

- Next Week
 - Street is looking for another slow week, with most syndicate desks calling for \$15-20B of new IG supply
 - Obvious candidates to tap the market are Banco do Brasil, NetApp, Aegea, Mexichem, Origin Energy, the Kingdom of Jordan, and Daimler – all of whom have just completed or will conduct investor meetings. Another volume boost could come from Syngenta, reportedly re-working terms on its acquisition related financing.
 - **Economic/Fed Calendar:**
 - **Monday** Fed's Dudley, Evans, and Kashkari speak
 - **Tuesday** Fed's Yellen keynote speech at NABE, Bostic speaks
 - **Wednesday** Durable Goods, Pending Home Sales, Fed's Bullard and Rosengren speak
 - **Thursday** GDP (2Q), Personal Consumption, Initial Jobless Claims, Wholesale Inventories, Fed's George speaks
 - **Friday** Personal Income and Spending, Chicago Purchasing Managers, UofM Sentiment, Fed's Harker speaks
 - CCL, DRI, MU, NKE, and RAD report earnings
- Last Week
 - Fed week produced just shy of \$18B of new supply, well below expectations for \$25-30B.
 - Execution metrics were solid with oversubscription levels, pricing leverage, and deal performance in line with year to date averages. With new supply tapering, cash went to the secondary market, where spreads ground back toward recent tights.
 - Activity level was high in the HY market again with \$10.7B priced on 12 deals and 15 tranches. The HY market has now absorbed \$32B of new issuance over the past three weeks after seeing just \$4B the three weeks prior. Execution was ok, with 10 of 15 tranches printing at the tight end of talk and 5 printing at the mid or pushed wide. Performance was strong however, with this week's supply cohort up an average of 1 point on Friday.
 - Spreads were broadly tighter this week, but also compressing as investors renew the reach for incremental spread. Despite giving up a little ground late in the week, the IG OAS – HY OAS reached 250 bps's, 30 bp's flatter than a month ago.
 - IG volume ytd now \$1075T, up from last year's \$1.051T 38 week total.
 - HY volume ytd now \$255B, up from last year's \$199B 38 week total.
 - IG Fund Flows: EPFR reported inflows to IG mutual funds and etf's of +\$3.4B, the 39th consecutive week of inflows. The 4WMA is +\$2.6B and the cumulative inflow for 2017 is now +\$119.7B (+\$3.1B weekly moving average, up from 2016's +\$1.3B WMA.
 - HY Fund Flows: EPFR reported inflows to HY mutual funds and etf's of +\$986mm vs an outflow of -\$23mm the week before. The 4WMA is now +\$584mm and the cumulative outflow from HY funds in 2017 is now -\$1.2B (-\$32.7mm WMA vs +\$325mm WMA in 2016).
- FWIW
 - The FOMC as expected left the Fed Funds rate unchanged on Wednesday, but signaled another rate hike is likely in 2017 with potentially three more in 2018. The dot plots indicate they have also slightly lowered from June their expectations for the funds rate in 2019 (from median estimate 2.938% to 2.688%) and the longer run (to 2.75% from 3.00%). They also signaled they will commence balance sheet run-off in October as previously outlined.

