

# Barclays Tuesday Credit Call

## Thinking Technical

7 March 2017

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PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 13.

# Agenda

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- **Credit Strategy**

- Brad Rogoff, Head of Credit Strategy

- **Credit Trading**

- Collin Currao, US High Grade Financials Trading
- Brian Kahn, US High Grade Trading
- Peter Keenan, US High Yield Trading

## Conference Call Information

**Tuesday, 7:45am (EDT)**

**Conference ID: 30486797**

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**Replay: [Live.barcap.com](https://live.barcap.com)**

**➔ Credit**

**➔ Conference Calls**

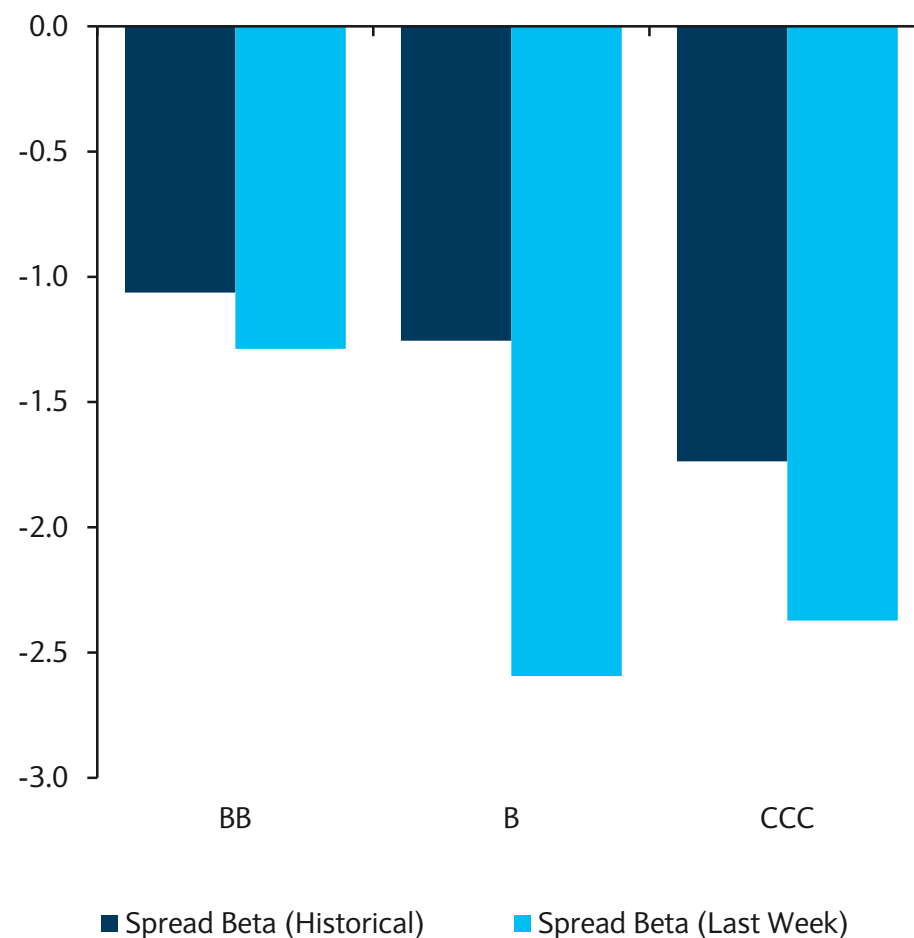
# Last week, investors digested hawkish Fed speak well and brushed off the lack of detail in President Trump's speech

## Markets Last Week

	3-Mar	Δ Week	Δ YTD
US Inv Grade	112 bp	-6 bp	-11 bp
US High Yield	\$101.79	\$0.17	\$1.99
CDX.IG	60 bp	-3 bp	-8 bp
Itraxx Main	69 bp	-6 bp	-3 bp
CDX.HY	\$108.08	\$0.46	\$1.88
Itraxx Crossover	274 bp	-22 bp	-14 bp
10yr Treasury	2.48%	17 bp	3 bp
5yr Treasury	2.01%	20 bp	8 bp
S&P 500	2383	0.7%	6.4%
Euro Stoxx 600	375	1.4%	3.8%
Dollar Exchange Rate Index	101.54	0.4%	-0.7%
WTI Crude Oil	53.33	-1.2%	-0.7%
Gold Spot	1235	-1.8%	7.6%

## Historical Spread Beta vs. Last Week

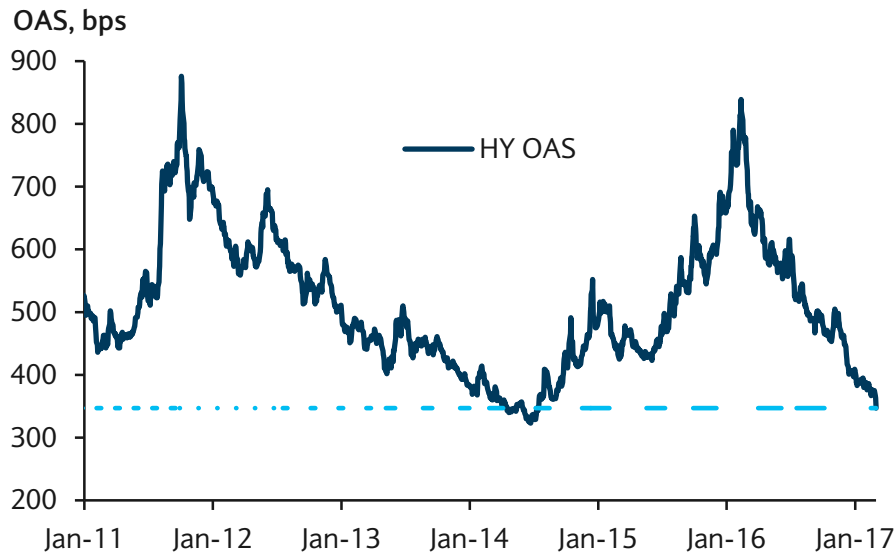
Beta of US High Yield OAS to 5y Nominal Treasury Changes



Source: Bloomberg Barclays Indices, Barclays Research

# This environment of lower defaults, surging stocks, and few near-term negative catalysts has been a perfect storm for tighter spreads

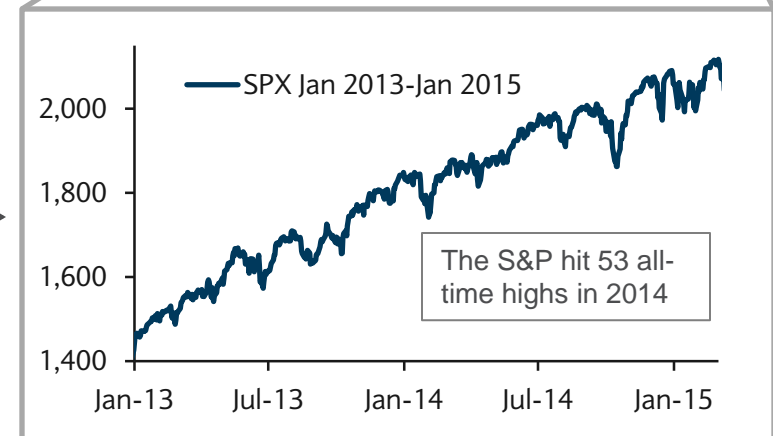
## Spreads nearing post-recession lows



### Last time credit rallied to these levels (April 17, 2014)...

- 2Q14 GDP = 2.4%, Core PCE = 1.74%, UE = 6.1%
- WTI = \$104
- VIX = 13.36 (10.32 record low on 7/3/14)
- SPX return (LTM) = 22.71%
- HY return (LTM) = 7.23%
- Default rate = 2.4%
- Fwd12 month HY return = 2.76%
- Fwd 12 month HY OAS = +104

