

- Next Week
  - IGM survey of syndicate desks calling for \$16.5B of new IG supply next week. Supply has fallen short of expectations each of the last two weeks indicating there's some backlog ready to come forward with greater execution certainty. That said with Monday off, and issuers likely needing to see how the market behaves Tuesday, the window will be narrow.
  - **Economic/Fed Calendar: Short week, light data, focus on FOMC Minutes**
    - **Monday**      **\*\* Market Closed for President's Day \*\***
    - **Tuesday**
    - **Wednesday**    MBA Mortgage Applications, Markit PMI, Existing Home Sales, FOMC Meeting Minutes, Fed's Harker speaks
    - **Thursday**      Initial Jobless Claims, Fed's Quarles, Dudley, and Bostic speak
    - **Friday**        Fed releases Feb 2018 Monetary Policy Report to Congress, Fed's Dudley, Rosengren, Mester, and Williams speak
  - 51 of the S&P500 companies report earnings, including 14 Utilities.
- Last Week
  - Despite expectations for \$19B+ of IG supply this week, the market failed to crack the \$10B hurdle, pricing \$9.275B in what proved to be the slowest week of 2018. Not surprisingly given the uncertain backdrop and the failure of the previous week's calendar to perform, execution metrics suffered this week despite the reduced activity. Demand was reduced (average book size of \$1.049B was less than half the ytd avg and avg oversubscription levels dropped below 2x), pricing leverage suffered (deals priced an average of 12.8 bp's inside IPT's vs 17.8 bp's the week prior), new issue concessions of 2.6 bp's were above the ytd average (tho still pretty impressive), and most troubling again the calendar failed to perform (breaking ½ bps wider on average).
  - The HY market was effectively shut with only one holdover deal from the prior week pricing. Jones Energy (B2) printed \$450mm 5nc2 at 9.875%, 62.5 bp's wider than IPT's. The deal was a winner though, finishing the week 1 ½ point higher.
  - **IG Fund Flows:** EPFR reported *outflows* of \$1.371B from IG funds the week ending Feb. 14. It was the first outflow from IG funds in 60 weeks, dating back to December 2016. The cumulative inflow to IG funds in 2018 is \$21.0B.
  - **HY Fund Flows:** EPFR reported outflows for HY funds totaling \$5.86B the week ending Feb 14, the fifth consecutive week of outflows and the largest of the year. The cumulative outflow from HY funds is now \$8.384B YTD.
  - **Dealer Positions:** The NY Fed reported a large increase in dealer inventory for the week ending Feb 7<sup>th</sup>. Total holdings of corporate debt increased by \$7.124B, from \$22.766B to \$29.890B (+31.3%). While the increase in commercial paper was large (+\$3.499B, +38.3%), the biggest jump came in IG corporates longer than 13 months, where positions increased by \$3.863B, from \$6.853B to \$10.716B (+56.4%). Inventory is still manageable however, as the 2017 average for IG >13mos was \$9.23B.
  - MTD IG volume now \$42.575B and YTD IG volume is up to \$171.885B (-25.0% vs 2017). Total non-financial issuance of \$64.3B is down 43.9% from the first seven weeks of 2017.
  - MTD HY volume now \$8.75B and YTD HY Volume is up to \$44.08B (-8.3% vs 2017).
- FWIW
  - **294-75-4.** Of the 373 S&P500 companies that have reported earnings, 294 beat, 75 missed, and 4 tied. The average beat has been by 13.2% and the average miss has been by 20.9%.

- After a 341 point drop in the S&P from top to bottom (11.84%), an 8.75% rally from the low has us 4.11% from the all-time high (handle changes are great every other time). Spreads are wider but already recovering. Bbg Barclays IG index is only 8 wide of recent tights and while the HY index is 25 wider, its already rallied 23 bp's tighter. Was this a short lived and long overdue correction? Or a more significant fracture of market complacency?
- The Fed is reducing its balance sheet at the same time corporate America is repatriating cash previously trapped overseas. Not equal and opposite actions, but perhaps offsetting? Eh, not really. From a credit market perspective at least, it's hard to see it that way. The Fed's balance sheet reduction is reducing (excess) liquidity and eliminating a significant buyer of treasury's and mbs. The overseas cash has been significantly allocated to short duration corporate bonds. That money isn't coming back to replace the Fed's portfolio investments – it's largely going to share repurchases and dividends. So, before even considering a doubling of treasury supply, the Fed has swung from significant buyer of fixed income to significant seller and corporations are transitioning from significant buyers of corporates to sellers as well. Dividends and share repurchases going up should be good for equities and real estate. Hard to spin that as positive for spreads, especially to the extent that cash coming back and going out the door instead of toward debt reduction will be increasing net debt levels.
- From Bloomberg columnist Mark Cudmore, "Financial assets are trading on dissonant themes. That won't sustain for too long so at least one sector is due some volatility in the days ahead....It's not that any individual asset class looks irrational in isolation, it's just that the combination of narratives across assets aren't compatible." If something's got to give, my first choice would be the yield curve. If the recent pick-up in inflation is a trend, 2s could be off by 50 bp's, but the long end is off by 100s. Next up are corporate spreads (see previous bullet point).

