- ***Next Week***
  - IGM survey of syndicate desks pointing toward modest volume of $19.26B next week, with estimates ranging from $15-25B. This week's volume lagged expectations by ~$6.5B so there could be some shadow calendar building. In contrast to most weeks, next week may be back loaded, with issuers and syndicate desks probably looking for some firm ground to go forward.
  - **Economic/Fed Calendar: Light week focus on inflation data and retail sales**
    - **Monday**
    - **Tuesday** Fed's Meister speaks
    - **Wednesday** MBA Mortgage Applications, **CPI, Retail Sales**
    - **Thursday** Empire Mfg, Initial Jobless Claims, Continuing Claims, **PPI**, Industrial Production, Capacity Utilization
    - **Friday** Housing Starts, Building Permits, UofM Sentiment
  - 81 of the S&P500 report earnings.
- ***Last Week***
  - The IG market was able to push $18.55B over the finish line this week, shy of expectations for $25B, but impressive given the market backdrop. Not surprisingly, execution metrics suffered as healthy oversubscription levels were insufficient to drive pricing leverage. New issue concessions moved higher, averaging 3.4 bp's (1.4 bp's ytd average), but most ominously the calendar failed to perform. This week's deals broke 1.0 bp's *wider* on average and 13 of 21 tranches priced this week closed unch'd or wider.
  - Despite an even worse backdrop, the HY market was able to print $4.525B of new supply through Thursday with another 3 deals totaling $975mm queued to price on Friday. Execution suffered with only 3 of 14 tranches priced this week printing at the tight end of talk, 4 at the mind, and 7 pushed to the back end or significantly wider than IPT's. The worst of it took place on Monday and Friday. Monday saw prints from Energy Ventures ($325mm 5nc2) which priced 125 bp's wide of IPT's and Algeco Scotsman's senior unsecured tranche ($520mm 5nc2) printing 50 wide and its subordinated tranche ($305mm 5.5nc2) pricing 150 wide of IPTs. Friday looks to be bringing more of the same as Jones Energy just launched $450mm 5nc2 75 cheap to IPT's and Flexi-Van Leasing's $300mm 5nc2 launched 200 cheap to IPT's. 8 of the 12 tranches that we had pricing details for closed the week unch'd or down, with this week's cohort finishing down an average of 0.18 points (see below). Interestingly, the deal which extracted the biggest concession generated the biggest performance – Algeco's 10% sub notes were up 3 points Friday. Excluding that deal, the rest of this week's calendar would have been down ½ point on average.
  - While notable, the poor performance of the calendar should be put in context. Overall, the broader 2dary market performed even worse, with IG spreads wider by 7 bp's and high yield prices down 1 ½ points. Energy paper has underperformed in both IG and HY.
  - MTD IG volume is now $33.3B and YTD IG volume is $162.61B, down 21% from the first six weeks of 2017. Given that financial issuance is actually up 6.3% (from $100.6B to $107.0B), the drop in non-financial issuance is even more stark. Total non-financial issuance is down 47% yoy, from $104.6B to $55.7B.
  - MTD HY volume is now $7.675B and YTD HY volume is $43.0B, -7.1% from 2017's first six weeks.

- **IG Fund Flows:** EPFR reported inflows to IG funds totaling $4.715B the week ending Feb 7th, the 60th consecutive week of inflows. The 4WMA is now $3.599B and the cumulative inflow for 2018 is $22.372B
- **HY Fund Flows:** EPFR reported outflows from HY funds totaling $2.281B the week ending Feb 7th, the fourth consecutive week of outflows. The 4WMA is now -$1.323B and the cumulative *outflow* from HY funds totals -$2.519B in 2018.
- **Dealer Positions:** Primary dealer positions of corporate bonds declined $816mm to $22.766B the week ending Jan. 31st according to the NY Federal Reserve Bank. Total IG holdings longer than 13 months of $6.853B remain well within bounds after averaging $9.23B in 2017. Interestingly, street inventory of IG paper > 10years went deeper short at -$1.422B. Similarly, HY holdings >13month, at $3.561B above last year's average of $2.469B are well within last year's range of $739mm to $5.75B.