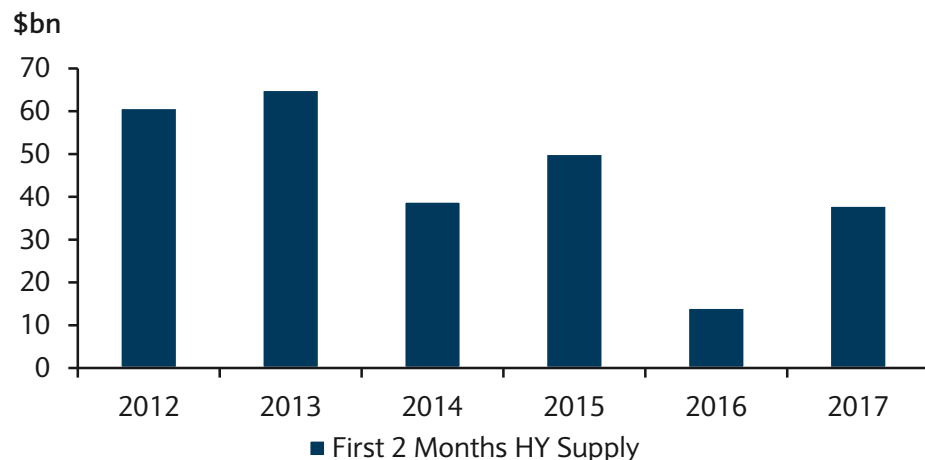
## Stocks pushing through records



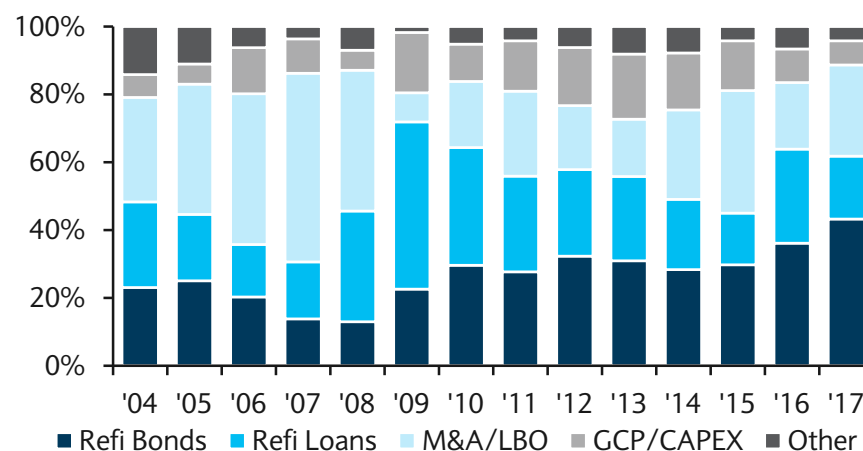
Source: Bloomberg Barclays Indices, Barclays Research

# Supply/demand technicals have been in the driver's seat, as modest HY new issuance has been easily digested

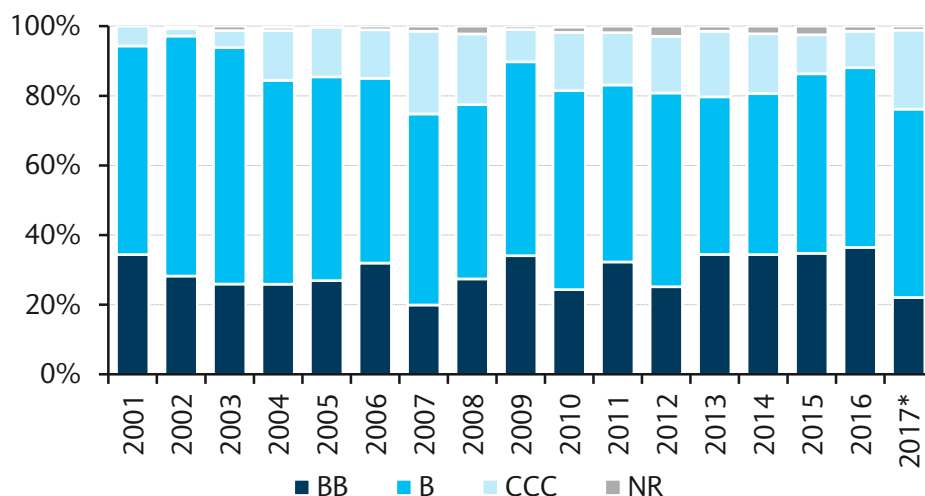
## YTD High Yield supply is relatively low



