

The turning tides of taper talk

Shifting expectations

This week's FOMC statement was determined to be hawkish for what it left unsaid. On the face of it, the statement was neutral with no changes to policy. But market expectations were geared for something rather more dovish. The pendulum seems to have swung all the way to the other end now, from imminent tapering expectations in September. The market may not be prepared for an early 2014 start to tapering and yet the probability of this happening is not trivial. As our Economists have noted, the threshold for tapering may not be as high as some make it out to be.

Implications for the credit-equity trade

We think recent equity outperformance over credit makes sense and this has also become the consensus trade in the market. Delayed tapering would mean that the yield chase continues for just a little longer and with credit valuations so tight, equities will be the beneficiary. On the other hand, better economic data that justified tapering would mean higher interest rates which would also favour stocks over credit. However, given the extent of equity outperformance and also positioning in the two asset classes going into year-end, we expect that the beta or the relative upside in equities over credit will be more limited here on, at the least.

Positioning for payrolls - gap risk

To the two scenarios above, we add a third one; where the gap between market expectations and the Fed's view of the world is uncomfortably large. And it is here that we think that the case for equity underperformance relative to credit can be made, in the short term. With the October payroll report due this Friday we have a possible catalyst to test our view. Expectations are quite modest – consensus expects that 125K jobs were added in the month, while our Economists are a bit more bearish at 110K. Given the low expectations, a small hedge for next week may be a good idea, in our view, in the event that the number surprises on the upside. We prefer owning equity volatility over credit volatility to position for Friday.

RV at a glance

CDX was marginally wider over the week, while iTraxx outperformed. The Main-IG spread at 10.5bp is the lowest since summer 2011. Decompression trades worked as HY lagged IG and XO lagged Main. The cash-CDS basis has started recovering with cash outperforming CDS over the week. Our COAS model indicates that the debt-equity dislocation observed in early Oct has now normalized.

Single-name COAS dislocations

Alcoa Inc. screens as the richest name in credit relative to equity while, ConAgra Foods Inc. screens as the cheapest issuer to its stocks within our US COAS universe. Among European names, this week's richest name in credit relative to equity is Rentokil Initial PLC, while BASF SE screens as the cheapest name to its equity.



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Our COAS model factors in company leverage, equity volatility and current credit spreads to evaluate a forward-looking measure of Credit Risk. COAS is defined as the difference between market Credit Spread and model implied Credit Risk. For a more complete discussion on our COAS model, please see:

[A debt-equity RV framework, 26 March 2013](#)

For model data on a number of issuers, visit: www.baml.com/coas

The turning tides of taper talk

This week's FOMC statement was determined to be hawkish for what it left unsaid. On the face of it, the [statement](#) was neutral with no policy changes and included minor updates to the Fed's economic outlook. Markets however did not take kindly to the Committee's view that "downside risks to the economy had diminished since last fall", without any comments on the negative effects of the shutdown.

The pendulum seems to have swung all the way to the other end now. In September, the FOMC 'surprised' the market by not tapering, despite data in the run-up to the meeting not justifying the action. Consequently, expectations were re-priced to sometime later this year. The government shutdown furthered this trend and chatter shifted to an early 2014 taper. Labour market data over the last few weeks, including the weak September payroll report and below expected Oct ADP turned the market more dovish; hence the jitters on the latest FOMC.

Shifting expectations

The start of QE tapering will likely be a bullish sign; it represents the beginning of the return to normalization and an economy on the path to sustained growth in the Fed's eyes. That said, it wouldn't be surprising if the immediate announcement or the run-up to it were met with a sell-off. The extent of the sell-off depends on the gap between market expectations and the Fed's actions. And we fear that this gap is an increasing risk.

Recent conversations with clients have thrown up a rather wide spectrum of answers on the question of when tapering actually begins. There are those in the January camp like us, some leaning towards March and as [Michael Contopoulos](#) noted last week, an uncomfortable minority that has mentioned June. The market may not be prepared for an early 2014 start to tapering and yet the probability of this happening is not trivial.

Implications for the credit-equity trade

During the government shutdown, flight to quality flows and extended tapering expectations, both [helped credit outperform stocks](#). As we wrote soon after, we [expected this to reverse](#) once things in Washington were sorted out. And indeed credit has barely moved over the last two weeks, while stocks reached new highs. As Table 1 shows, the S&P500 has risen by 2.3% in a little over two weeks, while spreads have been stuck around the same levels.

We think equity outperformance over credit makes sense and this has also become the consensus trade in the market. Delayed tapering would mean that the yield chase continues for just a little longer and with credit valuations so tight, equities will be the beneficiary. On the other hand, better economic data that justified tapering would mean higher interest rates which would also favour stocks over credit.

The gap risk

To the two scenarios above, we add a third one; where the gap between market expectations and the Fed's view of the world is uncomfortably large. As our Economists have noted, the threshold for tapering may not be as high as some make it out to be. And it is here that we think that the case for equity underperformance relative to credit can be made, in the short term.

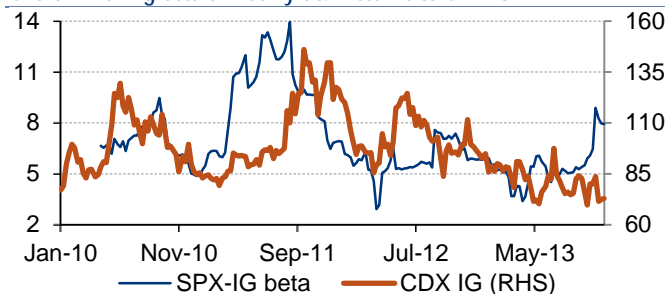
Table 1: Index moves since shutdown ended

Date	5y IG21 Spread	5y HY21 Price	S&P500
1-Nov-13	73.7	106.41	1762
16-Oct-13	74.0	106.47	1722
Change	-0.3	-0.06	2.33%

Source: BofA Merrill Lynch Global Research, Bloomberg

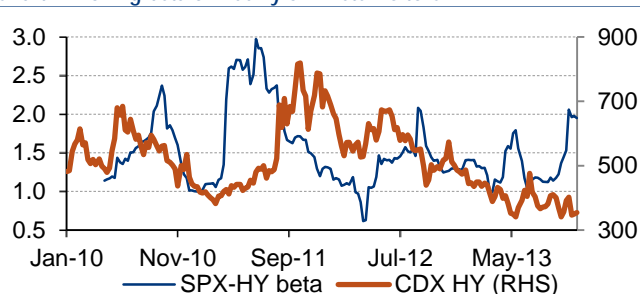
Chart 1 and Chart 2 illustrate the extent of recent equity outperformance. The rolling beta of S&P total returns to both CDX IG and HY returns has spiked to the highest in a while. It is particularly stark for IG. Note that the rise in beta back in summer 2011 was in the background of a sell-off i.e. equities underperformed credit by a large margin. More comparable to the current beta is the one observed in late 2010 when the market was on an upswing. Even here however, credit spreads tightened significantly, coming as they were from a high base, compared to barely any movement now.

Chart 1: Rolling beta of weekly S&P returns to CDX IG



Source: BofA Merrill Lynch Global Research, Bloomberg

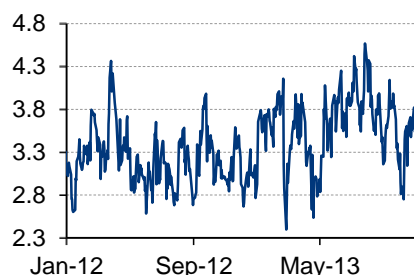
Chart 2: Rolling beta of weekly SPX returns to CDX HY



Source: BofA Merrill Lynch Global Research, Bloomberg

At the least, we expect that the beta or the relative upside in equities over credit will be more limited here on. As Michael Harnett notes, the equity market does seem to be [getting a bit frothy](#). Flows into the asset class have been stellar in recent weeks. The BofAML Global flow trading rule is approaching its 'sell' signal and another sizable round of inflows (\$8-9bn) over the next couple of weeks would tip the scale. In contrast, inflows into high grade credit have been [tepid at best](#) (which is not unexpected). Anecdotal, despite DTCC data showing ever increasing net non-dealer selling of protection on IG, we get the sense that clients are cautiously positioned through year end rather than aggressively long.

