



THE SENTINEL



Highlights from the week in Corporate Credit

Summary: Jul 3 – Jul 7 2017

The holiday-shortened week in Canada and the US made for very quiet credit markets to start the month of July. Interest rates dominated the conversation as the German 10-year bund reached its highest yield in 18 months and developed-market government bonds around the world sold off in sympathy. Here in Canada, a strong employment report on Friday has market participants convinced that the Bank of Canada looks set to raise rates this week for the first time in about seven years.

New issue activity was muted with only a handful of deals later in the week. BMO and CIBC raised a combined 3.75 billion in the domestic market, while TD launched a preferred deal. With a lack of supply, the trend toward tighter spreads continues.

NAMES IN THE NEWS

	<ul style="list-style-type: none"> June auto sales data for the US industry came in at 16.4MM, below consensus of 16.6MM, as the major OEMs saw continued declines in unit sales. Despite the softer sales figures, auto bonds and equities held firm due to the fact that much of the auto sales declines have been in low-margin fleet sales and small sedan vehicles. Scotiabank (\$BNS) announced that it intends to redeem all outstanding 2.898% August 2022 subordinated debt on the August 3, 2017 call date. The redemption has been approved by OSFI. RioCan REIT (\$REIUCN) has completed the sale of its Cambie Street property in Vancouver for \$94.2MM. REIUCN also entered into a firm agreement to sell a portfolio of six chartered bank branches in B.C. in Q3/17 at a sale price of 30.3MM. The extra liquidity and the ability to pay down debt continues to improve the credit story at RioCan.
	<ul style="list-style-type: none"> Moody's placed Honda's (\$HNDA) A1 rating and the A1 ratings of HNDA's finance subsidiaries on review for downgrade by one notch. Moody's decision to review HNDA for downgrade is focused primarily on HNDA's profitability compared to similarly rated peers. Moody's stated that HNDA's EBITA margins are estimated to be 5%-6% compared with 6%-9% at other single-A rated auto credits such as A1-rated BMW (BMW), A2-rated Daimler AG (DAIGR) and A2-rated Nissan Motor (NSANY/NISCAF).

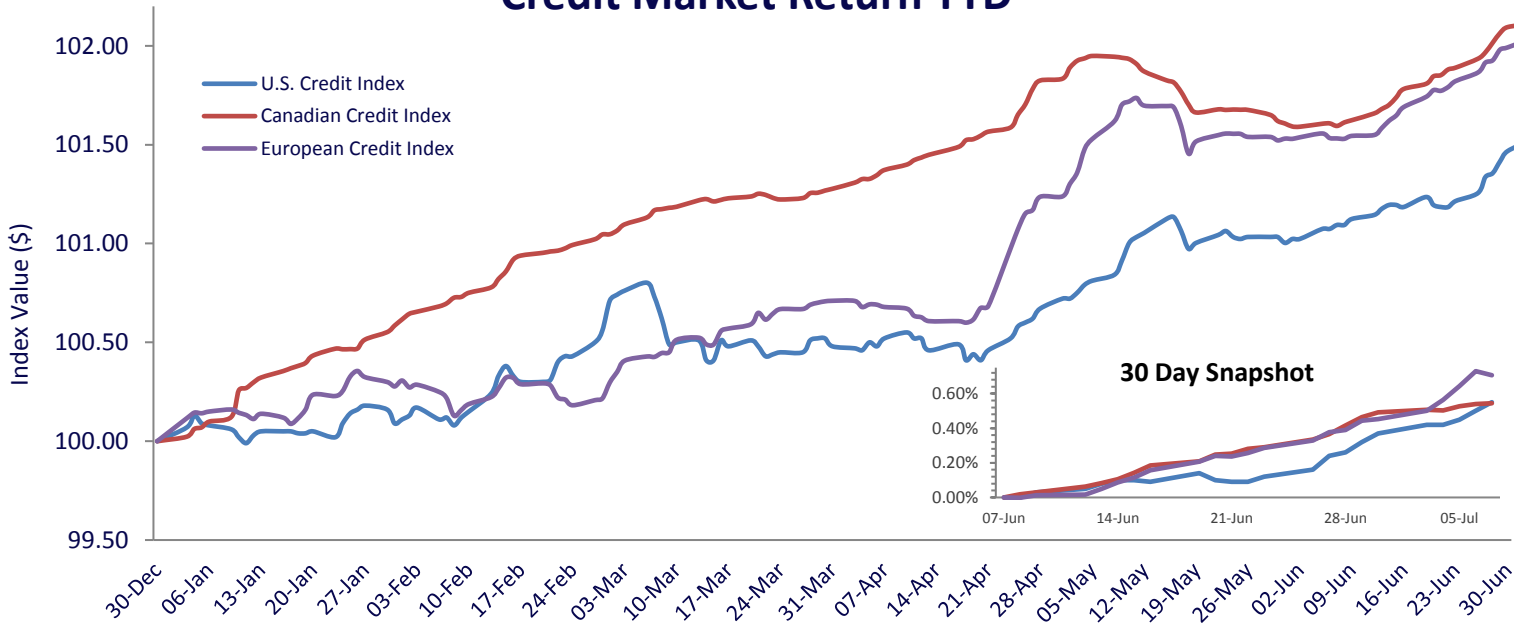
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.05%	0.05%	2.16%	Merrill Lynch: FOCO
US Credit	0.18%	0.18%	1.65%	Barclays: LUCRER
European Credit	0.25%	0.25%	2.25%	Barclays: BECI
Barclays Global Credit Index	0.13%	0.13%	1.91%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.74%	-0.74%	1.74%	Merrill Lynch: CANO
Canadian High Yield	0.14%	0.14%	4.60%	Bloomberg: BCAH
US High Yield	-0.28%	-0.28%	4.63%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.25%	0.25%	8.99%	Bloomberg: TXPRAR
US Preferred	0.00%	0.00%	8.13%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.97%	-0.97%	-0.37%	Bloomberg: SPTSX
US Stocks: S&P 500	0.14%	0.14%	9.49%	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
07/05	Bank of Montreal	AA	2bn	5y	+81	+79	
07/05	TD Bank (Preferred)	Baa1	300mm	Perpetual (5y call)	4.50%	N/A	Low reset spread (301bp) found limited institutional demand.
07/06	CIBC	AA	1.75bn	5y	+80	+79	
07/06	Sumitomo Mitsui Financial Group	A-	4.25bn	5y & 10y	+100 (10y)	+99	
07/06	Commonwealth Bank of Australia	AA-	1.5bn	30y	+103	+101	First 30-year deal for an Australian bank in USD.

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