- ***FWIW***
  - The lack of performance from both the IG and HY new issue calendar this week definitely a warning flag for execution going forward. When a process designed to create performance and which consistently delivers performance fails, it's notable. Given the spike in volatility though, it's not surprising. What would be surprising would be investors not trying to extract larger concessions over the coming weeks to compensate them for stepping up and into the market given the growing risks.
  - I've long felt, and written, that a quick upturn in the workforce participation rate would be the likeliest thing to rattle the Fed and market consensus around low yields indefinitely, as it would remove the most obvious slack justifying a gradual and beautiful normalization. Last Friday's unexpected and large pick-up in wages preceded workforce participation but is fracking market complacency equally powerfully.
  - From our Head of HY Mark Melchiorre
    - "Sentiment in HY noticeably turned at some point Wednesday afternoon and the dam has started to break to an extent yesterday. Selling attempted to pick up and reduce levels to trade. In some instances it was pushing on a string. Generically the ostrich strategy (don't mean this in a derogatory way, it has lately paid to ignore macro market swoons in HY) was given up on and the weight of the broader macro market has filtered into in to HY. Unfortunately, there are times when HY shows that it has a unique liquidity profile relative to other fixed income asset classes and this is one of those acutely painful moments. With the damage done to sentiment here, we will have some wood to chop and we are seeing a reasonably significant repricing here. The intrinsic value of ETF's relative to the broader index likely means the broader market will need to reprice/may have already repriced. HY spreads and prices have been materially outperforming their greater comps (VIX, Rates, Equities) during this volatility."
  - From our Head of Rates Ben Seelaus on Tuesday
    - "There is a lot about yesterday that makes sense to me in the short term, but for the most part I think it is an aggressive correction to a market trend that had gotten a little ahead of itself and not more. I still believe when the dust settles, the trend will be intact and the rates market is headed for higher yields which is not something I normally argue.

      From my perspective, the break to higher yields was predicated on the large fiscal stimulus coming as a result of the recent tax cuts. These tax cuts are coming at a time when unemployment is at 4.1%, financial markets are being deregulated, inflation is creeping back toward the “normal range” of 2-3% and the federal funds rate remains at historically low levels. Ironically, this is the fiscal package that Fed Chairman Bernanke and subsequently Yellen had been hinting for years once they tried Op Twist and other out of the box monetary programs.

The idea that the tax cuts come now and are not deficit neutral is a big deal. The idea that there might be a large infrastructure program coming behind them I think is an even bigger deal. I do not believe the market understands the potential impact of this much fiscal stimulus with the broader economy already having shown signs of relief and equity and risk markets at all-time highs (or -9% from the all-time anyway.. ha).

To me, it means long US rates are in the wrong place. The longer-term implications of all this stimulus (monetary and fiscal) think will make the notion of a 3% nominal yield for 30yr US debt a thing of the past. I would also argue that in order for the fed to realize their stated goal of “normalizing rates” or hiking three times this year and continue on that path next, that realized inflation and future growth forecasts need to be revised up and then subsequently realized. Although I realize that the technicals like pension demand, cash on hand and historically low yields in other developed markets are supportive of the market, I think fundamentals have to overtake this in time.

Any further rally in rates or flattening of the curve, I would argue should be faded and I think the trade for 2018 from a macro perspective will be a bear steepener. Although I realize that any 4% single day correction in equities is important and certainly an 8-9% move from the top is nothing to ignore, I think when/if the markets step back and look at the overall level of risk assets (ie. Spu’s at 2500+) it will seem foolish that any of these moves were classified as “risk off” and not simply a normal correction off the highs."

- Despite so much going on, I do tend to look for simple thoughts to slow me down and keep things in perspective. Interesting column from Greg Ip in the WSJ on Wednesday (“A Warning Sign Behind the Market Swings”). First off, I couldn’t disagree more with the premise of the article that the market tremors this week indicate that “the economy is still abnormally dependent on low interest rates and richly priced assets.” I think the *markets* are abnormally dependent on low interest rates and have created richly priced assets. The broadening strength of the market, coupled with unexpected fiscal stimulus, is what’s pushing yields higher and challenging richly priced valuations. Anyway, what grabbed my attention was his observation that “nearly a decade of ultra-easy monetary policy has sent asset prices sky-high and kept volatility unnaturally low. Even with the latest downdraft, U.S. stock values at Monday’s close equaled 152% of gross domestic product, compared with 127% at the pre-crisis peak.” Is that the magnitude of the bubble? Does that mean we have a 16% drop in the numerator to get us back to historically high valuations? I’m gonna throw out “no” and “no” to both those questions. Reality is the denominator can grow into the over-valuation and we’re just getting to the fiscal stimulus now. The glacial pace of QT from the Fed means we’re probably nowhere near the tipping point as far as excess liquidity is concerned.

That said, risks are rising. The fracking of "complacency" means we are rapidly moving out of a world where earthquakes, tsunami's, nuclear meltdowns, geopolitical strife, US downgrades, budget sequesters, Brexit, Grexit, Texit, and Calexit don't matter any more and back to a world where things like events, supply/demand, data, and risk do.

