

Situation Room

Soft landing = buy BBBs

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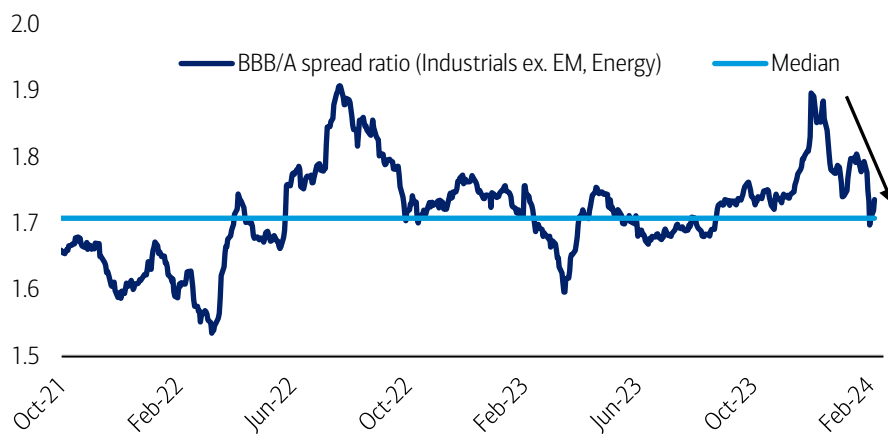
After reaching some of the cheapest levels in December 2023, BBBs industrials have compressed to single-As so far in 2024. That's likely a result of fading recession fears as US data surprised significantly to the upside (Exhibit 3). Hence, for example, we see IG portfolio trades skewed heavily towards buying BBBs over the past 10 days (Exhibit 2). Despite the big move YtD, the ratio of BBB to single-A spreads still lags the big rally in spreads since October. As a result, BBBs continue to offer attractive relative value and we continue to prefer BBB industrials over higher quality issuers, especially as expect re-leveraging risk among higher quality industrials to increase in 2024 (see [Credit Market Strategist: The return of re-leveraging](#)).

BBBs are still screening cheap

The ratio of BBB to single-A spreads tends to track spreads with about a two-month lag. That means, for example, that BBB industrial spreads tend to tighten by a larger percent in a bull market. By that metric BBB spreads continue to screen cheap relative to the big rally in IG spreads since October. The ratio of the spreads is about unchanged since October 2023, while the IG industrial spread is 28bps tighter (Exhibit 4, Exhibit 5).

Exhibit 1: BBB industrials have compressed to single-As

The ratio of BBB to single-A industrials declined to 1.74 currently from 1.90 on December 1st 2023.



Source: BofA Global Research, ICE Data Indices, LLC

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07 February 2024

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United States
Cross Product

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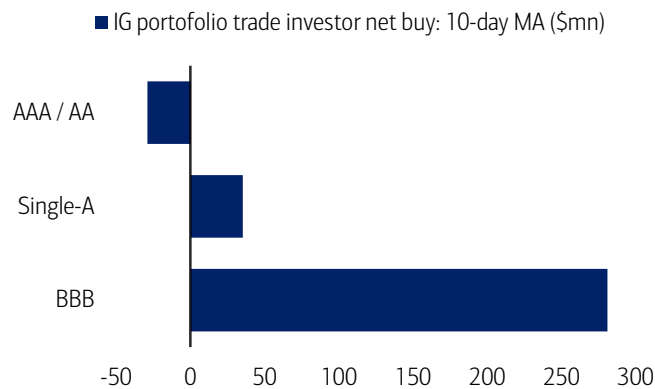
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Timestamp: 07 February 2024 06:42PM EST

Exhibit 2: Investors are buying BBBs in portfolio trades

Over the past 10 days investors mostly bought BBBs in portfolio trades.

