

- Next Week

- The Informa survey of syndicate desks is calling for \$22.69B of IG supply next week, with estimates ranging from \$10-31B.
- Earnings blackouts will be the biggest damper on supply. 80 of the S&P Companies report earnings next week and 121 the week after.
- **Economic/Fed Calendar:**
  - **Monday** Chicago Fed Nat Activity Index
  - **Tuesday** Richmond Fed Mfg Index, Fed Nominee Goodfriend confirmation hearing, Fed's Evans speaks
  - **Wednesday** MBA Mortgage Applications, Markit PMI, Existing Home Sales
  - **Thursday** Wholesale Inventories, Initial Jobless Claims, New Home Sales, Leading Index
  - **Friday** **GDP**, Personal Consumption, Durable Goods, Fed's Bullard speaks
- Names who've just completed or just conducting roadshows include Exim Bank of India, Hercules Capital, Natura Cosmetics, Polyus Gold, Rusal, and Unifin Financiera.

- Last Week

- Volume jumped this week on the back of a surge of financial issuance. The market priced \$47.75B of IG supply, 97.2% of which came from financials. The Big Six (BAC, C, GS, JPM, MS, and WFC) alone provided \$32.5B of this week's supply.
- Execution metrics (below) not surprisingly showed signs of eroding given the heavy dose of financial issuance (fins tend to size deals to demand). Average oversubscription levels declined, pricing leverage was muted, and new issue concessions crept higher. Performance was modest as well, with this week's cohort of supply finishing the week 0.9 bp's tighter on average.
- The HY market was active again this week, printing \$8.51B across 13 deals through Friday, with one more for \$400mm in the queue for pricing this afternoon. Of the 14 tranches priced, 9 printed at or through IPT's, four at the mid, and none were pushed back on price. Thursday's Arby's \$485mm 8nc3 and Friday's \$1.4B Meredith 8nc3 enjoyed significant pricing leverage, printing 87.5 and 75 bp's inside IPT's respectively. Performance was solid, with this week's calendar finishing the week up ~3/8 point on average in a market that was otherwise down 1/8.
- IG volume has increased each week so far. MTD volume now at \$107B. Week 4 volume has declined from week 3 volume each of at least the last seven years. MTD HY volume now \$19.76B.
- **IG Fund Flows:** EPFR reported inflows of \$1.900B the week ending 1/17, down 62% from the week prior, but the 56<sup>th</sup> consecutive week of positive flows.
- **HY Fund Flows:** EPFR reported outflows of \$819.28mm the week ending 1/17, ending a streak of 3 consecutive weeks of modest inflows.
- **Dealer Positions:** The NY Fed reported primary market dealers of corporate inventory increased 34% to \$22.4B the week ending 1/10. 60% of the increase came in CP however. That said, IG holdings >13mos increased 37% to \$8.023B. HY holdings >13mos were essentially flat.

- FWIW

- Despite the lift in tsy yields to multi-decade trendlines, there's plenty of evidence that investors continue to reach for incremental yield. Spreads continue to tighten in absolute and relative terms. IG (-1) and HY (-4) spreads continue to grind tighter to levels not seen since late 2007. The spread between IG and HY has flattened to +231,

the flattest credit curve since 2014. And this week saw 12yr prints in both IG and HY. On Tuesday, Ba1/BB Olin Corp printed a \$550mm drive-by 12nc6 at 5.00%, and on Thursday, Baa3/BBB- Jefferies Group priced a \$1B 12yr bullet at +165.

- Thinking about reaching for yield and looking at curves this week given two straight weeks with 10/30s deals from banks. Last week Intesa Sanpaolo printed 10s and 30s at curve+10 and this week JPM printed 11nc10 and 31nc30 at curve+10. With the 10s>30s tsy curve having flattened so dramatically the yield pickup for extending to a 30yr was only 40.4 bp's on Intesa and 38.8 bp's on JPM! Yes, banks have had flat credit spread curves recently, but with the tsy curve flattening so dramatically, it is fairly stunning that credit curves haven't steepened even a little. Back in 2000 when 10s>30s was significantly inverted, 30yr deals were marketed at "10yr yield + 25 area." Is that where we're headed?
- With unemployment rate at 4.1% and market expectation for inflation (10yr tips breakeven) at 2.07% decidedly through the Fed's 2.0% inflation target, the debate over whether the Fed is ahead, on, or behind the curve is picking up. Dallas Fed President Kaplan was quoted in the WSJ this week confirming his expectation for 3 hikes this year, but suggesting more may be needed, echoing the comments from Boston Fed President Rosengren the week before. At the same time, St. Louis Fed President Bullard has promoted shooting for above 2% inflation for an extended period to make up for past weakness and suggested maybe no hikes in rates this year. The market is pricing a 0.3% probability of a hike at the Jan 31 meeting and an 88.2% likelihood of a hike at the March 21<sup>st</sup> meeting.
- 5yr tsy's have pierced a trendline going back to 1989, 10yr tsy's have now pierced a trendline dating back to 1987, and the 30yr is within a few bp's of doing the same. I've long thought, said, and written that the biggest threat to spreads would be a break in the psychology of lower yield indefinitely. Not really a sophisticated thought – reverse the force driving historic compression and decompression has to be the reaction. It certainly has not played out that way but it's also not at all clear the psychology of low yield indefinitely has been broken.
- Is the "risk" of a government shutdown the last string holding yields back?
- **29-6-1.** Of the 36 S&P500 companies that have reported earnings, 29 have beat, 6 have missed, and one has tied.
- **Please, anyone but the Eagles.**