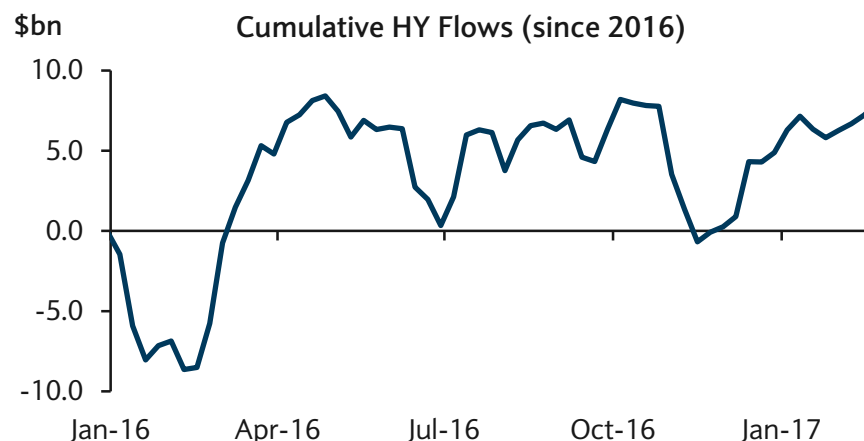
## High Yield Supply Use of Proceeds



## High Yield Supply by Ratings



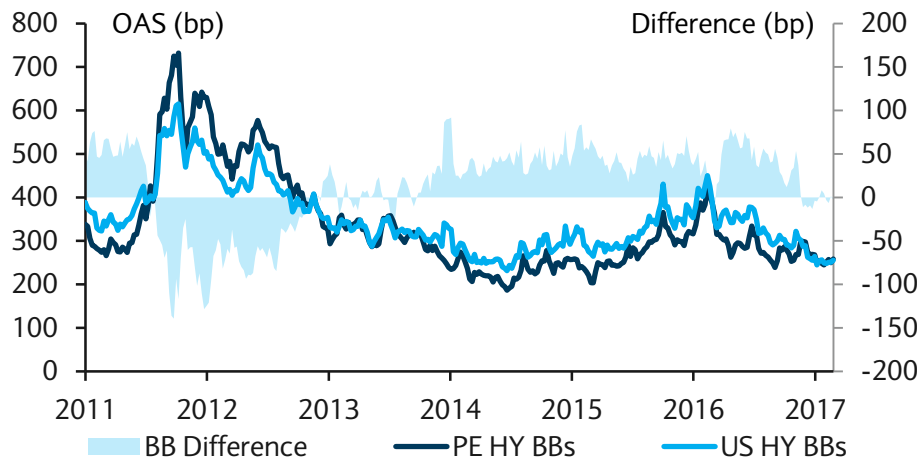
## Cumulative High Yield Flows



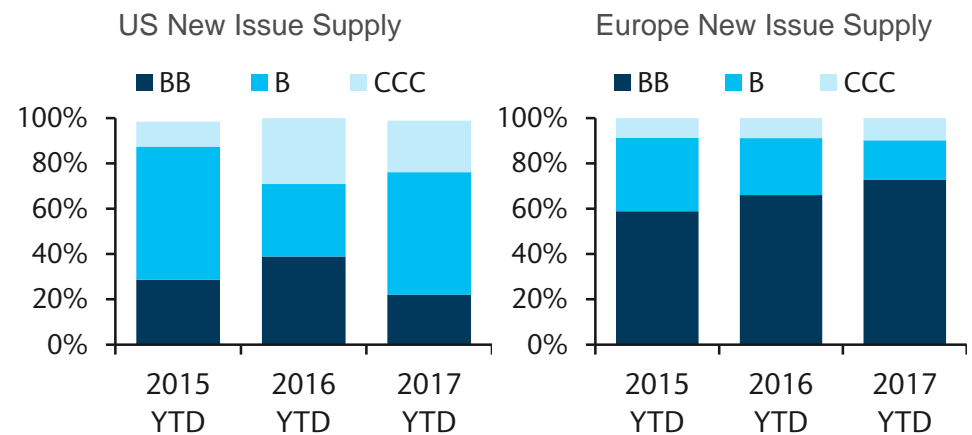
\* YTD Source: Bloomberg Barclays Indices, Barclays Research

# Supply can also explain some of the dynamics between the European high yield market and the US high yield market

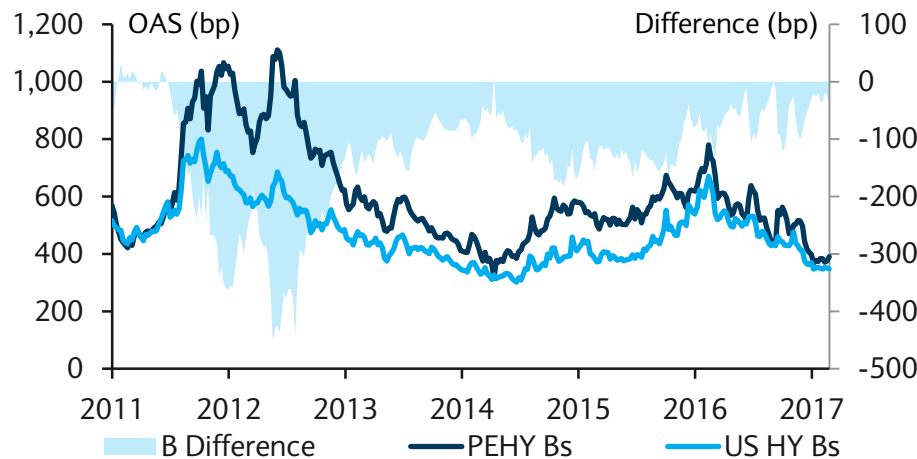
## US BBs have outperformed Euro BBs



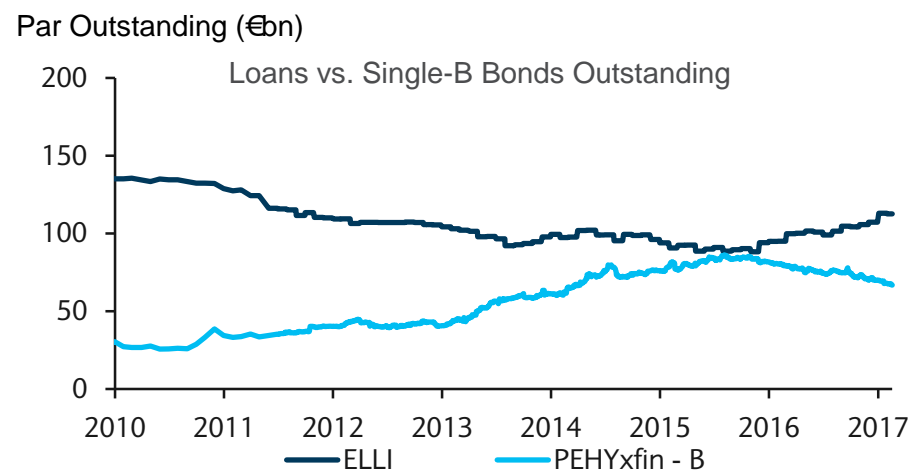
## YTD Supply by Ratings: US vs. Europe



## Euro Bs have outperformed US Bs



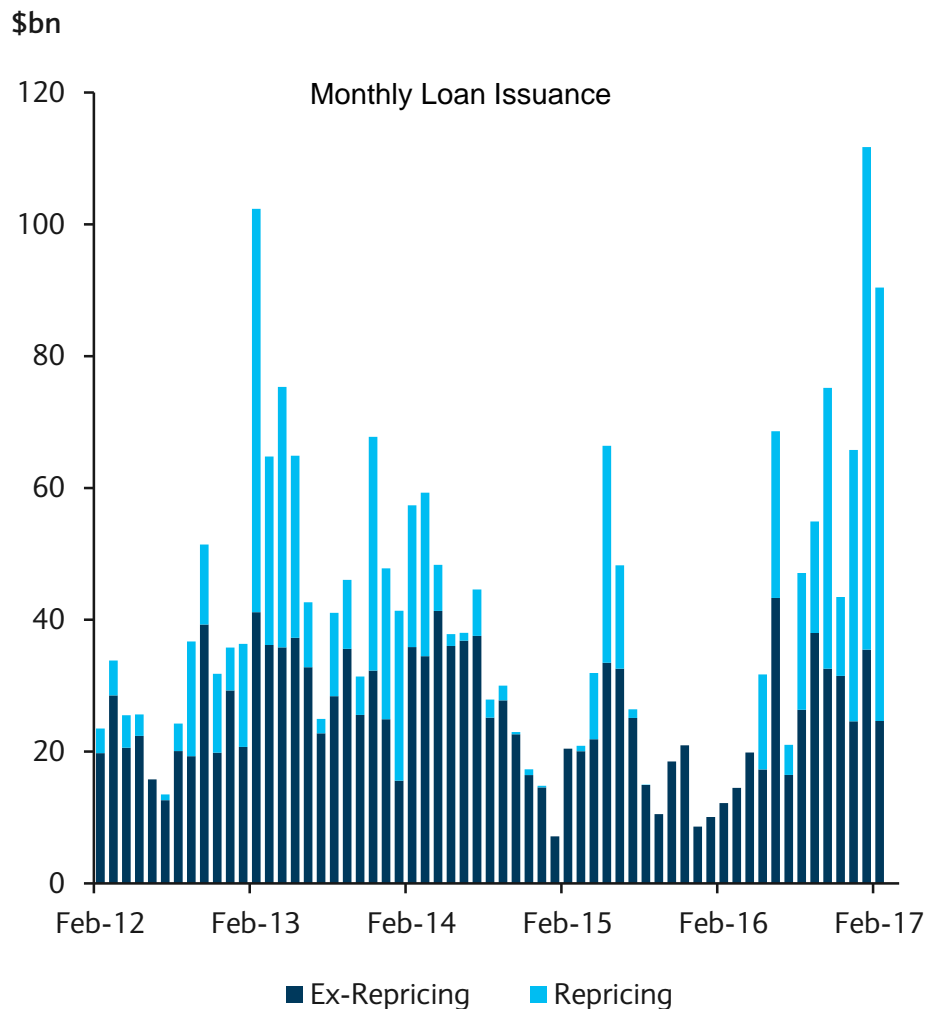
## Much of Euro Bs have shifted to loans