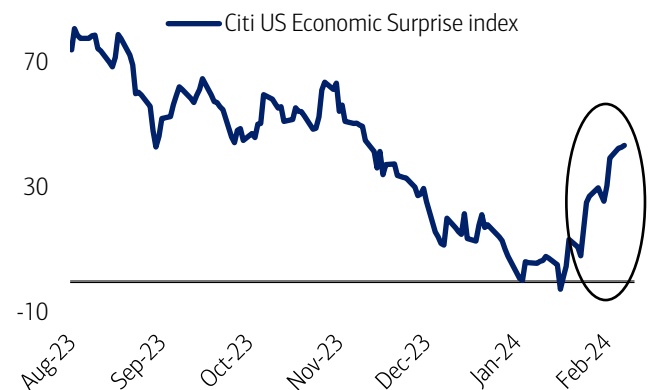


Source: BofA Global Research, FINRA TRACE.

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Exhibit 3: US data has surprised to the upside in 2024

Citi US Economic surprise index rose from close to zero to start the year to 44 currently.

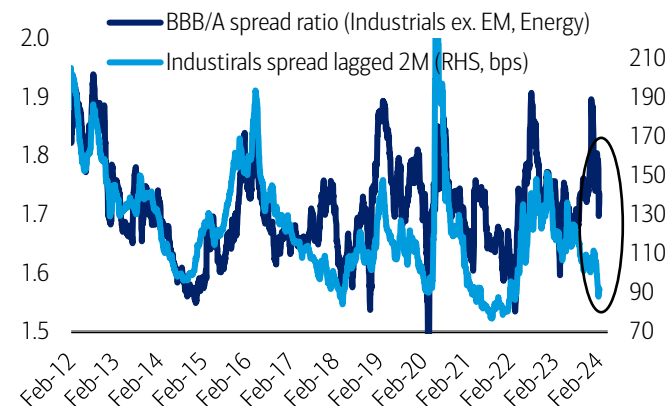


Source: Bloomberg.

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Exhibit 4: BBB/A spread ratio has lagged the rally in spreads

IG industrial spreads tightened 28bps since October, while the BBB/A spread ratio is about unchanged.

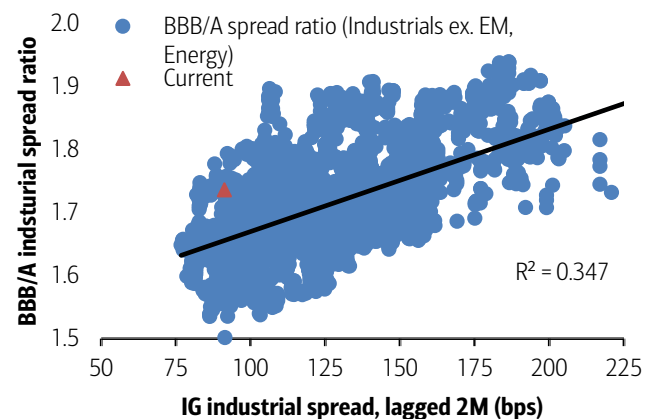


Source: BofA Global Research, ICE Data Indices, LLC

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Exhibit 5: BBBs are screening cheap

The ratio of industrial BBB/A spreads is high relative to the current levels of spreads (lagged by 2M).



Source: BofA Global Research, ICE Data Indices, LLC

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Daily credit snapshot

US IG issuance totaled \$13.2bn across 7 deals today, \$41.2bn WTD and \$42.7bn MTD. The average new issue concession was 5.0bps today, while the average break performance was 3.2bps tighter today. This week's new issues are trading 2.0bps tighter on average from pricing.