- **Base case looks unchanged. Modest path of rate hikes with a slow go wind down of the balance sheet. The pace of rate hikes is likely to be dependent on the market reaction to QT (quantitative tightening) as that process moves forward.**
- The debate about inflation continues to confound (!). The Fed did not change its target for inflation (nor was it expected to), which would've justified a steeper normalization on the rate and balance sheet side. Hard to understand the confusion with so much slack in the economy. Capacity utilization remains at 76.5%, down from 77% in the 2000s, 79% throughout the 80s and 90s, and 82% in the 70s. Only Cap-x in sight is fueling the disruption that will put downward pressure on capacity utilization going forward. On the labor side the participation rate at 62.9% is only modestly off the 9/2015 low of 62.4% and well off the 2000 high of 67.3%.
- All of the above continues to reinforce the goldilocks mentality and complacency around rates remaining low indefinitely – and the reach for incremental yield in the IG and HY markets.
- So where're the risks? Away from the geopolitical and geophysical ones, the risks most important to spread markets are the ones that have the greatest potential to crack the complacency surrounding low yields indefinitely.
 - **Uncertainty over the impact of quantitative tightening:** pre-crisis Fed balance sheet was ~\$900B and it's now \$4.5T. Over the next several years, several TRILLION dollars of liquidity will be drained from the markets. If it was impactful as it was pumped in (it was and continues to be), it will be impactful on the way out.
 - **#MAGA agenda:** Maybe it's dead. Maybe it's not. It probably is. But what if it isn't? Recall the Trump trade.
 - Regulatory reform has already proven stimulative
 - Tax reform would be stimulative
 - Infrastructure spending would be stimulative
 - Welfare and immigration reform has the potential to stimulate the labor participation rate
 - "Fair trade for America" won't lower costs
 - "Government spending restraint" would be a drag, but that's even less likely than the above bullet points
- Long held view is that there will be three key psychological inflection points in the drawn out transition from a 100% policy driven pricing mechanism (which we've "enjoyed" since the crisis) back to a market driven pricing mechanism (which some of the over 35 crowd may remember). The first was the taper (not pretty). The second was rate normalization (underway). The third, if it ever came, would be winding down the Fed's balance sheet. Hard to believe, but we are finally here. While the Fed will do its best to signal and choreograph its actions, the removal of the excess liquidity that has dominated market dynamics for nearly a decade is not a little deal.
- It's all good until it isn't.

Key Execution Metrics

Week 38 of 2017			Demand		Pricing Leverage		Performance
	# of Tranches	Volume	Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	14	\$5,795	3.1x	\$1,321	-16.7 bp's	+2.8 bp's	-1.7 bp's
Tuesday	10	\$6,400	2.9x	\$1,788	-19.6 bp's	+0.6 bp's	-2.8 bp's
Wednesday	5	\$2,098	2.4x	\$675	-14.8 bp's		+0.0 bp's
Thursday	5	\$3,700	3.6x	\$2,400	-18.9 bp's	+0.0 bp's	-1.2 bp's
Friday							
This Week	34	\$17,993	3.1x	\$1,601	-17.7 bp's	+1.5 bp's	-1.8 bp's
Week Prior	41	\$44,750	3.2x	\$2,127	-19.4 bp's	+1.1 bp's	-2.4 bp's
YTD Weekly Average		\$28,275	3.1x	\$2,297	-18.0 bp's	+1.1 bp's	-1.7 bp's

* source - R. Seelaus, Informa, Bloomberg

Weekly Deal Summary

Date	MDY	S&P	Size	Ticker	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
9/21	A1	AA-	650	MMM	5.5	55-60	40a	37	(21)	3
9/21	A1	AA-	850	MMM	10.1	80-85	70a	67	(16)	0
9/21	A1	AA-	500	MMM	30.1	100-105	90a	87	(16)	0
9/21		BBB	500	NCIAU	10.0	240a	215#	215	(25)	
9/21	Aa2	AA+	1200	NWMLIC	30.0	125a	110a	107	(18)	(3)
9/20	Baa3	BBB	193.44	AAL	8.1	3.875%a		192.4	(13)	
9/20	Aa3	A	250	BFCM	1.5			-		
9/20	Aa3	AA-	450	MET	2.0			3mL+22		
9/20	Baa2		755	NEE	40nc5			-		
9/20	A2	AA-	450	PL	3.0	80a	65a	63	(17)	
9/19	Baa1	A-	400	AEP	5.0	80a	65a	60	(20)	0
9/19	Baa1	A-	300	AEP	30.0	125a	110a	105	(20)	0
9/19	Baa1	BBB+	525	GMGAU	10.5	150#		150		5
9/19	Baa1	BBB+	325	GMGAU	20.1			170		5
9/19	Baa3		750	KZTGKZ	10.0	4.70%a	4.50-4.60%	215.9	(10)	0
9/19	Aa2	AA+	750	MASSMU	3.0	60a	45-50	45	(15)	(5)
9/19	Baa2		500	NDAQ	1.5			3mL+39		
9/19	Aa2	AA	600	SPSP	10.0	95a	80a	77.5	(18)	(3)
9/19	Baa3	BBB-	750	ETP	10.0	212.5a	190a	185	(28)	(2)
9/19	Baa3	BBB-	1500	ETP	30.0	287.5a	265a	260	(28)	5
9/18	Baa3	BBB	400	ALLE	7.0	130a	120a	115	(15)	0
9/18	Baa3	BBB	400	ALLE	10.0	145a	140a	135	(10)	5
9/18		A-	200	ATHGLO	4.8	L+125a	L+117a	3mL+123	(10)	3
9/18		A-	400	ATHGLO	4.8	135a	127a	125	(10)	3
9/18	Baa2	BBB	400	BG	5.0	140-145	125a	120	(23)	1
9/18	Baa2	BBB	600	BG	10.0	175a	160a	155	(20)	4
9/18	Ba1	BBB-	1000	EXPE	10.4	180a	165a	160	(20)	10
9/18	Baa1	BBB	270	SO	60nc5	5.125%a		-	(13)	
9/18	Baa1	A-	250	HYNMTR	3.0	L equiv	L equiv	3mL+100	(18)	9
9/18	Baa1	A-	300	HYNMTR	3.0	140a	125a	122	(18)	9
9/18	Baa1	A-	450	HYNMTR	5.0	160a	145a	142	(18)	4
9/18	A1	A+	500	CITNAT	5.5	135a	115#	115	(20)	
9/18	Baa3	BBB	300	NFG	10.0	vL200s	185a	180	(25)	(15)
9/18	A3	A	325	ONCRTX	30.0	115a	100a	100	(15)	0