## Key Execution Metrics

Week 3 of 2018		Demand		Pricing Leverage		Performance	
	# of Tranches	Volume	Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	<b>** Martin Luther King Holiday - Mkt Closed**</b>						
Tuesday	11	\$12,450	3.0x	\$1,933	-13.4 bp's	+3.5 bp's	-0.5 bp's
Wednesday	12	\$10,300	1.8x	\$1,636	-15.0 bp's	+2.7 bp's	-0.4 bp's
Thursday	19	\$25,000	2.1x	\$2,479	-13.3 bp's	+1.5 bp's	-1.4 bp's
Friday							
<b>This Week</b>	<b>42</b>	<b>\$47,750</b>	<b>2.2x</b>	<b>\$2,074</b>	<b>-13.8 bp's</b>	<b>+2.4 bp's</b>	<b>-0.9 bp's</b>
<b>Week Prior</b>		\$31,825	3.7x	\$3,015	-18.9 bp's	+1.3 bp's	-1.4 bp's
<b>YTD Weekly Average</b>		\$35,708	3.0x	\$2,429	-16.5 bp's	+1.3 bp's	-1.2 bp's

\* source - R. Seelaus, Informa, Bloomberg

## Weekly Deal Summary

Date	MDY	S&P	Size	Ticker	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
1/18	A3	A-	500	BAC	4nc3	Lequiv	Lequiv	3mL+38	(13)	(2)
1/18	A3	A-	1500	BAC	4nc3	70a	60a	57	(13)	(2)
1/18	A3	A-	2000	BAC	8nc7	100a	85a	82	(18)	0
1/18	A3	A-	1250	BAC	31nc30	115a	105#	105	(10)	2
1/18	Baa1	BB	400	BPL	60nc5	6.50-6.625%	6.50%a	407	(6)	
1/18	A3	BBB+	2500	GS	5.1	Lequiv	L+75#	3mL+75	(15)	0
1/18	A3	BBB+	1750	GS	5.1	95a	80#	80	(15)	0
1/18	A3	BBB+	2500	GS	11nc10	135a	120#	120	(15)	4
1/18	Baa3	BBB-	1000	JEF	12.0	180a	170a	165	(15)	0
1/18	A3	BBB+	2000	MS	3nc2	L+65a	L+55-60	3mL+55	(13)	5
1/18	A3	BBB+	2500	MS	5.0	90a	80a	77	(13)	5
1/18	A3	BBB+	3000	MS	11nc10	125-130	120a	117	(11)	7
1/18	Baa2	A-	450	AEP	30.0	110a	100a	97	(13)	(2)
1/18	Aa2	AA-	500	TD	3.0	Lequiv	Lequiv	3mL+24	(12)	2
1/18	Aa2	AA-	1000	TD	3.0	M50s	45a	43	(12)	2
1/18	A1	AA-	500	USB	2.0	Lequiv	Lequiv	3mL+12.5	(10)	2
1/18	A1	AA-	550	USB	2.0	L40s	23a	33	(10)	2
1/18	A1	AA-	750	USB	5.0	55a	45#	45	(10)	0
1/18	Baa3	BB+	350	VOYA	30nc10	5.00%a	4.75%a	208	(30)	
1/17	Baa1	BBB+	2000	C	5.0	87.5a		75	(13)	0
1/17	Baa1	BBB+	1000	C	21.0	110a		102	(8)	0
1/17	Baa2	BBB-	650	DB	3.0	Lequiv	L+83.5a	3mL+81.5	(15)	6
1/17	Baa2	BBB-	1500	DB	3.0	115a	102a	100	(15)	6
1/17	Baa1	BBB-	500	PHORRU	5.3	4.375%a	4.125%a	156.8	(43)	
1/17	A2	A	400	PNC	3.0	Lequiv	Lequiv	3mL+25	(12)	(2)
1/17	A2	A	900	PNC	3.0	55a	45a	43	(12)	(2)
1/17	A2	A	700	PNC	10.0	85a	75a	73	(12)	0
1/17		BBB-	150	TS LX	5.0	225a		212.5	(13)	
1/17	Aa3	AA	500	WSTP	3.0	Lequiv	Lequiv	3mL+34	(13)	6
1/17	Aa3	AA	1000	WSTP	3.0	65a	55a	52	(13)	6
1/17	Aa3	AA	1000	WSTP	10.0	100a	90a	87	(13)	7
1/16	Baa3	BBB-	600	AER	5.0	115-120	100#	100	(18)	4
1/16	Baa3	BBB-	550	AER	10.0	155a	140a	137	(18)	0
1/16	A1	AA-	500	ANZ NZ	3.0	75a	65a	63	(12)	3
1/16	A1	AA-	500	ANZ NZ	10.0	110a	95#	95	(15)	4
1/16	A3	A-	2250	JPM	11nc10	100-105	100a	97	(6)	2
1/16	A3	A-	1750	JPM	31nc30	115a	110a	107	(8)	3
1/16	A2	A	300	MITSRE	5.0	85a	65a	62.5	(23)	3
1/16	Aa2	AA-	1000	WFC	2.0	Lequiv	Lequiv	3mL+23	(12)	4
1/16	Aa2	AA-	1750	WFC	2.0	M50s	45a	43	(12)	4
1/16	Aa2	AA-	750	WFC	3.0	Lequiv	Lequiv	3mL+31	(13)	6
1/16	Aa2	AA-	2500	WFC	3.0	L60s	52a	50	(13)	6

