

- **Next Week**

- The 4<sup>th</sup> of July hitting on Wednesday definitely serving as a circuit breaker for the market, with most desks splitting time off between the 1<sup>st</sup> half and the 2<sup>nd</sup> half of the week. IGM survey of syndicate desks is calling for just \$1.96B of supply next week, with estimates ranging from zero to \$2.5B.
- The IGM survey of syndicate desks is also predicting \$83B of IG supply for July, with estimates ranging from a low of \$70B to a high \$95B. The average of the last 5 July's has been \$97.8B with a high of \$129B (2015) and a low of \$58B (2014).
- Companies that have recently marketed to investors include Toyota Motor Corp., POSCO, Empresas CMPC, Transportado de Gas Internacional, Antares, GS Caltex, Northern Natural Gas, Hyundai Capital Services, Korea Hydro, and Industrial Bank of Korea. In addition, Hydro One filed a \$3B shelf to issue 10s/20s/30s.
- Only one S&P500 company releases earnings next week – JEF.
- **Economic/Fed Calendar: Focus on FOMC Minutes, Jobs Data on Friday**
  - **Monday** PMI, Construction Spending, ISM
  - **Tuesday** Factory Orders, Durable Goods
  - **Wednesday** **\*\* Independence Day – Market Closed \*\***
  - **Thursday** Initial Jobless Claims, Continuing Claims, **FOMC Meeting Minutes**
  - **Friday** **Employment Data**

- **Last Week**

- Concerns over a potential trade war escalation compounded by mixed signals from the White House furthered confusion in the markets and undermined the calendar this week. The IG market only priced \$4.81B this week, 72% below expectations for \$17.2B coming into the week. Not surprisingly, execution metrics suffered with the negative sentiment. Average book sizes and oversubscription levels were down significantly, pricing leverage suffered, and new issue concessions are going parabolic again.
- Activity in HY actually picked up this week with \$6.933B priced through Thursday, making this already the most active week in the last 17!!! And, there are another 2 deals for \$750mm queued for pricing on Friday. Given the tone, execution was treacherous. 4 of the 11 tranches printed this week managed to price at the mid point of talk but the other 7 got roughed up and priced anywhere from 12.5 to 87.5 bp's wide. Another deal (PHI Inc's \$300mm 5nc2) was pulled from the market despite moving talk to 9.75-10% after starting the process at 8.50-9.00%.
- If there is a silver lining on the week, it's that while they came cheap, at least this week's deals generated some performance.
- **IG Fund Flows:** EPFR reported net inflows to IG funds of \$1.255B the week ending 6/27, almost reversing the prior week's \$1.491B outflow. The 4WMA is now +\$268mm and the cumulative inflow to IG funds in 2018 is now \$41.776B for a weekly average of +\$1.606B. The weekly average in 2017 was +\$3.105B.
- **HY Fund Flows:** EPFR reported a net outflow from HY funds of \$1.121B the week ending 6/27<sup>th</sup>, the 7<sup>th</sup> week out of the last 10 that the sector suffered outflows. The 4WMA is now -\$473.91mm and the cumulative outflow from HY funds in 2018 is -\$9.742B for a weekly average of -\$374.71mm. The weekly average in 2017 was -\$84.38mm.
- **Dealer Positions:** The NY Fed reported that dealer positions increased \$632mm (+3%) the week ending 6/20. We pointed out last week that the previous week's most startling number was the increase in IG holdings >10yrs. Well that bucket jumped again

by \$794mm, a gain of 28% (CP and IG <13months were down week over week). So holdings of long corporates has shifted in two weeks from a net short of \$223mm to a net long of \$3.642B, the largest reading since the Fed started breaking out maturity buckets like this in January 2015.

- **IG volume:** Despite anemic numbers this week, this was still a record volume for June with \$111.226B priced. YTD volume of \$700.7B is \$37B behind last year's 1<sup>st</sup> half volume.
- **HY volume:** Pending Friday's deal activity, June volume is now \$14.8B which would be the slowest June since 2013. YTD volume of \$133.6B is \$51.6B behind last year's \$185.2B 1<sup>st</sup> half tally.

