LAWRENCE PARK
ASSET MANAGEMENT

# THE SENTINEL

## Highlights from the week in Corporate Credit

**Summary: Nov 7 – Nov 10, 2016**

Away from the equity rally which has caught most of the media attention last week, the big story around the unexpected Trump victory has been the sharp moves higher in global interest rates. This volatility represents some of the largest single day moves in the past five years, and in one week has unwound much of the bond gains of the year.

Credit has been reasonably orderly, at least on a spread basis, and in fact, many sectors benefitted from higher all-in yields and anticipation of higher US growth. Large moves in rates are always tricky, and until the volatility subsides we will be treating our portfolios with the appropriate level of caution. Which areas of policy Trump chooses to focus on over his first two years in office (trade, infrastructure, banking deregulation) will dictate who are the winners and losers in the credit world.

We note in particular that banking deregulation is a potential double-edged sword. While unrelenting regulation has arguably been a drag on US economic growth over the past eight years, it has also made banks unequivocally safer institutions than they were a decade ago. We doubt Congress would allow banks to fully return to the heady risk-infused days of the early 2000's, however the shift in trend is not necessarily positive for credit spreads even as it likely improves bank earning potential.

**NAMES IN THE NEWS**

- Loyalty points manager AIMIA ($AIM) had a strong earnings beat for the third quarter and is using free cash to redeem 2017 notes early. The move was a small windfall for bond investors, with the call exercised at a spread of 97.5bp to Canada's vs. the pre-announcement trading spread near 140bp. Also reduced leverage caused AIMIA's remaining debt to tighten on the news.

- Moody's placed Caterpillar Inc. ($CAT) on review for downgrade citing prolonged weakness in operating earnings. Moody's did note that the company has taken steps to improve its liquidity position over the past six months.
- In its Q3 earnings report Crombie REIT ($CRR-U) elected to remove language regarding its leverage targets, which we infer to mean that management wants flexibility to run higher leverage if circumstances warrant. Crombie continues to acquire retail development properties, as part of an effort to diversify away from Sobey's as its key tenant.

| INDEX WATCH | 1-WEEK | MTD | YTD | SOURCE |
|---|---|---|---|---|
| Investment Grade Credit (Excess Return) | | | | |
| **Canadian Credit** | -0.04% | 0.03% | 3.05% | Merrill Lynch: F0C0 |
| **US Credit** | 0.48% | 0.24% | 3.36% | Barclays: LUCRER |
| **European Credit** | 0.01% | -0.11% | 2.78% | Barclays: BECI |
| **Barclays Global Credit Index** | 0.35% | 0.63% | 3.53% | Barclays: BGCI |
| **Fixed Income (Total Return)** | | | | |
| **Canadian Bond Universe** | -1.83% | -2.65% | 2.77% | Merrill Lynch: CAN0 |
| **Canadian High Yield** | -0.11% | 0.04% | 15.65% | Bloomberg: BCAH |
| **US High Yield** | -0.05% | -0.66% | 14.66% | Merrill Lynch: H0A0 |
| **Preferred Shares (Total Return)** | | | | |
| **Canadian Preferred** | 0.98% | 0.76% | 4.73% | Bloomberg: TXPRAR |
| **US Preferred** | -2.06% | -3.42% | 1.34% | Bloomberg: SPTREFTR |
| **Equities** | | | | |
| **Canadian Stocks: S&P TSX** | 1.77% | -0.15% | 16.50% | Bloomberg: SPTSX |
| **US Stocks: S&P 500** | 4.02% | 2.07% | 8.06% | Bloomberg: SPX |

