

- Next Week

- IGM survey of syndicate desks is calling for \$31.61B next week, a pick-up in activity against a weaker backdrop. Estimates range from a low of \$25B to a high of \$40B.
- Names that have or are about to roadshow include Amco, Avista, General Dynamics, Kexim, and Mid-American Apartment Communities.
- Past the peak in earnings, with only 41 of the S&P500 reporting next week. Record for the 380 that have reported is 308-69-3. 308 (81%) have beat by an average of 11.4%, 69 have missed by an average of 14.1%, and 3 have tied.
- **Economic/Fed Calendar:** Focus on Fed speakers and inflation data
 - **Monday** Fed's Bostic, Barkin, Kaplan, and Evans speak
 - **Tuesday** Fed's Powell speaks
 - **Wednesday** **PPI**, Wholesale Inventories, Fed's Bostic speaks
 - **Thursday** **CPI**, Initial Jobless Claims, Continuing Claims
 - **Friday** UofM Sentiment

- Last Week

- The IG new issue market printed \$22.4mm this week, 12% below expectations for \$25.447mm coming in. **Execution metrics declined this week.** Average book sizes and oversubscription levels were down. Pricing leverage declined and new issue concessions grew. If there was a silver lining, this week's deals broke better than the prior week's, but performance was uneven and uninspiring. 16 of 34 tranches priced were flat to wide on Friday.
- IG 2dary spreads were wider across the board, with Basic Materials, Energy, and Industrials underperforming.
- The HY market printed \$4.28B across 11 deals and 12 tranches. Pricing leverage disappeared as the week wore on. 3 of 5 deals priced Monday and Tuesday priced at the tight end of whispers, while only 1 of 7 did on Wednesday and Thursday. The calendar outperformed a 2dary market that was both down and wider. This week's deals were up an average of ~1/2 point.
- **IG Fund Flows:** EPFR reported inflows to IG fund the week ending 5/02 totaling \$2.672B, bringing ytd inflows to \$35.398B. The 4WMA is now \$2.067B, above the ytd weekly average of \$1.967B.
- **HY Fund Flows:** EPFR reported inflows of \$999.69mm, the fourth week in the last five that generated inflows. The 4WMA is now +706.27mm. The cumulative outflow from HY in 2018 is now down to -\$7.313mm.
- **Dealer Positions:** Dealer corporate inventories jumped 13% to \$20.659B the week ending 4/25. 86% of the \$2.4B increase came in holdings of commercial paper and corporates maturing 13mos and in. Inventory across all maturity remains within 2017 ranges. The only two maturity or ratings buckets where current holdings are above 2017 averages are IG >10yr and HY >10yr. IG>10yr holdings were \$2.843B versus a \$1.193mm average in 2017 and HY>10yr holdings were \$1.411B versus a \$965.77mm average in 2017.
- **IG volume** for April finished at \$118.615B, the busiest April in history. After starting the year slowly, overall ytd volume has made some serious progress catching up to last year's pace. YTD volume of \$482.9B is \$39.4B (7.5%) behind last year's 18 week total.
- **HY volume** for April finished at \$23.65B bringing the ytd total to \$106.775B. HY is \$22.75B (17.6%) behind last year's ytd total.

