

- **Next Week**

- IGM survey of syndicate desks calling for \$25.32B of IG supply next week, with estimates ranging from \$20-30B.
- Potential names who've done roadshows include Hercules Capital, Credit Bank of Moscow, Israel Elec, Indonesia, and the Dominican Republic. On Tuesday, Teva Pharmaceuticals filed a \$5B debt prospectus. Interestingly, Flex Ltd cancelled their planned investor calls which were scheduled for this past Wednesday.
- 89 of the S&P500 report earnings next week. By the end of next week >60% of the S&P will have reported.
- **Economic/Fed Calendar: quiet week, lots of Fed speakers**
 - **Monday** Markit PMI, ISM
 - **Tuesday** Trade Balance, Fed's Bullard speaks
 - **Wednesday** MBA Mortgage Applications, Fed's Dudley, Evans, Williams, and Kaplan speak
 - **Thursday** Initial Jobless Claims, Continuing Claims, Fed's Harker, Kashkari, and George speak
 - **Friday** Wholesale Inventories

- **Last Week**

- Activity in the IG market picked up, with volume surging to \$26.085B from \$10.55B the week before. After four weeks of predominantly financial supply, corporate issuers finally came forward. \$19.4B of this week's issuance came from corporates, nearly doubling the ytd supply. After averaging \$23.7B a week ytd, financial issuance dropped to \$6.65B.
- Execution metrics improved week over week, with oversubscription levels and average book sizes improving (see below), more pricing leverage and skinnier new issue concessions. If there was a fly in the ointment, it was the lackluster performance, with this week's deals finishing the week tighter by only an average of 0.36 bp's. 13 of 28 fixed rate tranches priced this week closed the week unch'd to wider.
- The HY market remained active, with \$7.6B priced through Thursday and another four deals totaling \$1.375B queued for pricing on Friday. Pricing was more mixed than previous weeks with 6 of 11 deals priced printing at the tight end of talk, 2 at the mid, and 3 getting pushed to the wides. Performance was weak, with this week's deals finishing the week down almost 1/8 on average, but the calendar did outperform a HY market that was down ¾ point.
- January volume finished at \$129.31B, down 26% from 2017. That said, January 2017 was the outlier. Average volume the previous 5 Januaries was \$104.31B. The composition of this year's January IG supply is what was shocking. In a "down" month, financial issuance actually increased to \$101B from \$92.5B (+9.3%). The flip side of that coin was the disappearance of corporate supply – only \$28.21B this year vs \$83.1B in January 2017 (-66%).
- HY volume for January finished at \$35.33B, up 18.5% from January 2017.
- **IG Fund Flows:** EPFR reported inflows to IG mutual funds totaling \$4.269.06B the week ending 1/03, the 59th consecutive week of inflows. The 4WMA is now \$3.673B (2017 weekly average +\$3.105B) and the cumulative inflow for 2018 is now \$17.657.01B.
- **HY Fund Flows:** EPFR reported outflows of \$1.379.52B the week ending 1/3, the third consecutive (and largest) week of outflows. The 4WMA is now -\$363.91mm (vs a -84.38mm weekly average in 2017) and the cumulative outflow for 2018 is now -\$237.91mm.