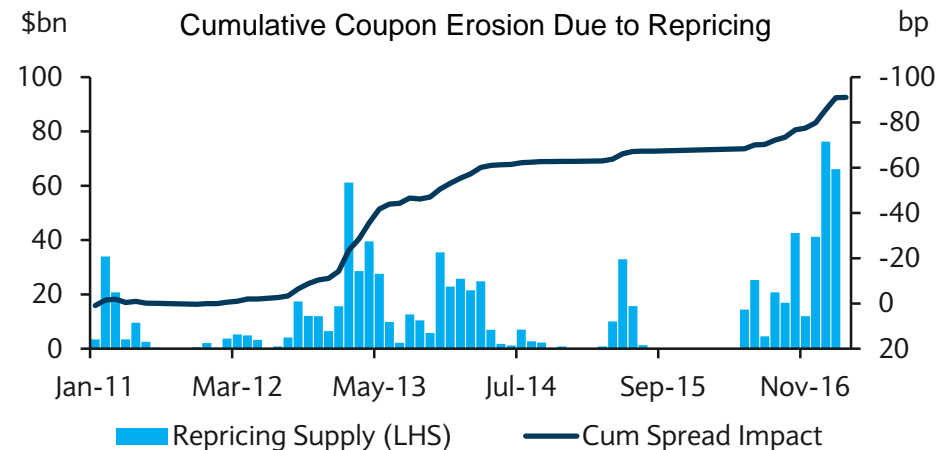
Source: Bloomberg Barclays Indices, Barclays Research. European Credit Strategy [New Year, New Issuance, Robust Performance](#) 3 March 2017.

# Within the loan market, the new issue market has been extraordinarily active but has been dominated by repricings

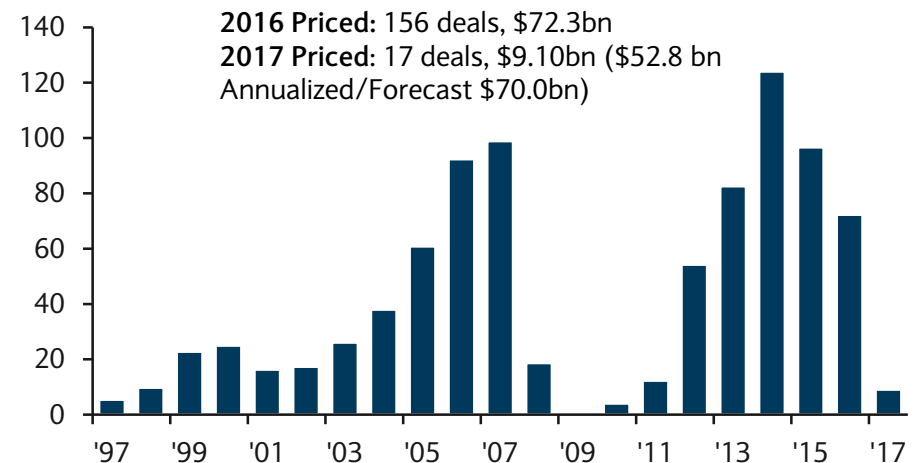
## Loan supply has been led by repricing