S&P 500 closed +0.82%, 10-year Treasury yields +2bps, CDX IG -0.1bps, CDX HY +\$0.06pts, and cash bond spreads quoted +/- 1bp today, LQD closed 1.09bps 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)
2024-02-05	BDX	Becton Dickinson & Co	5	625	Baa2/BBB	4.874	75	n.a.	3	78
2024-02-05	BDX	Becton Dickinson & Co	10	550	Baa2/BBB	5.11	95	n.a.	n.a.	97
2024-02-05	CI	Cigna Group/The	5	1,000	Baa1/A-	5	90	4	n.a.	89
2024-02-05	CI	Cigna Group/The	7	750	Baa1/A-	5.125	100	8	0	100
2024-02-05	CI	Cigna Group/The	10	1,250	Baa1/A-	5.25	110	11	0	109
2024-02-05	CI	Cigna Group/The	30	1,500	Baa1/A-	5.6	125	9	0	124
2024-02-05	COR	Cencora Inc	10	500	Baa2/BBB+	5.125	98	n.a.	-2	98
2024-02-05	DB	Deutsche Bank AG/New York NY	4NC3	1,000	Baa1/BBB	5.706	145	3	-5	146
2024-02-05	GM	General Motors Financial Co Inc	3	350	Baa2/BBB	FRN	SOFR+135	n.a.	n.a.	n.a.
2024-02-05	GM	General Motors Financial Co Inc	3	1,200	Baa2/BBB	5.4	115	12	n.a.	102
2024-02-05	GM	General Motors Financial Co Inc	7	1,000	Baa2/BBB	5.75	165	17	-7	154
2024-02-05	MS	Morgan Stanley	15	1,500	Baa1/BBB+	5.942	180	10	n.a.	180
2024-02-05	SBUX	Starbucks Corp	3	1,000	Baa1/BBB+	4.85	60	n.a.	-2	58
2024-02-05	SBUX	Starbucks Corp	7	500	Baa1/BBB+	4.9	80	1	-2	79
2024-02-05	SBUX	Starbucks Corp	10	500	Baa1/BBB+	5	90	8	-2	89
2024-02-05	SR	Spire Inc	2	350	Baa2/BBB+	5.3	85	n.a.	n.a.	n.a.
2024-02-05	TXN	Texas Instruments Inc	3	650	Aa3/A+	4.6	35	n.a.	n.a.	32
2024-02-05	TXN	Texas Instruments Inc	5	650	Aa3/A+	4.6	50	3	n.a.	49
2024-02-05	TXN	Texas Instruments Inc	10	600	Aa3/A+	4.85	70	10	n.a.	67
2024-02-05	TXN	Texas Instruments Inc	30	750	Aa3/A+	5.15	85	6	n.a.	84
2024-02-05	TXN	Texas Instruments Inc	39	350	Aa3/A+	5.05	137	n.a.	n.a.	91
2024-02-06	APD	Air Products and Chemicals Inc	5	750	A2/A	4.6	60	n.a.	3	63
2024-02-06	APD	Air Products and Chemicals Inc	7	600	Baa2/A-	4.75	70	n.a.	n.a.	n.a.
2024-02-06	APD	Air Products and Chemicals Inc	10	1,150	Baa2/A-	4.85	80	n.a.	n.a.	n.a.
2024-02-06	C	Citigroup Inc	6NC5	3,000	A3/BBB+	5.174	115	-5	-3	113
2024-02-06	C	Citigroup Inc	11NC10	2,500	Baa2/BBB	5.827	175	13	n.a.	177
2024-02-06	CNA	CNA Financial Corp	10	500	Baa2/A-	5.125	120	n.a.	-3	119
2024-02-07	BBDC	Barings BDC Inc	5	300	Baa3/NA	7	320	n.a.	n.a.	n.a.
2024-02-07	DOW	Dow Chemical Co/The	10	600	Baa1/BBB	5.15	105	9	4	109
2024-02-07	DOW	Dow Chemical Co/The	30	650	Baa1/BBB	5.6	130	7	4	134
2024-02-07	LLY	Eli Lilly & Co	3	1,000	A1/A+	4.5	30	n.a.	-2	28
2024-02-07	LLY	Eli Lilly & Co	5	1,000	A1/A+	4.5	45	n.a.	-2	43
2024-02-07	LLY	Eli Lilly & Co	10	1,500	A1/A+	4.7	60	10	-2	58
2024-02-07	LLY	Eli Lilly & Co	30	1,500	A1/A+	5	70	11	-1	69
2024-02-07	LLY	Eli Lilly & Co	40	1,500	A1/A+	5.1	77	5	1	78
2024-02-07	RCICN	Rogers Communications Inc	5	1,250	Baa3/BBB-	5	100	-2	n.a.	n.a.
2024-02-07	RCICN	Rogers Communications Inc	10	1,250	Baa3/BBB-	5.3	130	-5	n.a.	n.a.
2024-02-07	UBS	UBS Group AG	PERP NC7	1,000	Baa3/BB	7.75	n.a.	n.a.	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

