



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Sep 5 – Sep 9, 2016

Are we on the verge of another Taper Tantrum? Stock and bond markets appeared to be contemplating that possibility as both sold off sharply Thursday and Friday following a status-quo pronouncement from the European Central Bank early Thursday. Global risk markets have come to rely heavily on Central Bank reassurance, whether by action or by rhetoric, to propel equity markets higher and rates lower. When the ECB says they're in a holding pattern, combined with marginally more hawkish rhetoric from the US Fed the week before, traders clearly decided it's better to sell first and ask questions later.

Against this backdrop credit markets had one of their most active weeks of the year. The US saw \$52 billion of new investment grade corporate bonds issued across 79 deals in just 3 days. Concessions continue to be extremely thin, and the Friday selloff means many of this week's deals are left marginally underwater. Canada was slower to get going but still managed a respectable \$3.5 billion across 5 deals. Despite heavy supply the tone in global credit markets feels better than in equities or rates, as investors are willing to buy spread product at higher yields. Whether that holds will depend on how much lower this latest round of volatility takes us.

### NAMES IN THE NEWS



- Enbridge Pipelines (\$ENB) and Spectra Energy (\$SE) announced a merger to create one of North America's largest energy infrastructure companies. The all-share deal was received positively by bond markets, which saw Enbridge spreads in particular rally 20bp.
- Air Canada (\$AC) announced the early redemption of various existing bonds totalling over C\$1 billion as it uses the significant cash on hand to improve its balance sheet. Air Canada's ratings were subsequently raised one notch by S&P, from single-B to BB-.



- Wells Fargo (\$WFC) was fined \$185 million and ordered to pay restitution to existing customers after it was found that bank employees had illegally opened "millions" of unauthorized accounts in order to meet aggressive sales goals. Wells Fargo announced it has fired approximately 5300 employees in connection with the finding. Wells Fargo spreads were marginally wider on the week, but the fine will clearly hurt their reputation as a leader in US consumer banking.

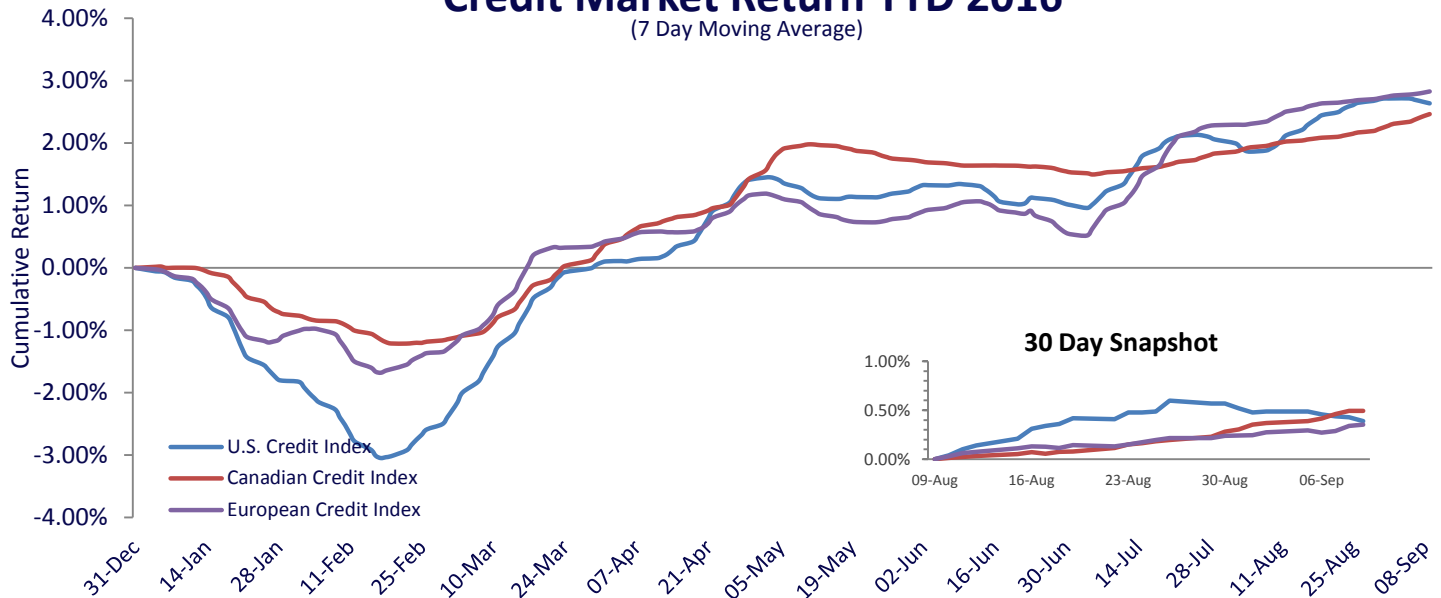
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.12%	0.19%	2.53%	Merrill Lynch: FOCO
US Credit	-0.10%	-0.13%	2.57%	Barclays: LUCRER
European Credit	0.08%	0.11%	2.88%	Barclays: BECI
Barclays Global Credit Index	-0.08%	-0.08%	2.92%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.67%	-0.85%	4.33%	Merrill Lynch: CANO
Canadian High Yield	0.24%	0.28%	13.37%	Bloomberg: BCAH
US High Yield	-0.04%	-0.03%	14.55%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	-0.76%	-0.85%	0.83%	Bloomberg: TXPRAR
US Preferred	-1.04%	-0.86%	6.04%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-1.68%	-0.30%	14.07%	Bloomberg: SPTSX
US Stocks: S&P 500	-2.36%	-1.95%	5.71%	Bloomberg: SPX



# THE SENTINEL

## Highlights from the week in Corporate Credit

### 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
09/06	Siemens AG	A1	6bn	Multi-tranche	+85 (10y)	+87	Typical of US high-grade issues, offered zero concession and faded by week's end.
09/07	Royal Bank of Canada	Aa3/AA	1.75Bn	5y	+96	+98	
09/07	BNS (Preferred)	N/A	500mm	Perp (5y call)	4.85%	N/A	Heavily oversubscribed with large institutional base. Upsized from 350mm.
09/08	TD Bank (sub-debt)	A2/A-low	1.5bn	15y (10y call)	+205	+198	Well received by US investors seeking higher spreads on Canadian banks.
09/08	Suncor Energy	Baa1	1Bn	10y & 30y	+190 (10y)	+185	
09/08	InterPipeline Ltd.	BBB-high	350mm	7y	+179	+168	Despite no visible concession to secondary paper, found heavy demand and drove sector spreads tighter.
09/08	Canadian Western Bank	A-low	250mm	5y	+210	+195	Generous 25bp concession and rallied hard on the break. Deal of the week!

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.