



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Aug 21 – Aug 25 2017

Global credit spreads were mixed throughout the week as investors focused on corporate earnings and secondary trading while they waited for commentary out of Jackson Hole. Fed Chair Yellen and ECB President Draghi both gave speeches on Friday that were short on details regarding interest rate policy. US Government yields and the US dollar fell further as investors left disappointed. Europe is in full summer-mode typical of late August, with thin liquidity. Italian spreads widened as September elections gain attention, with former Prime Minister Berlusconi suggesting Italy could introduce a “parallel” currency to the Euro if his Forza party is elected.

Canadian corporate spreads were also mixed, driven by solid performance in Airports, Media and Utilities, while Retailers lagged. The primary market remains surprisingly active for August, with \$1.6 Billion of Canadian corporate new issuance priced last week.

NAMES IN THE NEWS



- Royal Bank of Canada (\$RY) and CIBC (\$CM) both reported Q3/17 adjusted cash EPS slightly ahead of estimates. Stronger profits in the Personal, Commercial and Wealth Management segments offset lower profits in Insurance and Capital Markets. The solid earnings kept spreads of both banks near historical tight.
- BHP Billiton (\$BHP) reported strong full year results. BHP was able to repay \$7.1bn of debt during the period without issuing any new bonds. Spreads tightened by 20 bps as investors cheered the bond repurchases.
- Cominar REIT (\$CUFCN) announced plans to sell properties outside its core markets which have an estimated fair value over C\$1.2b. CUFCN will use the majority of the sale proceeds to cut its debt-to-gross book value to below 48%. Spreads tightened by 25 bps by week-end.
- Gold giant Barrick (\$ABX) continues to aggressively reduce debt, announcing it would call 730mm of 2023 bonds in September. The call price represents a 2% premium to last week’s trade levels.



- Spreads of retailers, specifically Kroger (\$KR) and Costco (\$COST), widened significantly on Thursday after Amazon (\$AMZN) announced it would begin offering lower prices at Whole Foods. Spreads of retailers pared back most of the losses later in the week to finish 1-2 bps wider.

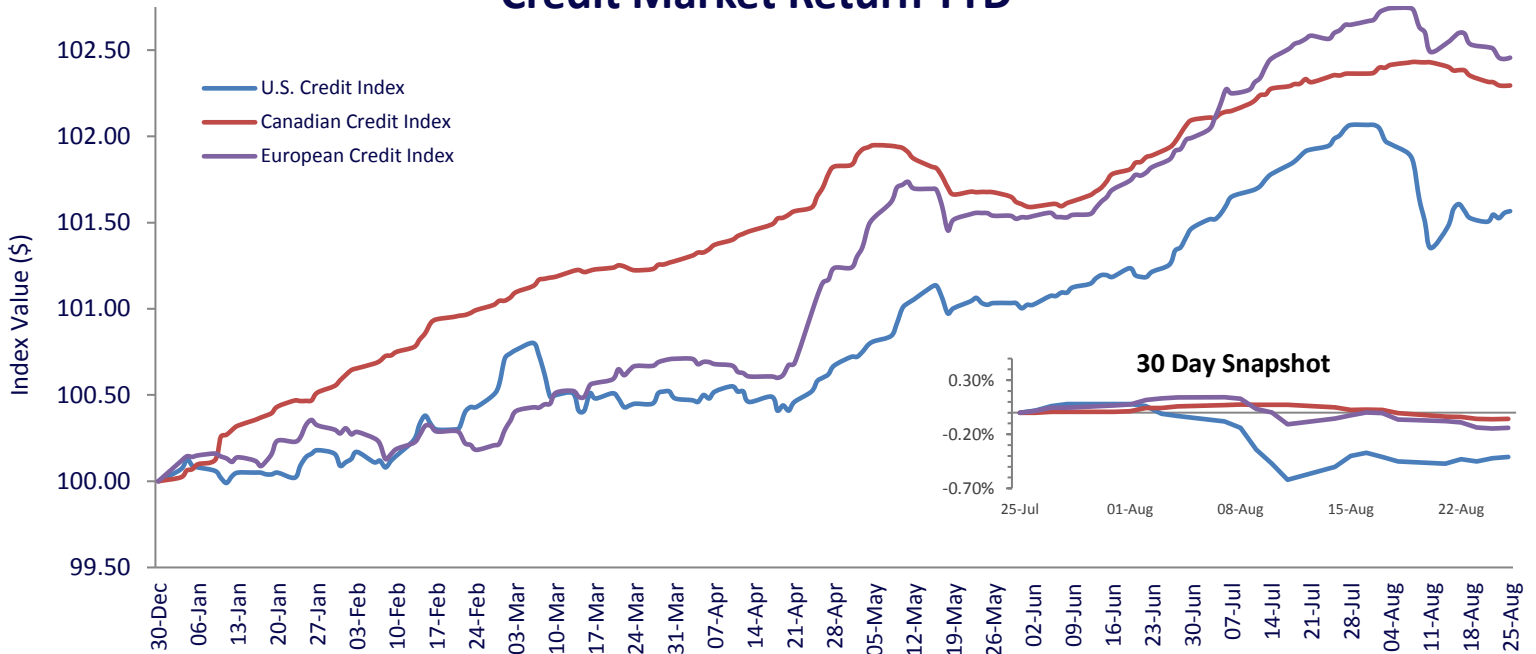
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.05%	-0.07%	2.30%	Merrill Lynch: FOCO
US Credit	0.04%	-0.49%	1.57%	Barclays: LUCRER
European Credit	-0.08%	-0.21%	2.46%	Barclays: BECI
Barclays Global Credit Index	0.00%	-0.39%	1.92%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.08%	1.32%	1.77%	Merrill Lynch: CANO
Canadian High Yield	0.31%	0.76%	5.80%	Bloomberg: BCAH
US High Yield	0.34%	-0.38%	5.68%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.96%	-0.58%	9.28%	Bloomberg: TXPRAR
US Preferred	0.07%	-0.58%	8.37%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.74%	-0.50%	0.08%	Bloomberg: SPTSX
US Stocks: S&P 500	0.75%	-0.90%	10.58%	Bloomberg: SPX



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Credit Market Return YTD



US Credit Index: Barclays US Aggregate Corporate Index (LUCRER) measures the excess return of a broad-based index of US investment-grade corporate bonds over a comparable index of US Treasuries with similar duration. Return data in USD.

Canadian Credit Index: Bank of America Merrill Lynch Canada Corporate Index (FOCO) tracks the excess return of a broad basket of investment-grade corporate bonds issued in the Canadian domestic market, over a comparable index of Canadian government bonds with similar duration. Return data in CAD.

European Credit Index: Barclays Europe Corporate Bond Index (BECI) measures the excess return of a broad-based index of Euro denominated investment-grade corporate bonds over a comparable index of Euro denominated government bonds with similar duration. Return data in EUR.

SELECTED NEW ISSUES

DATE	ISSUER	RATING	SIZE	MATURITY	LAUNCH SPREAD	CLOSING SPREAD	ADDITIONAL COMMENTS
08/22	Caisse Dejardins	A+	850mm	5y	+83	+82	
08/22	Honda Canada	A	750mm	3y & 5y	+98 (5y)	+95	
08/22	H&R REIT	BBB+	125mm	5y	+173	+173	Re-opening of 2022 issue.

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