- **Dealer Positions:** Dealer inventory of corporate securities remain manageable. The NY Fed reported total corporate holdings (excluding CP) declined \$1.766B to \$14.821B the week ending 1/24. Holding averaged \$16.053B in 2017 (high of \$23.4B, low of \$10.2B). Interestingly, dealer holdings of IG paper >10 years was net short \$1.165B, the largest short position in that bucket since October 2015.
- **FWIW**
 - JP Morgan Chase followed SunTrust in printing a 3nc2 fixed to float (ftf) this week. Kinda interesting to look at the pricing on deals like this when they come. In my mind, the simplest way to look at these structures is a combined long position in a bullet bond and short a put on a 1yr floater at the back end (a bullet with extension risk). So, it makes sense for buyers to price these as bullets with a slight concession for extension risk. How to evaluate the extension risk? I'd argue that value of the extension risk on a 3nc2 should be much greater than for longer dated bond for two reasons. First you can't discount the value of the short put (for a 1yr frn) as much when it is only 2 years out as you can when it is 10 or 30 years out. Second, the strike price (back-end coupon) is much more "in the money" when set of the libor equiv of a 2yr than when it's set of the libor equiv of a 10yr or a 30yr. JPM printed 11nc10 and 31nc30 out of their holdco two weeks ago. The back-end frn on the 3nc2 is 3mL+28, 3mL+94.5 on the 11nc10, and 3mL+122.0 on the 31nc30. It looks to us like JPM paid ~4 bp's for the option on the 3nc2 and SunTrust about the same. Nice sale!
 - BAC's 8nc7 frn broke as much as 9 bp's tighter the morning after pricing in a market that didn't otherwise perform.... See more long dated frn's going forward?
 - Comcast looks like it printed an \$800mm 35nc5 Formosa bond +25 to the 30yr bullet.
 - As expected the Fed left rates unchanged at their Jan 31st meeting. But with the addition of "further" to "gradual increases in the federal funds rate," combined with Friday's strong employment data, which finally showed the whites of wage growth's eyes, the market is shifting hard toward "3 hikes with a risk of 2," to "3 hikes with a risk of 4."
 - Powell in. Yellen out.
 - New Normal? Atlanta Fed's GDP Nowcast Model Sees U.S. 1Q GDP at 5.4% and the NY Fed's GDP Nowcast model sees it at 3.22%.
 - 10yr yields broke above 2.80% and 30yr yields above 3%. To the extent that the lift in yields is a global growth story, is it possible the market is behind the Fed? Subtle difference to the question we always ask about whether the Fed is ahead or behind the curve because it puts the onus on the market to catch up. And if that's the case what's next? Will it be continue to be a deliberate move to higher yields or will psychology break at some point? Could an infrastructure package put us over the edge? Will it be breaching a key technical level (already kinda done that)?
 - If corners (big corners?) of the market have been "renting" coupon by extending maturities, going down in credit, and sacrificing structure, the seeds of a spread dislocation have been planted. <https://www.wsj.com/articles/decade-of-easy-cash-turns-bond-market-upside-down-1517308201>
 - Bloomberg article this week pointed out that as big investors like Doubleline and Guggenheim have cited 3% as the beginning of a bear market in bonds, and Janus's Bill Gross has already declared a mini-bear market, others like Pimco are looking at 3% as a buying opportunity. That tug of war has been characteristic of the entire move toward higher yields. And it should be. For 30 years the market's been conditioned to seize sell-offs as buying opportunities. What's clear as tsy yields push up into corporate yields

causing spreads to grind tighter is that corporate investors continue to view rising yields as a buying opportunity. Part of that may be conditioning. Part of that might be the fact that the market's still swimming in QE generated excess liquidity. As we approach higher yields, and maybe 3% is or isn't the number, and as the cumulative weight of the Fed's glacial paced QT grows heavier, the odds of a crack in psychology will grow.

- One other risk factor should a break higher in yields drive a spread dislocation is diminished secondary market bandwidth in the Dodd-Frank / Voelker rule world we now live in. Reduced market making firepower was certainly a factor in exacerbating the taper tantrum in 2013 and in magnifying the 1Q16 oil collapse spread widening. Liquidity resides with the buy-side now, not in the street. Then again, maybe that'll be a good thing -- at least one weak hand won't be forced selling/ frontrunning a sell-off.

Key Execution Metrics

Week 5 of 2018			Demand		Pricing Leverage		Performance
	# of Tranches	Volume	Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	8	\$6,350	3.5x	\$2,350	-14.6 bp's	-3.3 bp's	-1.3 bp's
Tuesday	1	\$400	2.5x	\$980	-18.0 bp's	+9.0 bp's	+0.0 bp's
Wednesday	7	\$4,885	2.5x	\$1,636	-17.1 bp's	+0.0 bp's	-1.9 bp's
Thursday	16	\$14,450	3.0x	\$2,945	-19.4 bp's	+2.1 bp's	+0.0 bp's
Friday							
This Week	32	\$26,085	3.0x	\$2,438	-17.6 bp's	+0.5 bp's	-0.7 bp's
Week Prior		\$10,550	2.0x	\$1,291	-14.0 bp's	+1.4 bp's	-0.9 bp's
YTD Weekly Average		\$28,752	2.9x	\$2,312	-16.5 bp's	+1.1 bp's	-1.1 bp's

