



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Jul 18 - Jul 22, 2016

Credit continued to perform this week as stocks rose moderately and government yields were broadly stable. European markets led the way, with bank spreads playing catch-up to the bounce in corporates. European bank spreads remain wider than pre-Brexit while corporate and US bank spreads have broadly recovered to year-to-date tights. Energy sector spreads lagged this week as oil continues to trade below \$50.

New issue supply held steady, with US banks active this week following earnings releases. Canadian supply looks on pace for a July record. Secondary trade volumes have been robust, and higher than one would expect for late July. Overall tone continues to look good, despite some signs of rally fatigue by week's end.

### NAMES IN THE NEWS



- US bank earnings continue to beat expectations with BankAmerica, Goldman Sachs and Morgan Stanley all reporting this week. Despite headwinds from low interest rates and reduced capital markets activity, cost-cutting and Fixed Income results have driven robust performance. Banks were active issuers this week which stemmed secondary spread performance somewhat.
- CIBC issued the first "negative yield" bond by a Canadian bank in Europe; a 6 year covered deal (Aaa/AAA) with a 0% coupon and fixed re-offer price above par.
- General Motors (\$GM) earnings were a strong beat on Thursday which helped spreads move tighter. Benchmark 30 year paper was 10bp tighter on the week and 40bp tighter on so far this month, equivalent to a 6% rally in the credit value of the bonds.



- Canadian Pacific (\$CP) reported lower earnings for the second quarter and highlighted that leverage ratios remain above managements' stated target of 2.5x. Bond spreads were steady this week and remain tighter for the year despite CP's Baa1 rating being placed on negative outlook by Moody's back in April.
- Enbridge (\$ENB) will pay penalties totaling USD 62 million to the US Department of Justice and committed to upgrade the Lakehead Pipeline system, as settlement for a 2010 pipeline leak in Michigan. ENB spreads were modestly wider on the week.
- Husky Energy (\$HSE) earnings for the second quarter were a slight miss, though balance sheet metrics continue to improve. Husky has committed to asset sales to reduce leverage. Spreads were broadly unchanged this week despite the overall market rally.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.14%	0.28%	1.78%	Merrill Lynch: FOCO
US Credit	0.11%	1.12%	2.19%	Barclays: LUCRER
European Credit	0.33%	1.70%	2.32%	Barclays: BECI
Barclays Global Credit Index	0.20%	1.42%	2.35%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.31%	0.21%	4.32%	Merrill Lynch: CANO
Canadian High Yield	0.73%	2.31%	10.52%	Bloomberg: BCAH
US High Yield	0.33%	3.20%	12.52%	Merrill Lynch: H0A0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	1.39%	3.01%	0.00%	Bloomberg: TXPRAR
US Preferred	0.15%	1.14%	6.30%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: TSX 300	0.87%	4.03%	14.03%	Bloomberg: SPTSX
US Stocks: S&P 500	0.64%	3.74%	7.72%	Bloomberg: SPX

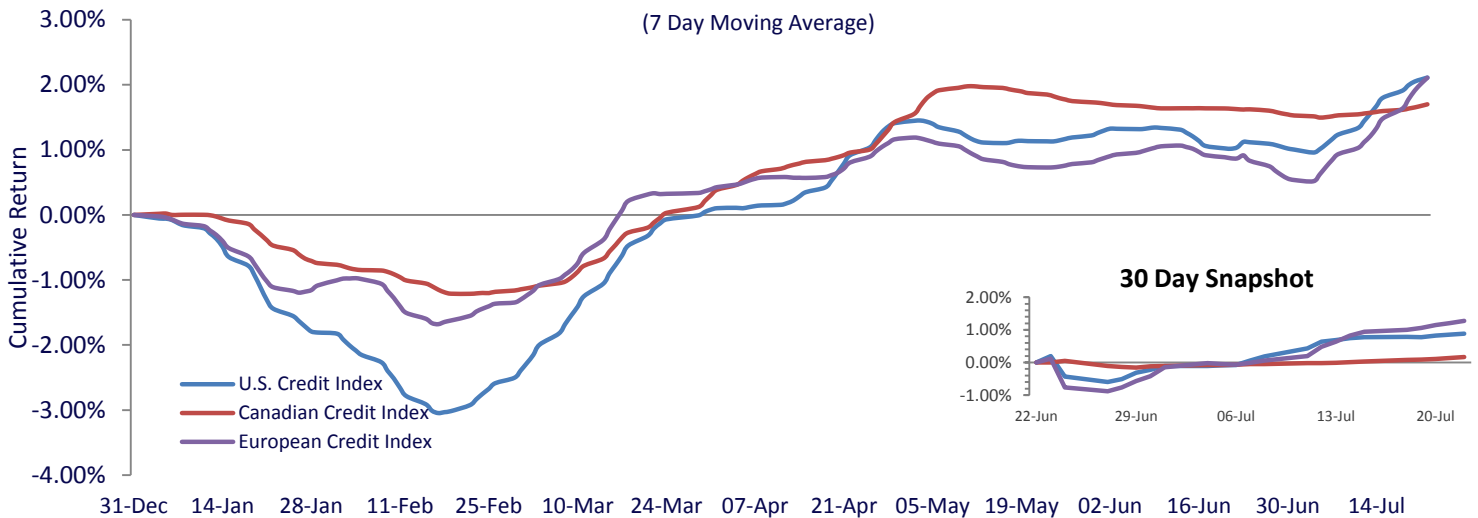


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### Credit Market Return YTD 2016

(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 (FOC0) 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
07/18	Teva Pharmaceutical	Baa2/BBB-	15 Bn	Multi-tranche	+160 (10y)	+144	Good follow through buying as investors crave liquidity and "new" names. Deal of the week!
07/18	Wells Fargo	A2/A	3.6 Bn	5yr	+100	+96	Lots of bank supply this week, both Wells and Morgan Stanley able to upsize to meet demand.
07/20	Morgan Stanley	A3/BBB+	3 Bn	10yr	+163	+155	
07/20	National Bank	Aa3/AA-	750mm	5yr	+112	+109	
07/20	Dollarama	A3/BBB+	525mm	5yr	+169	+158	Name has struggled in the past but demand for spread product saw this perform well.

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