- I understand the difference between causation and correlation, but has anyone else noticed what's happened after the Eagles won a Super Bowl?

Key Execution Metrics

Week 6 of 2018			Demand		Pricing Leverage		Performance
	# of Tranches	Volume	Oversubcription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	6	$6,250	**4.1x**	$3,733	-19.2 bp's	+3.8 bp's	+5.5 bp's
Tuesday	1	$350	**1.7x**	$600	-8.8 bp's	+9.5 bp's	-4.5 bp's
Wednesday	7	$3,500	**6.4x**	$2,750	-24.5 bp's	-0.2 bp's	-2.4 bp's
Thursday	8	$8,750	**2.2x**	$2,064	-12.0 bp's	+5.3 bp's	+1.1 bp's
Friday							
This Week	**22**	**$18,850**	**4.1x**	**$2,700**	**-17.8 bp's**	**+3.4 bp's**	**+1.0 bp's**
Week Prior		$26,085	3.0x	$2,438	-17.6 bp's	+0.5 bp's	-0.7 bp's
YTD Weekly Average		$27,102	3.0x	$2,359	-16.7 bp's	+1.4 bp's	-0.8 bp's

* source - R. Seelaus, Informa, Bloomberg

Weekly Deal Summary

Date	MDY	S&P	Size	Ticker	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
2/8	Baa2	BBB+	500	**CELG**	3.0	75a	65a	60	(15)	5
2/8	Baa2	BBB+	1000	**CELG**	5.0	95a	80a	75	(20)	4
2/8	Baa2	BBB+	1500	**CELG**	10.0	120a	110a	110	(10)	5
2/8	Baa2	BBB+	1500	**CELG**	30.0	155a	145a	145	(10)	11
2/8	A1	A+	700	**C**	3.0	L equiv	L+35#	3mL+35	(10)	6
2/8	A1	A+	1300	**C**	3.0	65a	55#	55	(10)	6
2/8	Aa3	A+	1750	**JPM**	2nc1	L+25a	L+25#	3mL+25	0	0
2/8	Baa3	BBB-	500	**SNH**	10.0	225-237.5	210a	210	(21)	
2/7	Baa2	BBB	300	**DRI**	30.0	170a	150a	145	(25)	3
2/7	Baa2	BBB	1000	**ISRELE**	10.5	187.5a	155-160	155	(33)	5
2/7	Baa2	BBB+	500	**KEX**	10.1	162.5a	140a	137.5	(25)	
2/7	Baa1	A-	150	**LNC**	5.6	100a	80a	75	(25)	(5)
2/7	Baa1	A-	500	**LNC**	10.1	120a	100a	98	(22)	(2)
2/7	Baa1	A-	450	**LNC**	30.1	145a	125a	123	(22)	(2)
2/7	Baa2	BBB+	600	**MCK**	10.0	130-135	115a	112.5	(20)	0
2/6	A3	A-	350	**HOG**	5.0	M-H90s	90a	87.5	(9)	10
2/5	Baa3	BBB	500	**MPLX**	5.1	115a	100a	90	(25)	0
2/5	Baa3	BBB	1250	**MPLX**	10.1	145a	135a	130	(15)	5
2/5	Baa3	BBB	1750	**MPLX**	20.2	170a	160a	155	(15)	5
2/5	Baa3	BBB	1500	**MPLX**	30.2	185a	175a	170	(15)	5
2/5	Baa3	BBB	500	**MPLX**	40.2	215a	200a	190	(25)	5
2/5	Baa1	BBB+	750	**RCICN**	30.0	145a	130a	125	(20)	3

New Issue Report Card

Investment Grade						
Ticker	**Cpn**	**Maturity**	**Spd**	**Bid**	**Ask**	**Δ**
ISRELE	4.250	8/14/2028	155.0	150	148	-5
HOG	3.350	2/15/2023	87.5	83	80	-5
MPLX	3.375	3/15/2023	90.0	87	84	-3
RCICN	4.300	2/15/2048	125.0	122	119	-3
KEX	4.200	3/1/2028	137.5	135	132	-3
LNC	4.000	9/1/2023	75.0	73	71	-2
CELG	2.875	2/19/2021	60.0	59	56	-1
DRI	4.550	2/15/2048	145.0	144	141	-1
CELG	4.550	2/20/2048	145.0	145	143	+0
MCK	3.950	2/16/2028	112.5	113	110	+1
CELG	3.250	2/20/2023	75.0	76	73	+1
CELG	3.900	2/20/2028	110.0	111	109	+1
LNC	3.800	3/1/2028	98.0	100	97	+2
MPLX	4.000	3/15/2028	130.0	132	130	+2
MPLX	4.500	4/15/2038	155.0	157	154	+2
C	2.850	2/12/2021	55.0	58	55	+3
LNC	4.350	3/1/2048	123.0	126	123	+3
MPLX	4.700	4/15/2048	170.0	173	171	+3
MPLX	4.900	4/15/2058	190.0	193	191	+3
SNH	4.750	2/15/2028	210.0	215	212	+5
					Best	-5
					Worst	+5
					Avg	+0.2