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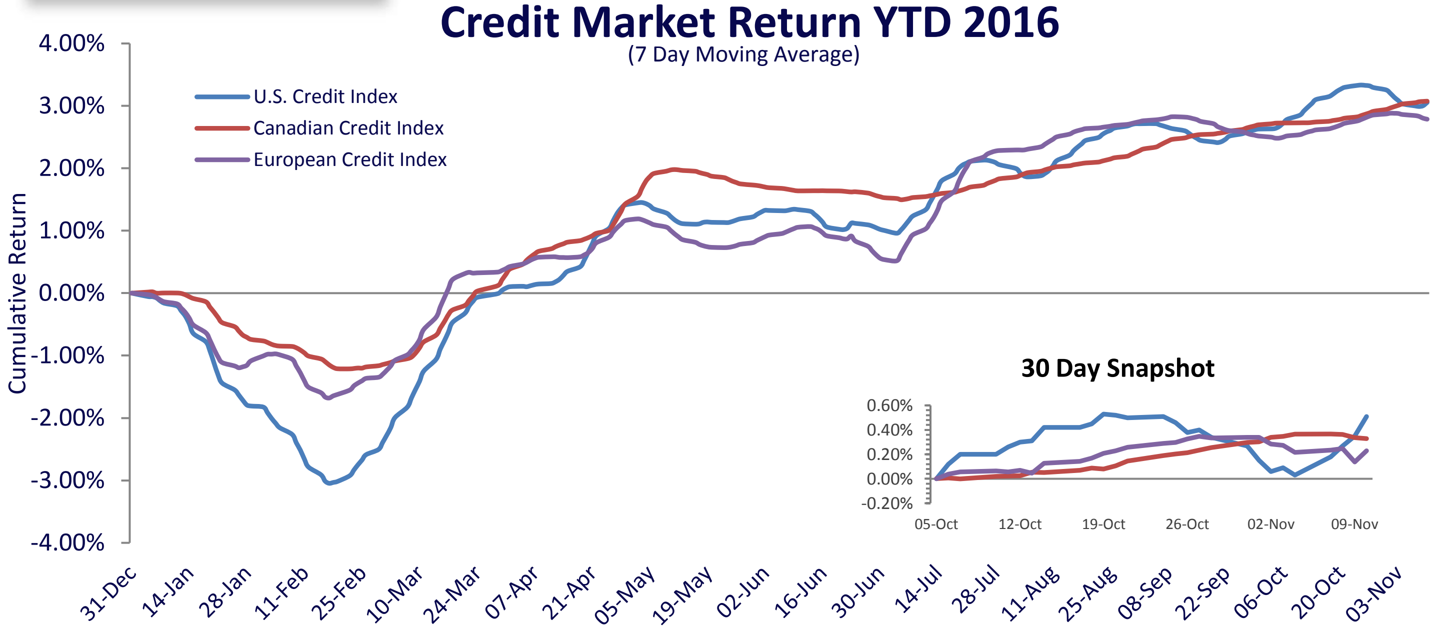
## Credit Market Return YTD 2016

(7 Day Moving Average)




**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 (F0C0) 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 |
|---|---|---|---|---|---|---|---|
| 11/07 | Veresen Inc. | BBB/BBB | 350mm | 5y | +272 | +258 | Healthy yield and heavily oversubscribed. |
| 11/07 | CHIP Mortgage Trust | AAA | 175mm | 5y | +227 | +219 | Generous spread for the rating, however long legal final maturity limits the number of buyers. |
| 11/07 | Kellogg Co. | Baa2/BBB | 600mm | 7y | +107 | +102 | |
| 11/10 | Brookfield Asset Managemnt | Pfd-2L | 300mm | Perp (5y call) | 5.8% | N/A | Strong mix of retail and institutional buyers. |
| 11/10 | Goldman Sachs | A3/BBB+ | 2.75bn | 10y (9y call) | +137.5 | +133 | Bank spreads tracked equities last week, outperforming the broader market. |
| 11/10 | JP Morgan (sub debt) | Baa1/BBB+ | 1.1bn | 11y (10y call) | +152 | +152 | Priced near fair value. Rate volatility makes call-feature potentially expensive. |