

- Next Week

- IGM survey of syndicate desks is calling for \$59.5B of new IG supply next week with estimates ranging from a low of \$50B to a high of \$70B. The expected jumbo deal from CVS, rumored to be \$40-45B, will be the driver for weekly volume and likely set the tone for the next few weeks. For perspective we've only had 11 weeks with >\$50B of volume and only 2 weeks >\$60B.
- Given the negative market backdrop and the pronounced deterioration in execution metrics (see below), the CVS deal could either be just what the market needs or the straw that breaks the camel's back. Often in markets like these, a jumbo deal can flush out the negatives by both visibly re-establishing clearing levels and generating the performance needed to reverse the momentum. For a whole host of reasons – rates churning at critical LONG TERM support levels, spreads not far off historic tights, surging equity market volatility, Fed accelerating normalization (?), and negative execution momentum – the stakes couldn't be higher.
- Beyond CVS there are a slew of names who've just concluded or are conducting investor roadshows in prep for potential deals – Aegon, British Air, Brooklyn Union Gas, ChemChina, Korea Resources, Rio Tinto, Star Energy, Toyota Industries, and some sovereign's including Paraguay, and Senegal.
- **Economic/Fed Calendar: Focus on Trump, Employment Data, CVS, Italian Elections, and Fed speakers**
 - **Monday** Markit PMI, Fed's Quarles speaks
 - **Tuesday** Factory Orders, durable Goods, Fed's Dudley, Brainard, and Kaplan speak
 - **Wednesday** MBA Mortgage Applications, ADP, Trade Balance, Fed's Dudley and Bostic speak, Fed Beige Book
 - **Thursday** Initial Jobless Claims
 - **Friday** **Employment Data**, Wholesale Inventories, Fed's Evans and Rosengren speak
- 9 of the S&P500 companies report earnings, including TGT, COSTT, and KR

- Last Week

- The IG market priced \$38.1B, the busiest week in six, and ~\$11B above expectations coming in. The heavier than expected volume, volatile backdrop, and positioning ahead of CVS took a major toll on execution this week, raising the stakes going forward. Demand was modest as both average oversubscription levels and book sizes were below ytd averages. Pricing leverage suffered as a result with deals tightening only 14.5 bp's from IPT's on average and new issue concessions averaging over 5 bp's for the first time this year. It wasn't enough as this week's deals failed once again to generate any performance for buyers, breaking wider by ½ bp's on average – the third week in the past four that deals on average broke wider. It was even worse by Friday, with only 7 of this week's 47 tranches trading tighter than issue and the group trading wider by an average of 3.2 bp's. Not the stuff of momentum.
- The HY market was relatively quiet with \$3.275B on 8 deals priced through Thursday and one for \$200mm queued for pricing Friday. Only 2 of 9 tranches priced tight to IPT's, 1 wide, and 6 at the mid. There were plenty of signs of pushback however. Taps typically price ½ to a point cheap to secondary's. We had three taps priced this week that priced at steeper discounts – Warrior Met Coal's 8% 11/24 tap printed 2 ½ points cheap to 2dary, Kennedy-Wilson's 5.875% 4/24 tap printed 1 5/8 point cheap, and Garda World's tap of its 8.75s of 25 printed 2 points cheap. In addition, the lone deal to

price Friday – Meritage Homes \$200mm tap of its 6% of 2025 (priced 3 points cheap) was restructured from an originally announced \$300mm 10yr. The discounts held well enough in the 2dary market (this week's deals finished the week roughly flat) but really can't be viewed as anything but a repricing of levels.