## New Issue Report Card

Investment Grade						
Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
TSLX	4.500	1/22/2023	212.5	207	202	-6
MS	3.772	1/24/2029	117.0	112	110	-5
MITSRE	2.950	1/23/2023	62.5	58	54	-5
MS	3.125	1/23/2023	77.0	74	72	-3
C	3.142	1/24/2023	75.0	72	70	-3
WFC	2.600	1/15/2021	50.0	47	44	-3
BPL	6.375	1/22/2078	407.0	405	400	-2
BAC	2.738	1/23/2022	57.0	55	53	-2
TD	2.550	1/25/2021	43.0	41	38	-2
C	3.878	1/24/2039	102.0	100	98	-2
WFC	2.400	1/15/2020	43.0	41	39	-2
GS	3.814	4/23/2029	120.0	119	117	-2
BAC	3.366	1/23/2026	82.0	81	79	-1
AEP	3.850	2/1/2048	97.0	96	94	-1
WSTP	2.650	1/25/2021	52.0	51	49	-1
ANZNZ	2.750	1/22/2021	63.0	62	59	-1
PHORRU	3.949	4/24/2023	156.8	156	151	-1
JPM	3.509	1/23/2029	97.0	97	95	-1
JPM	3.897	1/23/2049	107.0	107	105	-1
BAC	3.946	1/23/2049	105.0	105	102	+0
GS	3.200	2/23/2023	80.0	80	78	+0
USB	2.350	1/23/2020	33.0	33	31	+0
USB	2.850	1/23/2023	45.0	45	43	+0
DB	3.150	1/22/2021	100.0	100	95	+0
PNC	2.500	1/22/2021	43.0	43	41	+0
PNC	3.250	1/22/2028	73.0	73	71	+0
AER	3.300	1/23/2023	100.0	101	98	+1
ANZNZ	3.450	1/21/2028	95.0	96	93	+1
VOYA	4.700	1/23/2048	208.0	210	207	+2
JEF	4.150	1/23/2030	165.0	167	164	+2
WSTP	3.400	1/25/2028	87.0	89	86	+2
AER	3.875	1/23/2028	137.0	142	139	+5
				<b>Best</b>		-6
				<b>Worst</b>		+5
				<b>Avg</b>		-0.9

Hi Yield				
Ticker	Price	Bid	Ask	Δ
ARBRES 6 3/4 02/15/26	100.0	101	102	+\$1.375
CCK 4 3/4 02/01/26	100.0	101	102	+\$1.000
RADIAT 6 7/8 02/15/23	100.0	101	101	+\$0.750
OLN 5 02/01/30	100.0	101	101	+\$0.750
HIDRVS 5.95 01/24/25	100.0	101	101	+\$0.625
ITRI 5 01/15/26	100.0	101	101	+\$0.500
NE 7 7/8 02/01/26	100.0	100	101	+\$0.433
HOLX 4 3/8 10/15/25	100.0	100	101	+\$0.125
HOLX 4 5/8 02/01/28	100.0	100	101	+\$0.125
EXTOIL 5 5/8 02/01/26	100.0	100	100	-\$0.125
TOL 4.35 02/15/28	100.0	100	100	-\$0.375
NBR 5 3/4 02/01/25	100.0	99	100	-\$1.500
			<b>Worst</b>	<b>-\$1.500</b>
			<b>Best</b>	<b>+\$1.375</b>
			<b>Avg</b>	<b>+\$0.307</b>