## Heavy repricing volumes can be painful



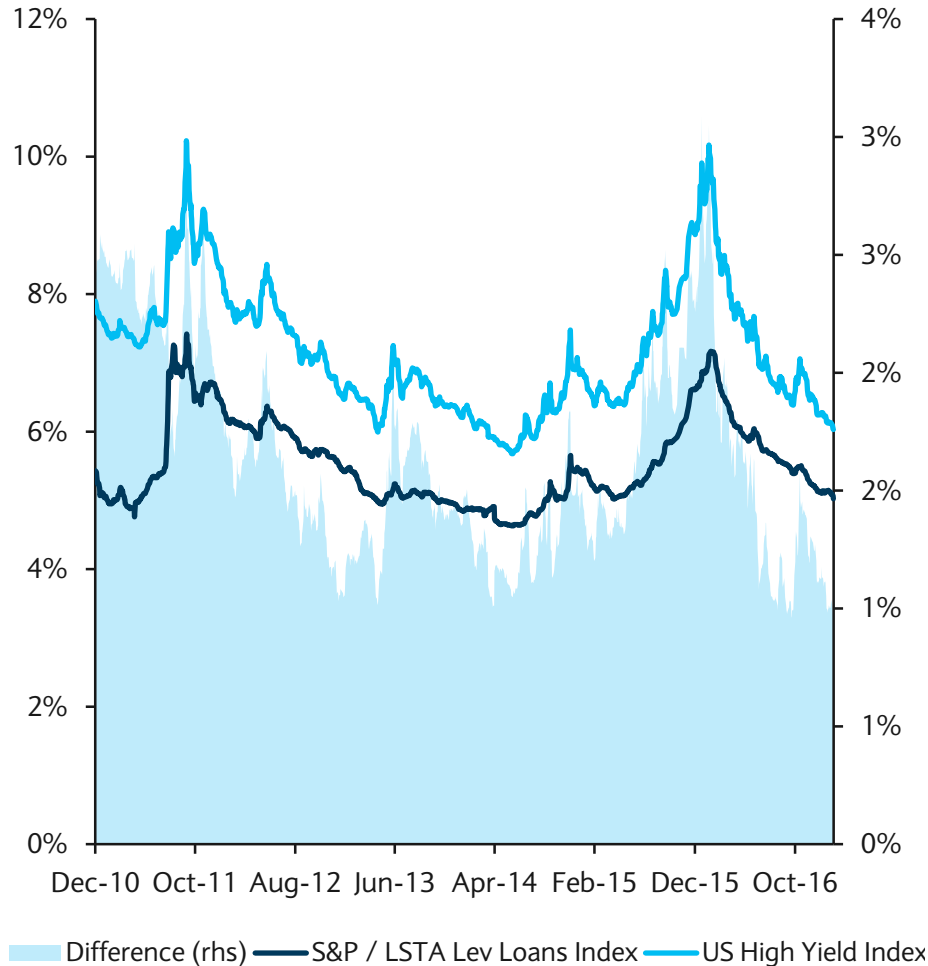
## CLO Issuance



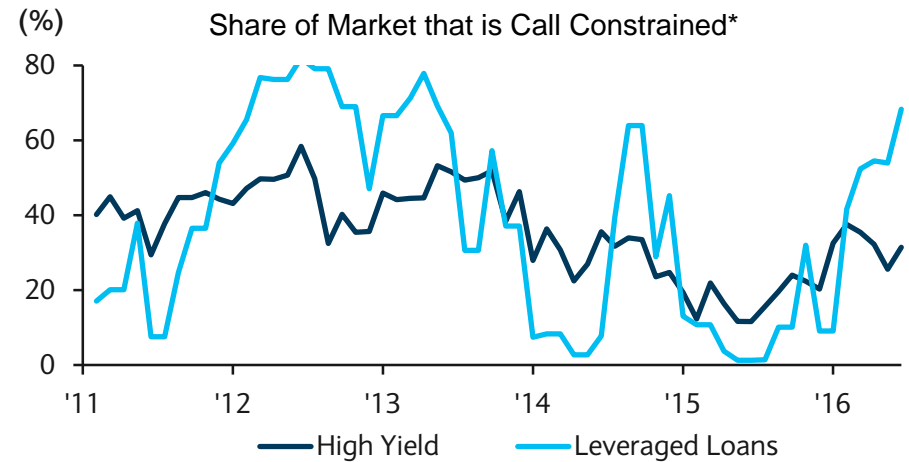
Source: Barclays Research. US Credit Strategy [Repricing Tsunami](#) 3 March 2017.

# Relative value for loans has improved vs. HY, but upside is more limited even when both are call constrained

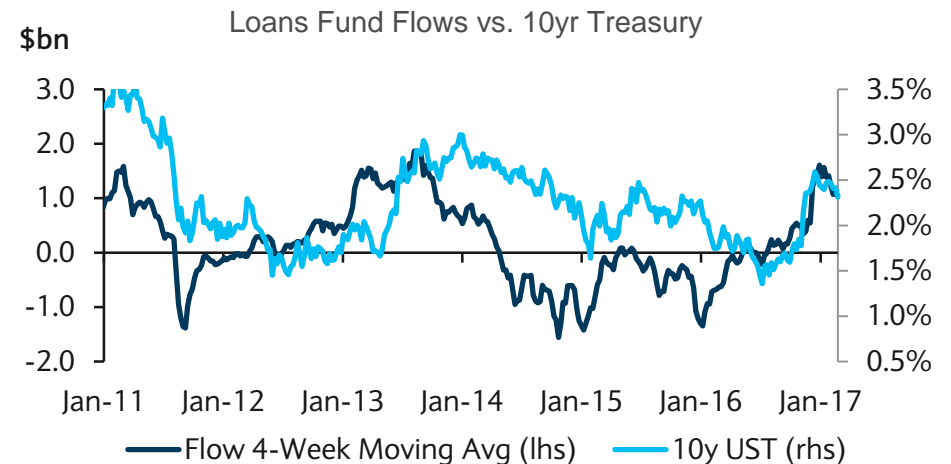
## HY vs. Loan Yield Differential



## Loans are more negatively convex...



## ...but are less affected by rising rates



Note: \* Call-Constrained share shown for HY and share of the market above par shown for loans. Source: S&P LCD, Bloomberg Barclays Indices, Barclays Research



# In both high yield and loans, the primary market has been received very well, leading to strong performance for new issues

## February HY New Issue Performance

Announced*	Issuer	Issue Price	Bid Price 1 Week Later	1 Week Price Move
24-Feb	Ardagh Holdings USA Inc	100.0	101.38	1.38
23-Feb	CDW LLC	100.0	101.75	1.75
15-Feb	NGL Partners	100.0	99.63	-0.38
15-Feb	AECOM	100.0	100.63	0.63
10-Feb	Cliffs Natural Resources	100.0	98.50	-1.50
9-Feb	Stoneway Capital Corp	100.0	100.13	0.13
9-Feb	Athabasca Oil	95.5	95.00	-0.50
9-Feb	Block Communications	100.0	104.50	4.50
9-Feb	Halcon Resources Corp	100.0	99.25	-0.75
9-Feb	Hill-Rom Holdings Inc	100.0	100.00	0.00
8-Feb	Gateway Casinos	100.0	101.75	1.75
8-Feb	Summit Midstream	100.0	101.75	1.75
7-Feb	Parsley Energy	100.0	100.87	0.87
7-Feb	Suburban Propane Partners	100.0	100.50	0.50
6-Feb	Silgan	100.0	100.13	0.13
6-Feb	IHS Markit Ltd	100.0	101.50	1.50
6-Feb	Post Holdings	100.0	101.75	1.75
6-Feb	Post Holdings	100.0	101.13	1.13
6-Feb	AmeriGas Partners LP	100.0	100.50	0.50
1-Feb	Ferroglobe PLC	100.0	104.88	4.88
1-Feb	Peabody Energy Corp	100.0	101.75	1.75
1-Feb	Peabody Energy Corp	100.0	101.88	1.88
1-Feb	Constellium	100.0	98.81	-1.19
<b>Total</b>		<b>99.80</b>	<b>100.78</b>	<b>0.98</b>

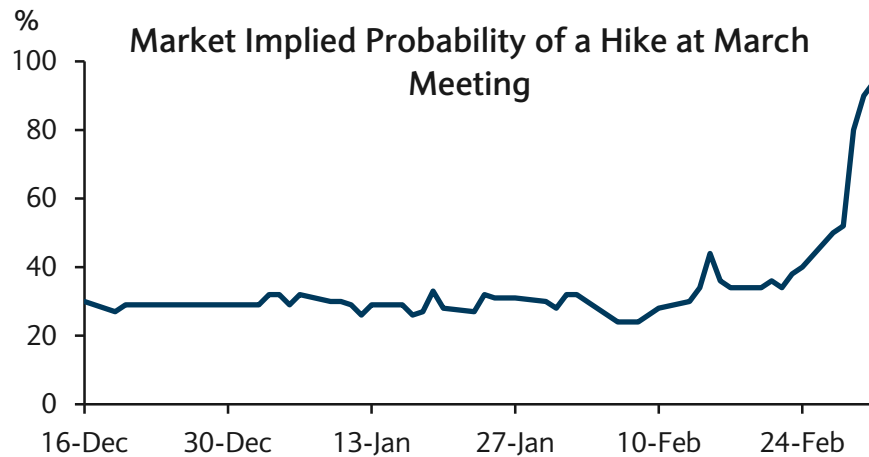
Note: \* does not include add-ons. Source: Barclays Research