Chart 3: IG/SPX 1m ATM vol



Source: BofA Merrill Lynch Global Research, Bloomberg

Positioning for payrolls

On the whole, we think equities are somewhat more vulnerable than credit to an earlier than expected taper. With the October payroll report due this Friday we have a possible catalyst to test our view. Expectations are quite modest – consensus expects that 125K jobs were added in the month, while our Economists are a bit more bearish at 110K. Given the low expectations a small hedge for next week may be a good idea, in our view, in the event that the number surprises on the upside.

As discussed earlier, we think the immediate equity sell-off on the prospect of sooner-rather-than-later tapering can be relatively worse than in credit. While volatility in both assets has been quite low recently, credit volatility has picked up relative to equity volatility (Chart 3). This, taken along with market positioning in the two asset-classes into year-end – both anecdotal and based on inflows – drives our preference for owning equity volatility over credit volatility to position for the week.

RV at a glance - CDS Indices

CDX was marginally wider over the week with IG21 up by 1bp and HY21 4bp wider. European indices outperformed, with the iTraxx family about 3-7bp tighter on the week. Skews continued to recover, turning less negative for almost all indices (Table 2).

Table 2: CDS Indices - spread, intrinsic and skew

Index	5y Spread	1W-Chng	1M-Chng	3M-Chng	5y Intrinsic	1W-Chng	1M-Chng	3M-Chng	Skew	1W-Chng	1M-Chng	3M-Chng
CDX IG	73	1	-7	-8	76	-1	-9	-12	-3	1	2	4
CDX HY	354	4	-37	-46	361	0	-35	-52	-6	5	-2	6
iTraxx Main	83	-3	-15	-21	85	-3	-14	-18	-2	0	-2	-3
iTraxx XO	342	-7	-56	-103	337	-8	-54	-79	4	1	-2	-24
iTraxx FinSen	117	-5	-22	-30	116	-7	-22	-29	1	1	0	-1
iTraxx FinSub	181	-7	-27	-53	176	-6	-31	-50	6	-1	4	-3
iTraxx HiVol	130	-3	-24	-25	123	-4	-24	-32	8	2	0	7

Source: BofA Merrill Lynch Global Research, Spreads for the On The Run series. Until there are sufficient data points for the On The Run series, the 1W/1M/3M changes reflect spreads changes for the previous series.

It was a week for decompression. High yield underperformed IG this week as the spread ratio was up from 4.82 to 4.86 (Chart 4). Similarly, the XO/Main ratio is now up at 4.1 (Chart 5) as is the Sub/Senior ratio at 1.55 (Chart 6).

Chart 4: HY/IG spread ratio



Source: BofA Merrill Lynch Global Research

Chart 5: XO/Main spread ratio



Source: BofA Merrill Lynch Global Research

Chart 6: iTraxx Fin Sub/Sen spread ratio



Source: BofA Merrill Lynch Global Research

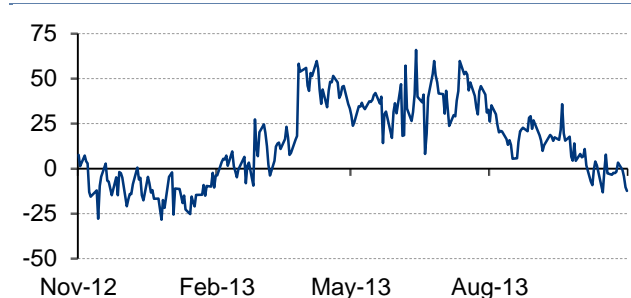
The Main-IG spread continued lower, now at 10.5bp, the lowest since summer 2011 (Chart 7). XO20 similarly outperformed HY21 and now trades 12bp inside the latter (Chart 8).

Chart 7: iTraxx Main- CDX IG



Source: BofA Merrill Lynch Global Research

Chart 8: iTraxx XO - CDX HY



Source: BofA Merrill Lynch Global Research

RV at a glance - Cash versus CDS

Table 3: CDX vs. ML Cash Indices

Index	Spread	1W-Chng	1M-Chng	3M-Chng
CDX IG	73	1	-7	-8
HG Cash	145	0	-11	-8
CDX HY	354	4	-37	-46
HY Cash	436	-4	-47	-35

Source: BofAML Global Research, 5y spreads for CDX, OAS for cash.

Cash indices outperformed CDX indices this week (Table 3). While our US HG cash index was unchanged, CDX IG widened by 1bp. We see a similar trend in HY, where cash tightened 4bp compared to +4bp for CDX HY. The front-end of the IG curve outperformed while 7y and 10y were unchanged over the week. In cash too, the 7-10y sector outperformed, tightening by 2bp (Table 4).

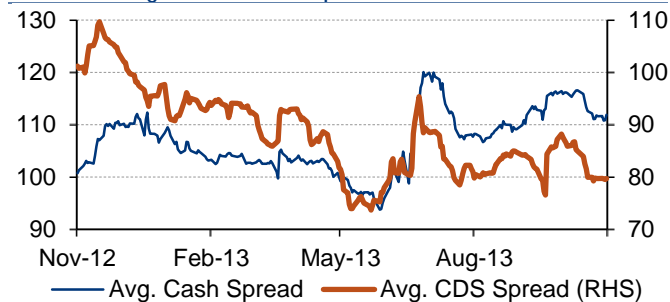
Table 4: High Grade Cash and CDX curves

Index	Spread	1W-Chng	1M-Chng	3M-Chng	Index	OAS	1W-Chng	1M-Chng	3M-Chng
CDX IG 3Y	38	1	-6	-4	US HG 1-3yr	81	0	-10	-16
CDX IG 5Y	73	1	-7	-8	US HG 3-5yr	119	1	-13	-16
CDX IG 7Y	100	0	-7	-6	US HG 5-7yr	155	0	-12	-10
CDX IG 10Y	117	0	-8	-5	US HG 7-10yr	173	-2	-16	-6

Source: BofA Merrill Lynch Global Research, Tables shows option adjusted spreads (OAS) for the ML cash indices.

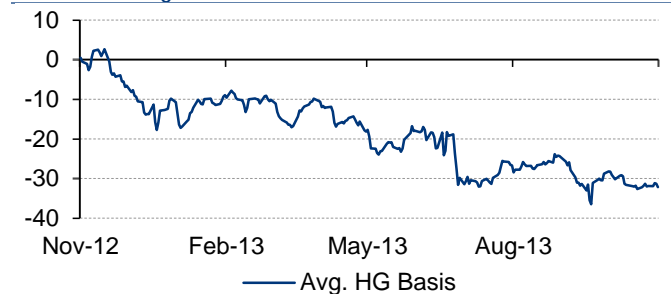
Our measure of cash-CDS basis for CDX IG issuers was -32bps, largely unchanged over the week (Chart 10). The HY basis continues to recover, now at -48bp, up from -59bp last week (Chart 12).

Chart 9: Average cash and CDS spreads for CDX IG issuers



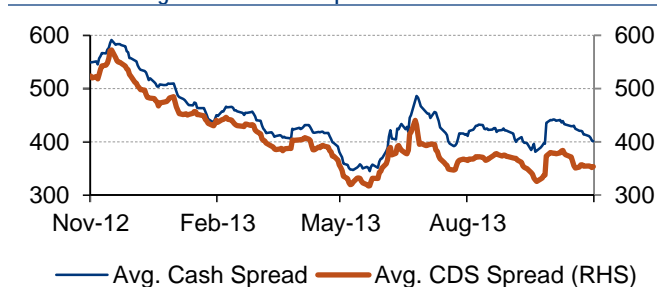
Source: BofA Merrill Lynch Global Research, Average spreads for a selection of issuers in the On The Run CDX IG index. Currently includes 121 IG21 constituents.