## Key Execution Metrics

Week 7 of 2018			Demand		Pricing Leverage		Performance
	# of Tranches	Volume	Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	4	\$2,400	1.7x	\$1,063	-14.3 bp's	+3.0 bp's	+1.3 bp's
Tuesday	5	\$2,300	2.4x	\$1,070	-14.1 bp's	+5.6 bp's	+0.0 bp's
Wednesday							
Thursday	8	\$4,575	1.8x	\$1,028	-11.3 bp's	+0.5 bp's	+0.5 bp's
Friday							
<b>This Week</b>	<b>17</b>	<b>\$9,275</b>	<b>1.9x</b>	<b>\$1,049</b>	<b>-12.8 bp's</b>	<b>+2.6 bp's</b>	<b>+0.5 bp's</b>
<b>Week Prior</b>		\$18,850	4.1x	\$2,700	-17.8 bp's	+3.4 bp's	+1.0 bp's
<b>YTD Weekly Average</b>		\$24,555	2.9x	\$2,242	-16.3 bp's	+1.5 bp's	-0.7 bp's

\* source - R. Seelaus, Informa, Bloomberg

## Weekly Deal Summary

Date	MDY	S&P	Ticker	Size	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
2/15	Baa1	BBB+	CSX	800	10.0	110a	95a	90	(20)	(1)
2/15	Baa1	BBB+	CSX	850	30.0	130a	120a	115	(15)	5
2/15	Baa1	BBB+	CSX	350	50.0	165-170	155a	150	(18)	2
2/15	A2	A	DAIGR	400	3.0	Lequiv	Lequiv	3mL+45	(5)	(2)
2/15	A2	A	DAIGR	550	3.0	70a	65#	65	(5)	(2)
2/15	A2	A	DAIGR	675	5.0	80a	75#	75	(5)	(1)
2/15	A2	A	DAIGR	625	10.0	90a	85#	85	(5)	7
2/15	Aa3	A-	EXC	325	30.0	95a	80a	77	(18)	(4)
2/13	Baa2	BBB	IR	300	3.0	70a	65a	65	(5)	10
2/13	Baa2	BBB	IR	550	10.5	115a	100a	95	(20)	2
2/13	Baa2	BBB	IR	300	30.0	140a	125a	120	(20)	(3)
2/13	Baa1	BBB+	NSC	500	30.0	115-120a	105-110	105	(13)	10
2/13	Baa1	BBB+	VTR	650	10.0	140a	130a	127	(13)	9
2/12	A2	A+	HNDA	750	3.0	55a	40#	40	(15)	3
2/12	A2	A+	HNDA	350	3.0	Lequiv	Lequiv	3mL+21	(15)	3
2/12	A2	A+	HNDA	500	10.0	85a	70a	68	(17)	1
2/12	A1	A-	EXC	800	30.0	95a	85a	85	(10)	5

## New Issue Report Cards

*** Investment Grade ***						
Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
IR	2.900	2/21/2021	65.0	60	57	-5
VTR	4.000	3/1/2028	127.0	123	120	-4
HNDA	3.500	2/15/2028	68.0	65	62	-3
DAIGR	3.350	2/22/2023	75.0	73	71	-2
DAIGR	3.750	2/22/2028	85.0	83	81	-2
IR	4.300	2/21/2048	120.0	118	115	-2
DAIGR	3.000	2/22/2021	65.0	64	61	-1
CSX	3.800	3/1/2028	90.0	90	88	+0
DAIGR	frn	2/22/2021	3mL+45	45	41	+0
IR	3.750	8/21/2028	95.0	95	92	+0
NSC	4.150	2/28/2048	105.0	105	103	+0
HNDA	2.650	2/12/2021	40.0	40	37	+0
HNDA	frn	2/12/2021	3mL+21	21	19	+0
EXC	4.000	3/1/2048	85.0	85	82	+0
CSX	4.300	3/1/2048	115.0	116	114	+1
CSX	4.650	3/1/2068	150.0	152	150	+2
EXC	3.900	3/1/2048	77.0	79	76	+2
Best						-5
Worst						+2
Avg						-0.82

*** Hi Yield ***				
Issue	Price	Bid	Ask	Δ
JONE 9 1/4 03/15/23	97.5	99.000	99.750	+\$1.474
Worst				+\$1.474
Best				+\$1.474
Avg				+\$1.474

