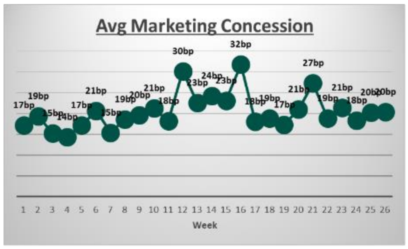
Since there is absolutely no activity in the new issue market this week, and since I got the back half of the week off, in lieu of a weekly recap, here is a briefer recap of the 1st half than the ones you're receiving from everyone else. And for those like me who respond to pictures, bright colors, and loud noises, we'll keep it light and quick.

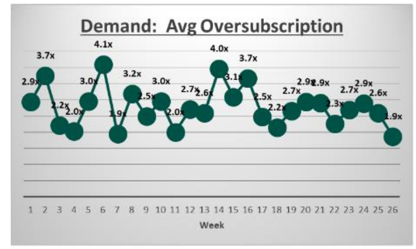
The market is in transition. The Fed is "normalizing" on two fronts right now. On the rates side, they are arguably on pace. On the balance sheet reduction (QT) side, they've barely begun. And a credit market that has been driven by Central Bank policies for nearly a decade coming out of the financial crisis is finally transitioning from a 100% policy driven pricing model to a more market driven pricing model. The backdrop is shifting. Rates are up (10yr 2.40-3.10% range in 2018 from 2.05-2.45% in 2017) and spreads are wider (LUACOAS has moved to 124 after bottoming at 85 in early February). That said investor psychology is shifting but not broken. The reach for yield continues. The yield curve has flattened (2s>10s now 31.5 bp's after starting 2017 123 bp's), and the credit curve remains flat (Bbg Barc HY index – IG index only recently moved back to +243 from +216 two weeks ago – the range in 2017 was +232 - +288).

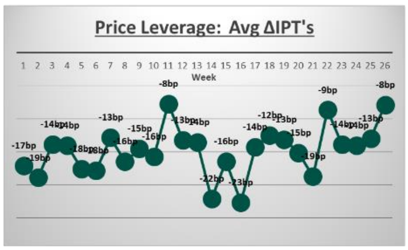
Execution Dashboard: We're adding "Avg Book Size" to the dashboard going forward – some weeks it's more useful than Avg Oversubscription.

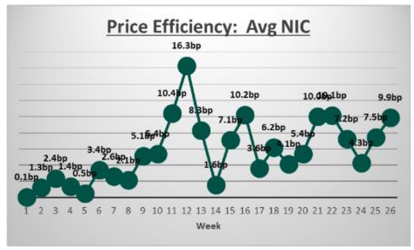
What do we see in these pictures?

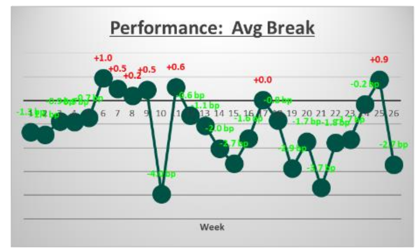
Given the backdrop it shouldn't be surprising that clearing deals has been a struggle at times in the 1st half of the year despite abundant liquidity. The uneven performance of the calendar, with protracted windows where deals failed to perform, has started shifting leverage to buyers. Oversubscription levels have trended lower, pricing leverage has declined, and new issue concessions have trended higher through 2018 as investors seek to extract greater protection in a more volatile market. The cost of pulling cash from the sidelines has gone up.











Supply composition: Just in case you need a conversation starter at the fireworks display tomorrow, here are some goodies. Overall supply down by $41.935B (5.7%) from the 1st half of 2017. A huge jump in acquisition related issuance from Consumer, Non-Cyclicals (+$56.3B +74.3%) was not nearly enough to counter a cash repatriation driven collapse in supply from Technology companies (-$69.0B -86.5%).

By Sector:

Sector	2018	2017	Δ Issuance	% Δ
Technology	$10,750	$79,750	-$69,000	-86.5%
Financial	$298,973	$329,522	-$30,549	-9.3%
Communications	$41,426	$51,150	-$9,724	-19.0%
Basic Materials	$10,550	$14,950	-$4,400	-29.4%
Utilities	$47,915	$46,204	$1,711	3.7%
Energy	$42,563	$40,750	$1,813	4.4%
Industrial	$50,870	$45,050	$5,820	12.9%
Consumer, Cyclical	$62,619	$56,483	$6,136	10.9%
Consumer, Non-cyclical	$132,000	$75,742	$56,258	74.3%
Total	**$697,666**	**$739,601**	**-$41,935**	**-5.7%**

Top 10 issuers by sector (top 10 overall highlighted in yellow):

Consumer Cyclical Top 10:	Size:
WALMART INC	$16,000
DAIMLER FINANCE NA LLC	$7,000
TOYOTA MOTOR CREDIT CORP	$6,100
GENERAL MOTORS FINL CO	$5,150
BMW US CAPITAL LLC	$4,000
DOLLAR TREE INC	$4,000
FORD MOTOR CREDIT CO LLC	$2,500
HYUNDAI CAPITAL AMERICA	$2,100
MCDONALD'S CORP	$2,000
STARBUCKS CORP	$1,600
DELTA AIR LINES INC	$1,600
AMERICAN HONDA FINANCE	$1,600

