



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Jun 20 – Jun 24, 2016

It goes without saying what the top story of the week was. Britain's unexpected decision to exit Europe caught markets off guard and more than reversed what had been an otherwise positive week for global credit. It's too soon to predict the long term ramifications – negotiations can't even commence until Britain identifies a new leader after Cameron's resignation – however we would remind investors that Investment Grade credit should prove a more robust strategy than most. UK banking, construction and travel industries were hit the hardest, but all sectors and regions were wider/lower on a tumultuous Friday, including North America. Trade volumes were muted, which suggests credit investors are content to watch and wait for more details. We do think that until we know who is favoured to be the British Prime Minister, what their plan is for renegotiating European trade agreements, and how Europe reacts to those proposals, we are in for a summer of ongoing market volatility. We intend to selectively add risk in this weakness, but will not be in an immediate rush.

Canada should prove a relative safe haven through the turmoil, though is not immune to a global selloff. The drop in oil back below \$50, if sustained, will negatively impact what had been a productive first half of the year for Canadian credit. In rates news, futures markets are now pricing no US rate increases in 2016, and actually suggest a chance of a rate cut (recall in December the Fed predicted 4 rate hikes in 2016 – and we have yet to have even one). Not surprisingly, gold names like Barrick were higher/tighter for the week.

### NAMES IN THE NEWS



- Dream REIT (\$D-U) and H&R REIT (\$HR-U) are both using proceeds from partial sale of Scotia Plaza in downtown Toronto to pay down debt. Spreads were unchanged on the week despite general market softness.
- The Federal Reserve announced on Thursday that all 33 US Banks passed its annual stress test for the second year running. Morgan Stanley (\$MS) was borderline, but still demonstrated it held sufficient capital to withstand an economic shock. US bank spreads were wider on the week in sympathy with their European counterparts.
- Following from its outlook upgrade by DBRS last week, the 407 East Development project was similarly upgraded to stable outlook by S&P this week. The project received key completion certificates last week marking the end of construction phase.



- CP Rail (\$CP) announced it expects revenues and EBITDA to decline in the current quarter. CP spreads are trading near YTD tights but were modestly wider on the week, and may be fully valued in the near term.
- DBRS downgraded Molson Coors (\$TAP) by one-notch to BBB-low. TAP is expected to bring a bond deal subject to market conditions to fund its purchase of MillerCoors from SAB Miller.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.06%	-0.04%	1.67%	Merrill Lynch: FOCO
US Credit	-0.05%	-0.49%	0.86%	Barclays: LUCRER
European Credit	-0.50%	-0.70%	0.26%	Barclays: BECI
Barclays Global Credit Index	-0.23%	-0.61%	0.74%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.08%	1.16%	3.47%	Merrill: CANO
Canadian High Yield	-0.64%	0.72%	7.45%	Bloomberg: BCAH
US High Yield	0.15%	0.34%	8.49%	Merrill: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	1.39%	-1.54%	-3.82%	Bloomberg: TXPRAR
US Preferred	-0.11%	0.21%	4.02%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: TSX 300	-0.04%	-1.10%	8.17%	Bloomberg: SPTSX
US Stocks: S&P 500	-1.62%	-2.71%	0.76%	Bloomberg: SPX

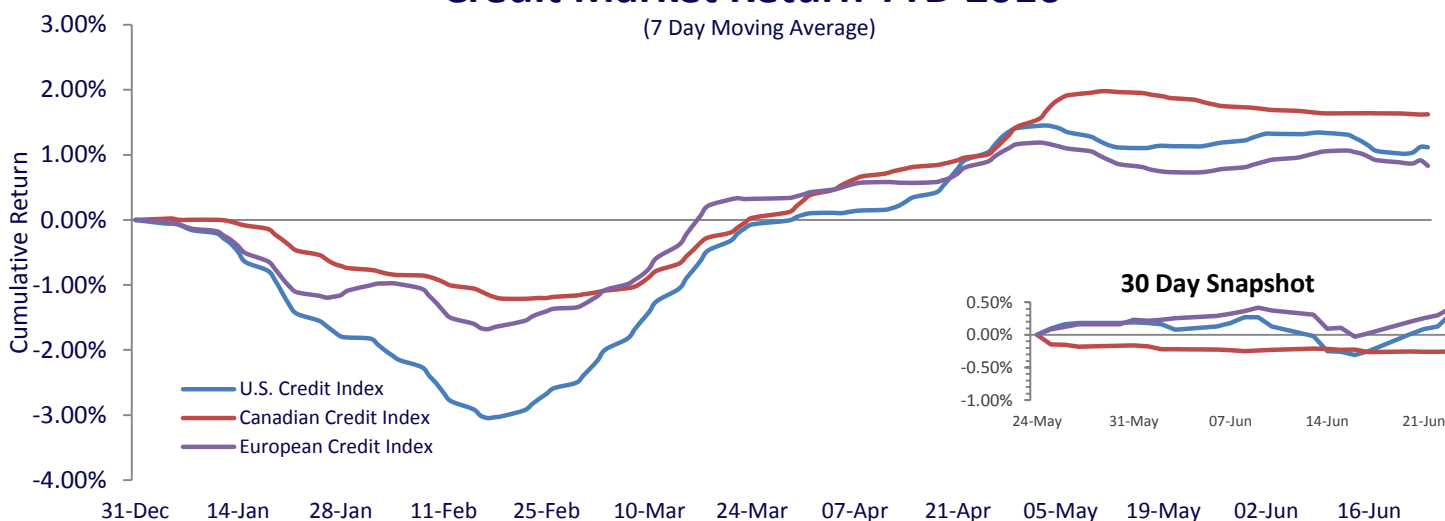


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## Credit Market Return YTD 2016

(7 Day Moving Average)



**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
06/20	Commonwealth Edison	A2/A-	1.2Bn	10y & 30y	+87.5 (10y)	+88	Held in well despite market weakness.
06/20	Saputo Inc	Baa1/A-Low	300mm	5y	+152	+152	Rallied initially but faded on Friday with market.
06/20	Bruce Power LP	Baa2/BBB	1Bn	5y & 10y	+216 (5y)	+199	Deal of the week, with strong demand and good performance.

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