



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: March 7-11, 2016

New money continues to pile into credit, but the three-week-old spread rally appeared to be running out of steam early in the week. All that changed on Thursday when the ECB unveiled a broader array of stimulus measures than the market was expecting. Perhaps most significantly was the expansion of the QE bond buying program to include investment-grade corporate debt. Details of what bonds the ECB will buy and in what size remain sketchy, but Thursday and Friday saw a sharp snap tighter in credit markets – primarily in Euro denominated debt but affecting developed market bonds worldwide. In fact, we see this as the single biggest weekly rally in credit since at least October. Interest rates continue to grind higher from the February lows and government bond yields in Canada are now close to unchanged year to date. Brazil's first US dollar bond deal in 18 months, launched Thursday, is an indicator of the improvement in sentiment in the emerging market space. If oil holds above \$35 we expect the ECB-fuelled credit rally can continue through next week.

NAMES IN THE NEWS



- Enercare ([\\$ECI](#)) announced a \$340mm acquisition of SEHAC Holdings. Enercare bonds were cut one notch to BBB by S&P but left on outlook stable while DBRS placed its BBB-high rating under review. The retention of an investment grade rating was seen as positive, and Enercare spreads are moderately tighter on the week.
- Corus shareholders approved the purchase of Shaw Media assets, despite cancelling its bond deal earlier this month. Corus is expected to finance the acquisition with a bank bridge loan until such time as a bond deal can be launched. Corus 2020 bonds, which will be called as part of the transaction, were up over 3% on the week.
- Bonds of Valeant Pharmaceuticals ([\\$VRX](#)) were moderately higher this week after announcing much-needed improvements to its corporate governance, including adding 3 independent directors to its board. Valeant bonds (B1/B-) have fallen 18% in the past six months.
- General Motors ([\\$GM](#)) was upgraded one notch by DBRS to BBB-mid on Thursday. The company remains sub-investment grade (Ba1) at Moody's.



- Quebec convenience store operator Couche-Tard ([\\$ATD/B](#)) agreed to pay \$1.7 Billion to buy 279 Esso stations in Ontario and Quebec. Although the company says it can fund the acquisition with existing cash and credit facilities, spreads were 5-6bp wider as leverage is expected to rise from 1.5x to 2.0x.
- Sobey's ([\\$SBY](#)) bond spreads came under pressure after reporting disappointing earnings on Wednesday, including a \$1.7 billion writedown on its 2013 Safeway acquisition.

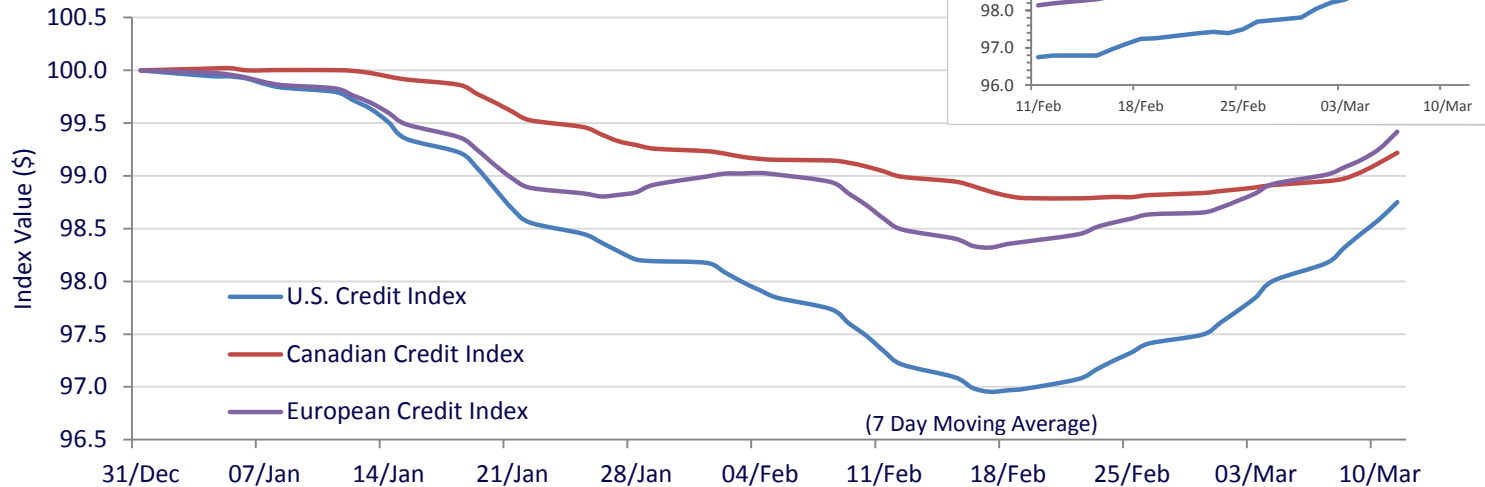
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.57%	0.69%	-0.42%	Merrill Lynch: FOCO
US Credit	0.84%	1.55%	-0.67%	Barclays: LUCRER
European Credit	0.98%	1.50%	0.21%	Barclays: BECI
Barclays Global Credit Index	0.93%	1.61%	-0.56%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.17%	-0.58%	0.13%	Merrill: CAN0
Canadian High Yield	1.46%	2.19%	0.60%	Bloomberg: BCAH
US High Yield	1.17%	3.64%	2.52%	Merrill: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	1.17%	5.46%	-8.96%	Bloomberg: TXPRAR
US Preferred	0.53%	1.28%	-0.02%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	2.49%	5.33%	4.53%	Bloomberg: SPTSX
US Stocks: S&P 500	1.19%	4.77%	-0.56%	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 (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
03/07	TD Bank (Covered Bond)	Aaa/AAA	1.75Bn	5y	+87	+85	Canadian banks continue to find cheap funding options in foreign markets.
03/07	Abbey National	A1/A	2Bn	3y	+150	+141	
03/07	HSBC Holdings	A1/A	2Bn	6y	+192	+144	Bank spreads in Europe had a phenomenal week following ECB moves.
03/08	Wells Fargo & Co	A1/A	1Bn	5y	+157	+143	First "HoldCo" Maple issue for Wells Fargo. Well received and finished only 20bp back of deposit notes.
03/08	Laurentian Bank (NVCC Preferred)	--/--	100mm	Perp (5y call)	5.85%	N/A	The supply in NVCC preferred continues.
03/08	Berkshire Hathaway	Aa2/AA	9Bn	Multi-Tranche	+130 (10y)	+107	Jumbo launch of the week, met with insatiable investor demand for liquid credit.
03/09	Royal Bank of Canada	Aa3/AA	2.5Bn	5y	+134	+126	Well absorbed despite jumbo size.
03/10	Canadian Western Bank (NVCC Preferred)	--/--	140mm	Perp (5y call)	6.25%	N/A	75bp back of recent prefs issued by RBC/TD/BNS feels tight but most deals performing well.

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