- **FWIW**

- WSJ headline on Monday – “Bitter fights over trade within the Trump administration again broke into the open, driving wild swings in the stock market as the White House’s top trade adviser clashed with the Treasury secretary over restrictions on foreign investment.” Sums up the week. I can’t help recalling the mistakes made during the election when someone (forgot who) summed up the Trump phenomenon of “taking what he says literally but not taking him seriously when they should be taking him seriously but not taking what he says literally.” Feels like the market is making the same mistake.
- We've talked at length about how the total capitulation to low yields indefinitely has driven market behavior for too long to remember when it didn't. So with the 10yr still under 3%, spreads tight, and yield curves flat on the one hand, but volatility showing more signs of breaking out on the other, where are we in the process of breaking that psychology? Saw this on bbg Thursday -- "Argentina's debut century bond is celebrating its first anniversary with record-high yields as a slump in the peso threatens to push the economy into recession. The government sold \$2.75 billion of 100-year bonds in June of last year, trumpeting that the arrival of President Mauricio Macri's administration had put the serial defaulter in a new era of financial certainty. The yield on the bonds reached 9.31 percent on Thursday, up 143 basis points since it was sold at a discount. Just another 99 years to go." Recognizing the excess is definitely a step forward....
- Another sign of cracking psychology was HY underperformance relative to IG last week, with the credit curve steepening by 23 bp's last week – literally a week after we highlighted how flat it had inexplicably become.
- With the market clearly shifting into defense mode over the past few weeks, we're already seeing execution strategies adjust to the headwinds as issuers take a more cautious/respectful approach to the market. We've already witnessed an increase in roadshows prior to deal launch. If the market gets even tougher we may see an increase in pre-announcement deal soundings. The biggest pro for the market in that environment is greater execution certainty. The biggest cost is a level playing field. That execution style, to the extent that it restrains pricing and skews allocations toward the larger investors who get the call distorts aftermarket performance. The float on deals will be smaller and for those accounts on the outside face enormous pressure to chase performance on deals they've been under-allocated on. Just something to think about.
- Well a Fed governor finally mentioned the punch bowl. In a Thursday WSJ article, “When you don't take the punch bowl away, it's not that predictable what is going to happen,” Mr. Rosengren said in an interview Wednesday. “You don't know if people are

going to get in a fight. You don't know if somebody is going to get in a car that shouldn't get in a car. You don't know if they'll destroy the property," he said. "What you do know is the conditions for bad outcomes have increased."

<https://www.wsj.com/articles/boston-feds-rosengren-says-its-time-to-take-away-monetary-policy-punch-bowl-1530192388>

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## Key Execution Metrics

Week 26 of 2018	# of Tranches	Volume	Demand		Pricing Leverage		Performance
			Oversubscription	Avg Book Size	Δ from IPT	Avg NIC	Avg Break
Monday	6	\$3,311	1.8x	\$815	-3.2 bp's	+9.8 bp's	-3.2 bp's
Tuesday							
Wednesday							
Thursday	2	\$1,500	1.9x	\$1,600	-15.0 bp's	+10.0 bp's	-2.0 bp's
Friday							
<b>This Week</b>	<b>8</b>	<b>\$4,811</b>	<b>1.9x</b>	<b>\$1,208</b>	<b>-7.9 bp's</b>	<b>+9.9 bp's</b>	<b>-2.7 bp's</b>
<b>Week Prior</b>		<b>\$45,290</b>	<b>2.6x</b>	<b>\$3,020</b>	<b>-13.0 bp's</b>	<b>+7.5 bp's</b>	<b>+0.9 bp's</b>
<b>YTD Weekly Average</b>		<b>\$26,932</b>	<b>2.8x</b>	<b>\$2,217</b>	<b>-15.1 bp's</b>	<b>+5.4 bp's</b>	<b>-1.0 bp's</b>

\* source - R. Seelaus, Informa, Bloomberg

## Execution Dashboard



## Weekly Deal Summary

Date	MDY	S&P	Size	Ticker	Tenor	IPT's	Guidance	Spread	Δ IPT	NIC
6/28	Ba1	BBB-	400	CHTR	5.6	L equiv	L+165#	3mL+165	(15)	10
6/28	Ba1	BBB-	1100	CHTR	5.6	195a	180#	180	(15)	10
6/26	A1		810.895	CM	1.5			3mL+22		
6/26	A2	A	250	CCI	5.1			100		
6/26	A2	A	750	CCI	10.1			140		
6/26		BBB-	600	FLQIII	12.9	262.5a	262.5#	265	3	
6/26	Baa2	BBB	500	PENSKE	5.1	137.5a		137.5	0	19
6/26	Aa1	AA	400	USAACA	2.0	65a	55a	53	(12)	1