Chart 10: Average cash-CDS basis for CDX IG issuers



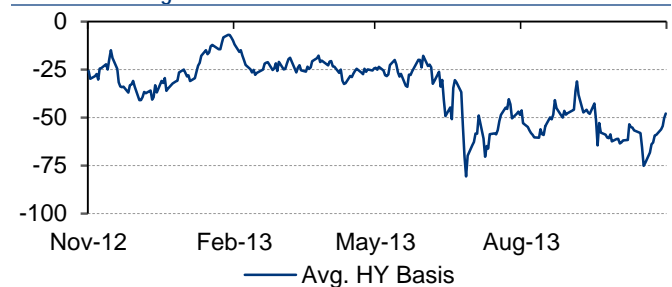
Source: BofA Merrill Lynch Global Research, Average cash-CDS for a selection of issuers in the On The Run CDX IG index. Currently includes 121 IG21 constituents.

Chart 11: Average cash and CDS spreads for CDX HY issuers



Source: BofA Merrill Lynch Global Research, Average spreads for a selection of issuers in the On The Run CDX HY index. Currently includes 89 HY21 constituents.

Chart 12: Average cash-CDS basis for CDX HY issuers



Source: BofA Merrill Lynch Global Research, Average basis for a selection of issuers in the On The Run CDX HY index. Currently includes 89 HY21 constituents.

RV at a glance - Credit vs. Equity

On a week-over-week basis US credit and equity indices did not move much, while their European counterparts outperformed (Table 5). Equity volatility rose a tad in the US, with the VIX up 0.6pts, while VSTOXX rose to 15.9 (+0.3pts).

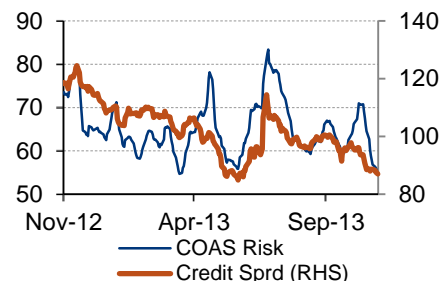
Table 5: CDS Indices vs. Equity Benchmarks and Equity Volatility

Index	5y Spread	1W-Chng	1M-Chng	3M-Chng	Index	Level	1W-Chng	1M-Chng	3M-Chng
CDX IG	73	1	-7	-8	S&P 500	1757	0.3%	4.5%	4.2%
CDX HY	354	4	-37	-46	VIX	13.8	0.6	-2.9	0.3
iTraxx Main	83	-3	-15	-21	Eurostoxx50	3068	1.0%	6.0%	10.8%
iTraxx XO	342	-7	-56	-103	VSTOXX	15.9	0.3	-3.6	-3.2

Source: BofA Merrill Lynch Global Research, Bloomberg

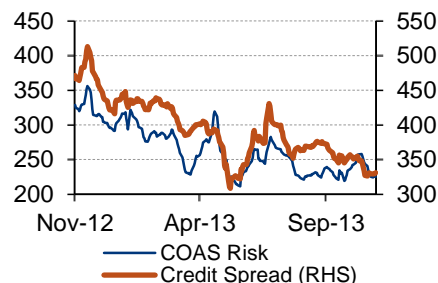
Average spreads for our US and European universe tightened by 2bp while equity-implied credit risk fell by 3bp (Chart 13 and Chart 15). US HY spreads widened by 1bp on average, while COAS risk declined by 3bp (Chart 14). COAS z-scores have normalized for all three sectors now. Z-scores now stand at -0.13, -0.84, and -0.41 for US HG, US HY, and EU HG respectively (Chart 16, Chart 17, and Chart 18).

Chart 13: US HG COAS Risk vs. Spread



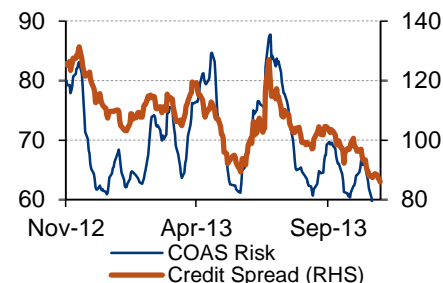
Source: BofA Merrill Lynch Global Research, Avg. across 370 listed high grade USD issuers.

Chart 14: US HY COAS Risk vs. Spread



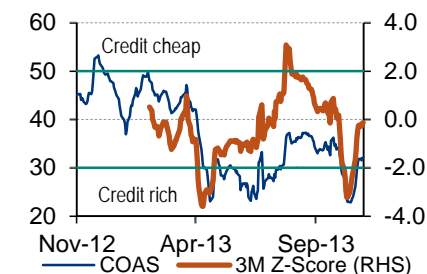
Source: BofA Merrill Lynch Global Research, Avg. across 105 listed high grade USD issuers.

Chart 15: EU HG COAS Risk vs. Spread



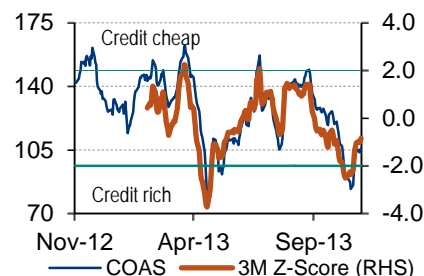
Source: BofA Merrill Lynch Global Research, Avg. across 203 listed high grade EUR issuers.

Chart 16: US HG COAS & Z-Score



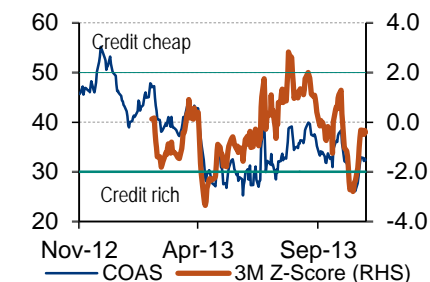
Source: BofA Merrill Lynch Global Research, COAS = Spread - COAS Risk. A positive (negative) z-score indicates that credit is trending cheap (rich) relative to equity. Z-scores above (below) +2 (-2) can be considered indicative a significant debt-equity dislocation.

Chart 17: US HY COAS & Z-Score



Source: BofA Merrill Lynch Global Research, COAS = Spread - COAS Risk. A positive (negative) z-score indicates that credit is trending cheap (rich) relative to equity. Z-scores above (below) +2 (-2) can be considered indicative a significant debt-equity dislocation.

Chart 18: EU HG COAS & Z-Score



Source: BofA Merrill Lynch Global Research, COAS = Spread - COAS Risk. A positive (negative) z-score indicates that credit is trending cheap (rich) relative to equity. Z-scores above (below) +2 (-2) can be considered indicative a significant debt-equity dislocation.

US COAS Dislocations Rich to Equities

According to our COAS model, this week's richest US name is Alcoa Inc. Alcoa has a 3-month z-score of -2.4, its CDS spread is 2.0 standard deviations tight to its 3-month average, and its credit risk is 2.0 standard deviations above its 3-month average. Alcoa's equity gained 0.2% this week while its vol increased 4 vol points. This week, Alcoa announced it will be entering a joint venture with Russian titanium producer VSMPO-Avisma to make aircraft parts.

After Alcoa, Chesapeake Energy Corp screens as the second richest name to its equity. It has a 3-month z-score of -2.0, its CDS spread is 2.3 standard deviations tight to its 3-month average, and its credit risk is 0.6 standard deviations below its 3-month average. Chesapeake's equity fell 1.4% this week as its vol fell 1 vol point. Following Alcoa and Chesapeake, Best Buy Co Inc, Boyd Gaming Corp, and Campbell Soup Co each screen as rich to their equity.

