



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: May 2-6, 2016

May began with a reversal of March and April sentiment as equity and credit markets sold off amid falling oil prices and poor economic data out of Europe and the US. Global interest rates fell for the second straight week. US bond yields are back near recent lows as the market continues to discount the likelihood of additional rate hikes in 2016. However we did see the market shrug off a poor employment report in the US on Friday to finish modestly higher across most sectors, which may set the table for a better week ahead.

Sentiment in Canadian credit remained positive this week, as a lack of new issue supply and rotation out of equities maintained a supportive technical environment for corporate bonds. However the wildfire tragedy in Alberta has cast negative tone across the oil & gas and insurance sectors. Intact Financial Insurance spreads widened 15-20bp, while a number of investment grade energy names were out 20-30bp.

New issue activity in the US was brisk this week, and supply is expected to be high for the balance of the month. This will create trading opportunities in our strategies; even as it puts pressure on overall spread markets.

NAMES IN THE NEWS



- Bell Canada (\$BCE) is to acquire Manitoba Tel (\$MBT) in a deal valued at C\$3.1 billion. MBT spreads tightened 25bp on the news while Bell spreads widened 3-5bp on expectations of new bond issuance to finance the deal.
- Westjet (\$WJA) picked up a Baa2 rating from Moody's (previously unrated). Two investment grade ratings (BBB- at S&P) should be supportive for spreads in the medium term, though Westjet remains at the upper end of ratings for the industry.
- GE Capital Canada (\$GE) announced that investors had tendered 69% of qualifying bonds back to the company, for a total tender of C\$3.5 billion. The reduction of outstanding GE paper should be supportive for spreads, though bonds will no doubt become less liquid given the smaller average issue size.



- Halliburton (\$HAL) has abandoned plans for a \$28 billion takeover of Baker Hughes (\$BHI) announced 18 months ago. There are repercussions for bondholders, with two Halliburton deals launched in November to fund the acquisition now being called at 101. HAL spreads 10-20bp wider on the news while BHI spreads were unchanged.
- Telus (\$T) reported lower earnings for Q1, citing restructuring costs and an accelerated depreciation on existing assets. Telus has significant debt maturities over the next 12 months and an aggressive capex program, and we remain cautious on the name while we await a potential new issue.

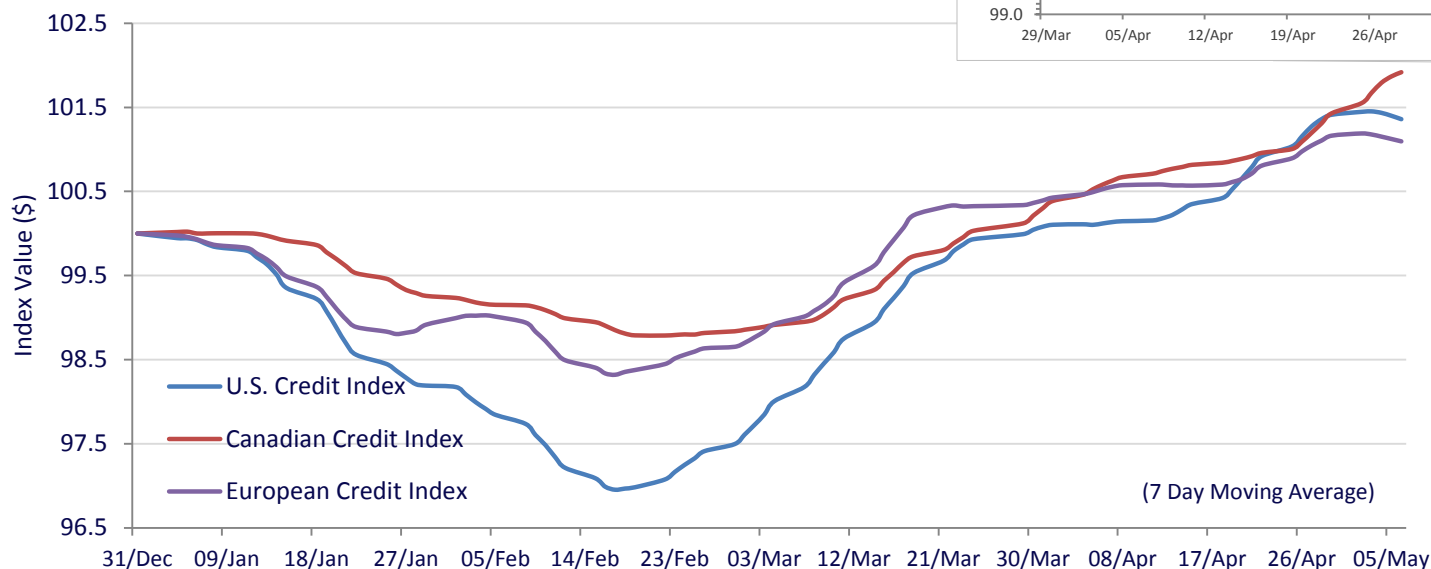
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.21%	0.21%	2.02%	Merrill Lynch: FOCO
US Credit	-0.34%	-0.34%	1.12%	Barclays: LUCRER
European Credit	-0.21%	-0.21%	0.97%	Barclays: BECI
Barclays Global Credit Index	-0.29%	-0.29%	1.18%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.86%	0.86%	2.19%	Merrill: CANO
Canadian High Yield	0.15%	0.15%	4.95%	Bloomberg: BCAH
US High Yield	-0.93%	-0.93%	6.42%	Merrill: H0A0
Preferred Shares (Total Return)				
Canadian Preferred	-0.20%	-0.20%	-3.02%	Bloomberg: TXPRAR
US Preferred	0.21%	0.21%	2.39%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	-1.87%	-1.87%	6.31%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.33%	-0.33%	1.40%	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
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.

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.