



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: May 1 – May 5 2017

Risk assets finished off a volatile week in the black due to a Friday rally spurred by the resurgence in oil, decent US employment metrics, and confidence that centrist candidate, Emmanuel Macron, would defeat Marine Le Pen in the French presidential election over the weekend. Volatile commodities, particularly the sudden drop in oil, widened energy spreads somewhat, tempered by solid earnings from energy companies and solid new issue demand.

Home Capital Group (\$HCG) continues to dominate headlines for Canadian investors after announcing that it would defer its Q1 earnings to May 11th. Credit ratings were further cut by DBRS this week as the company faces an ongoing liquidity crisis. Industry rival Equitable Bank (\$EQB) took steps to shore up its own liquidity with a new syndicated bank facility, as unease around Canada's mortgage market led to moderate widening in financial spreads.

	<ul style="list-style-type: none"> S&P reaffirmed their rating of Pembina Pipeline (\$PPL) following the announced acquisition of Veresen Inc. (\$VSN). VSN bonds tightened 30-40 bps in early buying activity on Monday after the acquisition news, ultimately settling 50 bps tighter for the week. PPL bonds closed 2-5 bps wider. AB InBev (\$ABI BB) reported higher normalized profit of US\$1.46bn vs \$844mm as revenue grew by 4.3% and the company made progress on cost savings. The strong earnings enabled the company to repay \$6bn of its final \$8bn term loan remaining in place from the SAB Miller purchase. ABIBB spreads narrowed slightly as investors cheered the progress in debt reduction and cost improvement.
	<ul style="list-style-type: none"> US April auto sales were lighter than expected, with the SAAR coming in at approximately 16.8mm vs an expected 17.1mm. Auto companies including Ford, Honda, and GM saw lower than expected sales while other companies reported sales in line with expectations. Spreads of autos like Ford and GM modestly weakened on the news as investors factored a broad rise of inventories and the potential for discounting in the future.

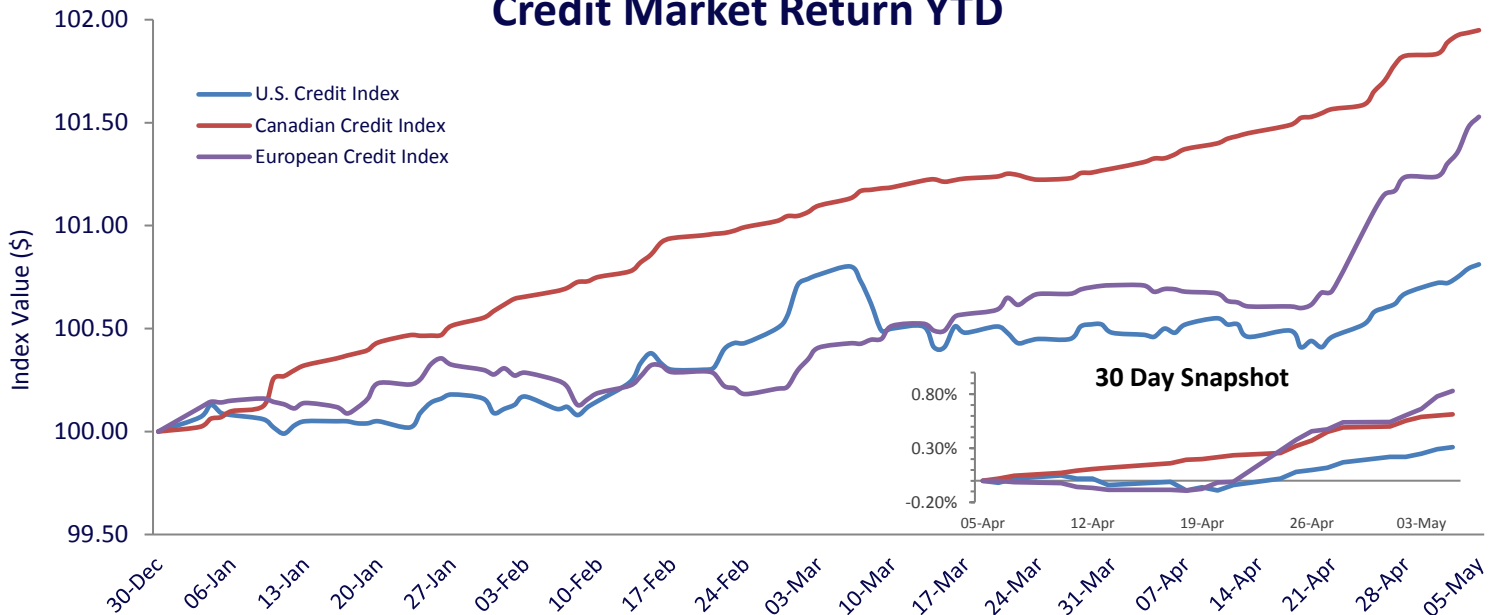
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.12%	0.12%	1.95%	Merrill Lynch: FOCO
US Credit	0.14%	0.14%	0.81%	Barclays: LUCRER
European Credit	0.29%	0.29%	1.53%	Barclays: BECI
Barclays Global Credit Index	0.19%	0.19%	1.05%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.10%	0.10%	2.89%	Merrill Lynch: CANO
Canadian High Yield	0.08%	0.08%	3.47%	Bloomberg: BCAH
US High Yield	0.28%	0.28%	4.15%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.84%	-0.84%	6.61%	Bloomberg: TXPRAR
US Preferred	0.19%	0.19%	6.71%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.02%	-0.02%	2.76%	Bloomberg: SPTSX
US Stocks: S&P 500	0.66%	0.66%	7.86%	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
05/01	PepsiCo Inc	A+	750mm	7y	+86	+80	Priced tight but found plenty of demand as buyers seek to diversify from Canadian banks.
05/01	United Technologies	A-	4bn	Multi-tranche	+80 (10y)	+79	
05/02	Unilever NV	A+	3.15bn	Multi-tranche	+80 (10y)	+80	
05/04	Eli Lilly & Co	AA-	2.25bn	5y, 10y & 30y	+75 (10y)	+72	Infrequent issuer found plenty of demand.
05/04	Apple Inc	AA+	7bn	Multi-tranche	+85 (10y)	+84	Another jumbo deal from Apple; required only modest concession to clear.
05/04	Dollarama Inc	BBB	325mm	3y & 5y	+115 (5y)	+110	Modest concession and heavily oversubscribed.

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