



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: April 25-29, 2016

A more subdued week for international credit as earnings releases and central bank announcements kept corporate bond markets more on the sideline. As expected, the US Federal Reserve left interest rates unchanged on Wednesday, but tweaked the language on their press release to leave the door open for a hike at the next meeting in June. On Thursday the Bank of Japan surprised and disappointed the markets by not cutting rates, and we saw global equity markets trade lower into the weekend.

Canadian corporate bonds had a particularly good week fuelled in part by higher oil prices. Canadian markets had lagged the US for most of April, and played catch-up to finish the month. Government bonds traded lower as the yield on the 10-year benchmark rose 18bp this month – another factor which helped credit to rally. A new 5-year deal for international insurer Aviva launched on Wednesday was a blowout, and managed to tighten 35bp in two days. We still think the bond offers value at a 4.2% yield for 5 years on a Baa1 credit.

Overall the tone in credit remains strong, even as stock markets traded lower on the week. However, there are reasons to be cautious heading into May with stock markets showing signs of fatigue and new issue supply expected to increase.

NAMES IN THE NEWS



- GE Capital announced it would tender for certain bonds, including 6 Canadian dollar securities. The offer is at a reasonable premium to pre-announcement markets, and we would expect holders to tender where feasible.
- The outlook for General Motors' BBB- credit rating outlook was raised to positive from stable by S&P. While the news is marginally good for spreads, the more significant news is yet to come from Moody's, which is the sole agency to still rate GM below investment grade (Ba1).
- Husky Energy received a \$1.7 billion capital injection from principal shareholder Li Ka-Shing. The company agreed to sell certain pipeline assets for cash while retaining a partial economic interest. The news is mixed for shareholders but positive for bondholders as it strengthens Husky's balance sheet and reduces the need to issue debt.



- Toronto Hydro was cut to outlook negative by S&P, citing increased capital spending. With a single-A rating, even a cut to A- is likely to have a minimal spread impact.
- Volkswagen was cut to BBB-high from A-low by DBRS. The move was not unexpected given Volkswagen's recent troubles. Spreads still managed to trade tighter on the week following their US legal settlement announcement earlier this month.

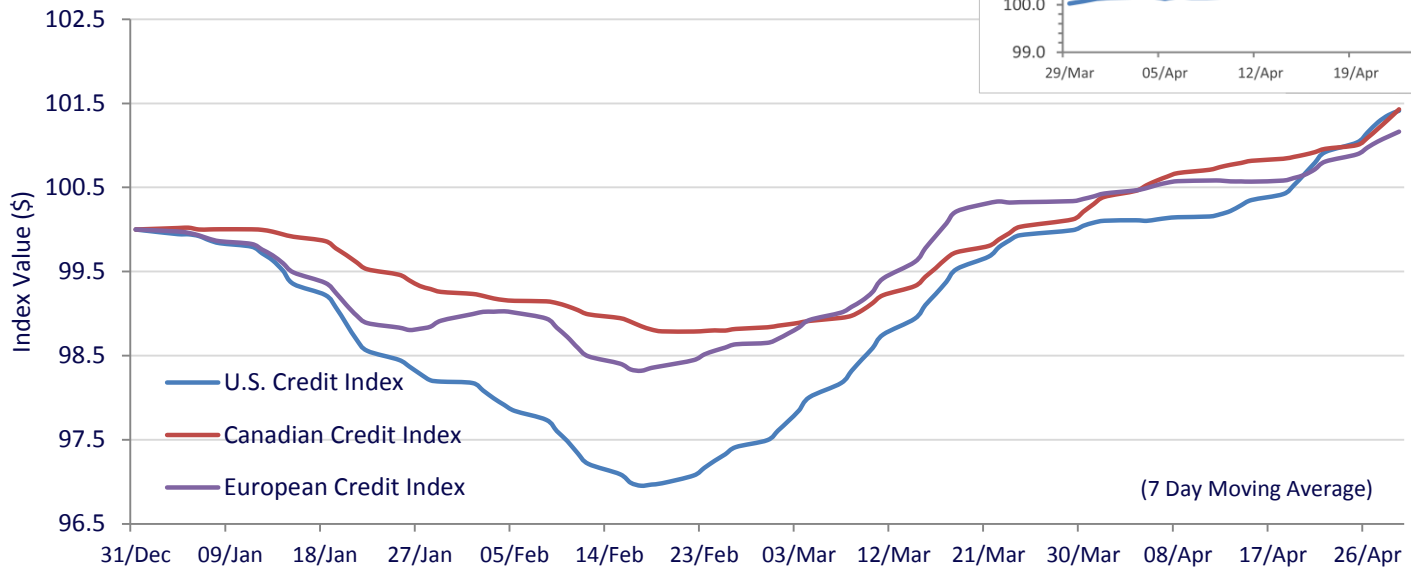
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.69%	1.28%	1.81%	Merrill Lynch: FOCO
US Credit	0.11%	1.34%	1.47%	Barclays: LUCRER
European Credit	0.00%	0.71%	1.19%	Barclays: BECI
Barclays Global Credit Index	0.15%	1.31%	1.47%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.21%	-0.01%	1.34%	Merrill: CAN0
Canadian High Yield	0.94%	2.66%	4.79%	Bloomberg: BCAAH
US High Yield	0.81%	4.10%	7.35%	Merrill: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.71%	2.96%	-2.82%	Bloomberg: TXPRAR
US Preferred	0.30%	0.96%	2.18%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	0.59%	3.77%	8.34%	Bloomberg: SPTSX
US Stocks: S&P 500	-1.24%	0.39%	1.74%	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
04/26	First Cap Realty	Baa2/BBB	150mm	10y	+204	+194	Snapped up by supply starved Canadian investors.
04/27	Aviva PLC	Baa1	450mm	5y	+367	+330	A new name for Canadian market found overwhelming interest and tightened 30bp on first day. Deal of the week!
04/26	Citigroup	Baa1/BBB+	2Bn	10y	+150	+155	Priced at the tight end of expectations and struggled to hold new issue spread.
04/28	BP PLC	A2/A-	2Bn	3y & 10y	+130 (10y)	+122	Energy sector bonds continue to perform exceptionally well.
04/29	Ford Motor Credit	Baa2/BBB	2.25Bn	3y & 7y	+150 (7y)	+147	Little concession offered but still traded up.

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