Consumer Non-Cyclical Top 10:	Size:
CVS HEALTH CORP	$40,000
BAYER US FINANCE II LLC	$15,000
ANHEUSER-BUSCH INBEV WOR	$10,000
MAPLE ESCROW SUB	$8,000
GENERAL MILLS INC	$6,050
GLAXOSMITHKLINE CAPITAL	$6,000
CAMPBELL SOUP CO	$5,300
CELGENE CORP	$4,500
UNITEDHEALTH GROUP INC	$4,000
KRAFT HEINZ FOODS CO	$3,000

Financials Top 10:	Size:
BANK OF AMERICA CORP	$19,200
GOLDMAN SACHS GROUP INC	$13,250
HSBC HOLDINGS PLC	$13,000
MORGAN STANLEY	$11,250
JPMORGAN CHASE & CO	$11,000
CITIGROUP INC	$8,850
BARCLAYS BANK PLC	$7,500
JP MORGAN CHASE BANK NA	$7,500
CITIBANK NA	$6,050
WELLS FARGO BANK NA	$6,000

Utility Top 10:	Size:
SEMPRA ENERGY	$5,000
BERKSHIRE HATHAWAY ENERG	$2,200
PERUSAHAAN LISTRIK NEGAR	$2,000
SOUTHERN CAL EDISON	$1,900
STATE GRID OVERSEAS INV	$1,750
ABU DHABI NATIONAL ENERG	$1,750
CONSOLIDATED EDISON CO O	$1,640
SABAL TRAIL TRANS	$1,500
FLORIDA POWER & LIGHT CO	$1,500
NEXTERA ENERGY CAPITAL	$1,200
ENEL CHILE SA	$1,000
AUSGRID FINANCE PTY LTD	$1,000
DUKE ENERGY CAROLINAS	$1,000
DUKE ENERGY FLORIDA LLC	$1,000
ISRAEL ELECTRIC CORP LTD	$1,000

Basic Materials Top 10 :	Size:
SYNGENTA FINANCE NV	$4,750
CHEVRON PHILLIPS CHEM CO	$1,050
PPG INDUSTRIES INC	$1,000
YARA INTERNATIONAL ASA	$1,000
NUCOR CORP	$1,000
ANGLO AMERICAN CAPITAL	$650
ISRAEL CHEMICALS LIMITED	$600
PHOSAGRO(PHOS BOND FUND)	$500

Communications Top 10:	Size:
VODAFONE GROUP PLC	$11,500
TENCENT HOLDINGS LTD	$5,000
CHARTER COMM OPT LLC/CAP	$4,000
COMCAST CORP	$4,000
SPRINT SPECTRUM / SPEC I	$3,938
TELEFONICA EMISIONES SAU	$2,000
VERIZON COMMUNICATIONS	$1,789
DEUTSCHE TELEKOM INT FIN	$1,750
BAIDU INC	$1,500
AT&T INC	$1,500

Energy Top 10:	Size:
MPLX LP	$5,500
PETROLEOS MEXICANOS	$4,000
KAZMUNAYGAS NATIONAL CO	$3,250
ENERGY TRANSFER PARTNERS	$3,000
ENTERPRISE PRODUCTS OPER	$2,700
TRANSCANADA PIPELINES	$2,500
EQT MIDSTREAM PARTNERS L	$2,500
KINDER MORGAN INC	$2,000
CONCHO RESOURCES INC	$1,600
PHILLIPS 66	$1,500

Industrials Top 10:	Size:
GENERAL DYNAMICS CORP	$7,500
UNION PACIFIC CORP	$6,000
JOHN DEERE CAPITAL CORP	$4,600
CATERPILLAR FINL SERVICE	$2,900
CSX CORP	$2,000
L3 TECHNOLOGIES INC	$1,800
PENSKE TRUCK LEASING/PTL	$1,650
FEDEX CORP	$1,500
CRH AMERICA FINANCE INC	$1,500
ABB FINANCE USA INC	$1,500

Technology Top 10:	Size:
SALESFORCE.COM INC	$2,500
MICROCHIP TECHNOLOGY INC	$2,000
IBM CREDIT CORP	$2,000
TEXAS INSTRUMENTS INC	$1,500
FIDELITY NATIONAL INFORM	$1,000
MARVELL TECHNOLOGY GROUP	$1,000
ANALOG DEVICES INC	$750

- ***FWIW***
  - We made the argument a few weeks ago that if the curve continues to move toward inversion, the Fed could face pressure to accelerate the pace of balance sheet reduction - which would be a surprise and carry with it major risks to risk markets. Simply put, if the economy continues to build momentum and the Fed is as committed to preventing the yield curve from inverting as they've said, that removing liquidity more quickly may be the only way to untether the back end of the curve.
  - Interesting piece from Nick Timaraos in Monday's WSJ posited that the Fed may sooner be forced to debate the magnitude of balance sheet reduction instead. "The Fed has to resolve these issues sooner than expected because shrinking the portfolio is draining reserves from the system. This in turn might be putting mild and unexpected upward pressure on short-term interest rates, though officials don’t think that’s the case right now."
  - An equally interesting piece from Alexandra Harris on Bloomberg today with a similar message, highlighting the complexity for the task facing the Fed in the front end given increasing t-bill supply. https://www.bloomberg.com/news/articles/2018-07-03/forget-the-yield-curve-fed-funds-is-where-debt-market-action-is
  - So, pressure is building in the front end and the curve continues to flatten. If the Fed wants to avoid an inversion, they will have to change something sooner than later. Risk either way.
  - And lastly, as the sand continues to shift beneath our feet, it will be more important than ever for issuers to closely monitor deal execution metrics when selecting issuance windows and execution strategies.
  - Have a happy and safe 4th!!!🇺🇸

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