- FWIW

- Interesting to look at the IG report card below and note the outperformance of the floaters over fixed in the paired deals that priced this week. Lloyds 3yr frn, Daimler's 2yr frn and 3yr frn outperformed the fixed by 3 bp's. Daimler's 5yr frn outperformed by 2. And in the strongest showing Ford's 5yr frn outperformed its fixed tranche by 10 bp's.
- ***If frn's continue to so clearly outperform fixed rate tranches, expect to see issuers stop pricing their frn's off of the fixed tranche and separate executions. Easiest way is to do the floater first and come back later for fixed. Might we see a deal where they market together and the frn comes inside the libor equivalent of fixed?***
- While on the subject of frn's, 3mLibor has jumped ~175 bp's since the beginning of 2016. Over the same time frame the 5yr yield has only risen ~100 bp's. Looking at 5yr fixed and/or float paired trades priced in 2016, frn's are currently yielding 75-100 bp's more than the original fixed yield on the fixed rate tranches and are 5 points higher in price. For long only cash investors, frn's have simply dominated.
- Given the narrative earlier in the year regarding front end overhang flattening credit curves, it is also interesting to note on DAIGR's \$4B 7 tranche offering on Monday the strength of demand in the front end. The 2yr and 3yr maturities had more than twice as much demand as the 5yr. Concessions were correlated with demand as the (just) \$300mm tap had an 11 bp's concession and the 5yr an 8 bp's concession, while the larger 2yr and 3yr maturities were only 2 bp's. Book sizes also highlighted demand side preference in the 2yr for floaters over fixed and in the 3yr and 5yr for fixed over floating.
- Great article in Bloomberg summarizing key takeaways from the Milken Institute Global Conference, "relative risk is evident in part in debt growth: investment-grade bonds outstanding have more than doubled since the end of 2008. Total debt outstanding, including loans, for all U.S. companies grew by more than a third between the end of 2008 and 2017. For consumers, that liability expansion has been much more measured, with total household borrowings up about 3.8 percent since the end of 2008, according to the New York Federal Reserve. That comparative growth has worried big bond buyers. BlackRock Inc. and Guggenheim Partners have recently turned more cautious on buying corporate debt. The junk-bond market is one of the of the major cracks in the foundation of the economy, said Tad Rivelle, chief investment officer for fixed income at TCW Group Inc. "You can keep kicking the can down the road but sooner or later there's going to be a reckoning," Rivelle said in a panel at the Milken Institute Global Conference." "More of that debt is rated just a few steps above junk. BBB rated issuance accounted for 42 percent of total U.S. investment-grade corporate bond sales in 2017, according to Morgan Stanley, a record for as far back as the bank's data go. If credit ratings were based on leverage alone, more than a quarter of the investment-grade universe would have a high-yield rating, the report said." **"You certainly should get out of high yield,"** Guggenheim Partners Chief Investment Officer Scott Miner said in an interview Wednesday, but it's too soon to short junk debt since Guggenheim doesn't expect a recession until early 2020. **"Investment-grade credit makes no sense at all."** (<https://www.bloomberg.com/news/articles/2018-05-04/in-birthplace-of-junk-investors-see-risks-after-decade-of-debt>)
- Another Bloomberg article highlighting where we are in the rate cycle and perhaps the key shift challenging market complacency. **"Yields on short-term U.S. high-grade corporate bonds rose to 3% last week, marking an eight year high with "far greater significance to investors"** than the 10-year Treasury hitting the same milestone, BlackRock's global chief investment strategist Richard Turnill writes in note.

- For the first time since the financial crisis, investors can earn positive after-inflation returns from these bonds. Short-term corporate bond yields have risen above 3% with the corresponding Treasury yields rising to just shy of 2.5%. “Investors no longer need to take on as much risk to generate enough return to preserve purchasing power”
- A lack of lower-risk income sources since the financial crisis forced investors toward riskier assets, resulting in higher prices
- “What happens as this process kicks into reverse amid rising rates? With the rise in short-term yields, we see assets closest to Treasuries repricing first as the competition for capital heats up”
- "Sustained growth supports credit, but high valuations limit upside. Prefers up-in-quality exposures as ballast to equity risk. Higher-quality floating rate instruments and shorter maturities are well positioned for rising rates"
- While rates are much lower in developed markets outside the U.S., although greater competition for capital from U.S. shorter-duration bonds “has implications across asset classes”

Key Execution Metrics

Week 18 of 2018			Demand		Pricing Leverage		Performance
	# of Tranches	Volume	Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	13	\$8,175	2.2x	\$1,352	-14.4 bp's	+4.1 bp's	-1.0 bp's
Tuesday	4	\$4,300	1.9x	\$2,056	-13.1 bp's	+5.6 bp's	-3.3 bp's
Wednesday	3	\$1,100	3.0x	\$1,050	-14.0 bp's	+3.0 bp's	-1.5 bp's
Thursday	16	\$8,825	2.1x	\$1,150	-10.6 bp's	+8.7 bp's	+0.1 bp's
Friday							
This Week	36	\$22,400	2.2x	\$1,327	-12.5 bp's	+6.2 bp's	-0.8 bp's
Week Prior		\$26,523	2.5x	\$1,702	-14.3 bp's	+3.6 bp's	+0.0 bp's
YTD Weekly Average		\$26,827	2.8x	\$2,221	-15.7 bp's	+5.0 bp's	-0.8 bp's