- **IG Fund Flows:** EPFR reported inflows of \$959.87mm into IG mutual funds the week ending 2/28. It was the second straight week of inflows and the 62nd out of 63. The 4WMA is now \$1.724B and the cumulative inflow for 2018 is \$24.552B.
- **HY Fund Flows:** EPFR reported inflows of \$76.59mm the week ending 2/28, the first positive week in seven. The 4WMA is now *negative* \$2.05B, and the cumulative *outflow* from HY funds is \$8.44B for 2018.
- **Dealer Positions:** The Federal Reserve Bank of NY reported that primary dealer holding of corporate securities declined by \$4.206B the week ending 2/21 to \$23.738B. The biggest decline was in holdings of CP, which dropped 20% from \$11.726B to \$9.423B. **Interestingly enough given noise in the market about the heavy front end of the market is that the street doesn't appear to be heavily long. Dealers averaged \$18.2B of holdings maturing in less than 5 years in 2017 and are currently long just \$17.423B, down from a 2018 peak two weeks ago of \$22.731B.**
- IG volume is now \$228.775B for 2018, down 19.7% from 2017's first 9 weeks. Most of the drop is in non-financials. Financial issuance ytd of \$133.85B is 5.8% behind last year's pace. Non-financial issuance of \$94.9B is 33% behind last year.
- HY YTD volume of \$52.955B is 11.4% behind last year's 9 week tally.
- **FWIW**
 - Talked at length about the ways that the market "reached" to rent coupon over the past several years of low yields/low vol indefinitely. Extend maturities, go down the credit curve, and sacrifice structure. Given flat yield and credit curves there's been scant evidence of an unwind, but it was interesting nonetheless to see Enbridge's hybrid price 50+ cheap to secondary's.
 - New Fed Chairman Jerome Powell's first semi-annual congressional testimony was upbeat on the economy and started pushing the market's center of gravity toward four rate hikes in 2018 from the three it'd previously been guided toward. Powell acknowledged the significance of the recent tax package and spending boost and shared his view that there "would be a meaningful increment to demand, at least for the next couple years, from the combination of those two things" and that "his personal outlook for the economy has strengthened since December."
 - We've touched on this in the past but we are waist deep in a key inflection point in the market. On the rates side, the Fed's balance sheet reduction has turned the key buyer (the Fed) of treasuries into a seller (exacerbated by the treasury becoming an even bigger seller) at the same time corporate cash repatriation is turning a key marginal buyer (cash rich corporate balance sheets) of short dated corporates into a large seller. The market reaction to all of it combined with rate hikes, tax cuts, and spending increases has been a bear market flattener in the treasury market. The selling pressure in the front end of the corporate market combined with some large buying in the long end is pressuring the corporate curve to flatten as well. If the fed is ahead of the curve I suppose it all makes sense. If the global growth story is what's pushing yields higher however, the market may be coiling in the wrong direction -- creating huge value in the front end of the corporate curve.
 - Art of the deal? The risks of trade war escalated this week with Trump's comments on steel and aluminum. Regardless of final outcome, the market reaction reinforcing the

notion that we're well past to the point where nothing (earthquakes, tsunamis, nuclear meltdowns, tsy downgrades, sequesters, Brexit, Grexit, etc) matters to the market because the technical win. Things are starting to matter again.

Key Execution Metrics

Week 9 of 2018			Demand		Pricing Leverage		Performance
	# of Tranches	Volume	Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	20	\$13,300	2.9x	\$1,714	-15.7 bp's	+5.1 bp's	-1.1 bp's
Tuesday	10	\$7,550	2.5x	\$1,695	-17.9 bp's	+1.7 bp's	+0.4 bp's
Wednesday	15	\$14,300	2.1x	\$1,652	-12.0 bp's	+6.4 bp's	+2.5 bp's
Thursday	4	\$2,950	1.7x	\$1,225	-10.0 bp's	+8.5 bp's	+0.3 bp's
Friday							
This Week	49	\$38,100	2.5x	\$1,651	-14.5 bp's	+5.1 bp's	+0.5 bp's
Week Prior		\$18,150	3.2x	\$1,727	-16.5 bp's	+2.1 bp's	-0.2 bp's
YTD Weekly Average		\$25,419	2.9x	\$2,079	-16.0 bp's	+2.2 bp's	-0.5 bp's