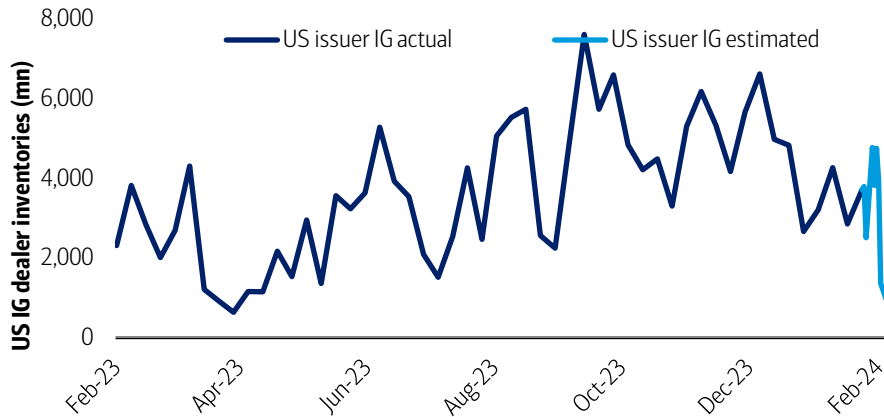
Below we estimate dealer inventories for the IG corporate bonds based on TRACE data.

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 declined to \$1.7bn currently from \$3.7bn on Jan-24.



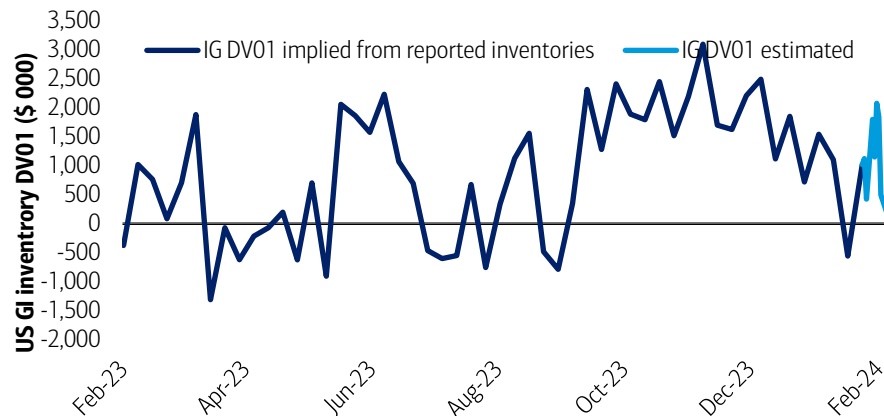
Note: data for US issuer bonds only, maturities 13M or longer. Actual dealer inventory data is from Primary Dealer Statistics survey by the NY Fed. The subsequent change in inventory is estimated based on TRACE.

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 declined to \$0.8mn currently from \$1.0bn on Jan-24.



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 declined -\$111mn today and declined -\$4,123mn over the prior week.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 7-Feb-24 (\$mn)			
	7-Feb	6-Feb	1 W	2 W	4 W	7-Feb	6-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
High grade (13M+)	-111	987	-4,123	-2,597	-1,010	237	444	-1,560	-273	1,828	12,620	12,731	8,681	34,032
<3yr	-374	-20	-1,929	-747	-2,328	-68	-15	-395	-253	-515	2,032	2,406	1,581	6,019
3-5yr	-17	623	-204	-141	-654	-8	225	-111	7	-205	2,217	2,234	1,827	6,277
5-11yr	83	506	-2,303	-3,834	-785	16	387	-1,379	-2,424	-548	4,811	4,728	3,189	12,728
11+yr	198	-121	313	2,125	2,758	298	-153	325	2,397	3,096	3,561	3,363	2,084	9,007
Fin	-768	1,078	-2,237	-2,464	-3,619	-364	446	-1,079	-802	-499	4,472	5,240	3,172	12,884
Non-Fin	657	-91	-1,886	-133	2,608	601	-2	-481	529	2,328	8,148	7,491	5,509	21,147
Fixed	-128	1,032	-3,955	-2,309	-568	222	459	-1,534	-244	1,809	12,523	12,651	8,636	33,810
Floating	17	-44	-168	-288	-442	15	-15	-26	-29	19	97	80	45	222
US issuers	39	801	-3,066	-2,042	-157	253	327	-1,364	-334	1,360	9,971	9,932	7,153	27,056
DM Yankees	-284	147	-1,398	-981	-1,425	-79	93	-385	-216	72	2,182	2,466	1,369	6,018
EM Yankees	134	40	341	426	572	63	24	189	276	396	467	333	158	958

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

We estimate IG dealer inventories declined -\$111mn today and declined -\$4,123mn over the prior week.