New Issue Report Card

Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
AAL	3.750	10/15/2025	192.4	183		-9
NCIAU	4.400	9/29/2027	215.0	208	206	-7
GMGAU	3.700	3/15/2028	150.0	143	139	-7
GMGAU	4.500	10/15/2037	170.0	163	160	-7
BG	3.000	9/25/2022	120.0	114	113	-6
ETP	5.400	10/1/2047	260.0	255	252	-5
ALLE	3.200	10/1/2024	115.0	110	108	-5
SPSP	3.000	9/26/2027	77.5	73	70	-5
AEP	3.800	10/1/2047	105.0	102	100	-3
ATHGLO	3.000	7/1/2022	125.0	122	117	-3
ETP	4.000	10/1/2027	185.0	183	181	-2
BG	3.750	9/25/2027	155.0	153	151	-2
HYNMTR	2.750	9/18/2020	122.0	120	115	-2
HYNMTR	3.250	9/20/2022	142.0	140	135	-2
ONCRTX	3.800	9/30/2047	100.0	98	95	-2
MMM	2.250	3/15/2023	37.0	36	35	-1
MMM	2.875	10/15/2027	67.0	66	64	-1
MMM	3.625	10/15/2047	87.0	86	83	-1
NFG	3.950	9/15/2027	180.0	179	176	-1
AEP	2.400	10/1/2022	60.0	60	57	+0
ALLE	3.550	10/1/2027	135.0	135	133	+0
KZTGKZ	4.375	9/26/2027	215.9	216	213	+0
NWMLIC	3.850	9/30/2047	107.0	108	105	+1
PL	2.161	9/25/2020	63.0	64	63	+1
MASSMU	1.950	9/22/2020	45.0	46	42	+1
CITNAT	2.875	3/25/2023	115.0	117	115	+2
EXPE	3.800	2/15/2028	160.0	166	164	+6
Best						-10
Worst						+6
Avg						-2.2

Market Dashboard

9/22/2017

		1 Day Change	1 Week Change
INDU	22,349.59	(9.64)	81.25
S&P 500	2,502.22	1.62	1.99
Nasdaq	6,426.92	4.23	(21.55)
VIX	9.59	(0.08)	(0.58)
Dealer Positions #	22,519		(2,757)
Oil	50.66	0.11	0.2
Gold	1297.3	6.10	(22.9)
2yr	1.433%	(0.7)	5.1
3yr	1.576%	(2.1)	5.0
5yr	1.862%	(2.5)	5.6
7yr	2.088%	(2.9)	5.4
10yr	2.251%	(2.7)	4.8
30yr	2.780%	(2.5)	1.0
2>5 Curve	42.6	(1.7)	0.5
2>10 Curve	81.5	(1.9)	(0.3)
5>10 Curve	38.7	(0.2)	(0.8)
5>30 Curve	91.7	(0.0)	(4.6)
10>30 Curve	52.8	0.2	(3.8)
2yr Swap	26.9	(0.4)	1.3
3yr Swap	22.6	0.1	1.6
5yr Swap	8.7	0.0	0.2
7yr Swap	-1.8	(0.3)	(0.4)
10yr Swap	-3.2	(0.4)	(0.0)
US IG OAS*	106	0.0	(3.0)
US HY OAS**	356	4.0	(8.0)