* source - R. Seelaus, Informa, Bloomberg

Weekly Deal Summary

Date	MDY	S&P	Size	Ticker	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
3/1	Baa1	BBB+	1000	NWIDE	6nc5	125-130a	120#	120	(8)	10
3/1	Baa1	BBB+	750	NWIDE	11nc10	155-160a	150#	150	(8)	10
3/1	Baa2	BBB	600	WRK	7.0	115-120	110a	105	(13)	7
3/1	Baa2	BBB	600	WRK	10.0	130-135	125a	120	(13)	7
2/28	A3	A-	1500	BAC	6nc5	Lequiv	L+79	3mL+79	(10)	7
2/28	A3	A-	3000	BAC	6nc5	100a	90	90	(10)	7
2/28	A3	A-	2500	BAC	11nc10	120a	110	110	(10)	7
2/28	Baa2	BBB+	250	F	3.1	Lequiv		L+81	(18)	(3)
2/28	Baa2	BBB+	500	F	3.1	120-125		105	(18)	(3)
2/28	A3	A-	500	KEY	5.0	85a	75a	73	(12)	6
2/28	A1	A	850	MIZUHO	5.0	Lequiv	Lequiv	3mL+79	(15)	7
2/28	A1	A	850	MIZUHO	5.0	105a	95a	90	(15)	7
2/28	A1	A	1300	MIZUHO	10.0	130a	120a	115	(15)	16
2/28	A3	A	1000	OXY	30.0	120a		110	(10)	5
2/28	Baa1	BBB+	300	REG	10.0	150a	130a	127	(23)	(3)
2/28	Aa3	A	450	EIX	3.0	50-55	50#	50	(3)	10
2/28	Aa3	A	400	EIX	10.0	80-85	80#	80	(3)	10
2/28	Aa3	A	400	EIX	30.0	100-105	100#	100	(3)	15
2/28	A2	A	500	TRV	30.0	110-115	95-100	95	(18)	8
2/27	Baa2	A	1250	ANTM	10.0	140a	125a	120	(20)	5
2/27	Baa2	A	850	ANTM	30.0	155a	145a	140	(15)	5
2/27	Ba1	BBB	1000	BDX	3nc1	L+100-105	L+90a	3mL+87.5	(15)	3
2/27	A2	A-	500	CPCHEM	5.2	80-85	70a	65	(18)	(4)
2/27	A2	A-	550	CPCHEM	10.3	105-110	90a	85	(23)	(4)
2/27	Baa1	BBB+	300	ESS	30.0	155a	135a	133	(22)	(2)
2/27	Baa3	BBB	500	HBAN	perp-nc5	5.875%a	5.75%a	-	(18)	
2/27	Baa1	A-	600	MMC	30.0	120a	105a	103	(17)	6
2/27	Baa3	BBB	750	TELEFO	20.0	165-170	155a	150	(18)	2
2/27	Baa3	BBB	1250	TELEFO	30.0	185-190	175a	173	(15)	5
2/26	A3	A	750	BNSF	30.3	105a	90-95	90	(15)	6
2/26	A2	A	500	CARGIL	5.0	90a	70a	67	(23)	(4)
2/26	A1	A	400	CNP	30.0	100a	85a	82	(18)	0
2/26	Aa2	A	500	DUK	5.0	60-65	50a	47	(16)	5
2/26	Aa2	A	500	DUK	30.0	95-100	85a	82	(16)	3
2/26	Ba2	BBB-	850	ENBCN	60nc10	6.25%a	6.125-6.25%	-	0	50
2/26	Aa2	A	1000	NEE	30.0	95-100	85a	82	(16)	5
2/26	Baa1	A-	500	HYUCAP	5.0	135a	120#	120	(15)	10
2/26	Baa1	BBB+	300	GXP	30.0	130a	105-110	105	(25)	(2)
2/26	A1	A-	750	MUFG	5.0	Lequiv	Lequiv	3mL+74	(15)	5
2/26	A1	A-	1500	MUFG	5.0	100a	87.5a	85	(15)	5
2/26	A1	A-	750	MUFG	7.0	110-115	100-105	100	(13)	12
2/26	A1	A-	500	MUFG	10.0	120a	112.5a	110	(10)	12
2/26	A3	BBB+	500	PSX	3nc1	L+85a	L+65a	3mL+60	(25)	(5)
2/26	A3	BBB+	800	PSX	10.0	130a	110a	105	(25)	(5)
2/26	A3	BBB+	200	PSX	26.7	155a	145a	140	(15)	
2/26	A3	A-	1000	SBUX	5.0	60a	53a	50	(10)	0
2/26	A3	A-	600	SBUX	10.0	75-80	70a	67	(11)	(3)
2/26	Baa1	A	600	SYK	10.0	95a	80-83	80	(15)	0
2/26	Baa3	BBB	800	WPZ	30.0	190a	175a	172	(18)	2