Hi Yield				
Ticker	**Price**	**Bid**	**Ask**	**Δ**
ALGSCO 10 08/15/23	94.0	97.000	98.000	+$2.992
TLP 6 1/8 02/15/26	100.0	100	101	+$0.370
SN 7 1/4 02/15/23	99.0	99.250	99.500	+$0.277
ALGSCO 8 02/15/23	98.0	98	99	+$0.253
CRBKMO 5.55 02/14/23	100.0	100.000	100.500	+$0.000
EVEVEN 11 02/15/23	100.0	100	102	+$0.000
GLBL 6 1/8 03/01/26	100.0	99.875	100.250	-$0.125
GTE 6 1/4 02/15/25	98.6	98	99	-$0.362
HKUS 6 3/4 02/15/25	103.0	102.000	103.000	-$1.000
UNIFIN 7 3/8 02/12/26	99.3	98	99	-$1.258
NOGLN 7 02/16/25	99.3	97.750	98.250	-$1.570
CSNABZ 7 5/8 02/13/23	99.0	97	98	-$1.733
			Worst	-$1.733
			Best	+$2.992
			Avg	-$0.180

Market Dashboard

		1 Day Change	1 Week Change	52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
INDU	24,190.90	330.44	(1330.06)	20,061.73	26,616.71	25,091.23	22,778.21
S&P 500	2,619.52	38.52	(142.61)	2,296.61	2,872.87	2,719.29	2,538.10
Nasdaq	6,874.49	97.33	(366.46)	5,685.15	7,505.77	7,076.29	6,553.04
VIX	29.41	(4.05)	12.10	8.56	50.30	12.58	11.16
Dealer Positions #	22,766		(816)	16,674	33,509	25,082	24,877
Oil	59.23	(1.92)	(6.2)	43.9	66.7	61.0	53.1
Gold	1315.22	(3.54)	(18.2)	1195.08	1366.15	1304.15	1280.46
10yr Tips B/E	2.066	(0.02)	(0.1)	1.66	2.14	2.01	1.87
2yr	2.075%	(2.9)	(6.8)	1.14%	2.16%	1.96%	1.56%
3yr	2.287%	(1.4)	(3.8)	1.35%	2.32%	2.08%	1.70%
5yr	2.542%	0.4	(4.7)	1.63%	2.59%	2.31%	1.98%
7yr	2.752%	2.0	(1.4)	1.87%	2.77%	2.45%	2.19%
10yr	2.854%	2.9	1.2	2.04%	2.85%	2.53%	2.34%
30yr	3.162%	3.3	7.5	2.66%	3.21%	2.85%	2.84%
2>5 Curve	46.4	3.2	2.1	29.4	76.6	35.5	41.7
2>10 Curve	77.6	5.7	8.0	48.8	126.0	57.5	77.5
5>10 Curve	31.0	2.5	5.9	16.9	53.9	21.9	35.7
5>30 Curve	61.9	2.9	12.2	40.0	117.5	53.9	86.0
10>30 Curve	30.7	0.4	6.3	21.5	69.4	31.9	50.1
2yr Swap	27.3	3.4	5.6	15.9	38.0	19.9	22.3
3yr Swap	19.5	1.9	(0.5)	14.8	32.0	18.4	19.8
5yr Swap	9.9	1.1	0.3	1.5	14.1	5.9	6.9
7yr Swap	-0.2	(0.2)	(2.1)	-18.6	4.0	-0.5	-2.1
10yr Swap	0.8	(0.7)	(2.7)	-9.7	6.2	0.4	-2.7
US IG OAS*	88	1.0	3.0	85	121	92	103
US HY OAS**	346	12.0	27.0	311	406	334	354

*- 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	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		750	650	5,100	5,500	5,350	1,000	500			18,850
7											
8											
9											
10											
11											
12											
FY Total	500	9,750	5,735	7,000	13,925	106,950	10,400	6,350	2,000		162,610

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		4.0%	3.4%	27.1%	29.2%	28.4%	5.3%	2.7%			100%
7											
8											
9											
10											
11											
12											
Total	0%	6%	4%	4%	9%	66%	6%	4%	1%		100%

* Source - R. Seelaus, Informa, Bloomberg

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