Table 6: Top 5 richest to equity according to COAS

Issuer	Equity Px	Wkly Chng	Vol	Wkly Chng	CDS	Wkly Chng	3M Avg	3M Z-Score	Credit Risk	Wkly Chng	3M Avg	3M Z-Score	Credit OAS	Wkly Chng	3M Avg	3M Z-Score
Alcoa Inc	9.3	0.20%	31	4	235	2	281	-2.0	134	23	111	2.0	101	-21	170	-2.4
Chesapeake Energy Corp	28.0	-1.40%	31	-1	193	-17	254	-2.3	126	-10	132	-0.6	67	-7	122	-2.0
Best Buy Co Inc	42.8	0.10%	44	1	224	3	257	-1.0	145	4	142	0.1	79	-1	114	-1.9
Boyd Gaming Corp	10.6	-24.20%	58	6	545	78	544	0.0	498	123	383	3.2	48	-45	161	-1.8
Campbell Soup Co	42.6	0.40%	19	1	53	0	58	-2.1	37	1	39	-0.9	16	-1	19	-1.8

Source: BofA Merrill Lynch Global Research

Cheap to Equities

With a 3-month z-score of 2.1, ConAgra Foods Inc screens as the cheapest US name to its equity in our COAS universe. ConAgra's CDS spread is 0.7 standard deviations tight to its 3-month average while its equity-implied credit risk is 1.8 standard deviations below its 3-month average. During the past week, ConAgra's stock lost 0.8% and its vol decreased 2 vol points.

Following ConAgra, Quest Diagnostics Inc ranks second on our list of names that register as cheap to their equity. Quest has a 3-month z-score of 2.0, its CDS spread is 2.1 standard deviations wide to its 3-month average, and its credit risk is 0.3 standard deviations below its 3-month average. Over the past week, its equity gained 2.8% while its vol was unchanged. Last week, the company reported Q3 earnings that met analyst expectations. After ConAgra and Quest, PPG Industries, McKesson Corp, and Nabors Industries Inc each screen as cheap to their equity.

Table 7: Top 5 cheapest to equity according to COAS

Issuer	Equity Px	Wkly Chng	Vol	Wkly Chng	CDS	Wkly Chng	3M Avg	3M Z-Score	Credit Risk	Wkly Chng	3M Avg	3M Z-Score	Credit OAS	Wkly Chng	3M Avg	3M Z-Score
ConAgra Foods Inc	31.8	0.80%	17	-2	57	-2	59	-0.7	34	-6	43	-1.8	22	4	16	2.1
Quest Diagnostics Inc	59.9	2.80%	19	0	114	-3	95	2.1	51	-1	53	-0.3	63	-2	43	2.0
PPG Industries Inc	182.6	1.70%	19	0	55	0	56	-0.6	26	-1	36	-2.0	29	1	20	2.0
McKesson Corp	156.3	4.20%	19	-2	35	3	29	2.2	23	-4	23	0.0	12	7	5	1.9
Nabors Industries Inc	17.5	4.70%	29	-2	156	0	161	-0.6	108	-9	130	-2.3	48	9	31	1.9

Source: BofA Merrill Lynch Global Research

Europe COAS Dislocations Rich to Equities

According to our COAS model, this week's richest European name is Rentokil Initial PLC. Rentokil has a 3-month z-score of -2.6, its CDS spread is 2.3 standard deviations tight to its 3-month average, and its credit risk is 1.2 standard deviations below its 3-month average. The firm's equity fell 6.9% this week while its vol increased 1 vol point. Shares plummeted after Invesco Perpetual Ltd cut its stake in the company by 193.7 million shares.

After Rentokil, Banca Monte dei Paschi di Siena SpA screens as the second richest name to its equity. Monte Paschi has a 3-month z-score of -2.4, its CDS spread is 1.8 standard deviations tight to its 3-month average, and its credit risk 2.0 standard deviations above its 3-month average. Monte Paschi's equity added 6.6% over the past week and its vol increased 9 vol points. Earlier, the Monte Paschi Foundation, announced it is considering a merger of the bank, preferably on an international scale. Following Rentokil and Monte Paschi, Atlantia SpA, Veolia Environnement, and Fiat SpA each screen as rich to their equity.

Table 8: Top 5 richest to equity according to COAS

Issuer	Equity Px	Wkly Chng	Vol	Wkly Chng	CDS	Wkly Chng	3M Avg	3M Z-Score	Credit Risk	Wkly Chng	3M Avg	3M Z-Score	Credit OAS	Wkly Chng	3M Avg	3M Z-Score
Rentokil Initial PLC	1.0	-6.90%	21	1	105	-5	132	-2.3	59	1	63	-1.2	46	-6	69	-2.6
Banca Monte dei Paschi	0.2	6.60%	58	9	403	-29	597	-1.8	372	70	315	2.0	30	-99	282	-2.4
Atlantia SpA	16.2	-0.90%	19	1	131	-5	160	-2.2	57	1	70	-1.6	74	-6	90	-2.1
Veolia Environnement	12.6	-3.20%	37	-1	104	-1	119	-1.8	135	-4	109	2.0	-31	3	10	-2.1
Fiat SpA	5.8	-5.10%	41	2	391	-9	450	-1.7	288	16	277	0.7	104	-25	173	-2.0

Source: BofA Merrill Lynch Global Research

Cheap to Equities

With a 3-month z-score of 3.0, BASF SE screens as the cheapest European name to its equity in our COAS universe. BASF's CDS spread is 1.6 standard deviations tight to its 3-month average while its equity-implied credit risk is 2.8 standard deviations below its 3-month average. The company's equity gained 3.2% over the past week and its vol fell 2 vol points. This week, the company successfully tendered all outstanding shares of the Verenum Corporation.

Following BASF, Bombardier Inc ranks second on our list of names that register as cheap to their equity. Bombardier has a 3-month z-score of 2.7, its CDS spread is 0.3 standard deviations tight to its 3-month average, and its credit risk is 1.3 standard deviations below its 3-month average. The firm's equity fell 11.4% this week as its vol increased 2 vol points after posting Q3 earnings that miss expectations. After BASF and Bombardier, Carrefour SA, Dixons Retail PLC, and Kering each screen as cheap to their equity.

Table 9: Top 5 cheapest to equity according to COAS

Issuer	Equity Px	Wkly Chng	Vol	Wkly Chng	CDS	Wkly Chng	3M Avg	3M Z-Score	Credit Risk	Wkly Chng	3M Avg	3M Z-Score	Credit OAS	Wkly Chng	3M Avg	3M Z-Score
BASF SE	76.5	3.20%	17	-2	48	0	51	-1.6	28	-5	41	-2.8	20	5	10	3.0
Bombardier Inc	4.7	-11.40%	32	2	257	28	262	-0.3	146	17	175	-1.3	110	11	87	2.7
Carrefour SA	27.0	-0.80%	25	0	85	-4	99	-2.0	69	-3	101	-2.4	16	-1	-2	2.3
Dixons Retail PLC	0.5	1.40%	43	-7	260	0	287	-1.2	195	-52	285	-2.6	65	52	2	2.1
Kering	167.4	-3.10%	21	-3	87	-1	89	-0.5	49	-9	62	-2.3	38	8	26	2.1

Source: BofA Merrill Lynch Global Research

HG Basis Screen

Omnicom Group Inc, with a basis of -102bps, occupies the topmost position on our list of issuers with the most negative basis. Following Omnicom Group Inc is MDC Holdings Inc, which has a basis of -96bps. Over the past week, we have seen three replacements in our top 10 bucket of issuers with the most negative basis as Cardinal Health Inc, MeadWestvaco Corp and Mondelez International Inc have been replaced by CSX Corp, Newell Rubbermaid Inc, and Starwood Hotels & Resorts Worldwide Inc.