## February Loan New Issue Performance

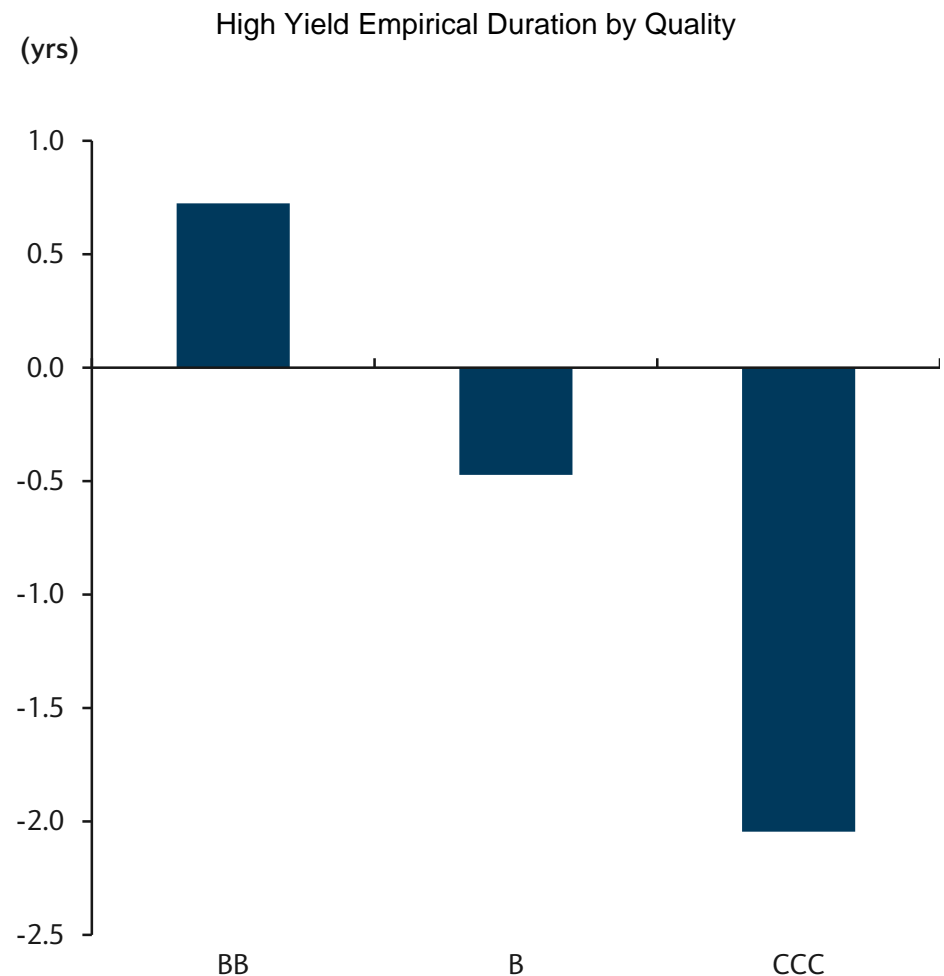
Credit Date	Issuer	Issue Price	Bid Price 1 Week Later	1 Week Price Move
17-Feb	Level 3 Communications	99.75	100.38	0.63
15-Feb	Mediacom Broadband	99.75	99.75	0.00
15-Feb	Royal Adhesives & Sealants LLC	100	100.38	0.38
14-Feb	Minerals Technologies Inc	99.75	99.38	-0.38
14-Feb	NBTY Inc	100	101.25	1.25
14-Feb	Scientific Games Corp	100	101.13	1.13
13-Feb	Engility Corporation	99.5	100.50	1.00
13-Feb	Engility Corporation	99.5	100.75	1.25
13-Feb	Twin River Management Group Inc	99	100.50	1.50
10-Feb	Berry Plastics Corp	100	100.13	0.13
9-Feb	Clarke American	99	99.50	0.50
9-Feb	Communications Sales & Leasing	100	99.88	-0.13
8-Feb	Berry Plastics Corp	100	99.63	-0.38
8-Feb	Townsquare Media Inc	100	100.13	0.13
8-Feb	Windstream Corporation	99.5	100.00	0.50
7-Feb	Ancestry.com	100	100.25	0.25
7-Feb	Douglas Dynamics	100	99.38	-0.63
7-Feb	PODS Enterprises	100	100.50	0.50
7-Feb	Reynolds Group Holdings Ltd	100	99.75	-0.25
3-Feb	BJ's Wholesale Club Inc	99	100.00	1.00
3-Feb	Navistar International Corp	99.75	99.38	-0.38
3-Feb	Pinnacle Foods Finance LLC	99.875	100.00	0.13
2-Feb	UPC Distribution	99.75	100.69	0.94
1-Feb	Accuvant Inc	99.5	101.50	2.00
1-Feb	Accuvant Inc	99.75	100.25	0.50
1-Feb	Ascensus Inc	100	99.00	-1.00
1-Feb	Booz Allen Hamilton	100	100.25	0.25
1-Feb	Infor Enterprise Applications Ltd	99.75	99.88	0.13
1-Feb	Onvoy	99.5	99.00	-0.50
1-Feb	SunGard Public Admin & Public Safety	99.5	98.75	-0.75
1-Feb	TKC Holdings	99.5	100.25	0.75
<b>Total</b>		<b>99.73</b>	<b>100.07</b>	<b>0.34</b>

