



# THE SENTINEL

## Highlights from the week in Corporate Credit

SUMMARY: March 21-24, 2016

A hawkish tone from various Fed speakers, a stronger US\$, and a weakness in oil all contributed to a pause in the ferocious credit rally that had been in place for the past 4 weeks. The new issue calendar was light (essentially non-existent in Canada), but the US\$ deals that were launched were generally well over-subscribed and fills were very light. These deals tended to initially trade better but as the week went on there was less follow-on buying and deals drifted back towards original spreads.

The Canadian Federal Budget released on Tuesday was mostly in-line with market expectations. Some comments on “bail-in” securities has the market speculating that we may see these securities as early as mid-2017 – although we do not expect a material impact to existing deposit notes/NVCC securities until further clarification is released in the upcoming months. Notable credit strength in Canada this week was seen in recently issued bank preferreds along with other wide spread BBB names in the 3-5yr maturity bucket as accounts needed to put money to work and issuance has been light.

### NAMES IN THE NEWS



- S&P revised Air Canada’s ([\\$AC](#)) outlook to positive from stable and affirmed its B+ long-term corporate credit rating. The 2019 maturity bonds are up \$0.25 on the week.
- Veresen Inc. ([\\$VSN](#)) announced final terms on a joint-venture with two Japanese firms for the long-term provision of natural gas liquefaction capacity at Veresen’s Jordan Cove facility. Although this deal was positive for equity, the expectation of increased leverage and debt issuance is a small negative for the bonds.
- TransCanada Corp ([\\$TRP](#)) bonds and stocks both benefited from news that the company was working with JPMorgan Chase to find buyers for more than US\$ 7bn in merchant power assets with the proceeds to be used to help finance its acquisition of Columbia Pipeline Group.



- European financials were weaker as terrorist attacks in Brussels, and expectation for more debt issuance weighed on the space.
- Volkswagen AG ([\\$VOW](#)) failed to reach an agreement with the US Justice Department related to its rigged diesel engines. The judge in the case has set a new April 21 deadline for the submission of a detailed proposal. Bonds are unchanged with the stock off 2%.
- Nike ([\\$NKE](#)) stock fell as much as 6% following third-quarter earnings wherein revenue fell short of analyst expectations.

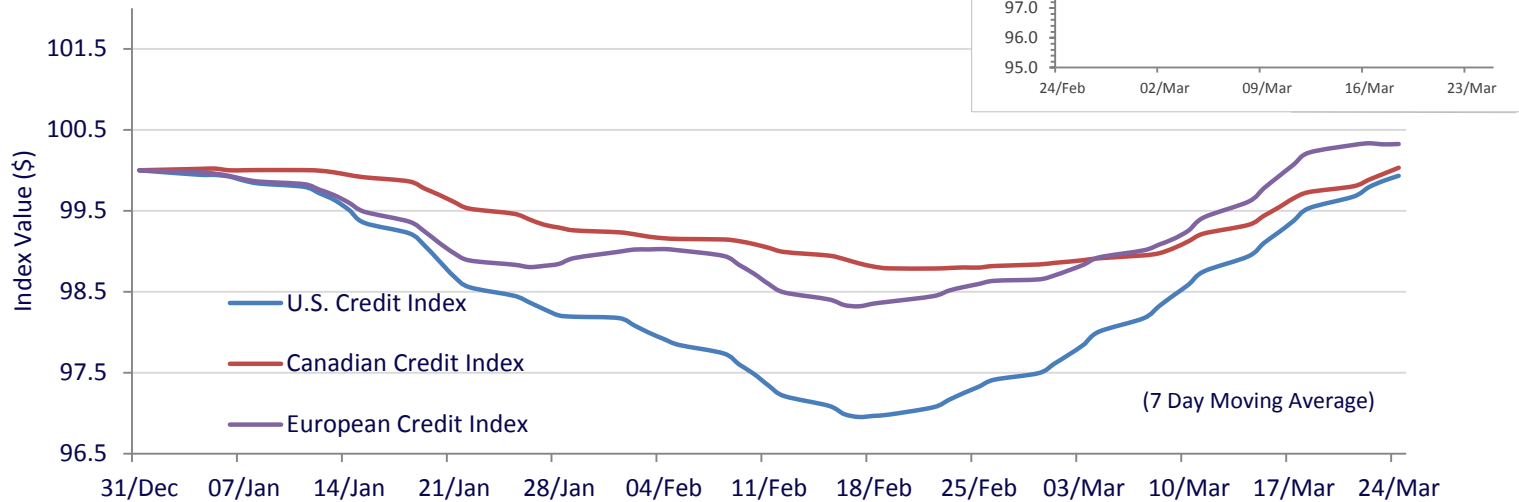
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.44%	1.43%	0.31%	Merrill Lynch: FOCO
US Credit	0.20%	2.29%	0.05%	Barclays: LUCRER
European Credit	0.14%	1.70%	0.40%	Barclays: BECI
Barclays Global Credit Index	0.21%	2.26%	0.10%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.22%	0.31%	1.01%	Merrill: CAN0
Canadian High Yield	0.51%	3.19%	1.59%	Bloomberg: BCAH
US High Yield	-0.72%	4.01%	2.88%	Merrill: H0A0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	2.59%	9.05%	-5.85%	Bloomberg: TXPRAR
US Preferred	0.34%	1.91%	0.60%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: TSX 300	-0.97%	4.10%	3.30%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.65%	5.52%	0.14%	Bloomberg: SPX



# THE SENTINEL

## Highlights from the week in Corporate Credit

### 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 (BECL) 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
03/21	Fedex Corp	Baa2/BBB	2bn	Multi-Tranche	+135 (10yr)	+134	Well received, non-financial issuer.
03/21	Avnet Inc	Baa3/BBB-	550mm	10yr	+280	+282	Credit is not heavily followed and deal struggled to get completed.
03/22	Citigroup Inc	Baa1/A	1.5bn	5yr	+133	+132	Serial issuer. Deal was approx. 5bps cheap to secondary.
03/22	Sysco Corporation	A3/BBB+	2.5bn	Multi-Tranche	+140 (10yr)	+140	Acquisition financing with over 20bn in orders. Final pricing was severely tightened from initial guidance.
03/23	BNP Paribas	Ba1/BBB-	1.5bn	Perp NC5	7.625%	7.58%	Fairly priced compared to existing 10yr bond.

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.