Table 10: CDX IG 21 Basis Report

Sector	Ticker	Issuer	Coupon	Maturity	Price	Cash Sprd	5y CDS	Interp CDS	Hedge Ratio	Basis	1W Ago	1W Chg	1M Avg
Advertising Dependent Media	OMC	Omnicom Group Inc	4.45	Aug-20	105.42	157	36	54	1.11	-102	-100	-3	-102
Consumer Durables - Non Auto	MDC	MDC Holdings Inc	5.625	Feb-20	104.43	295	170	199	1.10	-96	-96	-1	-89
Electric Utilities	EXC	Exelon Corp	5.15	Dec-20	107.83	184	71	94	1.15	-90	-85	-5	-88
Technology	EXPE	Expedia Inc	5.95	Aug-20	105.85	293	158	206	1.12	-88	-75	-12	-81
Electric Utilities	FE	FirstEnergy Corp	2.75	Mar-18	98.45	195	149	119	0.99	-77	-84	7	-82
Technology	MSI	Motorola Solutions Inc	3.75	May-22	96.29	195	77	121	0.95	-74	-75	1	-74
Other Insurance	MMC	Marsh & McLennan Cos Inc	2.3	Apr-17	101.50	101	43	28	1.03	-74	-71	-3	-70
Consumer Products	NWL	Newell Rubbermaid Inc	2.05	Dec-17	99.56	109	57	43	1.00	-66	-58	-8	-58
Transportation	CSX	CSX Corp	4.25	Jun-21	106.71	110	30	46	1.13	-64	-62	-2	-62
Gaming, Lodging & Leisure	HOT	Starwood Hotels & Resorts Worldwide Inc	6.75	May-18	118.26	118	66	56	1.33	-62	-60	-2	-56
Gaming, Lodging & Leisure	CCL	Carnival Corp	1.875	Dec-17	98.37	121	80	59	0.98	-62	-58	-4	-59
Services	CAH	Cardinal Health Inc	1.7	Mar-18	98.37	91	38	30	0.98	-61	-64	3	-58
Transportation	UNP	Union Pacific Corp	4	Feb-21	106.17	98	24	37	1.12	-61	-55	-6	-54
Gaming, Lodging & Leisure	MAR	Marriott International Inc/DE	3	Mar-19	101.76	117	55	58	1.04	-60	-61	1	-55
Food, Beverage & Tobacco	MO	Altria Group Inc	4.75	May-21	107.89	139	50	80	1.15	-59	-58	-1	-60
Food and Drug Retail	CVS	CVS Caremark Corp	4.125	May-21	105.98	109	32	51	1.12	-58	-53	-5	-56
Paper and Forest Products	MWV	MeadWestvaco Corp	7.375	Sep-19	120.35	173	101	115	1.37	-58	-63	5	-59
Retail	AZO	AutoZone Inc	4	Nov-20	103.64	142	56	86	1.08	-56	-52	-4	-55
Food, Beverage & Tobacco	MDLZ	Mondelez International Inc	6.125	Aug-18	117.40	92	39	36	1.32	-56	-64	8	-63
Electric Utilities	AEP	American Electric Power Co Inc	1.65	Dec-17	99.08	80	35	26	0.99	-54	-61	8	-59
Transportation	LUV	Southwest Airlines Co	5.75	Dec-16	112.07	99	88	46	1.23	-54	-52	-2	-49
Technology	PBI	Pitney Bowes Inc	6.25	Mar-19	111.66	222	159	169	1.22	-53	-45	-8	-41
Advertising Dependent Media	FOXA	News America Inc	4.5	Feb-21	107.82	118	43	66	1.15	-52	-49	-4	-52
Services	MCK	McKesson Corp	1.4	Mar-18	97.58	80	33	27	0.97	-52	-50	-2	-48
Services	AET	Aetna Inc	1.75	May-17	100.54	75	37	23	1.02	-52	-51	-1	-51
Cable/DBS	COXENT	COX Communications Inc	3.25	Dec-22	91.84	193	94	142	0.88	-52	-47	-4	-58
Services	CI	Cigna Corp	2.75	Nov-16	103.94	72	41	20	1.08	-52	-52	0	-50
Transportation	NSC	Norfolk Southern Corp	5.9	Jun-19	118.02	81	26	29	1.32	-51	-57	5	-52
Food, Beverage & Tobacco	CAG	ConAgra Foods Inc	2.1	Mar-18	99.78	97	57	46	1.01	-50	-49	-1	-47
Aerospace & Defense	NOC	Northrop Grumman Corp	1.75	Jun-18	98.81	75	30	26	0.99	-50	-62	12	-55
Food, Beverage & Tobacco	RAI	Reynolds American Inc	3.25	Nov-22	94.29	159	65	110	0.92	-50	-46	-3	-52
Multi-line Insurance	XL	XLIT Ltd	5.75	Oct-21	115.17	128	57	79	1.28	-50	-49	-1	-45
Retail	GPS	Gap Inc/The	5.95	Apr-21	110.85	208	112	158	1.21	-49	-46	-3	-49
Metals & Mining	ABXCN	Barrick Gold Corp	2.5	May-18	96.11	223	207	174	0.95	-49	-23	-26	-4
Food and Drug Retail	KR	Kroger Co/The	2.2	Jan-17	102.01	80	62	31	1.04	-49	-46	-3	-47
Technology	XRX	Xerox Corp	2.95	Mar-17	102.93	122	134	75	1.06	-48	-45	-2	-48
Technology	ARW	Arrow Electronics Inc	3	Mar-18	101.86	137	113	90	1.04	-46	-49	2	-57
Pipelines	SRE	Sempra Energy	2.3	Apr-17	102.50	72	42	25	1.05	-46	-46	-1	-46
P&C Insurance	L	Loews Corp	2.625	May-23	92.25	104	38	61	0.88	-43	-41	-2	-42
Advertising Dependent Media	TWX	Time Warner Inc	3.4	Jun-22	98.87	117	48	74	1.00	-43	-47	4	-47
Aerospace & Defense	LMT	Lockheed Martin Corp	3.35	Sep-21	100.80	100	33	57	1.03	-43	-41	-2	-42
Aerospace & Defense	RTN	Raytheon Co	2.5	Dec-22	92.60	97	29	55	0.89	-42	-40	-2	-39
Chemicals	EMN	Eastman Chemical Co	2.4	Jun-17	101.74	100	96	58	1.04	-42	-41	-1	-38
Retail	M	Macy's Inc	5.9	Dec-16	112.82	87	101	46	1.24	-41	-38	-4	-35
Oil & Gas	VLO	Valero Energy Corp	9.375	Mar-19	130.64	151	105	110	1.55	-41	-51	10	-39
Real Estate	EQR	ERP Operating LP	4.625	Dec-21	107.71	124	54	84	1.15	-39	-50	11	-44
Advertising Dependent Media	VIA	Viacom Inc	2.5	Sep-18	101.31	85	49	46	1.03	-39	-40	1	-40
Diversified Telecom	VZ	Verizon Communications Inc	3.65	Sep-18	106.39	87	52	49	1.12	-39	-44	6	-38
Technology	CSC	Computer Sciences Corp	6.5	Mar-18	116.01	136	121	98	1.29	-38	-47	8	-47
Health Care Equipment & Services	BSX	Boston Scientific Corp	2.65	Oct-18	100.86	107	72	69	1.03	-38	-48	9	-44
Cable/DBS	CMCSA	Comcast Corp	1.974	Apr-19	98.03	78	36	40	0.98	-38	-38	0	-33
Food and Drug Retail	SWY	Safeway Inc	3.4	Dec-16	103.50	149	259	111	1.07	-38	-54	16	-53
Pharmaceuticals	AMGN	Amgen Inc	2.125	May-17	102.17	62	42	26	1.04	-36	-33	-4	-34
P&C Insurance	HIG	Hartford Financial Services Group Inc	4	Oct-17	107.38	101	86	65	1.14	-36	-30	-5	-27
Paper and Forest Products	IP	International Paper Co	9.375	May-19	132.59	129	87	94	1.58	-35	-38	3	-35

