



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Oct 24 – Oct 28, 2016

Earnings, politics and interest rates were firmly in the spotlight this week, contributing to a mixed week for credit markets. Earnings have generally surprised to the upside, particularly amongst banks, while sharply rising bond yields and election volatility have weighed on sentiment. The combined effect was to send markets sideways for much of the week, until late Friday when news of the FBI re-opening its investigation into Hilary Clinton's e-mails ended the week on a sour note. One area to watch; US High Yield markets suffered their worst week since early September.

European rates moved sharply higher this week with German bund yields reaching their highest levels since May, and North American rates were taken along for the ride. A strong 3rd quarter GDP number released in the US on Friday suggests the US economy is growing at its fastest pace in almost two years, and did little to reverse the trend in bonds. The Canadian bond index looks set for its worst month since March 2015, with the price of the Canada 10 year benchmark bond falling by over 2%. We anticipate US bond markets could continue to be volatile into year-end as we head through November elections and an expected December rate hike, and we remain cautious on credit for the time being.

NAMES IN THE NEWS



- Spreads of Genworth Canada bonds were modestly tighter on the week on the news China Oceanwide Holdings may look to acquire US parent Genworth Financial (\$GNW). Genworth's current share price suggests investors are not convinced the transaction will be successful.
- General Motors spreads (\$GM) were tighter after the company posted strong 3rd quarter earnings, citing strong sales in both China and North America.
- UK banks RBS (\$RBS) and Barclays (\$BARC) both shrugged off Brexit fears to beat earnings expectations. European bank bonds generally performed well this week after widening for much of September.

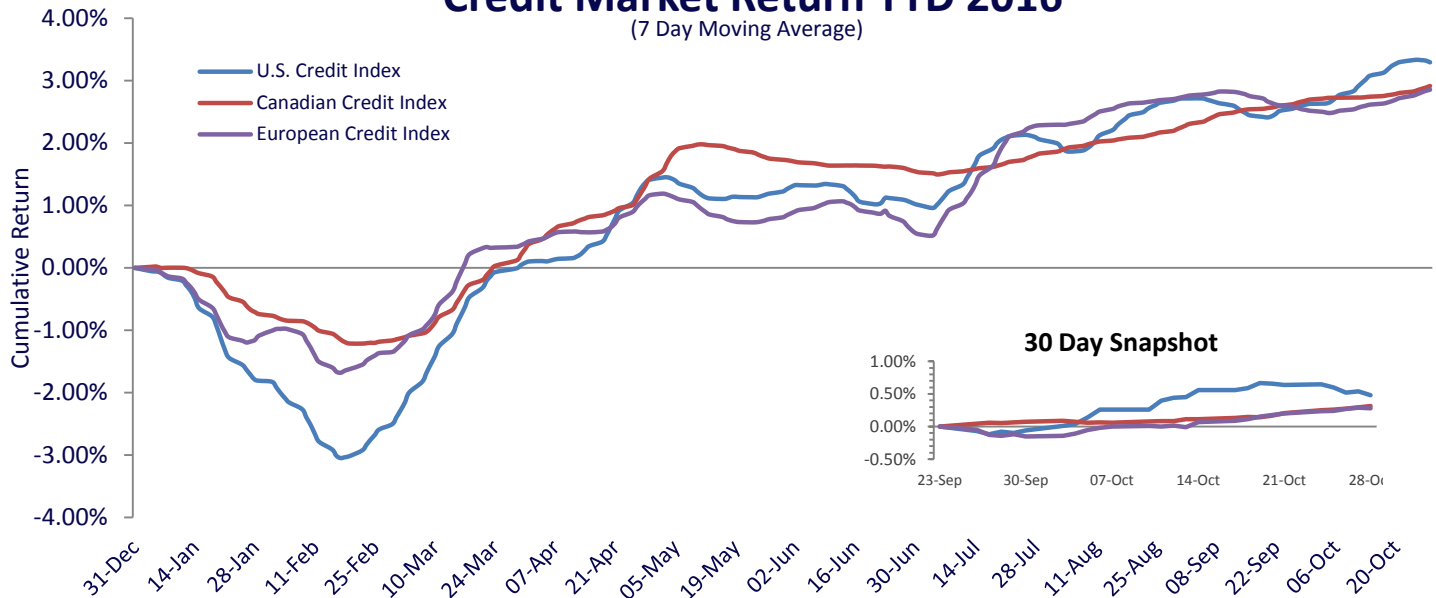


- The big news last Monday was the AT&T (\$T) takeover of Time Warner for USD 85 billion, which could see AT&T issue up to \$40 billion of new debt. After widening 15bp on deal rumours the previous Friday, \$T spreads were generally flat for the week, although major rating agencies placed the company on watch for a 1-notch downgrade.
- TD Bank announced it would acquire US brokerage house ScotTrade for USD 4 billion. Although the transaction will marginally lower TD's capital ratios, the transaction will be financed from internal sources and spreads did not react meaningfully to the news.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.11%	0.24%	2.98%	Merrill Lynch: FOCO
US Credit	-0.16%	0.54%	3.19%	Barclays: LUCRER
European Credit	0.08%	0.43%	2.89%	Barclays: BECI
Barclays Global Credit Index	-0.08%	0.52%	3.42%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.66%	-1.34%	4.08%	Merrill Lynch: CANO
Canadian High Yield	0.17%	1.04%	15.49%	Bloomberg: BCAH
US High Yield	-0.61%	0.71%	16.02%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.231%	2.18%	3.81%	Bloomberg: TXPRAR
US Preferred	-1.07%	-0.67%	5.17%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.57%	1.00%	17.02%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.37%	-1.51%	6.21%	Bloomberg: SPX



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
10/24	Honeywell International	A2/A	4.5Bn	Multi-tranche	+78 (10y)	+82	A rare issuer in USD, priced marginally tighter than Euro-denominated debt.
10/24	Bank of Montreal	Aa3/A+	2bn	5yr	+95	+93	
10/25	Goldman Sachs (FRN)	A3/BBB+	1bn	11NC10	L+175	L+171	The 4 th floating-rate note by a US bank in the past week saw initial indigestion but spreads recovered well by week's end.
10/26	Danone SA	Baa1/BBB+	5.5bn	Multi-tranche	+115 (10y)	+113	Jumbo deal with a big order book, but priced right at fair value.
10/26	Daimler AG	A3/A-	2.5bn	3y & 5y	+90 (5y)	+86	
10/27	United Technologies	A3/A-	4bn	Multi-tranche	+83	+82	Priced on the heels of Honeywell at a similar spread.

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