THE SENTINEL

Highlights from the week in Corporate Credit

Summary: May 30 – Jun 3, 2016

Just as risk markets seemed to be coming to terms with the idea of a summer rate hike, the US employment report on Friday threw a significant wrench in the works. The lowest gain in (seasonally adjusted) non-farm payroll figures since 2010 sent the dollar lower, treasuries higher, and left risk markets unsure what to do next. Are stock markets happy that rates may not go up anytime soon, or unhappy that US economic growth may be stalling? We'd make two observations which we think are pertinent, if inconclusive.

First, the seasonal adjustment in the May number is significant. On an adjusted basis the US added only 38 thousand jobs, but on an unadjusted basis there was an increase of 651 thousand jobs. This merely highlights the amount of noise in the process, and that investors do better to consider trends rather than rely too heavily on any one number. Our second observation is the market is quick to conclude that the Fed *will not* hike in June as a result of this employment report (Fed futures and options markets priced in only a 3% chance of a June hike post-number). It seems intuitively dangerous to say with certainty what conclusion a group of economists will arrive at in a closed-door session. That is not to say the Fed *will* hike, but the risks of a negative reaction to a surprise hike are suddenly looming large in a way they were not just a week ago.

NAMES IN THE NEWS

- US supermarket chain Kroger ($KR) was upgraded one notch to Baa1 by Moody's on Wednesday, citing positive operating trends. Spreads were 3-5bp tighter on the week.
- Canadian hardware retailer Rona was upgraded 3 notches to BBB+ by S&P following completion of its merger with Lowe's.
- DBRS formally assigned an A(low) rating to North West Redwater. The news was seen as positive for the project however expectations of further issuance and a soft market tone left spreads broadly unchanged.
- HCN/Welltower ($HCN) was upgraded to Baa1 by Moody's as it continues to de-lever. C$ paper was quoted up to 5bp tighter.

- Sherritt ($S) made a formal proposal to extend the maturity of its outstanding bonds by 3 years. Sherritt is seeking to improve its debt overhang as it recovers from a fall in nickel prices which saw bonds fall to 50% of face value over the past 12 months. The proposal will need to be approved by at least two-thirds of holders in a July vote.
- On Monday Moody's placed the debt of Telus ($T) on negative watch, which could result in a downgrade from Baa1 in the next 90 days. Spreads widened modestly through week.
- US health insurer Aetna ($AET) was downgraded one notch to Baa2 this week as it completed a $13 billion bond sale to finance its purchase of Humana. Despite the downgrade the issue was well oversubscribed as investors seek liquid investment grade paper.
- Spreads of AbbVie paper widened 3-5bp this week as Moody's downgraded the company to Baa2. The company is in the midst of a $5.8Bn acquisition of Stemcentrx Inc.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.04%	-0.06%	1.65%	Merrill Lynch: F0C0
US Credit	-0.10%	-0.11%	1.24%	Barclays: LUCRER
European Credit	0.10%	0.03%	0.99%	Barclays: BECI
Barclays Global Credit Index	-0.04%	-0.07%	1.28%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	1.19%	0.95%	3.26%	Merrill: CAN0
Canadian High Yield	0.51%	0.24%	6.94%	Bloomberg: BCAH
US High Yield	0.18%	0.04%	8.19%	Merrill: H0A0
Preferred Shares (Total Return)				
Canadian Preferred	0.41%	0.10%	-2.22%	Bloomberg: TXPRAR
US Preferred	0.99%	0.82%	4.65%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	0.94%	1.17%	10.66%	Bloomberg: SPTSX
US Stocks: S&P 500	0.04%	0.13%	3.71%	Bloomberg: SPX

Lawrence Park Asset Management 15 York Street, 4th Floor | Toronto, ON M5J 0A3 | Office: (416) 646-2180 | Fax: (647) 693-9276 | www.lawrenceparkam.com

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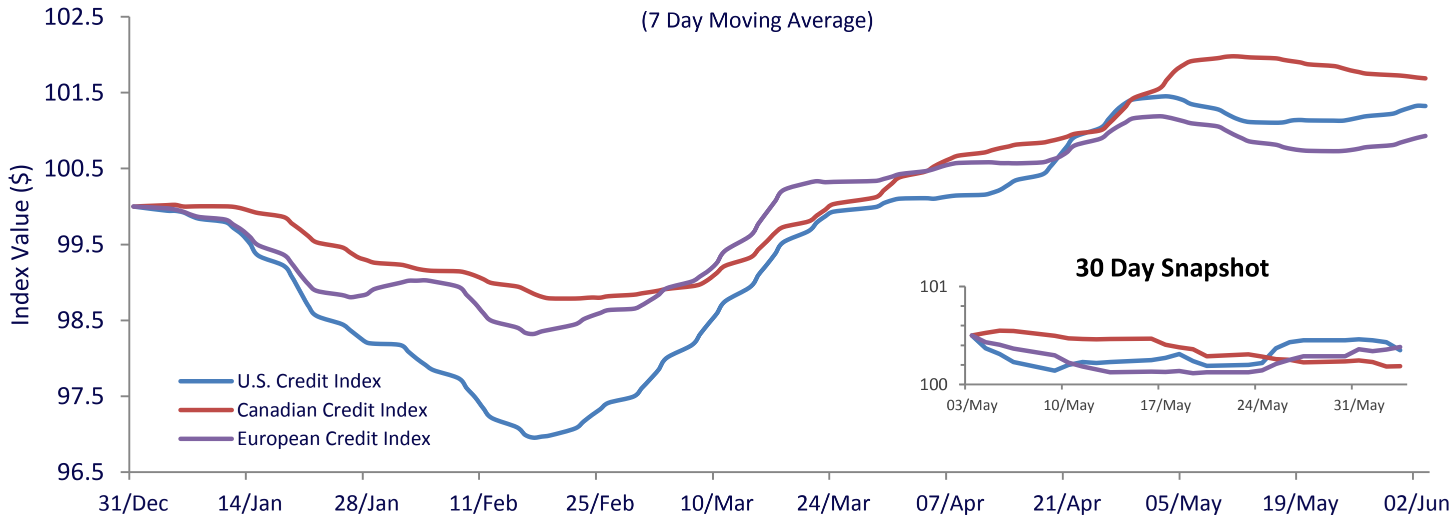
Credit Market Return YTD 2016



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 (F0C0) 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
06/01	TD Bank	Aaa/AAA (covered)	1.5Bn	5y	+95	+92	Unusual covered bond in the domestic market. Found considerable demand despite 1.68% yield.
06/01	TransCanada Pipeline	A3/A	1Bn	7y & 30y	+240 (30y)	+236	Well received. 2023 re-opening heavily over-subscribed due to technical short in the market.
06/02	Aetna Inc.	Baa2/A-	13 Bn	Multi-tranche	+145 (10y)	+144	Issued with minimal concession and barely held issue spread post non-farm number.
05/31	Mylan NV	Baa3/BBB-	6.5Bn	Multi-tranche	+220 (10y)	+223	Broke 2-3bp tighter but faded by week's end.
05/31	Pfizer Inc.	A1/AA	1.25Bn	Multi-tranche	+90 (10y)	+86	The deep demand for high quality corporate bonds continues.
05/31	JP Morgan	A3/A-	4Bn	5y & 10y	+137 (10y)	+137	Modest concession at time of issue but bank spreads wider on the week.