Table 10: CDX IG 21 Basis Report

Sector	Ticker	Issuer	Coupon	Maturity	Price	Cash Sprd	5y CDS	Interp CDS	Hedge Ratio	Basis	1W Ago	1W Chg	1M Avg
Electric Utilities	D	Dominion Resources Inc/VA	1.4	Sep-17	99.39	57	32	22	1.00	-35	-35	0	-34
Aerospace & Defense	BA	Boeing Capital Corp	2.9	Aug-18	105.06	46	12	11	1.10	-35	-34	-1	-30
Retail	YUM	Yum! Brands Inc	6.25	Mar-18	117.47	84	61	50	1.32	-34	-19	-16	-38
P&C Insurance	ACE	ACE Ltd	5.9	Jun-19	118.60	71	34	38	1.33	-34	-32	-2	-29
Industrial Products	HON	Honeywell International Inc	5.3	Mar-18	115.20	48	20	16	1.28	-31	-34	3	-32
P&C Insurance	CB	Chubb Corp/The	5.75	May-18	116.95	58	31	27	1.31	-31	-29	-2	-27
Advertising Dependent Media	CBS	CBS Corp	1.95	Jul-17	100.98	75	67	45	1.02	-31	-29	-1	-28
Transportation	R	Ryder System Inc	2.35	Feb-19	98.46	113	79	83	0.98	-30	-27	-3	-21
Health Care Equipment & Services	BAX	Baxter International Inc	1.85	Jun-18	100.34	49	21	19	1.01	-30	-27	-3	-25
Diversified Financials	HRB	Block Financial LLC	5.5	Nov-22	104.67	248	149	219	1.10	-29	-29	-2	-27
Oil & Gas	APC	Anadarko Petroleum Corp	6.375	Jul-17	116.81	83	73	54	1.31	-29	-29	0	-27
Food, Beverage & Tobacco	GIS	General Mills Inc	3.15	Dec-21	99.97	86	34	57	1.01	-29	-31	3	-29
Retail	LOW	Lowe's Cos Inc	1.625	Apr-17	101.12	48	33	19	1.03	-28	-33	5	-32
Real Estate	SPG	Simon Property Group LP	2.15	Sep-17	102.12	64	52	37	1.04	-28	-29	1	-27
Oil & Gas	RIG	Transocean Inc	2.5	Oct-17	100.93	123	137	95	1.03	-28	-34	7	-28
Auto Manufacturers	F	Ford Motor Co	6.5	Aug-18	116.46	140	122	113	1.30	-27	-25	-2	-16
Oil & Gas	DVN	Devon Energy Corp	1.875	May-17	100.96	75	79	48	1.02	-27	-36	9	-34
Retail	HD	Home Depot Inc/The	4.4	Apr-21	109.98	76	32	50	1.18	-27	-26	-1	-25
Consumer Products	BEAM	Beam Inc	1.75	Jun-18	98.63	78	59	52	0.98	-26	-26	0	-26
P&C Insurance	ALL	Allstate Corp/The	7.45	May-19	126.70	68	40	43	1.48	-26	-25	-1	-21
Diversified Financials	AXP	American Express Co	1.55	May-18	98.64	60	40	35	0.98	-25	-27	2	-24
Oil & Gas	HAL	Halliburton Co	2	Aug-18	100.71	54	32	29	1.02	-25	-26	2	-23
Retail	TGT	Target Corp	2.9	Jan-22	98.47	80	33	56	0.99	-23	-22	-2	-22
Cable/DBS	DTV	DIRECTV Holdings LLC	1.75	Jan-18	97.84	118	121	95	0.97	-23	-31	8	-25
Oil & Gas	COP	ConocoPhillips	1.05	Dec-17	98.24	40	25	18	0.98	-22	-23	1	-21
Automobiles	JCI	Johnson Controls Inc	2.6	Dec-16	104.04	55	67	33	1.08	-21	-25	4	-24
Oil & Gas	WFT	Weatherford International Ltd/Switzerland	4.5	Apr-22	101.10	206	136	185	1.04	-21	-20	-1	-21
Metals & Mining	FCX	Freeport-McMoRan Copper & Gold Inc	2.375	Mar-18	99.60	129	136	109	1.00	-20	-22	2	-26
Pipelines	KMP	Kinder Morgan Energy Partners LP	2.65	Feb-19	100.47	104	83	85	1.02	-19	-31	11	-26
Industrial Products	DE	Deere & Co	2.6	Jun-22	95.94	74	33	57	0.94	-17	-16	-1	-21
Food, Beverage & Tobacco	CPB	Campbell Soup Co	3.05	Jul-17	105.76	51	53	34	1.11	-17	-15	-2	-15
Pharmaceuticals	BMJ	Bristol-Myers Squibb Co	0.875	Aug-17	98.59	31	22	15	0.98	-16	-17	0	-15
Services	UNH	UnitedHealth Group Inc	1.625	Mar-19	97.34	59	42	44	0.96	-15	-14	-1	-15
Advertising Dependent Media	DIS	Walt Disney Co/The	1.125	Feb-17	100.30	26	18	11	1.01	-15	-13	-2	-19
Chemicals	DD	El du Pont de Nemours & Co	4.25	Apr-21	107.94	91	55	77	1.15	-14	-10	-4	-18
Industrial Products	AVT	Avnet Inc	4.875	Dec-22	102.14	215	121	201	1.06	-14	-19	5	-28
Retail	WMT	Wal-Mart Stores Inc	1.125	Apr-18	98.17	33	23	20	0.97	-14	-11	-3	-13
Transportation	UPS	United Parcel Service Inc	1.125	Oct-17	99.36	28	21	15	0.99	-13	-16	3	-13
Consumer Products	WHR	Whirlpool Corp	4.7	Jun-22	105.08	162	94	150	1.10	-13	-8	-5	-5
Chemicals	DOW	Dow Chemical Co/The	4.125	Nov-21	103.47	136	84	124	1.07	-12	-10	-2	-15
Wireline Telecom	T	AT&T Inc	1.4	Dec-17	98.66	67	75	55	0.98	-12	-12	0	-17
Facilities	DGX	Quest Diagnostics Inc	4.7	Apr-21	105.54	170	119	159	1.11	-11	2	-13	-16
Retail	MCD	McDonald's Corp	1.875	May-19	99.75	29	16	18	1.00	-11	-11	0	-8
Technology	HPQ	Hewlett-Packard Co	2.6	Sep-17	101.68	114	155	105	1.04	-10	-14	5	-13
Multi-line Insurance	GNW	Genworth Holdings Inc	6.515	May-18	115.70	151	161	141	1.29	-9	-9	0	-22
Cable/DBS	TWC	Time Warner Cable Inc	4	Sep-21	93.63	287	205	277	0.91	-9	-3	-7	4
Diversified Financials	NRUC	National Rural Utilities Cooperative Finance Corp	2.35	Jun-20	98.22	70	43	61	0.98	-9	-7	-2	-7
Multi-line Insurance	AIG	American International Group Inc	3.375	Aug-20	101.76	111	80	103	1.04	-7	-2	-6	-4
Chemicals	SHW	Sherwin-Williams Co/The	1.35	Dec-17	98.92	53	60	46	0.99	-7	-8	1	-5
Food, Beverage & Tobacco	TSN	Tyson Foods Inc	4.5	Jun-22	104.25	157	94	150	1.09	-7	-14	7	-11
Technology	IBM	International Business Machines Corp	1.25	Feb-18	98.92	36	37	30	0.99	-6	-5	-2	-4
Oil & Gas	NBR	Nabors Industries Inc	4.625	Sep-21	101.12	225	157	219	1.04	-6	-4	-2	-1
Retail	JWN	Nordstrom Inc	4	Oct-21	105.55	98	62	96	1.11	-2	1	-3	4
Industrial Products	CAT	Caterpillar Inc	1.5	Jun-17	100.56	43	65	41	1.02	-2	3	-5	5
Pharmaceuticals	PFE	Pfizer Inc	1.5	Jun-18	99.72	27	29	26	1.00	-1	0	-1	0
Food, Beverage & Tobacco	HSB	Hillshire Brands Co	4.1	Sep-20	104.29	140	102	140	1.09	1	8	-7	-17
Life Insurance	MET	MetLife Inc	1.756	Dec-17	100.05	66	87	70	1.01	4	3	1	5
Retail	SPLS	Staples Inc	2.75	Jan-18	101.29	133	180	137	1.03	4	2	2	14
Technology	CSCO	Cisco Systems Inc	3.15	Mar-17	107.28	14	38	22	1.13	7	5	3	4
Retail	DRI	Darden Restaurants Inc	4.5	Oct-21	98.14	259	199	273	0.99	14	31	-16	50
Diversified Financials	GE	General Electric Capital Corp	1.625	Apr-18	99.84	45	73	63	1.00	17	18	0	22
Metals & Mining	AA	Alcoa Inc	5.4	Apr-21	102.56	291	235	309	1.07	18	5	13	18
P&C Insurance	BRK	Berkshire Hathaway Inc	2	Aug-18	100.94	44	70	66	1.02	21	26	-5	24
Retail	KSS	Kohl's Corp	4	Nov-21	100.38	175	129	202	1.02	27	40	-13	46
Consumer Products	AVP	Avon Products Inc	4.6	Mar-20	103.83	205	202	249	1.08	43	8	36	12