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

		1 Day Change	1 Week Change
INDU	25,308.60	108.23	1117.70
S&P 500	2,736.83	5.63	117.28
Nasdaq	7,264.46	8.03	389.96
VIX	20.51	1.38	(8.55)
Dealer Positions #	29,890		7,124
Oil	61.67	0.33	2.5
Gold	1347.11	(6.56)	30.5
10yr Tips B/E	2.099	(0.01)	0.0
2yr	2.192%	0.5	11.6
3yr	2.385%	(2.4)	9.6
5yr	2.627%	(2.5)	8.2
7yr	2.803%	(3.5)	5.2
10yr	2.876%	(3.5)	2.4
30yr	3.134%	(3.1)	(2.6)
2>5 Curve	43.2	(3.0)	(3.4)
2>10 Curve	68.1	(4.0)	(9.3)
5>10 Curve	24.8	(0.9)	(5.9)
5>30 Curve	50.6	(0.5)	(10.9)
10>30 Curve	25.6	0.4	(5.0)
2yr Swap	26.5	(2.0)	(1.2)
3yr Swap	21.0	(0.1)	1.1
5yr Swap	9.9	0.0	0.3
7yr Swap	0.6	0.7	0.6
10yr Swap	1.9	0.4	1.1
US IG OAS*	93	(1.0)	5.0
US HY OAS**	346	(10.0)	0.0

\*- 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)

52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
20,379.55	26,616.71	25,150.33	22,872.04
2,322.25	2,872.87	2,723.00	2,545.25
5,769.39	7,505.77	7,097.02	6,577.84
8.56	50.30	13.84	11.49
16,674	33,509	25,219	24,859
43.9	66.7	61.3	53.4
1195.08	1366.15	1311.04	1283.37
1.66	2.14	2.03	1.87
1.14%	2.19%	1.99%	1.58%
1.35%	2.41%	2.12%	1.72%
1.63%	2.65%	2.36%	1.99%
1.87%	2.84%	2.50%	2.20%
2.04%	2.91%	2.58%	2.35%
2.66%	3.21%	2.89%	2.84%
29.4	76.6	36.7	41.4
48.8	125.0	59.3	76.7
16.9	51.5	22.4	35.2
40.0	117.5	53.2	84.6
21.5	69.4	30.7	49.2
15.9	38.0	20.8	22.3
14.8	32.0	18.6	19.6
1.5	14.1	6.3	7.0
-18.6	4.0	-0.5	-2.0
-9.7	6.2	0.4	-2.5
85	119	92	102
311	406	335	354

\* Source - R. Seelaus, Bloomberg

# YTD Volume Breakdown

**** Investment Grade ***											
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			3,850			650	1,125	3,650			9,275
8											
9											
10											
11											
12											
<b>FY Total</b>	<b>500</b>	<b>9,750</b>	<b>9,585</b>	<b>7,000</b>	<b>13,925</b>	<b>107,600</b>	<b>11,525</b>	<b>10,000</b>	<b>2,000</b>		<b>171,885</b>

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			41.5%			7.0%	12.1%	39.4%			100%
8											
9											
10											
11											
12											
<b>Total</b>	<b>0%</b>	<b>6%</b>	<b>6%</b>	<b>4%</b>	<b>8%</b>	<b>63%</b>	<b>7%</b>	<b>6%</b>	<b>1%</b>		<b>100%</b>

\* Source - R. Seelaus, Informa, Bloomberg

**** High Yield ***											
Weekly \$	Basic Materials	Communic	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology		Total
1											0
2	800	1,000	2,150	1,500	4,650			1,150			11,250
3	1,050	1,700	885	1,000	2,300			1,575			8,510
4	1,000	2,500	270	1,350	2,800	1,750	150	500			10,320
5			2,000	900	1,950	500	400	350	2,300		8,400
6	350		825	300	2,025	875	400	375			5,150
7					450						450
8											
9											
10											
11											
12											
<b>FY Total</b>	<b>3,200</b>	<b>5,200</b>	<b>6,130</b>	<b>5,050</b>	<b>14,175</b>	<b>3,125</b>	<b>950</b>	<b>3,950</b>	<b>2,300</b>		<b>44,080</b>

Weekly %	Basic Materials	Communic	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology		Total
1											
2	7%	9%	19%	13%	41%			10%			100%
3	12%	20%	10%	12%	27%			19%			100%
4	10%	24%	3%	13%	27%	17%	1%	5%			100%
5			24%	11%	23%	6%	5%	4%	27%		100%
6	7%		16%	6%	39%	17%	8%	7%			100%
7					100%						100%
8											
9											
10											
11											
12											
<b>FY Total</b>	<b>7%</b>	<b>12%</b>	<b>14%</b>	<b>11%</b>	<b>32%</b>	<b>7%</b>	<b>2%</b>	<b>9%</b>	<b>5%</b>		<b>100%</b>

\* Source - R. Seelaus, Informa, Bloomberg

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