New Issue Report Card

*** Investment Grade ***						
Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
BDX	2.881	12/29/2020	3mL+87.5	81	76	-7
WRK	3.750	3/15/2025	105.0	101	99	-4
PSX	2.606	2/26/2021	3mL+60	56	51	-4
WRK	4.000	3/15/2028	120.0	117	115	-3
NWIDE	3.766	3/8/2024	120.0	119	117	-1
F	2.901	4/5/2021	L+81	80	77	-1
CARGIL	3.250	3/1/2023	67.0	66	61	-1
KEY	3.375	3/7/2023	73.0	74	71	+1
EIX	4.125	3/1/2048	100.0	101	98	+1
CNP	3.950	3/1/2048	82.0	83	80	+1
GXP	4.200	3/15/2048	105.0	106	102	+1
MUFG	2.757	3/2/2023	3mL+74	75	72	+1
MUFG	3.455	3/2/2023	85.0	86	83	+1
MUFG	3.777	3/2/2025	100.0	101	98	+1
MUFG	3.961	3/2/2028	110.0	111	108	+1
SBUX	3.100	3/1/2023	50.0	51	48	+1
MIZUHO	2.815	3/5/2023	3mL+79	81	78	+2
EIX	3.650	3/1/2028	80.0	82	78	+2
CPCHEM	3.300	5/1/2023	65.0	67	62	+2
CPCHEM	3.700	6/1/2028	85.0	87	84	+2
NEE	3.950	3/1/2048	82.0	84	81	+2
F	3.470	4/5/2021	105.0	108	105	+3
MIZUHO	4.018	3/5/2028	115.0	118	116	+3
REG	4.125	3/15/2028	127.0	130	127	+3
EIX	2.900	3/1/2021	50.0	53	48	+3
BNSF	4.050	6/15/2048	90.0	94	91	+4
HYUCAP	3.750	3/5/2023	120.0	124	119	+4
NWIDE	4.302	3/8/2029	150.0	155	152	+5
BAC	3.550	3/5/2024	90.0	95	94	+5
MIZUHO	3.549	3/5/2023	90.0	95	92	+5
TRV	4.050	3/7/2048	95.0	100	96	+5
DUK	3.050	3/15/2023	47.0	52	49	+5
DUK	3.950	3/15/2048	82.0	87	85	+5
PSX	4.875	11/15/2044	140.0	145	142	+5
SYK	3.650	3/7/2028	80.0	85	82	+5
WPZ	4.850	3/1/2048	172.0	178	175	+6
BAC	2.815	3/5/2024	3mL+79	86	83	+7
BAC	3.970	3/5/2029	110.0	117	114	+7
OXY	4.200	3/15/2048	110.0	117	115	+7
ANTM	4.101	3/1/2028	120.0	127	125	+7
ANTM	4.550	3/1/2048	140.0	147	145	+7
TELEFO	4.665	3/6/2038	150.0	157	154	+7
TELEFO	4.895	3/6/2048	173.0	180	177	+7
PSX	3.900	3/15/2028	105.0	112	109	+7
ESS	4.500	3/15/2048	133.0	141	136	+8
MMC	4.200	3/1/2048	103.0	114	110	+11
SBUX	3.500	3/1/2028	67.0	78	75	+11
				Best		-7
				Worst		+11
				Avg		+3.20

*** Hi Yield ***				
Issue	Price	Bid	Ask	Δ
GWCN 8 3/4 05/15/25	105.250	105.500	106.000	+\$0.250
WMG 5 1/2 04/15/26	100.000	100.250	101.000	+\$0.250
KW 5 7/8 04/01/24	98.625	98.750	99.250	+\$0.125
AES 4 1/2 03/15/23	100.000	100.125	100.625	+\$0.125
NEENST 6 1/4 03/15/26	100.000	100.125	100.500	+\$0.125
AES 4 03/15/21	100.000	100.000	100.500	+\$0.000
AVOL 5 1/2 01/15/23	100.000	100.000	100.500	+\$0.000
HCC 8 11/01/24	103.000	103.000	103.500	+\$0.000
FMGAU 5 1/8 03/15/23	100.000	99.750	100.250	-\$0.250
			Worst	-\$0.250
			Best	+\$0.250
			Avg	+\$0.069