Source: BofA Merrill Lynch Global Research

HY Basis Screen

This week, high yield CDS underperformed cash on a week-over-week basis as the average basis increased 11bps from -59bps to -48bps. Parker Drilling, with a basis of -234bps, occupies the topmost position on our list of issuers with the most negative basis. RadioShack Corp, with a basis of -215bps, is second on the list. Over the past week, we have seen only one replacement in our top 10 bucket of issuers with the most negative basis as Sabre Holdings Corp has been replaced by The New York Times Co.

Table 11: CDX HY 21 Basis Report

Sector	Ticker	Issuer	Coupon	Maturity	Price	Cash Sprd	5y CDS	Interp CDS	Hedge Ratio	Basis	1W Ago	1W Chg	1M Avg
Oil & Gas	PKD	Parker Drilling Co	7.5	Aug-20	103.88	509	242	275	1.10	-234	-224	-10	-232
Retail	RSH	RadioShack Corp	6.75	May-19	66.25	1769	1558	1554	0.47	-215	-147	-69	-153
Other Insurance	MTG	MGIC Investment Corp	5.375	Nov-15	102.50	354	367	156	1.06	-198	-179	-19	-166
Facilities	UHS	Universal Health Services Inc	7	Oct-18	106.50	304	127	120	1.14	-184	-230	46	-246
Retail	TOY	Toys R Us Inc	10.375	Aug-17	93.75	1135	1057	954	0.94	-181	-187	6	-245
Paper and Forest Products	LPX	Louisiana-Pacific Corp	7.5	Jun-20	110.38	377	155	199	1.20	-178	-184	6	-203
Gaming, Lodging & Leisure	BC	Brunswick Corp/DE	4.625	May-21	95.50	329	126	180	0.94	-149	-164	14	-154
Technology	UIS	Unisys Corp	6.25	Aug-17	106.50	330	278	188	1.13	-142	-139	-3	-134
Technology	ALUFP	Alcatel-Lucent USA Inc	8.875	Jan-20	107.75	539	359	399	1.17	-141	-139	-1	-118
Advertising Dependent Media	NYT	New York Times Co/The	6.625	Dec-16	110.50	225	174	87	1.20	-138	-123	-14	-126
Paper and Forest Products	OI	Owens-Illinois Inc	7.8	May-18	115.25	271	158	135	1.29	-136	-136	0	-126
Consumer Durables - Non Auto	HOV	Hovnanian Enterprises Inc	8.625	Jan-17	108.75	461	510	331	1.18	-130	-136	5	-125
Chemicals	NCX	NOVA Chemicals Corp	5.25	Aug-23	101.47	284	126	169	1.05	-116	-109	-7	-82
Technology	TSG	Sabre Holdings Corp	6.35	Mar-16	111.88	246	319	131	1.22	-115	-152	37	-172
Retail	DDS	Dillard's Inc	7.13	Aug-18	113.50	255	158	142	1.25	-113	-137	24	-118
Consumer Durables - Non Auto	VMC	Vulcan Materials Co	6.5	Dec-16	110.75	203	180	93	1.21	-111	-96	-14	-110
Other Insurance	RDN	Radian Group Inc	9	Jun-17	113.25	383	370	272	1.26	-111	-97	-14	-107
Facilities	HMA	Health Management Associates Inc	7.375	Jan-20	111.50	286	150	176	1.22	-110	-88	-22	-100
Technology	SDSINC	SunGard Data Systems Inc	6.625	Nov-19	104.50	421	281	312	1.10	-109	-100	-9	-113
Diversified Financials	SFI	iStar Financial Inc	7.125	Feb-18	108.50	362	313	256	1.17	-106	-90	-15	-96
Diversified Financials	PHH	PHH Corp	7.375	Sep-19	106.25	430	314	328	1.13	-102	-111	10	-94
Commercial Services	RMK	ARAMARK Corp	5.75	Mar-20	104.75	328	189	233	1.10	-96	-99	4	-114
Chemicals	OLN	Olin Corp	5.5	Aug-22	100.75	303	149	208	1.04	-95	-110	14	-104
Facilities	CYH	Community Health Systems Inc	8	Nov-19	108.38	474	347	379	1.17	-95	-62	-33	-73
Technology	DELL	Dell Inc	3.1	Apr-16	100.62	229	376	134	1.02	-95	-97	2	-101
Commercial Services	HTZ	Hertz Corp/The	4.25	Apr-18	100.00	304	254	209	1.02	-94	-86	-8	-91
Cable/DBS	CHTR	CCO Holdings LLC	7.375	Jun-20	109.00	382	259	291	1.18	-92	-89	-2	-83
Commercial Services	CAR	Avis Budget Group Inc	4.875	Nov-17	103.12	299	288	212	1.07	-87	-89	2	-91
Consumer Durables - Non Auto	DHI	DR Horton Inc	3.625	Feb-18	100.00	246	199	161	1.02	-86	-84	-1	-87
Gaming, Lodging & Leisure	RCL	Royal Caribbean Cruises Ltd	11.875	Jul-15	116.75	133	182	47	1.33	-85	-76	-10	-49
Cable/DBS	DISH	DISH Network Corp	4.625	Jul-17	104.25	241	241	162	1.09	-80	-84	5	-81
Pipelines	KMI	Kinder Morgan Inc/DE	5.15	Mar-15	104.88	106	178	30	1.10	-76	-79	3	-97
Automobiles	CTBUS	Cooper Tire & Rubber Co	8	Dec-19	103.00	553	440	478	1.08	-75	-85	10	-71
Consumer Durables - Non Auto	RYL	Ryland Group Inc/The	6.625	May-20	105.75	363	240	289	1.12	-74	-92	18	-87
Diversified Financials	ALLY	Ally Financial Inc	3.5	Jul-16	102.38	196	190	124	1.05	-72	-74	2	-70
Electric Utilities	AES	AES Corp/VA	8	Oct-17	117.50	211	199	139	1.32	-72	-71	-1	-72
Diversified Financials	CIT	CIT Group Inc	5.5	Feb-19	108.00	225	155	157	1.16	-68	-73	5	-73
Diversified Financials	AMGFN	Springleaf Finance Corp	6	Jun-20	98.62	439	324	372	1.00	-67	-73	6	-47
Wireline Telecom	CTL	CenturyLink Inc	5.625	Apr-20	101.83	342	225	275	1.05	-67	-64	-2	-68
Advertising Dependent Media	GCI	Gannett Co Inc	5.125	Jul-20	101.88	308	193	243	1.05	-65	-75	10	-80
Textile & Apparel	JNY	Jones Group Inc/The	6.875	Mar-19	103.75	443	370	378	1.09	-65	-96	31	-87
Food, Beverage & Tobacco	HNZ	HJ Heinz Co	4.25	Oct-20	97.00	280	157	216	0.97	-64	-56	-7	-63
Real Estate	HST	Host Hotels & Resorts LP	6	Nov-20	109.25	214	106	150	1.18	-64	-99	35	-90
Consumer Durables - Non Auto	SPF	Standard Pacific Corp	8.375	May-18	116.25	298	274	237	1.31	-61	-78	17	-77
Paper and Forest Products	SEE	Sealed Air Corp	8.125	Sep-19	113.00	245	162	184	1.25	-61	-59	-2	-96
Commercial Services	FDC	First Data Corp	10.625	Jun-21	107.50	700	548	641	1.17	-59	-76	17	-94
Retail	RAD	Rite Aid Corp	6.75	Jun-21	105.75	385	256	326	1.12	-59	-84	26	-84
Other Telecom	WIN	Windstream Holdings Inc	7.5	Jun-22	105.00	458	325	403	1.11	-55	-63	8	-67
Technology	STX	Seagate Technology HDD Holdings	6.8	Oct-16	113.50	129	152	73	1.25	-55	-62	7	-84
Consumer Durables - Non Auto	LEN	Lennar Corp	4.75	Dec-17	105.00	232	239	186	1.10	-46	-72	26	-72
Retail	LTD	L Brands Inc	6.625	Apr-21	110.00	283	180	237	1.19	-46	-46	0	-46
Diversified Financials	DLX	Deluxe Corp	7	Mar-19	107.25	348	296	303	1.15	-45	-109	64	-88
Oil & Gas	CHK	Chesapeake Energy Corp	5.375	Jun-21	104.00	290	197	246	1.09	-44	-31	-13	-29
Food and Drug Retail	SVU	SUPERVALU Inc	6.75	Jun-21	98.00	502	376	460	0.99	-42	-51	9	-53
Industrial Products	BDBCN	Bombardier Inc	7.5	Mar-18	114.50	256	276	220	1.27	-36	-54	18	-63