Net dealer buy (\$mn)**Net dealer DV01 change (\$thousand)****Trading volumes on 7-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 declined -\$583mn for Banks/Brokers and declined -\$10mn for Energy.

Sector	Net dealer buy (\$mn)					Net dealer DV01 change (\$thousand)					Trading volumes on 7-Feb-24 (\$mn)			
	7-Feb	6-Feb	1 W	2 W	4 W	7-Feb	6-Feb	1 W	2 W	4 W	Buy	Sell	Dealer	Total
Aerospace/Defense	15	14	-153	252	371	61	50	3	349	399	187	173	207	567
Automobiles	162	-99	-137	-207	-315	76	-63	-107	-235	-152	568	406	329	1,302
Banks/Brokers	-583	1,019	-1,603	-2,042	-4,078	-337	480	-791	-904	-904	3,249	3,832	2,131	9,212
Basic Materials	128	9	-192	90	713	41	8	-138	58	538	738	609	375	1,722
Commercial Services	-24	5	15	-35	-42	-25	6	7	30	36	139	163	79	381
Energy	-10	22	-380	-502	-590	-33	68	-213	-311	-342	801	812	584	2,197
Finance	-148	140	-379	-258	-67	-58	9	-278	-117	-18	493	641	536	1,670
Food, Bev, & Bottling	72	-84	-213	-302	-489	36	-68	-204	-354	-320	362	290	276	929
Health Care	-12	377	-17	237	803	40	306	385	499	555	1,379	1,391	963	3,733
Industrial Products	48	13	-178	-8	31	57	-6	-110	41	169	327	279	205	811
Insurance	-92	-51	-167	44	-46	-26	-38	-20	245	131	321	412	253	986
Media & Entertainment	92	-76	-98	-210	376	101	-70	-6	-113	377	624	532	415	1,572
REITs	54	-30	-88	-208	572	57	-5	10	-26	291	409	355	252	1,016
Retail	108	-115	192	353	775	123	-102	177	333	648	521	412	424	1,357
Technology	82	-109	-78	361	1,249	124	-46	127	540	1,110	765	683	523	1,970
Telecom	37	-43	-351	-525	-649	28	-16	-162	-430	-543	529	492	225	1,246
Tobacco	14	34	-14	-58	-77	-7	13	-70	-63	-56	94	80	113	287
Transportation	-12	-11	94	151	225	-21	22	120	141	142	165	178	113	456
Utilities	23	-60	-366	201	-34	14	-135	-320	-14	-417	805	782	547	2,134
Other	-65	33	-10	69	263	-15	32	29	57	185	143	209	131	483

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

Source: BofA Global Research, FINRA, TRACE.

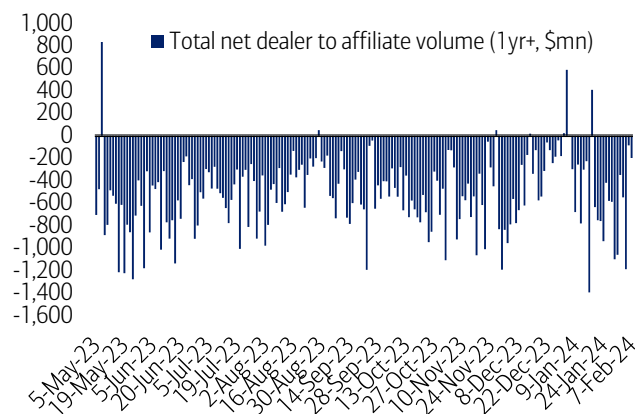
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Daily foreign demand tracker

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 11 shows the overall daily dealer-to-affiliate volumes while Exhibit 12, Exhibit 13 and Exhibit 14 show subsets of this data. In particular Exhibit 12 shows net dealer-to-affiliate volumes for longer maturity (12+ years) bonds, Exhibit 13 displays volumes reported to Trace before 8am NY time (biased toward Asian buying) and Exhibit 14 shows the subset of net trades reported between 8am and noon (biased toward European buying).