## Market Dashboard *(a/o 3:10pm)*

		1 Day Change	1 Week Change	52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
INDU	26,019.41	1.60	444.68	19,677.94	26,153.42	24,411.88	22,394.80
S&P 500	2,807.11	9.08	39.55	2,257.02	2,807.71	2,661.19	2,506.03
Nasdaq	7,328.83	32.79	117.06	5,522.69	7,333.94	6,927.36	6,447.83
VIX	11.48	(0.74)	1.60	8.56	17.28	10.40	10.84
Dealer Positions #	22,398		5,724	16,674	33,509	25,246	25,030
Oil	63.43	(0.52)	(0.4)	43.8	64.9	59.0	52.2
Gold	1334.22	7.19	(3.4)	1180.66	1357.61	1288.52	1275.64
10yr Tips B/E	2.068	(0.02)	0.0	1.66	2.09	1.94	1.85
2yr	2.059%	1.3	5.9	1.14%	2.06%	1.84%	1.49%
3yr	2.192%	2.2	7.4	1.35%	2.19%	1.95%	1.63%
5yr	2.436%	1.7	8.9	1.63%	2.44%	2.18%	1.93%
7yr	2.570%	1.5	9.1	1.87%	2.57%	2.33%	2.15%
10yr	2.640%	1.3	9.2	2.04%	2.64%	2.42%	2.30%
30yr	2.914%	1.0	6.4	2.66%	3.21%	2.80%	2.84%
2>5 Curve	37.5	0.4	3.0	29.4	76.6	33.7	42.9
2>10 Curve	57.8	0.0	3.2	48.8	130.3	57.2	80.6
5>10 Curve	20.2	(0.4)	0.2	16.9	56.8	23.4	37.5
5>30 Curve	47.7	(0.6)	(2.4)	43.8	121.4	60.3	90.7
10>30 Curve	27.4	(0.2)	(2.5)	25.9	69.4	36.8	53.1
2yr Swap	20.0	(0.5)	0.8	15.9	38.0	18.9	23.2
3yr Swap	19.6	(0.1)	1.6	14.8	32.0	17.9	20.4
5yr Swap	7.2	1.1	2.4	1.5	14.1	5.4	7.2
7yr Swap	1.8	1.8	3.7	-18.6	2.4	-1.4	-2.3
10yr Swap	3.9	2.6	4.7	-11.4	4.0	-0.5	-3.2
US IG OAS*	89	0.0	(1.0)	89	122	96	105
US HY OAS**	320	2.0	(4.0)	318	406	344	359

\*- 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)

\* Source - R. Seelaus, Bloomberg

## YTD Volume Breakdown

Weekly \$	Basic Materials	Commun	Consumer, Cyclical	Consumer Non-cyclical	Energy	Financial	Utilities	Industrial	Tech	Total
1			1,650		800	20,500	2,850	1,750		27,550
2		5,000	2,500		525	18,300	5,000	500		31,825
3	500				400	46,400	450			47,750
4										
5										
6										
7										
8										
9										
10										
11										
12										
<b>FY Total</b>	<b>500</b>	<b>5,000</b>	<b>4,150</b>	<b>0</b>	<b>1,725</b>	<b>85,200</b>	<b>8,300</b>	<b>2,250</b>	<b>0</b>	<b>107,125</b>

Weekly %	Basic Materials	Commun	Consumer, Cyclical	Consumer Non-cyclical	Energy	Financial	Utilities	Industrial	Tech	Total
1			6.0%		2.9%	74.4%	10.3%	6.4%		100%
2		15.7%	7.9%		1.6%	57.5%	15.7%	1.6%		100%
3	1.0%				0.8%	97.2%	0.9%			100%
4										
5										
6										
7										
8										
9										
10										
11										
12										
<b>Total</b>	<b>0%</b>	<b>5%</b>	<b>4%</b>	<b>0%</b>	<b>2%</b>	<b>80%</b>	<b>8%</b>	<b>2%</b>	<b>0%</b>	<b>100%</b>

\* Source - R. Seelaus, Informa, Bloomberg



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