



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: Feb 22-26, 2016

Global credit markets continued to recover last week with a strong week in US High Yield. Oil's push above \$30 led to some bottom picking in energy sector bonds, as recent ratings downgrades worked their way through the system. Despite the broad based strength, European banks continue to struggle, in particular UK banks as fears of a "Brexit" dominate the headlines. Canadian bank earnings were mixed, as a new preferred deal from RBC and bond deal from TD weighed on the sector. New issue supply continues to be heavy, with new issue concessions in the US shrinking from the prior week as most deals managed to perform.

NAMES IN THE NEWS



- Barrick Gold ([\\$ABX](#)) announced a tender for up to \$750mm of bonds as part of its ongoing debt reduction effort, its third such tender in the past 6 months. Barrick 10 year bonds have rallied 9% since the start of the year.
- HSBC ([\\$HSBC](#)) reported its first quarterly loss in 5 years citing increased impairment on energy sector loans and a slowdown in revenue out of Asia. Despite the loss, HSBC's core Tier 1 ratio continues to improve, up from 11.1% to 11.9% over the past 12 months reflecting an underlying trend of balance sheet improvements at global banks.
- On Wednesday Enbridge ([\\$ENB](#)) announced a CAD 2 Billion equity issue which caught the market by surprise. The equity raise was a positive for bonds which rallied 40-50bp initially before fading somewhat towards the end of the week.
- Canadian Natural Resources ([\\$CNO](#)) was downgraded 2 notches by Moody's to Baa3 and left on negative watch. While negative watch leaves the company susceptible to a cut to junk, the market was relieved that it retains Investment Grade status for the time being. Spreads finished the week 30-40bp tighter.
- Husky Energy ([\\$HSE](#)) reported quarterly results in line with expectations, but saw debt ratios increase year-over-year. Despite the increase in leverage, management remains committed to maintaining investment grade ratings (Baa2/BBB+), cutting discretionary capital expenditure by 40%. Husky spreads were modestly tighter on the week.
- BHP ([\\$BHP](#)) announced a range of bond friendly measures, most notably a 75% dividend cut after suffering a near \$6 billion loss for 2015. The moves prompted S&P to remove the company from negative watch.



- Canadian Utilities ([\\$CU](#)) outlined a \$3.8 billion capital expenditure forecast for 2016-2018. To meet the forecast, Scotia suggests the company will need to issue \$700-800mm of new debt per year.
- Corus Entertainment ([\\$CJR/B](#)) was forced to pull its planned bond deal, citing market conditions. Instead, the company will exercise a bank-syndicated bridge loan to fund its purchase of media assets from Shaw Media, and look to replace with bonds later in the year. The upcoming "pick-and-pay" legislation, creating uncertainty over specialty channels in Canada, was no doubt a factor in the failure of the deal.
- Canadian Bank earnings were under scrutiny this week, as investors tried to gauge sensitivity to oil prices and housing. Results were mixed, and while there were no major surprises we see ongoing earnings pressure and technical pressure from issuance as modestly negative for spreads.

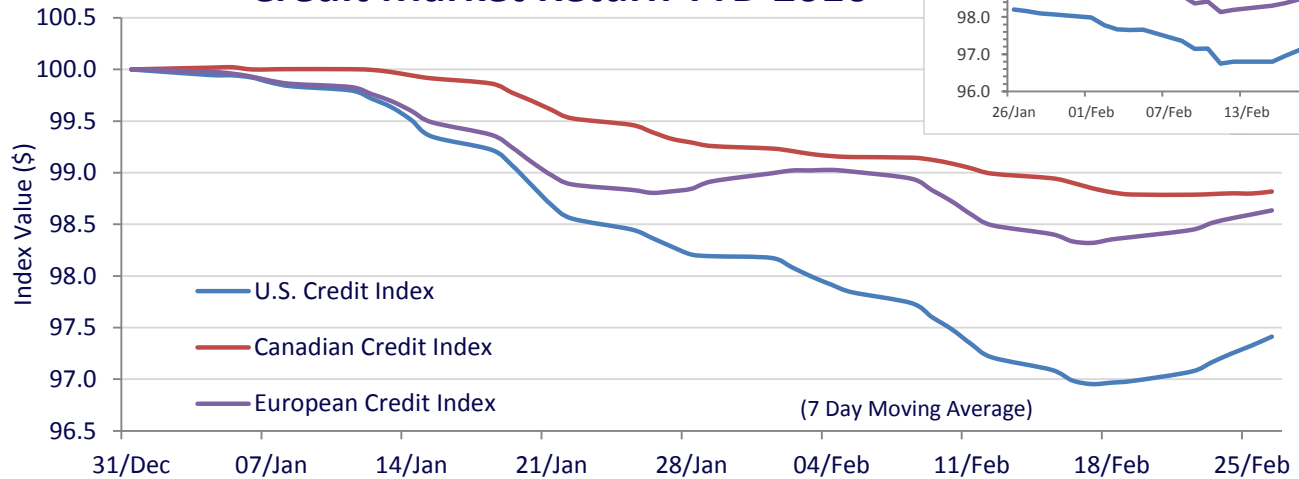
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.12%	-0.31%	-1.11%	Merrill Lynch: FOCO
US Credit	0.45%	-0.38%	-2.30%	Barclays: LUCRER
European Credit	0.17%	-0.39%	-1.26%	Barclays: BECI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.51%	0.21%	0.64%	Merrill: CAN0
Canadian High Yield	0.44%	0.25%	-1.59%	Bloomberg: BCAH
US High Yield	1.47%	-0.09%	-1.69%	Merrill: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-1.71%	-3.77%	-13.78%	Bloomberg: TXPRAR
US Preferred	1.18%	-0.17%	-1.11%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	-0.07%	-0.08%	-1.27%	Bloomberg: SPTSX
US Stocks: S&P 500	1.63%	0.67%	-4.32%	Bloomberg: SPX



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Credit Market Return YTD 2016



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
02/22	Cisco Systems	A1/AA-	7Bn	Multi-Tranche	+100 (5y)	+80	Strong performer despite jumbo size.
02/23	AIG Insurance	Baa1/A-	1.5Bn	5y	+210	+185	Company to tender for \$1Bn of high coupon debt. Star performer on the week.
02/23	Mitsubishi UFJ	A1/A	5Bn	Multi-Tranche	+215 (10y)	+199	Inaugural holdco deal for the Japanese bank.
02/24	Bell Canada	Baa1/BBB+	750mm	10y	+251	+241	Heavily oversubscribed with bonds hard to find in the secondary.
02/25	General Motors Financial	Ba1/BBB-	2.75Bn	Multi-Tranche	+360 (10y)	+344	
02/25	Intact Financial	Baa1/A	250mm	10y	+264	+259	First new deal in nearly 4 years; needed large concession to find demand.
02/25	Royal Bank (Preferred NACC)	Baa2	750mm	Perp (5y call)	5.5%	N/A	Priced with decent concession but upsized to fill demand.
02/26	TD Bank (Tier 2 NVCC)	A2/A(low)	1.25Bn	15y (call 10y)	+369	+357	First domestic 10y NVCC deal, priced with a steep curve and very well received.

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