



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: May 16 - 20, 2016

A mixed week for risk markets which was punctuated by the release of Fed minutes from the April meeting on Wednesday. Those minutes suggested the Fed was pre-disposed to a 25 basis point hike in June. That came as a shock to rates traders, who were pricing in only a 4% chance of a June hike. Treasury markets sold off sharply, with the 5-year yield rising by as much as 11bp in the hour after the release. Despite higher rates on the week, stocks managed to remain in positive territory. Credit was mixed, with indices wider overall even though bank spreads (outside of Canada) benefitted from expectations of higher rates. European Credit benefitted from polls suggesting the “Remain” side is gaining a small but significant lead in the Brexit vote. New issue activity continues to be robust, with the \$20 billion deal for Dell generating over \$80 billion of demand. After breaking up to 25bp tighter, the deal struggled to hold gains by week’s end.

NAMES IN THE NEWS



- Fitch rating agency raised its outlook on Rogers Communications (\$RCI) from negative to stable. Rogers has made some progress in reducing leverage following its mega-deal to purchase NHL broadcast rights and remains committed to the cause. Notwithstanding, Rogers has significant bond maturities in 2016 and we fully expect them to issue new debt in the near term.
- Canada’s National Energy Board approved expansion of the Kinder Morgan’s Trans-Mountain pipeline between Edmonton and the Pacific Ocean. The approval has a number of conditions attached and still has further hurdles to cross. \$KMI spreads were unchanged on the week, as positive fundamentals were offset by expectations of a bond issue to finance the build.



- Genworth Canada (\$MIC) was downgraded to A-high from AA-low at DBRS. Spread impact was minimal however, as S&P has long rated this credit BBB+. The name trades more like a BBB than a single-A credit.
- Gap Stores (\$GPS) bonds were cut to junk by S&P this week after announcing it will close up to 75 stores. Bonds have fallen 5% so far in May.

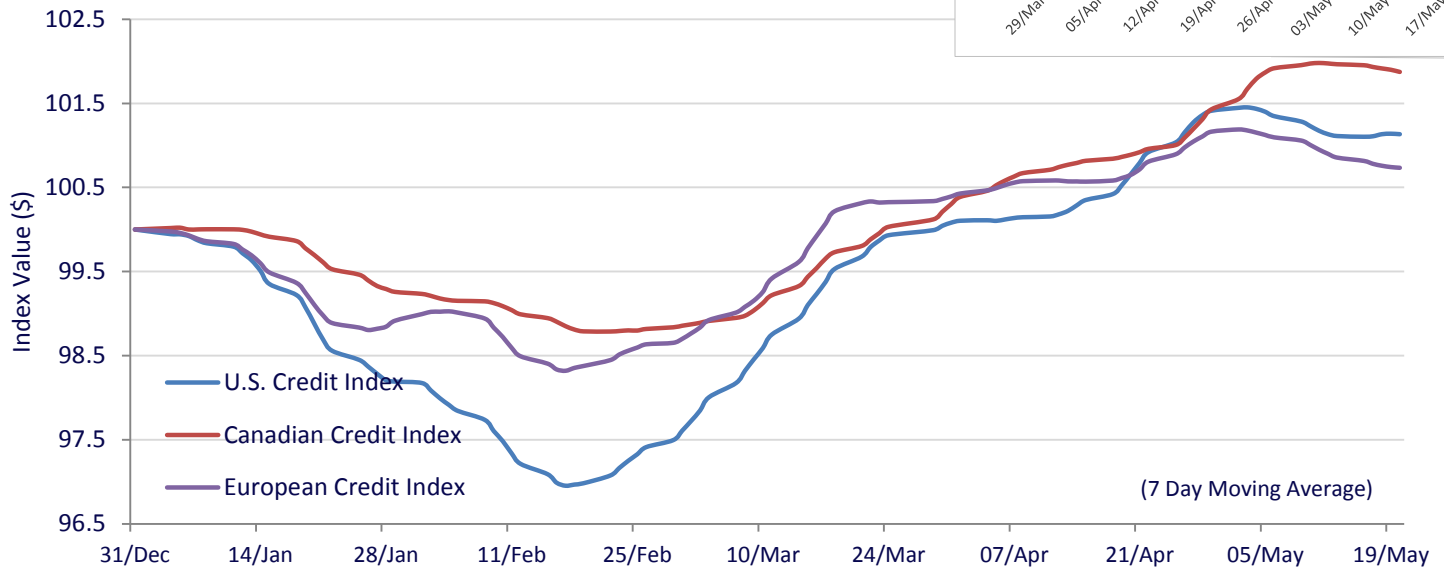
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.17%	-0.05%	1.76%	Merrill Lynch: FOCO
US Credit	-0.03%	-0.38%	1.08%	Barclays: LUCRER
European Credit	0.00%	-0.45%	0.73%	Barclays: BECI
Barclays Global Credit Index	-0.02%	-0.38%	1.09%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.46%	0.65%	1.98%	Merrill: CAN0
Canadian High Yield	0.58%	0.86%	5.70%	Bloomberg: BCAH
US High Yield	0.25%	-0.19%	7.16%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	0.00%	-0.80%	-3.60%	Bloomberg: TXPRAR
US Preferred	0.14%	0.79%	2.98%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	1.34%	-0.22%	8.10%	Bloomberg: SPTSX
US Stocks: S&P 500	0.35%	-0.42%	1.31%	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 (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
05/16	407 International	A/A	500mm	31y	+162	+164	Priced with modest concession but struggled to hold new issue spread.
05/16	Canadian Tire REIT	BBB+/BBBh	350mm	5y & 10y	+198 (10y)	+204	Priced tight to secondaries. Despite a big order book, this deal was wider from the start.
05/17	Cominar REIT	BBB-low	225mm	7y	+325	+323	10-15bp concession but recent REIT supply limited upside.
05/17	Gaz Metro Inc	A+/A	100mm	4y	+92	+90	Small deal. Performed but liquidity will be limited.
05/17	Dell (Diamond Finance)	Baa3/BBB-	20Bn	Multi-tranche	+425 (10y)	+422	Highly anticipated jumbo deal. Broke 25bp tighter; heavy profit taking later in the week.
05/18	HSBC Holdings	A1/A	8Bn	Multi-tranche	+210 (10y)	+208	HSBC a very active issuer this year to meet TLAC requirements.
05/19	Southern Company	Baa2/BBB+	8.5Bn	Multi-tranche	+145 (10y)	+145	Priced with virtually zero concession.

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.