



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Sep 25 – Sep 29 2017

Broader corporate credit remained strong thanks to the continued themes of higher yields, light inventory, light economic calendar and now a supportive tax proposal. The unveiling of Trump's tax plan was the main credit driving news of the week. The plan, which includes a number of business-positive initiatives sent equities higher and credit tighter. It also sent US rates higher to the middle of the 2017 range, with the US 10y yield up 5 basis points to 2.31%.

Here in Canada, credit markets are strong with quarter-end buying pushing spreads to new tight for the year. The new issue market remains active with Alberta Powerline, McDonald's, Omers Realty and Bell Canada all launching benchmark size deals this week. Total C\$ corporate issuance for the third quarter finished above \$30 billion for the first time ever. Stephen Poloz caught currency traders off guard with a speech on Wednesday in which he suggested the Bank of Canada would proceed "cautiously" on any future rate hikes. The Canadian dollar fell back to pre-rate-hike levels while the yield curve reversed its flattening trend to finish steeper on the week. Despite Poloz's comments, Canadian benchmark bond indices reported another negative month in September, their 7<sup>th</sup> in the past 12.

### NAMES IN THE NEWS



- Moody's introduced a new model for bank ratings, upgrading a number of international banks including BNP, Santander, Lloyds and ING. Bank spreads tightened marginally to the news, further supported by the Trump tax plan and higher government bond yields.



- Bombardier (\$BBDBCN) bonds are down as Siemens and Alstom announced a potential merger of their respective rail transportation businesses, dropping BBDCN as a potential partner. In addition, BBDCN is facing material challenges related to a 220% tariff that the US Commerce Department has recommended be applied on each C-Series delivery into the US after rival Boeing complained about the "illegal dumping" of C-Series aircraft on the US market. The flurry of negative headlines around BBDCN has caused benchmark bonds to drop by 4% on the week.
- Metro (\$MRUCN) announced is in advanced discussions regarding a potential purchase of pharmacy retailer Jean-Coutu Group. The news pushed MRUCN spreads 5bp wider on expectations of potential bond financing.

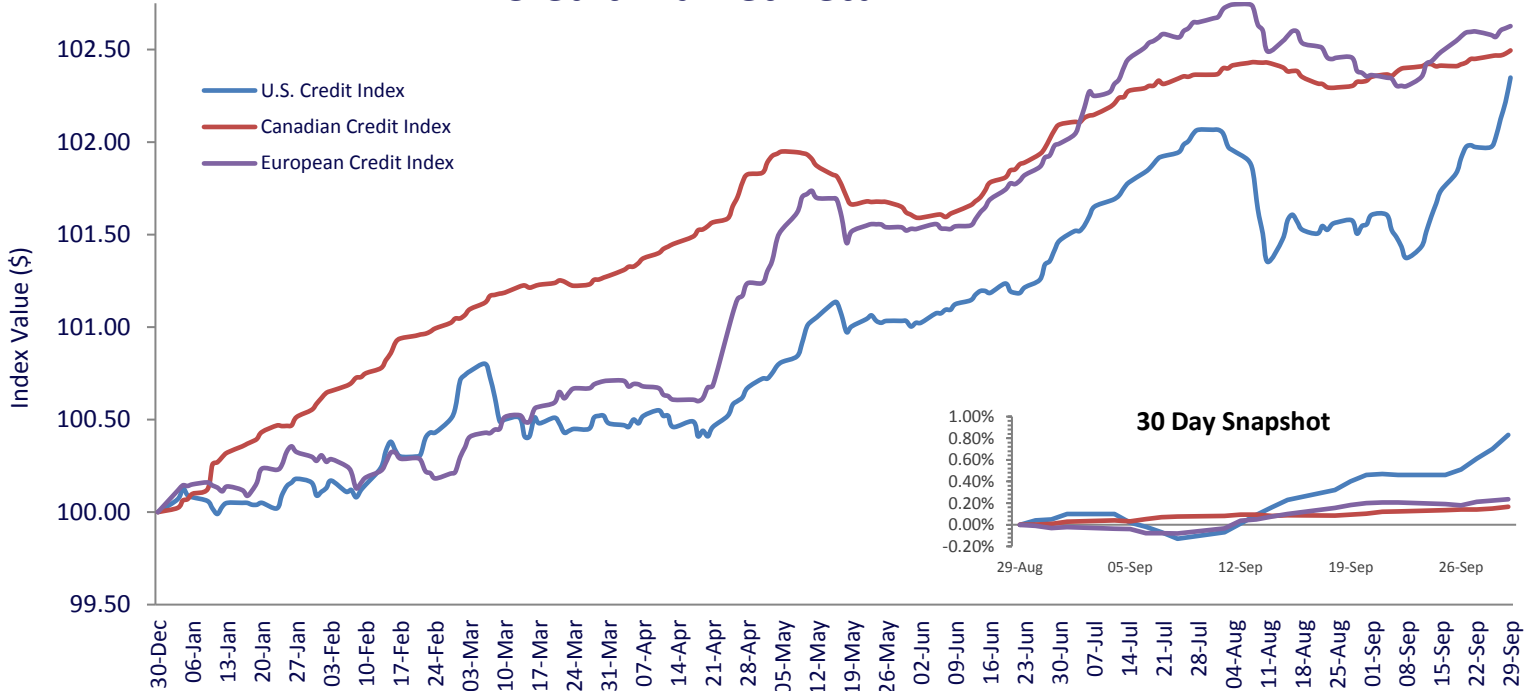
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.04%	0.16%	2.50%	Merrill Lynch: FOCO
US Credit	0.37%	0.78%	2.35%	Barclays: LUCRER
European Credit	0.03%	0.27%	2.63%	Barclays: BECI
Barclays Global Credit Index	0.27%	0.64%	2.52%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.03%	-1.47%	0.39%	Merrill Lynch: CANO
Canadian High Yield	0.23%	0.69%	6.86%	Bloomberg: BCAH
US High Yield	0.28%	0.88%	6.97%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.80%	1.36%	10.60%	Bloomberg: TXPRAR
US Preferred	0.07%	-0.07%	9.01%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	1.29%	3.19%	4.46%	Bloomberg: SPTSX
US Stocks: S&P 500	0.72%	2.06%	14.24%	Bloomberg: SPX



# THE SENTINEL

## Highlights from the week in Corporate Credit

### 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
09/25	🇨🇦 McDonald's Corp	BBB+	1bn	7y	+121	+117	Another well-received Maple issuer
09/26	🇨🇦 BCE Inc	BBB+	1.5bn	5y & 10y	+152 (10y)	+150	
09/26	🇨🇦 Omers Realty Corp	AA	700mm	10y	+113	+111	
09/28	🇨🇦 Alberta Powerline LP	A	2bn	26y avg life	+155	+151	Amortizing structure
09/28	🇨🇦 Ontario Power Generation	BBB+	500mm	10y	+117	+112	Impressive performance relative to better-rated Omers deal

The information contained in this document is drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed; nor in providing it does LPAM assume any responsibility or liability whatsoever. Nothing contained herein is a promise or forecast and thus should not be relied upon as such. Content contained herein has been prepared for clients of Lawrence Park and is not intended for attribution or reproduction without permission.