



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: January 4-8, 2016

Investment grade credit markets were remarkably well behaved to start the new year, given the pain felt in most asset classes (North American stocks -5%, Oil -11%). Spreads widened modestly amidst good two way flow throughout the week. There is evidence of investors shifting from equities to bonds as ongoing uncertainty around China, commodity prices, and Fed Rate hikes weigh on market sentiment. New issue activity was robust, though limited to Tuesday and Friday when the markets were at their most calm. Canadian banks were active, launching covered bonds in Europe and a new domestic preferred deal from TD.

NAMES IN THE NEWS



- Holders of Carlsberg ([\\$CABGY](#)) debt were encouraged after its chairman said the company will not be pursuing aggressive acquisitions in the near future.
- Shaw ([\\$SJR](#)) is said to be considering asset sales as an alternative to an equity raise to fund its purchase of Wind Mobile announced last month. Bond holders anxiously watch as the company (Baa3/BBB-) needs a viable plan if it is to avoid ratings cut to junk status.
- Transcanada Pipeline ([\\$TRP](#)) is seeking to recover up to \$15Billion of costs associated with the formal rejection of the Keystone Pipeline project, and announced it plans to take a \$2.5Bn writedown on assets associated with the project. Moody's and S&P both affirmed TRP credit ratings following the announcement.



- The US Department of Justice formally filed an environmental lawsuit against Volkswagen ([\\$VW](#)) over diesel emissions, which analysts say could run as high as \$19 Billion. The headlines contributed to equity weakness, though VW bonds appeared to move broadly in line with the market.
- Canadian National Railway ([\\$CNR](#)) filed a C\$6 Billion shelf prospectus this week, suggesting more bond issuance to come. The company has \$2.2Bn in upcoming maturities suggesting it may be looking to build a \$3.8Bn war chest as the rail industry looks set for consolidation in the next few years.
- Bonds of US retailer Macy's ([\\$M](#)) (Baa2/BBB+) traded to new lows this week, as the spread on its 2024 benchmark rose to 270bp. The credit spread has doubled in the past 6 months.

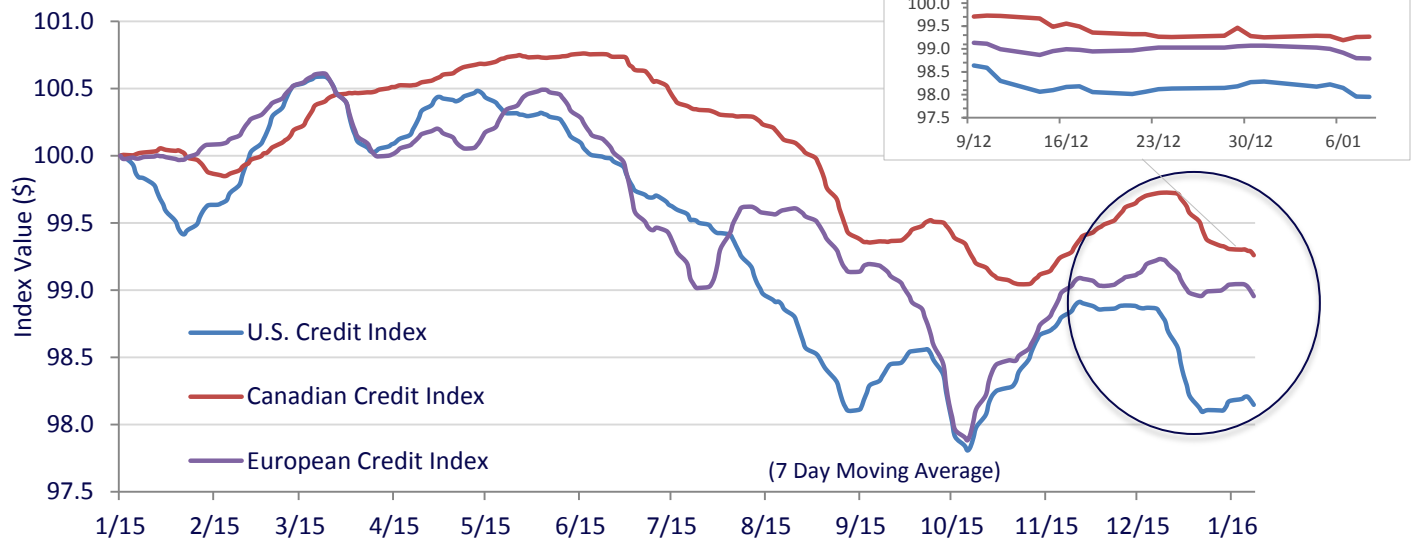
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.01%	0.01%	0.01%	Merrill Lynch: FOCO
US Credit	-0.34%	-0.34%	-0.34%	Barclays: LUCRER
European Credit	-0.28%	-0.28%	-0.28%	Barclays: BECI
Fixed Income (Total Return)				
Canadian Bond Universe	0.54%	0.54%	0.54%	Merrill: CAN0
Canadian High Yield	-0.13%	-0.13%	-0.13%	Bloomberg: BCAAH
US High Yield	-0.27%	-0.27%	-0.27%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	-6.50%	-6.50%	-6.50%	Bloomberg: TXPRAR
US Preferred	-0.11%	-0.11%	-0.11%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	-4.27%	-4.27%	-4.27%	Bloomberg: SPTSX
US Stocks: S&P 500	-5.91%	-5.91%	-5.91%	Bloomberg: SPX



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Credit Market Return YOY



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
01/05	Barclays PLC	Baa3/BBB	4Bn	Multi-tranche	+220 (10y)	+218	Well received
01/05	Disney	A2/A	3Bn	Multi-tranche	+80 (10y)	+82	Last came to market in Sept 2015
01/05	Ford Motor Company	Baa3/BBB-	2.75Bn	Multi-tranche	+215 (10y)	+220	Deal not available in Canada
01/05	TD Bank (NVCC Pfd)	A3	700mm	Perp (5y call)	5.5%	N/A	Free to trade 1/14
01/05	TD Bank (Covered)	Aaa/AAA	1Bn	5y	+58	+57	
01/06	National Australia Bank	Aa2/AA-	3.5Bn	Multi-tranche	+105 (5y)	+97	Top US performer on the week
01/07	Bank of Montreal	Aaa/AAA	1.5Bn	3y	+47	+45	
01/07	Bank of Nova Scotia	Aaa/AAA	400mm	3y	+45	+45	

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