



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Oct 30 – Nov 3 2017

Canadian credit continues to defy gravity as bond spreads set new tights for the year. Energy paper led the way as oil prices closed at a two year high above \$55. Utilities and Bank NVCC paper were also strong performers. A solid domestic employment report on Friday allowed the Canadian dollar to strengthen and interest rates to finish the week broadly unchanged after falling for much of October. Issuance remains light, with HSBC Canada's launch of \$1.5 billion 5-year bonds finding plenty of demand.

Global credit endured a mixed week despite continued positive momentum for equities. European credit strengthened, led by Italian names after S&P upgraded Italy to BBB-mid. The Bank of England was the latest central bank to signal higher interest rates with a 25bp hike, though they warned future hikes were not imminent. Meanwhile US spreads drifted wider from month-end tights as buyers anticipated another period of heavy supply. The ongoing tax reform debate in Washington continues to influence buyer behaviour. Although much of the proposed legislation is seen as credit positive, investors await further details before committing.

### NAMES IN THE NEWS



- Spreads of Italy's largest banks including Intesa and Unicredit were up to 20bp tighter on the week after S&P upgraded the country by one notch to BBB-mid. The agency specifically cited reduced risks from the banking sector as a factor in its decision.



- Teva Pharmaceuticals (\$TEVA) reported weak fourth quarter results, missing both EPS and revenue estimates. Management also warned of increased price erosion in the US Generics business and lower than expected contributions from new generic launches in the US. TEVA spreads ended 50 bps wider for the week on the back of the news!
- Broadcom (\$AVGO) is reported to be considering a bid for Qualcomm (\$QCOM) which would create a technology giant with a combined market capitalization in excess of \$200 billion. Bond spreads of both companies were 10-12bp wider while investors await financing details of the transaction.
- Enbridge (\$ENBCN) announced adj. EPS of \$0.39 on Thursday, below consensus of \$0.45. Most importantly, ENBCN announced that it intends to file an application with the OEB to amalgamate Enbridge Gas and Union Gas. Spreads of both ENBGAS and UNG were slightly wider due to speculation that the companies would be downgraded.

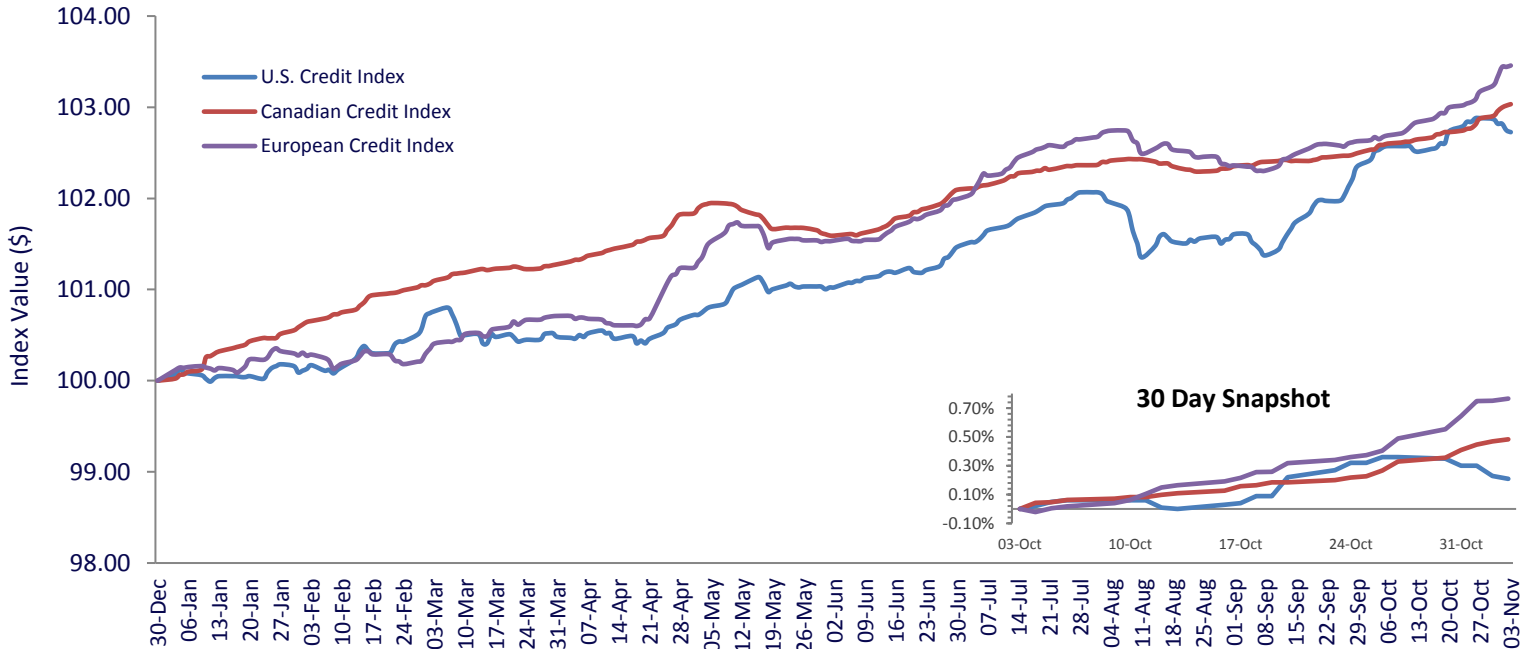
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.15%	0.07%	3.03%	Merrill Lynch: FOCO
US Credit	-0.15%	-0.09%	2.73%	Barclays: LUCRER
European Credit	0.28%	0.12%	3.46%	Barclays: BECI
Barclays Global Credit Index	-0.01%	0.54%	3.06%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.52%	0.26%	2.40%	Merrill Lynch: CANO
Canadian High Yield	0.26%	0.14%	8.19%	Bloomberg: BCAH
US High Yield	0.06%	-0.02%	7.36%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.33%	0.08%	12.87%	Bloomberg: TXPRAR
US Preferred	0.10%	0.07%	8.53%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.50%	-0.03%	7.30%	Bloomberg: SPTSX
US Stocks: S&P 500	0.29%	0.51%	17.50%	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 (FOC0) 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
10/30	National Bank of Canada	A	1.25bn	3y	+55	+54	
11/01	HSBC Bank Canada	AA-	1.5bn	5.25y	+90	+86	Well placed and good performance despite jumbo size.
11/01	Central 1 Credit Union	A	500mm	5y	+98	+96	
11/02	General Motors Financial	BBB	2bn	3y & 7y	+132 (7y)	+131	
11/03	JP Morgan Chase & Co	A-	1.75bn	30y	+115	+114	Needed to price with more concession than recent deals.

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