Exhibit 11: Net dealer buying from affiliate (1yr+)

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



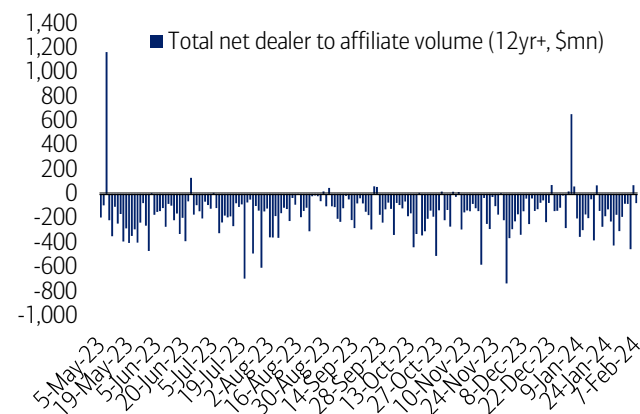
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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

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



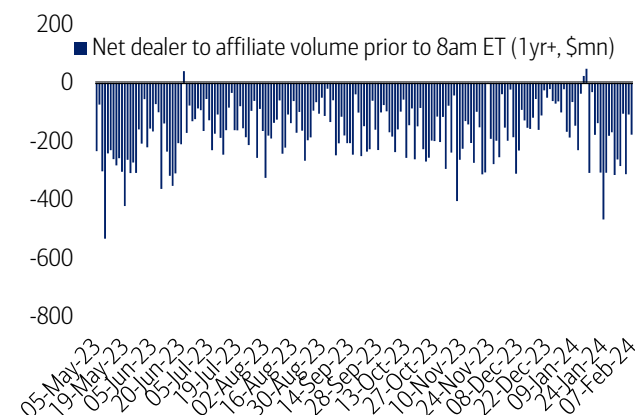
Note: Net dealer-to-affiliate volumes are correlated with foreign buying/selling. Negative numbers indicate foreign buying.

Source: Bloomberg, TRACE

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Exhibit 13: 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



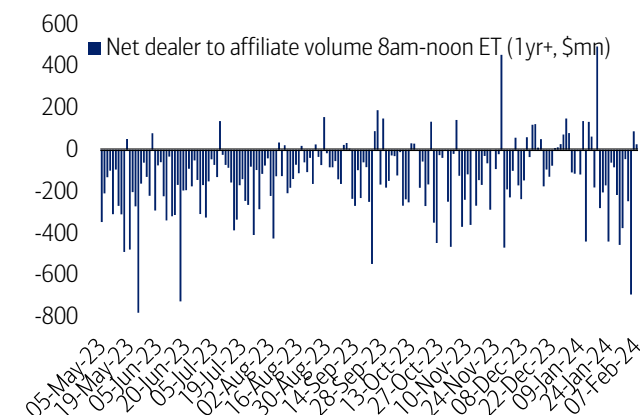
Note: Morning share of daily trading volume is correlated with secondary market activity of foreign investors due to different time zones.

Source: BofA Global Research, TRACE

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Exhibit 14: Net dealer-to-affiliate trading volumes 8am - noon ET

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



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

Source: BofA Global Research, TRACE

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Common abbreviations:

IG: Investment Grade

HG: High Grade

LQD: iShares iBoxx \$ Investment Grade Corporate Bond ETF

DV01: Dollar value of a basis point

CDX IG: The Markit CDX North America Investment Grade Index

CDX HY: Markit CDX North America High Yield Index

ECB: European Central Bank

QE: Quantitative Easing

CSPP: corporate sector purchase programme

Unched: Unchanged

CPI: Consumer Price Index

FOMC: The Federal Open Market Committee

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