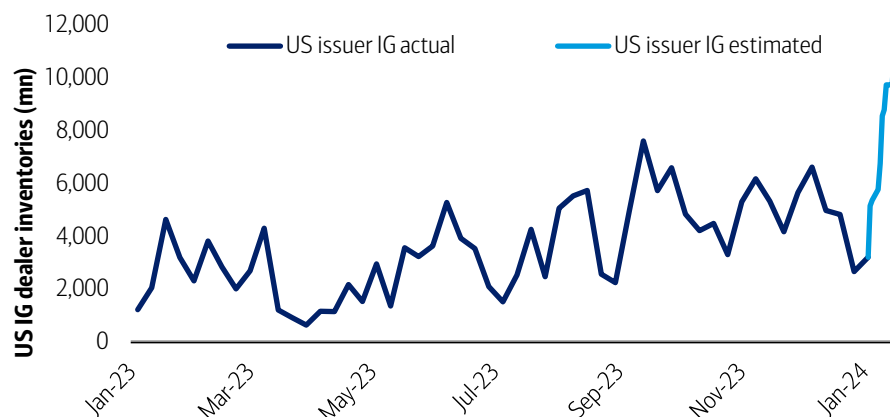
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Daily dealer inventories update

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

Exhibit 5: Estimated dealer inventories of IG corporate bonds.

We estimate IG dealer inventories of US issuer bonds increased to \$11.0bn currently from \$3.2bn on Jan-03.



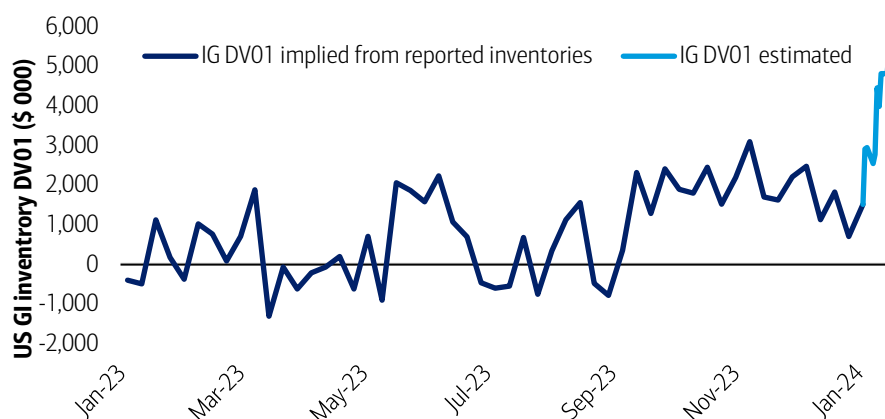
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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

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

We estimate IG dealer inventory DV01 of US issuer bonds increased to \$5.5mn currently from \$1.5bn on Jan-03.



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

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

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Exhibit 7: Estimated changes in IG dealer inventories by maturity and broad sector.

We estimate IG dealer inventories increased \$1,486mn today and increased \$5,996mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 16-Jan-24 (\$mn)			
	16-Jan	15-Jan	1 W	2 W	4 W	16-Jan	15-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	1,486	0	5,996	13,647	12,456	900	0	3,857	7,428	7,127	10,736	9,250	7,331	27,318
<3yr	116	0	-115	100	77	32	0	-11	-5	-60	1,891	1,775	1,384	5,051
3-5yr	149	0	1,520	3,795	2,871	49	0	544	1,375	1,044	1,943	1,794	1,504	5,241
5-11yr	1,014	0	4,511	10,003	9,604	643	0	2,982	6,311	6,114	4,383	3,368	2,597	10,348
11+yr	207	0	80	-250	-96	176	0	341	-254	29	2,520	2,313	1,846	6,678
Fin	269	0	2,197	4,796	4,743	183	0	1,152	2,152	2,186	4,388	4,119	2,664	11,170
Non-Fin	1,217	0	3,799	8,851	7,713	717	0	2,705	5,275	4,941	6,349	5,132	4,668	16,148
Fixed	1,499	0	6,028	13,962	13,001	903	0	3,847	7,466	7,235	10,623	9,124	7,273	27,019
Floating	-13	0	-33	-314	-546	-3	0	10	-39	-109	114	126	59	299
US issuers	1,297	0	4,274	9,689	8,548	714	0	2,752	5,098	4,892	8,174	6,877	5,863	20,913
DM Yankees	187	0	1,720	3,811	3,830	185	0	1,054	2,222	2,121	2,347	2,159	1,388	5,893
EM Yankees	2	0	1	147	78	1	0	51	108	113	216	214	81	512

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

Source: BofA Global Research, FINRA, TRACE.

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

We estimate today IG dealer inventories increased \$269mn for Banks/Brokers and increased \$59mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 16-Jan-24 (\$mn)			
	16-Jan	15-Jan	1 W	2 W	4 W	16-Jan	15-Jan	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	52	0	105	-136	-185	-3	0	65	-192	-233	282	230	148	659
Automobiles	-67	0	-157	339	390	3	0	-63	167	161	253	319	310	882
Banks/Brokers	269	0	1,626	2,694	2,858	230	0	765	1,101	1,185	3,112	2,843	1,742	7,697
Basic Materials	194	0	308	623	422	141	0	262	380	262	471	277	239	988
Commercial Services	5	0	-53	-14	41	11	0	-29	-28	19	95	90	43	227
Energy	59	0	33	493	175	8	0	-83	117	26	562	503	455	1,520
Finance	-42	0	136	856	751	-10	0	155	437	366	620	661	539	1,820
Food, Bev, & Bottling	107	0	179	598	608	83	0	145	410	463	407	300	284	991
Health Care	58	0	299	894	543	-24	0	125	401	264	1,097	1,039	862	2,998
Industrial Products	72	0	163	469	524	48	0	160	302	305	305	233	204	741
Insurance	-79	0	-9	137	104	-84	0	12	48	68	208	288	162	659
Media & Entertainment	100	0	402	313	169	65	0	297	167	102	312	212	300	824
REITs	120	0	444	1,109	1,029	48	0	221	566	567	447	326	221	994
Retail	62	0	336	608	547	43	0	234	460	485	384	321	283	988

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

We estimate today IG dealer inventories increased \$269mn for Banks/Brokers and increased \$59mn for Energy.