* source - R. Seelaus, Informa, Bloomberg

Execution Dashboard



Weekly Deal Summary

Date	MDY	S&P	Ticker	Size	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
5/3		BBB	AITOCU	225	21.7	L6% _s		-	(25)	8
5/3	Aa2	A	NEE	500	30.1	110a	100#	100	(10)	9
5/3	Baa2	BBB	GMT	300	10.5	170a		160	(10)	
5/3	A1	A	HSY	350	2.0	55-60	45-50	45	(13)	5
5/3	A1	A	HSY	350	3.0	60-65	50-55	50	(13)	5
5/3	A1	A	HSY	500	5.0	75a	60-65	60	(15)	5
5/3	Baa1	BBB	MDLZ	750	2.0	75a	65a	60	(15)	(4)
5/3	Baa1	BBB	MDLZ	750	5.0	100-105	95a	90	(13)	6
5/3	Baa1	BBB	MDLZ	700	10.0	130-135	130#	130	(3)	11
5/3	Baa1	BBB	MDLZ	300	30.0	155-160	160#	160	3	11
5/3	Ba1	BBB	OSK	300	10.0	187.5a	175a	170	(18)	
5/3	Baa3	BBB+	RSG	800	10.0	130-135	120a	118	(15)	3
5/3	Baa1	BBB+	SPGI	500	30.0	155a	145#	145	(10)	8
5/3	A3	BBB+	TRPCN	1000	10.0	140a	135#	135	(5)	15
5/3	A3	BBB+	TRPCN	500	20.0	170a	165#	165	(5)	20
5/3	A3	BBB+	TRPCN	1000	30.0	185a	180#	180	(5)	20
5/2	Baa1	BBB+	NEE	400	3.0			3mL+48		
5/2	Aa3	A	PEG	375	10.0	90-95	80a	77	(16)	2
5/2	Aa3	A	PEG	325	30.0	105-110	97a	95	(13)	4
5/1	Aa3	A	CMS	550	30.0	110a	100a	97	(13)	7
5/1	Aa3	A	LLOYDS	1000	3.0	Lequiv	Lequiv	3mL+49	(15)	4
5/1	Aa3	A	LLOYDS	1250	3.0	85a	70#	70	(15)	4
5/1	A3	BBB+	LLOYDS	1500	7.0	160-165	155a	153	(10)	9
4/30	A2	A	DAIGR	500	2.0	Lequiv	L+39#	3mL+39	(20)	(3)
4/30	A2	A	DAIGR	500	2.0	85a	65#	65	(20)	(3)
4/30	A2	A	DAIGR	700	3.0	Lequiv	L+55#	3mL+55	(18)	2
4/30	A2	A	DAIGR	1000	3.0	95a	77#	77	(18)	2
4/30	A2	A	DAIGR	400	5.0	Lequiv	L+84#	3mL+84	(10)	8
4/30	A2	A	DAIGR	600	5.0	105a	95#	95	(10)	8
4/30	A2	A	DAIGR	300	9.8	115a	105#	105	(10)	11
4/30	Aa3	A	DTE	525	30.0	110a	100a	97	(13)	5
4/30	Baa2	BBB	F	600	4.8	Lequiv	L+128.5a	3mL+123.5	(15)	0
4/30	Baa2	BBB	F	900	4.8	150a	140a	135	(15)	0
4/30	A3	A-	AEP	350	10.0	105a	90-95	95	(10)	5
4/30	Baa3	BBB-	KSU	500	30.0	175a	160a	160	(15)	13
4/30	A1	A+	TXN	1300	30.0	120a	110a	107	(13)	6