## New Issue Report Card

*** Investment Grade ***						
Ticker	Cpn	Maturity	Spd	Bid	Ask	Δ
CCI	4.241	07/15/28	140.0	135	130	-5
CHTR	frn	02/01/24	3mL+165	161	159	-4
CHTR	4.500	02/01/24	180.0	177	174	-3
PENSKE	4.125	08/01/23	137.5	135	132	-3
CCI	3.720	07/15/23	100.0	98	93	-2
USAACA	3.000	07/01/20	53.0	53	50	+0
<b>Best</b>						-5
<b>Worst</b>						+0
<b>Avg</b>						-3

*** Hi Yield ***					
Issue	Price	Bid	Ask	Δ	
WANDMC 9 1/8 07/15/26	100.000	101.500	101.750	+\$1.500	
WANDMC 8 1/8 07/15/23	100.000	101.375	101.625	+\$1.375	
AMWINS 7 3/4 07/01/26	100.000	101.250	102.000	+\$1.250	
TOO 8 1/2 07/15/23	100.000	101.000	101.500	+\$1.000	
TSGICN 7 07/15/26	100.000	100.875	101.125	+\$0.875	
CYH 8 5/8 01/15/24	99.457	100.250	100.750	+\$0.793	
SPBCN 7 07/15/26	100.000	100.750	101.000	+\$0.750	
RIG 5 7/8 01/15/24	99.000	99.750	100.000	+\$0.750	
LGIH 6 7/8 07/15/26	99.239	99.750	100.250	+\$0.511	
CHPE 8 3/4 07/15/23	100.000	100.500	101.000	+\$0.500	
FLXACQ 7 7/8 07/15/26	100.000	99.500	99.875	-\$0.500	
<b>Worst</b>				-\$0.500	
<b>Best</b>				+\$1.500	
<b>Avg</b>				+\$0.800	

## Market Dashboard (a/o 11:00am)

		1 Day Change	1 Week Change
INDU	24,480.92	264.87	(99.97)
S&P 500	2,738.63	22.32	(16.25)
Nasdaq	7,568.51	64.83	(124.31)
VIX	14.95	(1.90)	1.18
Dealer Positions #	25,091		632
Oil	74.15	0.70	5.6
Gold	1251.51	3.26	(19.1)
10yr Tips B/E	2.125	0.01	(0.0)
<b>SOFR</b>	1.930%	0.0	0.1
<b>3mLibor</b>	2.334%	(0.0)	0.0
<b>OIS-Libor Spread</b>	1.940%	0.0	0.0
2yr	2.530%	1.8	(1.3)
3yr	2.621%	2.5	(2.2)
5yr	2.734%	1.9	(3.4)
7yr	2.816%	1.7	(3.8)
10yr	2.846%	0.9	(4.9)
30yr	2.971%	0.5	(6.9)
2>5 Curve	20.0	0.0	(2.1)
2>10 Curve	31.3	(0.9)	(3.6)
5>10 Curve	11.1	(0.9)	(1.5)
5>30 Curve	23.6	(1.4)	(3.5)
10>30 Curve	12.3	(0.4)	(2.0)
2yr Swap	26.0	(0.2)	(0.6)
3yr Swap	23.4	(0.1)	(0.0)
5yr Swap	15.3	0.4	0.5
7yr Swap	7.7	(0.1)	(0.0)
10yr Swap	7.3	0.1	0.6
US IG OAS*	124	0.0	2.0
US HY OAS**	363	7.0	25.0