* source - R. Seelaus, Informa, Bloomberg

Weekly Deal Summary

Date	MDY	S&P	Size	Ticker	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
2/1	A2	A	300	CNRCN	2.0	30-35	25#	25	(8)	0
2/1	A2	A	600	CNRCN	30.0	80-85	70-72	70	(13)	0
2/1	A3	A-	1000	CMCSA	10.2	95-100	83a	80	(18)	(2)
2/1	A3	A-	1200	CMCSA	20.1	110a	93a	90	(20)	0
2/1	A3	A-	1000	CMCSA	30.1	125a	110a	107	(18)	(3)
2/1	A3	A-	800	CMCSA	35nc5			-		
2/1	Baa2	BBB	350	CR	30.1	145-150	125a	120	(28)	
2/1	Baa1	BBB+	750	EPD	3.0	65-70	55a	50	(18)	0
2/1	Baa1	BBB+	1250	EPD	30.0	140-145	130a	125	(18)	0
2/1	Baa2	BBB-	700	EPD	60nc10	5.625%a	5.375%#	261	(25)	13
2/1	A3	A-	500	EQR	10.1	H90s	85a	80	(18)	2
2/1	A1	A+	450	IBM	3.0	Lequiv	Lequiv	3mL+16	(10)	3
2/1	A1	A+	800	IBM	3.0	45a	37a	35	(10)	3
2/1	A1	A+	750	IBM	5.0	55a	47a	45	(10)	2
2/1	Baa3	BBB+	2500	PEMEX	10.0	5.75%a	5.40%a	256	(40)	10
2/1	Baa3	BBB+	1500	PEMEX	30.0	6.75%a	6.40%a	332.5	(40)	3
1/31	Baa3	BBB-	500	AMEHOM	10.0	180a	160a	158	(22)	
1/31	A3	A-	1500	BAC	8nc7	L+80a		3mL+77	(3)	2
1/31	Baa3	BBB	800	DFS	5.0	100a	85a	82	(18)	(3)
1/31	Baa1	BBB+	450	HUBB	10.0	100a	85a	83	(17)	0
1/31	A1	A	700	NRUC	10.0	85a	75a	70	(15)	1
1/31	Aa3	AA	677.175	UAL	8.9	3.70%a	3.55%a	76.5	(20)	
1/31	A2	A	257.965	UAL	8.9	3.95%a	3.75%a	96.5	(25)	
1/30	Baa2	BBB-	400	HPT	12.0	210a	195a	192	(18)	9
1/29	Baa3	BBB-	600	STZ	5.0	85a	75a	72	(13)	(3)
1/29	Baa3	BBB-	700	STZ	10.0	110a	95a	92	(18)	(4)
1/29	Baa3	BBB-	600	STZ	30.0	135a	120a	117	(18)	(7)
1/29	Baa2	BBB	500	FDX	10.0	90a	75a	72	(18)	(3)
1/29	Baa2	BBB	1000	FDX	30.0	130a	115a	112	(18)	(1)
1/29	Aa3	A+	1000	JPM	3.0	Lequiv	Lequiv	3mL+29	(7)	(2)
1/29	Aa3	A+	1250	JPM	3nc2	55a	50a	48	(7)	(2)
1/29	Aa2	A+	700	BRKHEC	30.5	90-95	78a	75	(18)	(4)

New Issue Report Card

Investment Grade						
Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
CR	4.200	3/15/2048	120.0	117	115	-3
EPD	2.800	2/15/2021	50.0	47	45	-3
HPT	4.375	2/15/2030	192.0	189	185	-3
JPM	2.604	2/1/2021	48.0	45	42	-3
UAL	3.700	3/1/2030	96.5	94	89	-3
CNRCN	3.650	2/3/2048	70.0	68	66	-2
AMH	4.250	2/15/2028	158.0	156	152	-2
FDX	3.400	2/15/2028	72.0	70	68	-2
FDX	4.050	2/15/2048	112.0	110	108	-2
UAL	3.500	3/1/2030	76.5	75	70	-2
IBM	2.650	2/5/2021	35.0	34	32	-1
IBM	3.000	2/6/2023	45.0	44	42	-1
DFS	3.350	2/6/2023	82.0	81	77	-1
NRUC	3.400	2/7/2028	70.0	69	66	-1
STZ	3.200	2/15/2023	72.0	71	69	-1
CNRCN	2.400	2/3/2020	25.0	25	23	+0
EPD	4.250	2/15/2048	125.0	125	124	+0
EQR	3.500	3/1/2028	80.0	80	77	+0
BRKHEC	3.650	8/1/2048	75.0	75	71	+0
CMCSA	3.550	5/1/2028	80.0	81	79	+1
CMCSA	4.000	3/1/2048	107.0	108	106	+1
PEMEX	5.350	2/12/2028	256.0	257	255	+1
EPD	5.375	2/15/2078	261.0	263	259	+2
HUBB	3.500	2/15/2028	83.0	85	82	+2
CMCSA	3.900	3/1/2038	90.0	92	90	+2
STZ	3.600	2/15/2028	92.0	95	92	+3
STZ	4.100	2/15/2048	117.0	120	118	+3
PEMEX	6.350	2/12/2048	332.5	337	335	+5
				Best		-3
				Worst		+5
				Avg		-0.36