# Although the market does not seem concerned about a rate hike, a turn in sentiment in rates could derail technicals

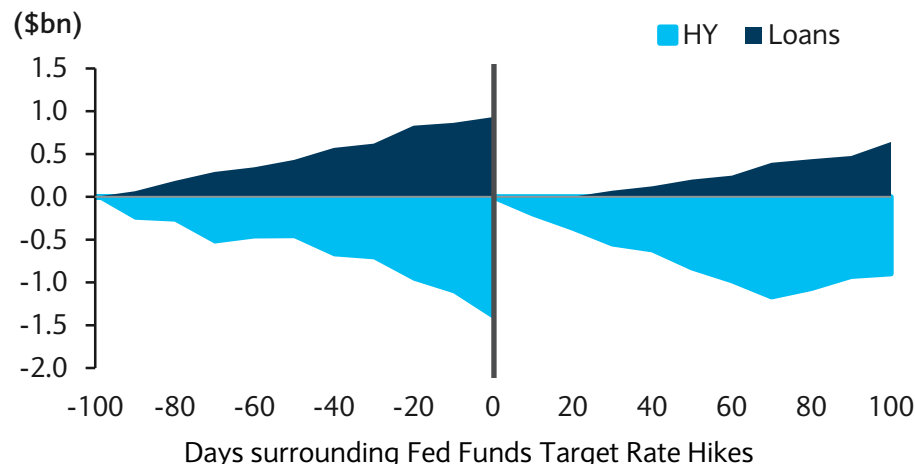
## Market implied prob of hike



## BBs are more vulnerable



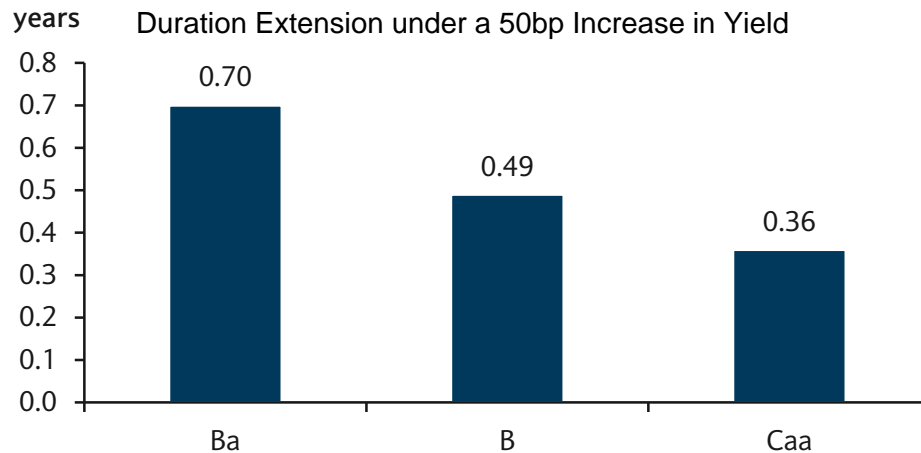
## Average Cum. Flows around Rate Hikes



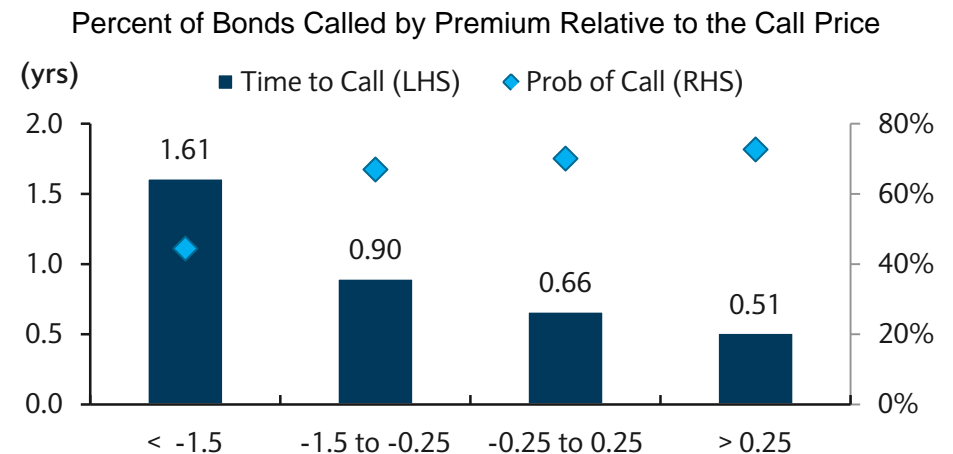
Source: Barclays Research. US Credit Strategy [Flowing through a Fed Hike](#) 16 December 2016.

# A rate hike could increase extension risk, but yield to call bonds can still produce strong returns when they are not immediately called

## Extension risk is a concern



## Probability of a bond being called



## We recommend currently callable bonds that provide extra yield pick up

Ticker	Coupon	Sector	Price	Current Call Price	Current Call Date	Duration	Yield to Notice(%)	Yield to Notice + 6mo (%)	Pickup
ALTICE	9.875s of 2020	Cable Satellite	105.88	104.94	12/15/2016	0.09	-2.42	7.79	10.21
AMC	5.875s of 2022	Leisure	104.88	104.41	2/15/2017	0.09	-0.36	4.83	5.19
REYNOL	6.875s of 2021	Packaging	102.75	102.29	2/15/2017	0.09	0.74	5.92	5.18
LAMR	5.875s of 2022	Media Entertainment	103.38	102.94	2/1/2017	0.09	0.05	4.95	4.91
LVL	6.125s of 2021	Wirelines	103.50	103.06	11/15/2016	0.09	0.28	5.18	4.90
TPC	7.625s of 2018	Industrial Other	100.38	100.00	11/1/2016	0.09	2.55	6.94	4.39
PIZA	10.5s of 2020	Restaurants	103.00	102.63	1/15/2017	0.10	5.26	9.57	4.31
BRP	6.5s of 2020	Home Construction	103.63	103.25	12/15/2016	0.09	1.43	5.64	4.22
STACAS	7.5s of 2021	Gaming	104.13	103.75	3/1/2017	0.09	2.40	6.59	4.19
JBSSBZ	8.25s of 2020	Food And Beverage	102.37	102.06	2/1/2017	0.09	3.96	7.54	3.58
PBFENE	8.25s of 2020	Refining	102.37	102.06	2/15/2017	0.09	3.97	7.54	3.57
SHEARE	9s of 2019	Food And Beverage	104.75	104.50	11/1/2016	0.58	5.25	8.16	2.91
ROCK	6.25s of 2021	Building Materials	103.38	103.13	2/1/2017	0.58	2.80	5.63	2.83
CHDN	5.375s of 2021	Gaming	104.25	104.03	12/15/2016	0.86	2.33	4.79	2.46
MU	5.875s of 2022	Technology	104.63	104.41	2/15/2017	0.94	2.81	5.26	2.44
NTI	7.125s of 2020	Refining	103.75	103.56	11/15/2016	0.73	4.37	6.55	2.18
NSM	7.875s of 2020	Financial Other	104.13	103.94	10/1/2016	0.56	5.09	7.24	2.15
ALLE	5.75s of 2021	Building Materials	104.50	104.31	10/1/2016	0.83	3.04	5.18	2.14
NCR	4.625s of 2021	Technology	102.50	102.31	2/15/2017	0.83	2.07	4.20	2.13
REYNOL	5.75s of 2020	Packaging	103.00	102.87	10/15/2016	0.78	3.88	5.36	1.49
CLEAVB	8.75s of 2019	Industrial Other	104.38	104.38	12/15/2016	1.03	8.22	8.38	0.16

Source: Barclays Research. US Credit Strategy [When the Option Presents Itself](#) 3 March 2017

# Summary

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- Risk markets rallied despite the lack of detail in the President's address and handled a hawkish Fed well
- The current environment has been a major tailwind for high yield, and supply and demand technicals have driven the rally in high beta
- The effects of supply can also help explain some of the performance discrepancies between different rating cohorts in Europe and in the US
- The primary loan market has been extremely active, led by repricings, and while relative value vs. HY has improved, upside is more limited due to call constraints
- Supply in both the high yield and loan markets have been received very well, leading to strong performance for new issues
- But, the high yield primary market is expected to pick up this week as issuers try to get ahead of the Fed meeting, posing a potential risk for high yield
- While the market seems ready for a Fed hike, an increase in rates could still derail flows and lead to extension risk

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# Important Disclosures

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## Materially Mentioned Issuers/Bonds

**ALLEGION US HOLDING CO INC**, CD/J

ALLE 5 3/4 10/01/21 (USD 104.25, 03-Mar-2017)

**ALTICE FINCO SA**, CD/D/J/K/L/M

ALTICE 9 7/8 12/15/20, Underweight (USD 105.88, 03-Mar-2017)

**AMC ENTERTAINMENT HOLDINGS INC**, A/CD/CE/D/E/J/K/L/M

AMC 5 7/8 02/15/22 (USD 104.88, 03-Mar-2017)

**BROOKFIELD RESIDENTIAL PROPERTIES INC**, CD/D/J/K/L/M

BRP 6.5 12/15/2020 (USD 103.52, 03-Mar-2017)

**CHURCHILL DOWNS INC**, CD/CE/J

CHDN 5 3/8 12/15/21 (USD 103.88, 03-Mar-2017)

**CLEAVER-BROOKS INC**, CD/J

CLEAVB 8 3/4 12/15/19 (USD 104.50, 03-Mar-2017)

**GIBRALTAR INDUSTRIES INC**, CD/J

ROCK 6 1/4 02/01/21 (USD 103.00, 03-Mar-2017)

**JBS USA LUX SA / JBS USA FINANCE INC**, CD/D/J/K/L/M/N

JBSSBZ 8.25 02/01/2020, Market Weight (USD 102.25, 03-Mar-2017)

**LAMAR MEDIA CORP**, CD/J

LAMR 5 7/8 02/01/22, Market Weight (USD 103.00, 03-Mar-2017)