\*- 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
21,197.08	26,616.71	24,627.96	24,313.23
2,405.70	2,872.87	2,716.97	2,667.88
6,081.96	7,806.60	7,426.63	7,076.23
8.56	50.30	14.29	14.02
15,054	32,169	23,702	23,424
46.5	74.4	68.4	60.8
1204.90	1366.15	1295.97	1303.90
1.71	2.21	2.15	2.03
1.65%	1.93%	1.77%	
1.30%	2.37%	2.34%	1.86%
1.15%	1.94%	1.89%	1.57%
1.26%	2.59%	2.51%	2.08%
1.37%	2.76%	2.65%	2.22%
1.63%	2.94%	2.80%	2.43%
1.87%	3.07%	2.91%	2.58%
2.04%	3.11%	2.95%	2.67%
2.66%	3.25%	3.10%	2.97%
18.7	55.5	28.2	34.8
31.1	99.7	43.4	58.0
11.1	46.7	15.1	23.1
23.4	108.4	30.2	53.2
10.9	62.4	14.9	29.9
15.9	34.4	25.5	24.3
14.4	29.0	21.0	21.1
1.5	16.5	12.4	9.6
-18.6	9.3	4.7	1.5
-7.8	8.4	4.7	1.3
85	124	113	102
311	390	340	342

\* 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	1900	1725	101100	9400	4600		129,310
Feb	2050	7250	8500	10300	19450	31550	6075	9890	2000	97,065
Mar	650	6888	5509	61750	2990	30170	6620	8350	750	123,676
Apr	5750	5000	20300	9150	5098	59393	7875	2250	3800	118,615
May	1600	13289	4926	24000	4650	43240	9405	16525	3200	120,835
Jun		6500	18300	24900	9250	32981	8540	9755	1000	111,226
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
<b>Total</b>	<b>10,550</b>	<b>43,926</b>	<b>62,619</b>	<b>132,000</b>	<b>43,163</b>	<b>298,433</b>	<b>47,915</b>	<b>51,370</b>	<b>10,750</b>	<b>700,727</b>

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%	78.2%	7.3%	3.6%		100%
Feb	2.1%	7.5%	8.8%	10.6%	20.0%	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%	0.6%	100%
Apr	4.8%	4.2%	17.1%	7.7%	4.3%	50.1%	6.6%	1.9%	3.2%	100%
May	1.3%	11.0%	4.1%	19.9%	3.8%	35.8%	7.8%	13.7%	2.6%	100%
Jun		5.8%	16.5%	22.4%	8.3%	29.7%	7.7%	8.8%	0.9%	100%
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
<b>Total</b>	<b>2%</b>	<b>6%</b>	<b>9%</b>	<b>19%</b>	<b>6%</b>	<b>43%</b>	<b>7%</b>	<b>7%</b>	<b>2%</b>	<b>100%</b>

\* Source - R. Seelaus, Informa, Bloomberg

**** High Yield ****										
Monthly \$	Basic Materials	Communic	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology	2018
Jan	2,850	5,200	5,305	3,850	10,350	1,750	150	3,575	2,300	35,330
Feb	2,200	1,500	1,150	1,700	4,900	2,025	800	775		15,050
Mar	2,115	4,010	3,090	6,775	3,300	4,545	1,000	4,030		28,865
Apr	2,825	2,200	2,893	1,735	4,795	5,822	1,480	1,900		23,650
May	1,610	105	2,250	4,025	3,250	1,950		1,650	900	15,740
Jun	975		3,550	1,783	2,000	3,520	350	2,150	500	14,828
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
<b>Total</b>	<b>12,575</b>	<b>13,015</b>	<b>18,238</b>	<b>19,868</b>	<b>28,595</b>	<b>19,612</b>	<b>3,780</b>	<b>14,080</b>	<b>3,700</b>	<b>133,462</b>

Monthly %	Basic Materials	Communic	Consumer, Cyclical	Consumer, Non-cyclical	Energy	Financial	Utilities	Industrial	Technology	2018
Jan	8%	15%	15%	11%	29%	5%	0%	10%	7%	100%
Feb	15%	10%	8%	11%	33%	13%	5%	5%		100%
Mar	7%	14%	11%	23%	11%	16%	3%	14%		100%
Apr	12%	9%	12%	7%	20%	25%	6%	8%		100%
May	10%	1%	14%	26%	21%	12%		10%	6%	100%
Jun	7%		24%	12%	13%	24%	2%	14%	3%	100%
Jul										
Aug										
Sep										
Oct										
Nov										
Dec										
<b>Total</b>	<b>9%</b>	<b>10%</b>	<b>14%</b>	<b>15%</b>	<b>21%</b>	<b>15%</b>	<b>3%</b>	<b>11%</b>	<b>3%</b>	<b>100%</b>

\* Source - R. Seelaus, Informa, Bloomberg

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