Table 11: CDX HY 21 Basis Report

Sector	Ticker	Issuer	Coupon	Maturity	Price	Cash Sprd	5y CDS	Interp CDS	Hedge Ratio	Basis	1W Ago	1W Chg	1M Avg
Oil & Gas	TSO	Tesoro Corp	4.25	Oct-17	104.00	212	245	176	1.08	-36	-66	30	-47
Textile & Apparel	LEVI	Levi Strauss & Co	7.625	May-20	109.50	309	227	274	1.19	-35	-64	30	-58
Food, Beverage & Tobacco	SFD	Smithfield Foods Inc	6.625	Aug-22	105.38	366	251	331	1.12	-34	-43	8	-36
Commercial Services	URI	United Rentals Inc	7.375	May-20	111.50	320	237	287	1.22	-33	-17	-16	-57
Facilities	THC	Tenet Healthcare Corp	6.75	Feb-20	103.75	416	344	383	1.09	-33	-40	7	-43
Commercial Services	RRD	RR Donnelley & Sons Co	8.25	Mar-19	115.50	324	283	295	1.29	-29	-32	4	-21
Electric Utilities	NRG	NRG Energy Inc	7.625	Jan-18	113.50	284	330	256	1.26	-28	-45	17	-41
Consumer Durables - Non Auto	PHM	PulteGroup Inc	6.5	May-16	111.75	109	203	85	1.22	-24	-21	-3	-43
Consumer Durables - Non Auto	KBH	KB Home	8	Mar-20	110.25	407	336	389	1.20	-18	-35	17	-33
Facilities	HCA	HCA Inc	8	Oct-18	117.75	248	246	233	1.33	-15	-15	0	-9
Cable/DBS	CVC	CSC Holdings LLC	8.625	Feb-19	118.50	297	281	285	1.34	-12	-18	6	-15
Gaming, Lodging & Leisure	MGM	MGM Resorts International	8.625	Feb-19	118.00	305	287	293	1.34	-12	-39	27	-23
Diversified Financials	AIG	International Lease Finance Corp	3.875	Apr-18	100.25	259	275	247	1.02	-11	-14	2	-28
Chemicals	POL	PolyOne Corp	5.25	Mar-23	99.50	287	227	279	1.01	-9	-38	29	-31
Technology	FSL	Freescale Semiconductor Inc	10.75	Aug-20	113.25	482	412	475	1.27	-7	-27	19	-64
Commercial Services	IRM	Iron Mountain Inc	7.75	Oct-19	111.25	297	285	306	1.22	9	-33	41	-10
Oil & Gas	FST	Forest Oil Corp	7.5	Sep-20	99.25	568	532	580	1.02	11	-16	27	-30
Automobiles	AXL	American Axle & Manufacturing Inc	7.75	Nov-19	112.00	352	326	366	1.23	14	-4	18	12
Advertising Dependent Media	CCMO	Clear Channel Communications Inc	6.875	Jun-18	84.50	1043	1109	1075	0.77	32	-104	135	-152
Gaming, Lodging & Leisure	CZR	Caesars Entertainment Operating Co Inc	6.5	Jun-16	75.50	1957	2511	1997	0.62	40	-5	44	-4
Wireline Telecom	FTR	Frontier Communications Corp	9.25	Jul-21	118.00	392	334	431	1.34	40	32	7	34
Diversified Telecom	S	Sprint Communications Inc	9	Nov-18	121.25	268	314	309	1.39	41	35	6	23
Technology	AMKR	Amkor Technology Inc	6.375	Oct-22	98.75	423	378	464	1.01	41	35	7	53
Wireline Telecom	LVT	Level 3 Communications Inc	11.875	Feb-19	116.00	276	316	322	1.32	45	79	-33	63
Automobiles	GT	Goodyear Tire & Rubber Co/The	6.5	Mar-21	106.00	359	304	409	1.13	50	26	24	2
Technology	AMD	Advanced Micro Devices Inc	7.75	Aug-20	99.25	596	584	646	1.02	50	8	41	32
Automobiles	MTOR	Meritor Inc	6.75	Jun-21	101.00	487	432	538	1.04	51	32	19	43
Gaming, Lodging & Leisure	BYD	Boyd Gaming Corp	9	Jul-20	108.00	544	531	600	1.17	56	-34	90	28
Metals & Mining	X	United States Steel Corp	6.875	Apr-21	103.50	448	473	544	1.09	97	87	10	106
Food, Beverage & Tobacco	DF	Dean Foods Co	9.75	Dec-18	113.00	177	277	276	1.26	100	109	-9	118
Commercial Services	RLGY	Realogy Group LLC	9	Jan-20	116.25	259	325	364	1.31	106	99	7	104
Metals & Mining	AKS	AK Steel Corp	8.375	Apr-22	89.50	839	950	960	0.86	122	99	22	135
Advertising Dependent Media	MNI	McClatchy Co/The	5.75	Sep-17	107.00	271	671	528	1.14	257	264	-7	257
Retail	JCP	JC Penney Co Inc	5.75	Feb-18	76.25	1311	1531	1581	0.63	270	88	182	23

Source: BofA Merrill Lynch Global Research

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Overweight-70%	Up to 70% Overweight of investor's guidelines	Carry, plus some spread tightening expected
Overweight-30%	Up to 30% Overweight of investor's guidelines	Good carry, but little spread tightening expected
Underweight-30%	Down to 30% Underweight of investor's guidelines	Unattractive carry, but spreads unlikely to widen
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