	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 16-Jan-24 (\$mn)			
Technology	64	0	726	1,128	1,087	-6	0	589	630	606	516	451	448	1,415
Telecom	192	0	509	1,133	1,097	137	0	328	673	689	587	394	268	1,249
Tobacco	25	0	180	357	322	23	0	109	219	197	88	63	112	262
Transportation	51	0	53	78	99	52	0	22	72	100	163	111	112	386
Utilities	232	0	629	1,670	1,682	130	0	473	1,359	1,397	722	489	439	1,650
Other	9	0	86	298	192	7	0	70	141	98	108	99	161	368

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

Source: BofA Global Research, FINRA, TRACE.

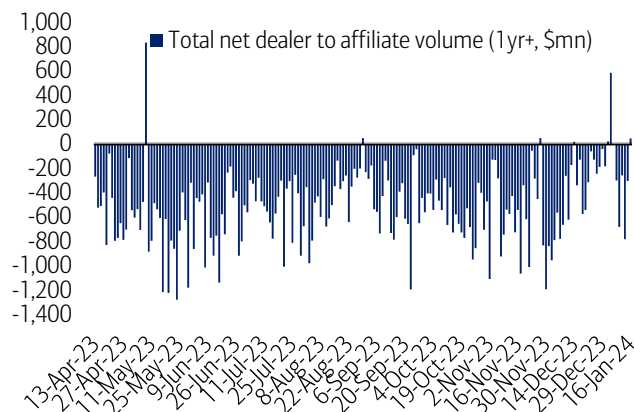
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Daily foreign demand tracker

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

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

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



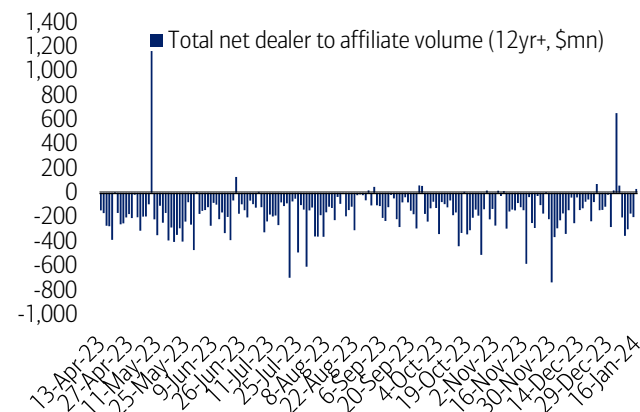
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



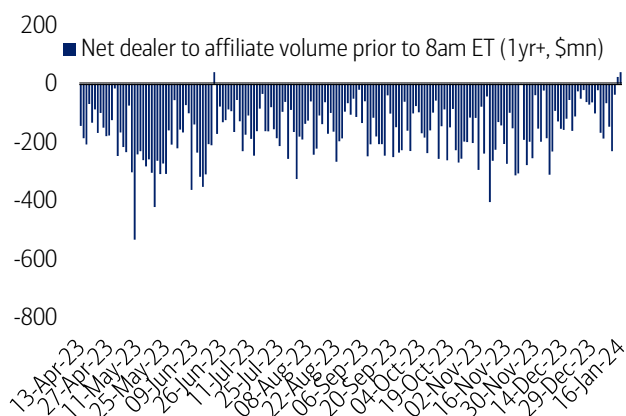
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



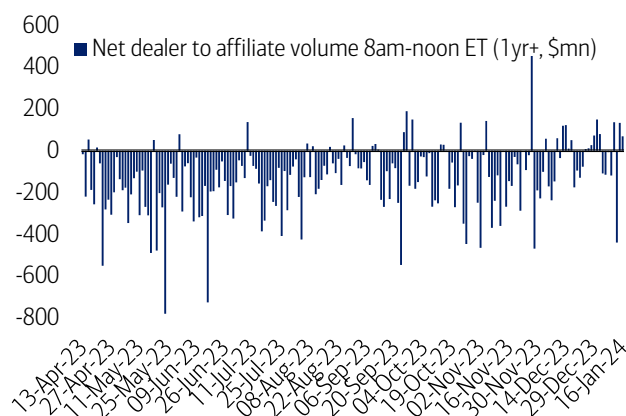
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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

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



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

Source: BofA Global Research, TRACE

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Common abbreviations:

IG: Investment Grade

HG: High Grade

LQD: iShares iBoxx \$ Investment Grade Corporate Bond ETF

DV01: Dollar value of a basis point

CDX IG: The Markit CDX North America Investment Grade Index

CDX HY: Markit CDX North America High Yield Index

ECB: European Central Bank

QE: Quantitative Easing

CSPP: corporate sector purchase programme

Unchd: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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