Market Dashboard

		1 Day Change	1 Week Change	52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
INDU	24,538.06	(70.92)	(771.93)	20,379.55	26,616.71	25,280.60	23,058.87
S&P 500	2,691.25	13.58	(56.05)	2,322.25	2,872.87	2,736.09	2,560.03
Nasdaq	7,257.87	77.31	(79.52)	5,769.39	7,505.77	7,173.96	6,630.13
VIX	19.61	(2.86)	3.12	8.56	50.30	15.45	11.89
Dealer Positions #	23,738		(4,206)	16,674	33,509	25,096	24,778
Oil	61.39	0.40	(2.2)	44.2	66.4	62.1	54.0
Gold	1322.03	5.00	(6.7)	1195.08	1366.15	1325.71	1287.44
10yr Tips B/E	2.135	0.03	0.0	1.66	2.15	2.07	1.89
2yr	2.240%	2.7	(0.0)	1.16%	2.27%	2.07%	1.62%
3yr	2.395%	3.6	0.6	1.35%	2.44%	2.21%	1.76%
5yr	2.629%	4.9	1.0	1.63%	2.69%	2.45%	2.04%
7yr	2.791%	5.7	0.0	1.87%	2.87%	2.60%	2.24%
10yr	2.865%	5.6	(0.3)	2.04%	2.95%	2.68%	2.38%
30yr	3.141%	5.7	(1.5)	2.66%	3.22%	2.97%	2.85%
2>5 Curve	38.6	2.1	1.0	29.4	76.6	37.8	40.8
2>10 Curve	62.2	2.8	(0.2)	48.8	125.0	60.6	75.0
5>10 Curve	23.4	0.8	(1.2)	16.9	49.9	22.6	34.1
5>30 Curve	51.1	0.9	(2.5)	40.0	117.5	51.7	81.5
10>30 Curve	27.5	(0.0)	(1.1)	21.5	69.4	28.9	47.2
2yr Swap	26.1	0.1	1.2	15.9	37.5	22.1	22.5
3yr Swap	22.0	(0.3)	(0.5)	14.8	32.0	19.7	19.8
5yr Swap	10.1	0.1	(0.4)	1.5	13.8	7.4	7.2
7yr Swap	0.7	(0.3)	0.3	-18.6	4.0	-0.1	-1.7
10yr Swap	1.3	0.4	0.6	-9.7	6.2	0.8	-2.1
US IG OAS*	99	3.0	6.0	85	119	91	102
US HY OAS**	343	7.0	2.0	311	406	333	353

*- 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

**** 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	4,290			9,915
8	1,000	500	1,150	1,000	3,100	8,300		3,100			18,150
9	1,050	2,000	2,850	4,200	4,150	17,950	3,950	1,950			38,100
10											
11											
12											
FY Total	2,550	12,250	13,585	12,200	21,175	133,850	15,475	15,690	2,000		228,775

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			38.8%			6.6%	11.3%	43.3%			100%
8	5.5%	2.8%	6.3%	5.5%	17.1%	45.7%		17.1%			100%
9	2.8%	5.2%	7.5%	11.0%	10.9%	47.1%	10.4%	5.1%			100%
10											
11											
12											
Total	1%	5%	6%	5%	9%	59%	7%	7%	1%		100%

* 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			1,375			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	1,850	1,500		500	950	400		400			5,600
9	500		325	125	125	250	1,000	950			3,275
10											
11											
12											
FY Total	5,550	6,700	6,455	5,675	15,250	3,775	1,950	5,300	2,300		52,955

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	33%	27%		9%	17%	7%		7%			100%
9	15%		10%	4%	4%	8%	31%	29%			100%
10											
11											
12											
FY Total	10%	13%	12%	11%	29%	7%	4%	10%	4%		100%

* Source - R. Seelaus, Informa, Bloomberg

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