New Issue Report Card

*** Investment Grade ***						
Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
F	frn	2/15/2023	3mL+123.5	117	111	-7
LLOYDS	4.450	5/8/2025	153.0	147	146	-6
LLOYDS	frn	5/7/2021	3mL+49	45	41	-4
DAIGR	frn	5/4/2020	3mL+39	35	30	-4
DAIGR	frn	5/4/2021	3mL+55	51	43	-4
HSY	3.100	5/15/2021	50.0	47	45	-3
HSY	3.375	5/15/2023	60.0	57	54	-3
DAIGR	frn	5/4/2023	3mL+84	81	75	-3
HSY	2.900	5/15/2020	45.0	43	40	-2
OSK	4.600	5/15/2028	170.0	168	165	-2
DAIGR	3.750	2/22/2028	105.0	103	100	-2
GMT	4.550	11/7/2028	160.0	159	156	-1
MDLZ	3.000	5/7/2020	60.0	59	57	-1
SPGI	4.500	5/15/2048	145.0	144	141	-1
TRPCN	4.750	5/15/2038	165.0	164	161	-1
LLOYDS	3.300	5/7/2021	70.0	69	67	-1
DAIGR	3.100	5/4/2020	65.0	64	60	-1
DAIGR	3.700	5/4/2023	95.0	94	90	-1
MDLZ	3.625	5/7/2023	90.0	90	88	+0
PEG	3.700	5/1/2028	77.0	77	74	+0
NEE	4.125	6/1/2048	100.0	101	98	+1
RSG	3.950	5/15/2028	118.0	119	116	+1
TRPCN	4.875	5/15/2048	180.0	181	178	+1
PEG	4.050	5/1/2048	95.0	96	93	+1
DAIGR	3.350	5/4/2021	77.0	78	74	+1
AEP	3.850	5/15/2028	95.0	96	95	+1
TXN	4.150	5/15/2048	107.0	108	105	+1
CMS	4.050	5/15/2048	97.0	99	96	+2
TRPCN	4.250	5/15/2028	135.0	138	136	+3
F	4.140	2/15/2023	135.0	138	136	+3
MDLZ	4.125	5/7/2028	130.0	134	131	+4
DTE	4.050	5/15/2048	97.0	101	98	+4
MDLZ	4.625	5/7/2048	160.0	165	161	+5
KSU	4.700	5/1/2048	160.0	171	168	+11
				Best		-7
				Worst		+11
				Avg		-0.22

*** Hi Yield ***				
Issue	Price	Bid	Ask	Δ
MERLLN 5 3/4 06/15/26	100.000	102.000	102.250	+\$2.000
TDG 6 7/8 05/15/26	99.240	100.250	100.625	+\$1.010
AVTCAP 6 1/2 05/15/21	100.000	101.000	101.375	+\$1.000
FAIRIC 5 1/4 05/15/26	100.000	101.000	101.500	+\$1.000
CONSEN 6 1/2 05/15/26	100.000	100.500	100.750	+\$0.500
HCHC 11 12/01/19	102.000	102.250	103.250	+\$0.250
CONSEN 0 06/15/22	100.000	100.000	100.750	+\$0.000
GFLENV 7 06/01/26	100.000	100.000	100.250	+\$0.000
NEPENE 6 5/8 05/15/25	100.000	100.000	100.500	+\$0.000
ABCSUP 5 7/8 05/15/26	100.000	99.750	100.250	-\$0.250
OAS 6 1/4 05/01/26	100.000	99.750	100.250	-\$0.250
			Worst	-\$0.250
			Best	+\$2.000
			Avg	+\$0.478

Market Dashboard (a/o 1:20pm)

