



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Sep 19 – Sep 23, 2016

Central Banks were at the forefront of investor thoughts last week, with both the Bank of Japan and US Federal Reserve meeting to discuss rate policy. The Bank of Japan tweaked its approach to bond purchases, opting for a zero interest rate target on 10y Japanese Government Bonds (JGBs) rather than a volume purchase target which had pushed rates into negative territory. An explicit rate target on long-term bond yields is new territory for Central Banks, and it will be interesting to gauge how investors react. Reaction so far has been relatively muted, with JGBs continuing to trade close to their pre-meeting levels. At the very least, it is acknowledgement by at least one central bank that pushing rates ever more negative may not be having the intended consequences on economic growth.

The US Fed met Thursday and decided in a split vote to leave rates unchanged, sending a strong signal that the next rate hike will come in December. Cynical investors would say we've heard this before from the Fed, but the split vote (with three members voting to hike now) suggests sentiment has moved decidedly towards a hike. Regardless, the status-quo outcome for three more months allowed US credit to rally to its strongest levels since the first week of September. Supply was understandably more muted last week leading up to the Fed, but we expect plenty of issuance to close out the month. The continued lack of pricing concessions in new issues is making for a less attractive market overall.

### NAMES IN THE NEWS



- Encana (\$ECA) announced a USD 1 Billion public equity offering in an effort to pay down debt and maintain balance sheet flexibility. Bond investors reacted positively with Encana spreads 25bp tighter on the week.



- Brookfield Infrastructure Properties (\$BIP) has assembled a consortium for a USD 5.2 Billion purchase of gas pipeline assets in Brazil from Petrobras. While BIP has sufficient liquidity to fund the transaction, it does reduce the company's flexibility with respect to future transactions and may require additional funding should additional acquisition opportunities present themselves.
- DBRS downgraded the bond rating of BHP Billiton (\$BHP) one notch to A-low from A. Investors were comfortable with a one-notch downgrade with the company remaining in the single-A bucket, and credit spreads were modestly tighter on the week.
- Viacom (\$VIA) was cut one notch by Moody's to Baa3. Again, investors were comfortable that the company remains investment grade and spreads traded up to 10bp tighter on the week.

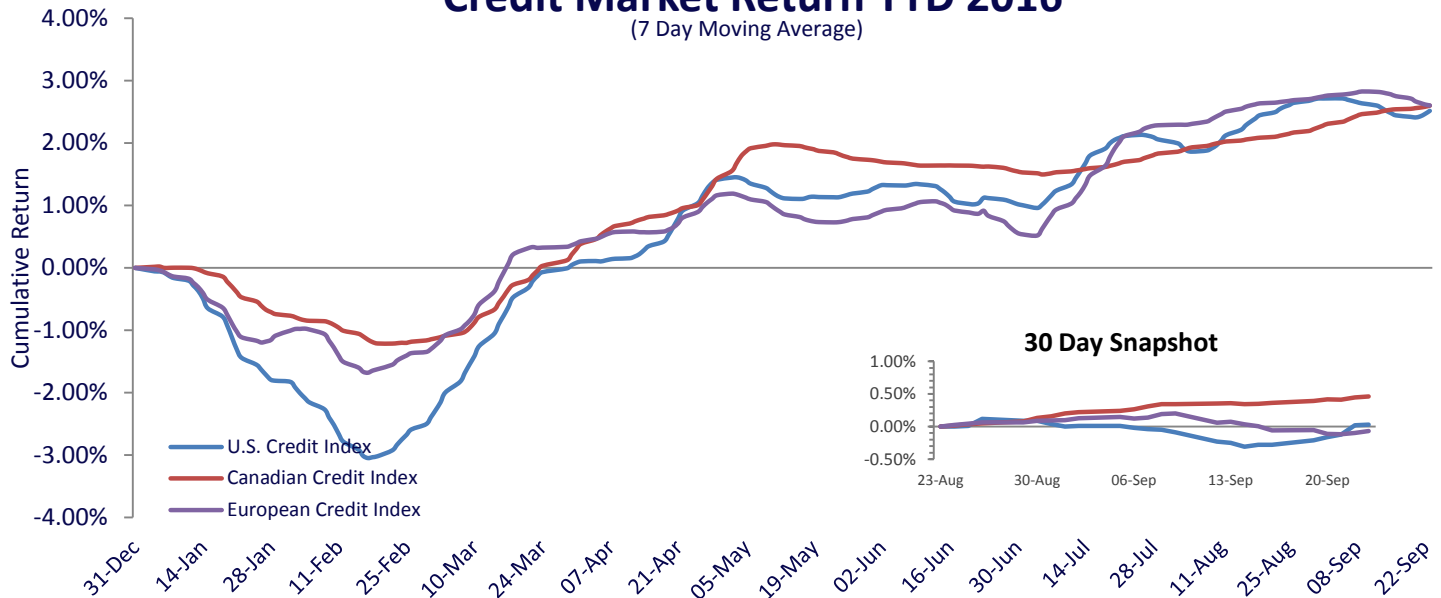
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.10%	0.31%	2.66%	Merrill Lynch: FOCO
US Credit	0.31%	-0.01%	2.69%	Barclays: LUCRER
European Credit	-0.01%	-0.16%	2.61%	Barclays: BECI
Barclays Global Credit Index	0.23%	-0.02%	2.98%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	1.30%	0.00%	5.18%	Merrill Lynch: CANO
Canadian High Yield	0.43%	0.79%	13.94%	Bloomberg: BCAAH
US High Yield	1.03%	0.26%	14.84%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.56%	-0.63%	1.06%	Bloomberg: TXPRAR
US Preferred	1.44%	-0.15%	6.80%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	1.70%	0.88%	15.42%	Bloomberg: SPTSX
US Stocks: S&P 500	1.20%	-0.18%	7.62%	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
09/22	First Capital Realty Inc	Baa2/BBB+	150mm	10y	+217	+217	Re-opening of existing May-2026 issue met with limited demand for REIT paper beyond 5 years.
09/23	Air Canada (1 <sup>st</sup> Lien Notes)	Ba3/BB+	200mm	7y (3y call)	+395	+405	A traditionally difficult name met with a small buyer base and traded modestly lower in early trading.
09/19	Shire PLC	Baa3/BBB-	12.1bn	Multi-tranche	+150 (10y)	+150	Launched to finance Baxalta acquisition. Large size and tight pricing left it struggling to perform out of the gate.
09/22	Air Liquide	A3/A-	4.5bn	Multi-tranche	+93 (10y)	+83	Launched to finance Airgas acquisition. Priced through secondary paper but still top performer. Lots of demand for Single-A corporates!
09/22	Goldman Sachs Group	A3/BBB+	3.5bn	5y (4y call)	+120	+119	The latest senior callable deal from a US bank. Priced at fair value with no concession.
09/19	Hess Corp	Ba1/BBB-	1.5bn	10y & 30y	+262 (10y)	+266	Another deal priced very tight and struggling to perform. Investors need to start passing on zero concession deals!

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