Hi Yield				
Ticker	Price	Bid	Ask	Δ
SHLFDI 8 1/4 02/15/25	100.0	101.375	101.500	+\$1.375
INDNAT 6 7/8 02/15/26	100.0	101	102	+\$1.000
WDC 4 3/4 02/15/26	100.0	100.875	101.375	+\$0.375
AMWD 4 7/8 03/15/26	100.0	100	101	+\$0.000
OII 6 02/01/28	100.0	99.875	100.250	-\$0.125
GOLLBZ 7 01/31/25	100.0	100	100	-\$0.250
SGMS 5 10/15/25	100.0	99.500	100.000	-\$0.500
VIKCRU 5 7/8 09/15/27	100.5	100	101	-\$0.500
JBSSBZ 6 3/4 02/15/28	100.0	99.250	99.500	-\$0.750
BANSAF 4 1/8 02/08/23	98.9	98	98	-\$0.888
VIKCRU 5 02/15/28	100.0	98.750	99.250	-\$1.250
			Worst	-\$1.250
			Best	+\$1.375
			Avg	-\$0.092

Market Dashboard *(a/o 3:20pm)*

		1 Day Change	1 Week Change	52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
INDU	25,635.40	(551.31)	(981.31)	19,831.09	26,616.71	24,974.29	22,677.00
S&P 500	2,769.41	(52.57)	(103.46)	2,271.65	2,872.87	2,711.55	2,530.29
Nasdaq	7,273.08	(112.79)	(232.70)	5,636.20	7,505.77	2,711.55	2,530.29
VIX	17.08	3.61	6.00	8.56	17.28	10.66	10.76
Dealer Positions [#]	23,582		(1,837)	16,674	33,509	25,161	24,920
Oil	65.38	(0.42)	(0.8)	43.9	66.7	60.6	52.8
Gold	1331.06	(17.73)	(18.1)	1195.08	1366.15	1300.82	1278.78
10yr Tips B/E	2.138	0.02	0.0	1.66	2.14	1.98	1.86
2yr	2.147%	(1.6)	2.9	1.14%	2.16%	1.92%	1.54%
3yr	2.322%	(0.2)	7.9	1.35%	2.32%	2.04%	1.67%
5yr	2.591%	1.9	12.0	1.63%	2.59%	2.27%	1.96%
7yr	2.766%	4.0	16.9	1.87%	2.77%	2.41%	2.17%
10yr	2.842%	5.1	18.1	2.04%	2.84%	2.49%	2.32%
30yr	3.083%	5.8	17.1	2.66%	3.21%	2.82%	2.84%
2>5 Curve	44.1	3.4	9.1	29.4	76.6	34.4	42.0
2>10 Curve	69.2	6.7	15.2	48.8	128.6	56.3	78.3
5>10 Curve	24.9	3.1	6.1	16.9	56.8	21.8	36.1
5>30 Curve	49.0	3.9	5.1	40.0	121.4	55.1	87.4
10>30 Curve	23.9	0.5	(1.1)	21.5	69.4	33.2	51.1
2yr Swap	22.3	2.5	3.6	15.9	38.0	19.2	22.5
3yr Swap	20.6	1.3	2.0	14.8	32.0	18.2	20.0
5yr Swap	9.3	0.7	2.1	1.5	14.1	5.6	6.9
7yr Swap	1.5	(0.9)	0.1	-18.6	4.0	-0.7	-2.1
10yr Swap	3.1	(0.6)	0.8	-9.7	6.2	0.2	-2.9
US IG OAS*	85	(1.0)	(3.0)	85	122	93	104
US HY OAS**	319	0.0	4.0	311	406	336	356

*- 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 IG Volume Breakdown

Weekly \$	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology		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						9,750	400	400			10,550
5		4,000	935	1,900	6,700	6,650	700	3,200	2,000		26,085
6											
7											
8											
9											
10											
11											
12											
FY Total	500	9,000	5,085	1,900	8,425	101,600	9,400	5,850	2,000		143,760

Weekly %	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology		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						92.4%	3.8%	3.8%			100%
5		15.3%	3.6%	7.3%	25.7%	25.5%	2.7%	12.3%	7.7%		100%
6											
7											
8											
9											
10											
11											
12											
Total	0%	6%	4%	1%	6%	71%	7%	4%	1%		100%

* Source - R. Seelaus, Informa, Bloomberg



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