**LEVEL 3 FINANCING INC**, A/CD/D/J/K/L/M

LVL 6 1/8 01/15/21, Market Weight (USD 103.50, 03-Mar-2017)

**MICRON TECHNOLOGY INC**, CD/CE/J

MU 5 7/8 02/15/22 (USD 104.25, 03-Mar-2017)

**NATIONSTAR MORT/CAP CORP**, CD/D/E/J/K/L/M

NSM 7 7/8 10/01/20 (USD 104.13, 03-Mar-2017)

**NCR CORP**, CD/CE/GD/J

NCR 4 5/8 02/15/21, Market Weight (USD 102.25, 03-Mar-2017)

**NORTHERN TIER ENERGY LLC / NORTHERN TIER FINANCE CORP**, CD/D/J/K/L/M

NTI 7 1/8 11/15/20 (USD 103.88, 03-Mar-2017)

**NPC INTERNATIONAL INC / NPC QUALITY BURGERS INC / NPC OPERATING CO B INC**,  
CD/D/J/K/L/M

PIZA 10 1/2 01/15/20 (USD 103.00, 03-Mar-2017)

**PBF HOLDING CO LLC / PBF FINANCE CORP**, CD/J/K/M

PBFENE 8 1/4 02/15/20 (USD 102.50, 03-Mar-2017)

**REYNOLDS GROUP ISSUER INC / REYNOLDS GROUP ISSUER LLC / REYNOLDS GROUP  
ISSUER LU**, CD/J/K/M

REYNOL 5 3/4 10/15/20, Market Weight (USD 102.75, 03-Mar-2017)

REYNOL 6 7/8 02/15/21, Market Weight (USD 102.63, 03-Mar-2017)

**SHEARER'S FOODS LLC / CHIP FINANCE CORP**, CD/D/J/K/L/M

SHESCR 9.0 11/01/2019 (USD 104.88, 03-Mar-2017)

**STATION CASINOS LLC**, CD/J

STACAS 7 1/2 03/01/21 (USD 104.00, 03-Mar-2017)

**TUTOR PERINI CORP**, CD/CE/J

TPC 7 5/8 11/01/18 (USD 100.25, 03-Mar-2017)

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# Important Disclosures (continued)

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## Explanation of the Barclays Research Corporate Credit Sector Rating System

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For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to exceed the six-month excess return of the relevant index.

For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to exceed the six-month total return of the relevant index.

### Market Weight (MW):

For sectors rated against the Bloomberg Barclays U.S. Credit Index, the Bloomberg Barclays Pan-European Credit Index, the Bloomberg Barclays EM Asia USD High Grade Credit Index or the Bloomberg Barclays EM USD Corporate and Quasi-Sovereign Index, the analyst expects the six-month excess return of the sector to be in line with the six-month excess return of the relevant index.

For sectors rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index, the Bloomberg Barclays Pan-European High Yield 3% Issuer Capped Credit Index excluding Financials, the Bloomberg Barclays Pan-European High Yield Finance Index or the Bloomberg Barclays EM Asia USD High Yield Corporate Credit Index, the analyst expects the six-month total return of the sector to be in line with the six-month total return of the relevant index.

### Underweight (UW):

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### Sector definitions:

Sectors in U.S. High Grade Research are defined using the sector definitions of the Bloomberg Barclays U.S. Credit Index and are rated against the Bloomberg Barclays U.S. Credit Index.

Sectors in U.S. High Yield Research are defined using the sector definitions of the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index and are rated against the Bloomberg Barclays U.S. High Yield 2% Issuer Capped Credit Index.

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Sectors in EEMEA and Latin America Research are defined on Barclays Live and are rated against the Bloomberg Barclays EM USD Corporate and Quasi Sovereign Index. These sectors may contain both High Grade and High Yield issuers.

To view sector definitions and monthly sector returns for Asia, EEMEA and Latin America Research, go to <https://live.barcap.com/go/RSL/servlets/dv.search?pubType=4511&contentType=latest> on Barclays Live.



# Important Disclosures (continued)

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## Explanation of the Barclays Research Corporate Credit Rating System

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**Overweight (OW):** The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to exceed the six-month expected excess return of the relevant sector.

**Market Weight (MW):** The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be in line with the six-month expected excess return of the relevant sector.

**Underweight (UW):** The analyst expects the six-month excess return of the issuer's index-eligible corporate debt securities to be less than the six-month expected excess return of the relevant sector.

**Rating Suspended (RS):** The rating has been suspended temporarily due to market events that make coverage impracticable or to comply with applicable regulations and/or firm policies in certain circumstances including where the Investment Bank of Barclays Bank PLC is acting in an advisory capacity in a merger or strategic transaction involving the company.

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For all High Yield issuers (excluding those covered in EEMEA or Latin America), the credit rating system is based on the analyst's view of the expected total returns over a six-month period of the rated debt security relative to the expected total return of the relevant sector, as specified on the report.

**Overweight (OW):** The analyst expects the six-month total return of the debt security subject to this rating to exceed the six-month expected total return of the relevant sector.

**Market Weight (MW):** The analyst expects the six-month total return of the debt security subject to this rating to be in line with the six-month expected total return of the relevant sector.

**Underweight (UW):** The analyst expects the six-month total return of the rated debt security subject to this rating to be less than the six-month expected total return of the relevant sector.

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For all issuers in South Africa, the credit rating system is based on the analyst's view of the expected total return over a six-month period of the issuer's rand-denominated fixed rate notes or floating rate notes (as applicable) relative to the South African Credit Fixed Market Index (CFIX95) or the South African Credit Floating Market Index (CFL020), respectively.

**Overweight (OW):** The analyst expects the six-month total returns of the issuer's rand-denominated fixed rate notes or floating rate notes (as applicable) to exceed the six-month expected total returns the South African Credit Fixed Market Index (CFIX95) or the South African Credit Floating Market Index (CFL020), respectively.

**Market Weight (MW):** The analyst expects the six-month total returns of the issuer's rand-denominated fixed rate notes or floating rate notes (as applicable) to be in line with the six-month expected total returns the South African Credit Fixed Market Index (CFIX95) or the South African Credit Floating Market Index (CFL020), respectively..

**Underweight (UW):** The analyst expects the six-month total returns of the issuer's rand-denominated fixed rate notes or floating rate notes (as applicable) to be below the six-month expected total returns the South African Credit Fixed Market Index (CFIX95) or the South African Credit Floating Market Index (CFL020), respectively..

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21% have been assigned an Overweight rating which, for purposes of mandatory regulatory disclosures, is classified as a Buy rating; 69% of issuers with this rating category are investment banking clients of the Firm; 89% of the issuers with this rating have received financial services from the Firm.

53% have been assigned Market Weight rating which, for purposes of mandatory regulatory disclosures, is classified as a Hold rating; 73% of issuers with this rating category are investment banking clients of the Firm; 87% of the issuers with this rating have received financial services from the Firm.

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## **Distribution of ratings assigned by Barclays Corporate Credit Research at the bond level:**

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## **Explanation of the Barclays EM Sovereign Credit Issuer Rating System**

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Market Weight (MW): The analyst expects the three-month excess return of the country's index eligible bonds to be in line with the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

Underweight (UW): The analyst expects the three-month excess return of the country's index eligible bonds to be less than the three-month excess return of the Bloomberg Barclays EM USD Sovereign Index.

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