



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jun 6 – Jun 10, 2016

Another schizophrenic week for risk markets as we head towards the FOMC rate decision on Wednesday and Brexit vote next week. We began with a moderately stronger tone, but by Friday the momentum had turned negative, particularly after the latest poll out of the UK suggested the Exit side is gaining a more significant lead. Interest rates globally reached extreme levels, with 10 year bund yields on the verge of going negative (Friday's intraday low was 0.01%) and US treasuries reaching a 3-year low at 1.63%. Low rates would appear to be the norm for the time being; however experience tells us the lower we go the harder we will snap back when sentiment inevitably changes. As Bill Gross suggested on Thursday, "this is a supernova that will explode one day".

Despite storm clouds on the fundamental side there are technical reasons to remain optimistic about credit in the near term. First, the supply calendar seems to be easing up after significant volumes of new issues in the past few weeks. Second, the ECB did commence buying of corporate bonds this week. European credit felt well bid and US credit was similarly supported. We believe there is a lot of cautious positioning around Brexit, and although there clearly remains risk to the downside if Britain votes to leave, there is also increasing potential for a "melt-up" in stocks, rates, and credit if Britain votes to stay.

NAMES IN THE NEWS



- Swiss bank UBS was upgraded one notch by S&P to A- on Tuesday. The rating agency cited a "cohesive group strategy and successful deleveraging" as reasons for the upgrade. The ongoing balance sheet improvement of European banks has been a long-standing investment thesis at Lawrence Park.
- Home improvement manufacturer Fortune Brands (\$FBHS) was raised to BBB+ by S&P this week. The company owns a variety of retail brands, including Moen plumbing, and MasterLock security. Spreads were quoted marginally tighter on the week.
- Credit movers tighter this week included Husky Energy (\$HSE) and Canadian Natural Resources (\$CNQ) on oil briefly topping \$51, and Barrick Gold (\$ABX) as gold moved close to 12 month highs.



- The AA- rating of Royal Bank of Canada (\$RY) was put in jeopardy this week after S&P placed Canada's largest bank on negative outlook, citing an increased risk appetite and credit exposure. \$RY recently disclosed a 12% increase in provisions for credit losses.
- European bank sub-debt spreads were generically 3-5bp wider this week as concerns mount over Britain's potential exit from Europe.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.01%	-0.07%	1.64%	Merrill Lynch: FOC0
US Credit	0.05%	-0.06%	1.29%	Barclays: LUCRER
European Credit	0.11%	0.14%	1.11%	Barclays: BECI
Barclays Global Credit Index	0.09%	0.02%	1.37%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.25%	1.20%	3.51%	Merrill: CAN0
Canadian High Yield	0.89%	1.13%	7.89%	Bloomberg: BCAH
US High Yield	0.95%	0.99%	9.13%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	0.42%	0.52%	-1.80%	Bloomberg: TXPRAR
US Preferred	-0.67%	0.14%	3.96%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	-1.34%	-0.19%	9.17%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.11%	0.02%	3.59%	Bloomberg: SPX

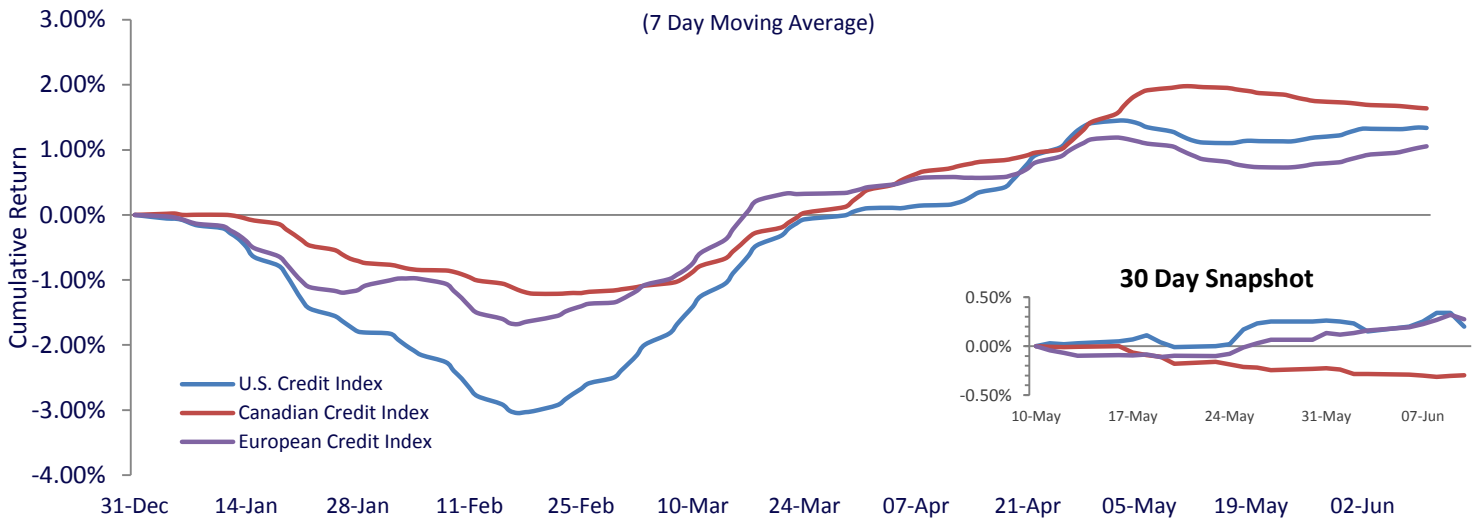


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Credit Market Return YTD 2016

(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
06/07	North West Redwater	Baa1/A-	1.2Bn	Multi-tranche	+248 (31y)	+243	Highly anticipated and well received. Recent A-rating by S&P provided additional support.
06/07	BMW Canada	A2/A+	600mm	3y & 5y	+120 (5y)	+116	Marginal concession, found solid demand.
06/08	Dell (Diamond Finance)	Ba2/BB	3.25Bn	5y & 8y	+555 (8y)	+550	Unsecured tranches to follow up last month's successful secured deal. Traded up 1.5% before fading by week's end.
06/08	Bank of Montreal	Aaa/AAA (covered)	1.5Bn	5y	+63	+62	Compares favourably to TD's recent C\$ covered deal, but tight spread will limit buyer base.
06/09	Bank of Nova Scotia	Aa3/AA-	1.25Bn	3y	+75	+72	Priced with reasonable concession and saw solid demand.
06/09	Emera US Finance	Baa3/BBB	3.25Bn	Multi-tranche	+190 (10y)	+185	Healthy demand and tightened 40bp from initial whisper. Not available to Canadian investors.
06/09	Emera Inc.	Baa3/BBB	500mm	7y	+202	+194	Launched in tandem with larger USD deal. Lots of demand and top performer.

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