52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
17,883.56	22,419.51	21,916.30	20,961.51
2,083.79	2,508.85	2,469.23	2,382.80
5,034.41	6,477.77	6,361.10	5,998.28
8.84	23.01	11.04	11.47
15,880	33,509	24,631	26,125
42.8	58.4	48.7	51.0
1122.89	1357.61	1289.78	1245.56
0.74%	1.44%	1.34%	1.29%
0.84%	1.69%	1.48%	1.49%
1.11%	2.14%	1.78%	1.86%
1.39%	2.44%	2.03%	2.14%
1.56%	2.63%	2.21%	2.33%
2.28%	3.21%	2.80%	2.93%
34.1	84.4	43.5	57.0
75.6	136.8	86.5	103.4
37.2	60.0	42.8	46.2
91.2	145.9	101.5	107.0
50.4	87.3	58.6	60.5
17.4	38.0	24.3	27.6
9.9	32.0	20.2	22.3
-4.0	14.1	7.1	7.9
-18.6	2.4	-3.2	-3.7
-19.1	0.7	-4.4	-5.3
102	138	108	115
344	505	367	376

*- Bloomberg Barclays US Agg Corp Avg Oas (1 day delay)

** - Bloomberg Barclays US Corp HY Avg OAS (1 day delay)

#- Primary Dealer Positions Net Outright Total Corp Securities (1 week delay)

YTD Volume Breakdown

Monthly \$	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Tech		2017 Total \$
Jan	700	16000	14983	4750	2500	92515	2850	6750	34550		175,598
Feb	3250	1750	3400	13800	12200	42456	2950	4850	10000		94,656
Mar	1500	18750	13500	7923	4450	51645	9350	18600	4900		130,618
Apr	3000	500	9350	4450	11450	43256	6750	2350	850		81,956
May	6500	5500	9950	24989	5450	63552	13624	7300	26850		163,715
Jun		8650	5300	19830	4700	36097	10680	5200	2600		93,057
Jul	3750	25500	8797	4925	9055	68742	2365	1500			124,633
Aug		22500	6100	30850	4050	23300	8130	1300	4650		100,880
Sep	2300	9300	4193	7500	11985	40290	8965	14000	10800		109,333
Oct											
Nov											
Dec											
Total	21,000	108,450	75,574	119,017	65,840	461,853	65,664	61,850	95,200		1,074,448

Monthly %	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Tech		2017 Total %
Jan	0.4%	9.1%	8.5%	2.7%	1.4%	52.7%	1.6%	3.8%	19.7%		100%
Feb	3.4%	1.8%	3.6%	14.6%	12.9%	44.9%	3.1%	5.1%	10.6%		100%
Mar	1.1%	14.4%	10.3%	6.1%	3.4%	39.5%	7.2%	14.2%	3.8%		100%
Apr	3.7%	0.6%	11.4%	5.4%	14.0%	52.8%	8.2%	2.9%	1.0%		100%
May	4.0%	3.4%	6.1%	15.3%	3.3%	38.8%	8.3%	4.5%	16.4%		100%
Jun		9.3%	5.7%	21.3%	5.1%	38.8%	11.5%	5.6%	2.8%		100%
Jul	3.0%	20.5%	7.1%	4.0%	7.3%	55.2%	1.9%	1.2%			100%
Aug		22.3%	6.0%	30.6%	4.0%	23.1%	8.1%	1.3%	4.6%		100%
Sep	2.1%	8.5%	3.8%	6.9%	11.0%	36.9%	8.2%	12.8%	9.9%		100%
Oct											
Nov											
Dec											
Total	2%	10%	7%	11%	6%	43%	6%	6%	9%		100%

* Source - R. Seelaus, Informa, Bloomberg



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