		1 Day Change	1 Week Change	52 Week Low	52 Week High	50 Day Moving Avg	200 Day Moving Avg
INDU	24,223.82	293.67	(87.37)	20,553.45	26,616.71	24,499.79	23,751.02
S&P 500	2,658.16	28.43	(11.75)	2,352.72	2,872.87	2,681.87	2,615.04
Nasdaq	7,189.19	101.04	69.39	5,996.82	7,637.27	7,204.01	6,847.93
VIX	15.1	(0.80)	(0.31)	8.56	50.30	18.40	13.56
Dealer Positions #	20,659		2,401	15,054	32,169	24,271	24,049
Oil	69.73	1.30	1.6	44.5	70.0	64.6	57.5
Gold	1313.38	1.32	(10.6)	1204.90	1366.15	1328.46	1305.34
10yr TIPS B/E	2.165	(0.00)	(0.0)	1.66	2.20	2.12	1.97
SOFR	1.740%	(0.0)		1.70%	1.83%		
3mLibor	2.363%	0.0	0.0	1.17%	2.37%	2.23%	1.67%
OIS-Libor Spread	1.850%	0.0	0.0	1.01%	1.85%	1.73%	1.43%
2yr	2.499%	2.1	1.4	1.25%	2.51%	2.33%	1.85%
3yr	2.632%	1.5	1.3	1.37%	2.64%	2.47%	1.98%
5yr	2.785%	0.3	(1.7)	1.63%	2.84%	2.67%	2.23%
7yr	2.901%	0.7	(2.0)	1.87%	2.97%	2.80%	2.41%
10yr	2.951%	0.4	(0.7)	2.04%	3.03%	2.86%	2.52%
30yr	3.127%	0.5	0.2	2.66%	3.22%	3.09%	2.91%
2>5 Curve	28.3	(1.7)	(3.2)	27.9	58.9	33.6	37.8
2>10 Curve	44.9	(1.7)	(2.2)	41.1	106.4	52.8	66.6
5>10 Curve	16.4	0.0	1.0	12.3	48.5	19.0	28.6
5>30 Curve	34.1	0.2	1.9	29.0	116.3	41.5	67.6
10>30 Curve	17.5	0.1	0.9	15.4	69.4	22.4	38.8
2yr Swap	26.4	(0.3)	1.5	15.9	34.4	29.2	24.1
3yr Swap	21.7	(0.3)	0.4	14.8	29.0	24.3	21.0
5yr Swap	12.8	0.3	1.9	1.5	16.5	13.0	8.5
7yr Swap	4.1	(0.4)	1.5	-18.6	7.7	3.9	-0.2
10yr Swap	2.9	(0.4)	(0.2)	-9.7	6.2	3.0	-0.6
US IG OAS*	111	1.0	3.0	85	115	105	101
US HY OAS**	344	5.0	11.0	311	390	340	347

*- Bloomberg Barclays USAgg Corp Avg Oas (1 day delay)

** - Bloomberg Barclays USCorp 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 ***										
Monthly \$	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology	2018 Total \$
Jan	500	5000	5085	1000	1725	10100	9400	4600		129,310
Feb	2850	7250	8500	11500	19450	31550	6075	9800	2000	97,065
Mar	850	8880	12200	61750	2900	30070	8600	8250	750	123,676
Apr	5750	5000	20300	9050	5008	50800	7875	2250	3800	118,615
May				4000	2500	3750	2150	1625		14,225
Jun										
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
Total	6,990	24,138	39,394	87,900	31,763	225,963	32,100	26,715	6,590	482,891

Monthly %	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology	Total
Jan	0.4%	3.9%	3.9%	1.5%	1.3%	76.2%	7.3%	3.6%		100%
Feb	2.1%	7.5%	8.8%	11.6%	21.0%	32.5%	6.3%	10.2%	2.1%	100%
Mar	0.5%	5.6%	4.5%	49.9%	2.4%	24.4%	5.4%	6.8%	0.8%	100%
Apr	4.8%	4.2%	17.3%	7.7%	4.3%	51.3%	6.8%	1.9%	3.2%	100%
May				41.5%	17.6%	26.4%	15.3%	11.4%		100%
Jun										
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
Total	2%	3%	8%	18%	7%	47%	7%	6%	2%	100%

* Source - R. Securities, Informa, Bloomberg

**** High Yield ***										
Monthly \$	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology	2018
Jan	2,850	5,200	5,525	3,850	10,950	1,750	150	3,575	2,500	34,300
Feb	2,200	1,500	1,150	1,700	4,900	2025	800	775		15,980
Mar	2,125	4,000	3,000	6,775	3,300	4545	1,000	4,000		28,765
Apr	2,825	2,200	2,800	1,725	4,775	5,822	1,480	1,000		23,650
May	5,25	105	1,100		550	300		900	400	3,880
Jun										
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
Total	10,515	13,015	13,538	14,060	23,895	14,442	3,430	11,180	2,700	106,775

Monthly %	Basic Materials	Commun	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology	2018
Jan	8%	15%	15%	11%	20%	5%	0%	10%	7%	100%
Feb	13%	9%	8%	11%	30%	13%	5%	5%		100%
Mar	7%	14%	11%	23%	11%	16%	3%	14%		100%
Apr	12%	3%	2%	7%	20%	25%	6%	8%		100%
May	14%	3%	2%		14%	8%		23%	10%	100%
Jun										
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
Total	10%	12%	13%	13%	22%	14%	3%	10%	3%	100%

* Source - R. Securities, Informa, Bloomberg

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