



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jul 24 – Jul 28 2017

Global investors took advantage of strong credit tone and higher yielding instruments. Canadian credit performed well as solid earnings, an uptick in energy, and a string of good economic data gave investors confidence. Canadian government 10y yields rose above 2 percent for the first time since 2014 as investors continue to price in a second rate hike this year, capped off by the best year-over-year GDP metrics since 2000.

American credit spreads outperformed as a combination of earnings, light new issuance and a dovish FOMC rate decision enabled spreads to tighten significantly in secondary trading. AT&T decided to take advantage of the strong market tone and issue the largest deal of the year to finance its acquisition of Time Warner (\$TWX). The company came to market with a 7-tranche deal for a total of \$22.5bn, with new issue concessions varying depending on the term.

NAMES IN THE NEWS



- The FTSE TMX announced that NVCC instruments issued prior to July 1, 2017 would be eligible for inclusion in the FTSE TMX Canada Universe Bond Index. The outstanding NVCC bonds will be added to the FTSE TMX Canada Universe Bond Index on the same date, targeted for February 7, 2018. Most eligible instruments tightened 5-10 bps on the news.
- UBS Group AG (\$UBS) was one of many European banks to release earnings this week. \$UBS posted an unexpected rise in profit amid a low volatility environment. Q2 net profit rose to 1.174 billion Swiss francs (\$1.21 billion), up 14 percent on a year earlier, supported by the company's business mix. UBS spreads tightened 7 bps after the announcement.

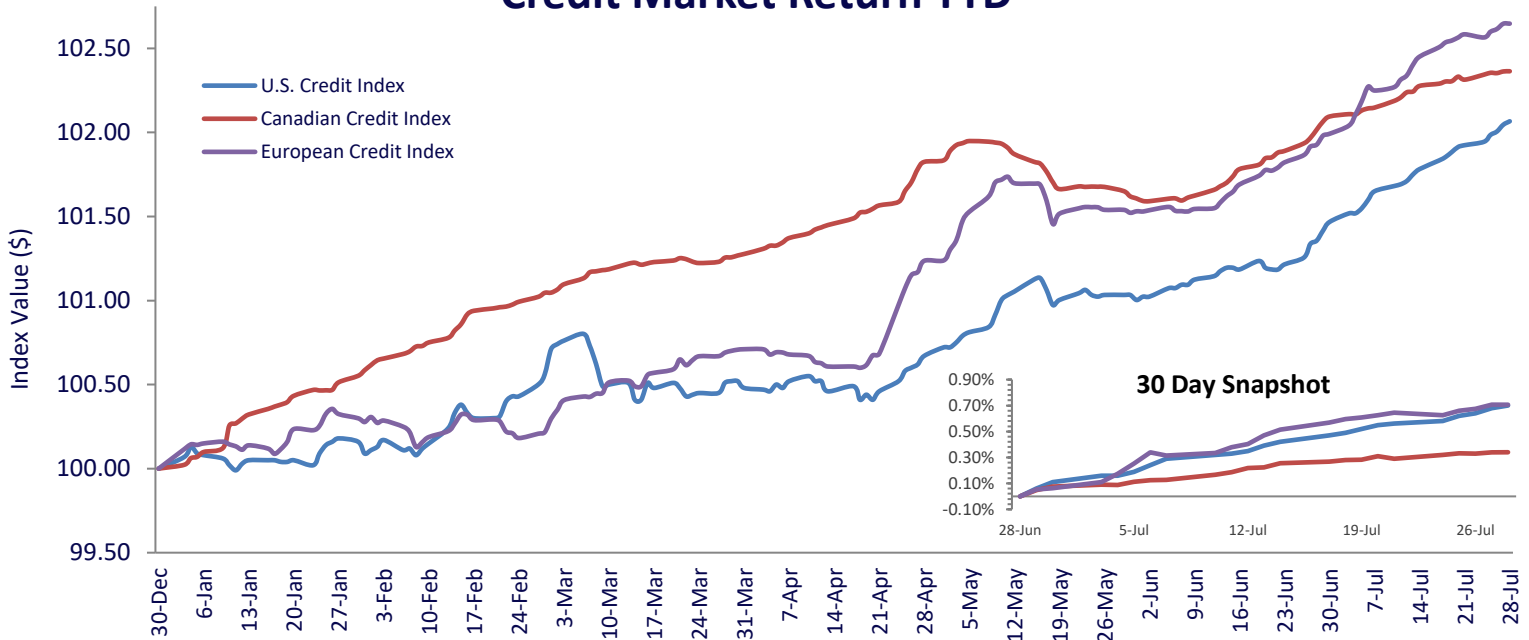


- TransCanada (\$TRPCN) quarterly EPS of \$0.76 beat consensus of \$0.68 and was up from \$0.52 in Q2/16. After earnings, TRPCN initiated an effort to solicit new customers for its Keystone XL pipeline as the company feared a lack of commitments and regulatory approval for the pipeline to succeed. Spreads of TRPCN 30s and 31s widened by 5-6bps.
- Ford (\$F) reported a headline EPS beat on in-line revenue operating profit while FY EPS guidance was raised. The EPS beat was driven by lower tax expense and benefitted from a strong quarter in Financial Services. Investors brushed off the strong headline metrics and focused on declining operating metrics and an aging product lineup instead.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.05%	0.26%	2.36%	Merrill Lynch: FOCO
US Credit	0.14%	0.59%	2.07%	Barclays: LUCRER
European Credit	0.06%	0.64%	2.65%	Barclays: BECI
Barclays Global Credit Index	0.12%	0.52%	2.30%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-1.22%	-1.83%	0.60%	Merrill Lynch: CANO
Canadian High Yield	0.22%	0.43%	4.91%	Bloomberg: BCAH
US High Yield	0.23%	1.15%	6.06%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.59%	1.06%	9.88%	Bloomberg: TXPRAR
US Preferred	-0.33%	0.80%	8.99%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.23%	-0.13%	0.48%	Bloomberg: SPTSX
US Stocks: S&P 500	0.00%	2.13%	11.67%	Bloomberg: SPX



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
07/25	Crown Castle International	BBB-	1.75bn	7y & 10y	+133 (10y)	+131	
07/27	American Express Co.	A	2.25bn	5y	+68	+65	
07/27	AT&T Inc.	BBB+	22.5bn	Multi - Issue	+160 (10y)	+159	Very cheap to comparable C\$ bonds
07/27	Capital Power Corp	Pfd-3	125mm	PERP (5Y call)	5.75%	N/A	Floored pref – settles August 9th
07/27	Canadian National Railway	A	500mm	30y	+122	+121	Priced through secondaries

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