



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Aug 8 – Aug 12, 2016

North American corporate bond markets continued to be unseasonably active last week with high levels of new issue activity in both Canada and the US. In terms of corporate bond issuance in the US, we look set to reach double the average volume for August of the past 3 years. Issuers are keen to take advantage of the lowest all-in yields of the year, and for the time being investors are welcoming with open arms. Pricing concessions have notably compressed, and it's not unusual to see new bonds price at or inside secondary spreads.

Canada was equally active with jumbo deals from Bell and Canadian Natural Resources on Tuesday contributing to one of the busiest issuance weeks of the year in the non-bank space. Secondary performance felt a little more strained than usual, though deals were generally able to tighten by week's end.

We anticipate a quieter week (and remainder of the month) with many participants out of the market, but expect the heavy issuance and secondary trade volume to resume post-Labour Day. At these levels some caution is clearly warranted, however global investors appear to like the relative safe-haven of investment grade bonds relative to stocks or high yield and for now our markets remain technically very healthy.

NAMES IN THE NEWS



- TransAlta (\$TA) reported a slight earnings miss for the second quarter, however leverage metrics continue to improve, with net leverage falling to 4.3x from 4.6x in the previous quarter. Leverage remains above management's stated target of 3.5x, and we expect further progress over the balance of the year as the company replaces corporate level debt with project financing.
- Greater Toronto Airports (GTAA) was upgraded by S&P to A+. The move had been expected after GTAA was placed on positive outlook 12 months ago.



- Cominar REIT (\$CUF) was placed on Negative outlook by DBRS on Friday which caught the market off-guard. Cominar is currently BBB-low, and a downgrade would see them drop to a junk rating. Spreads were out up to 30bp on the news.
- InterPipeline (\$IPL) announced a \$1.35Bn acquisition of a natural gas midstream business from Williams Companies, funded with a mix of equity and debt. We expect IPL to tap the bond markets by the end of 2016.
- Bell Canada (\$BCE) was downgraded one notch by DBRS to BBB-high from A-low. The move was largely expected and met with limited spread impact.

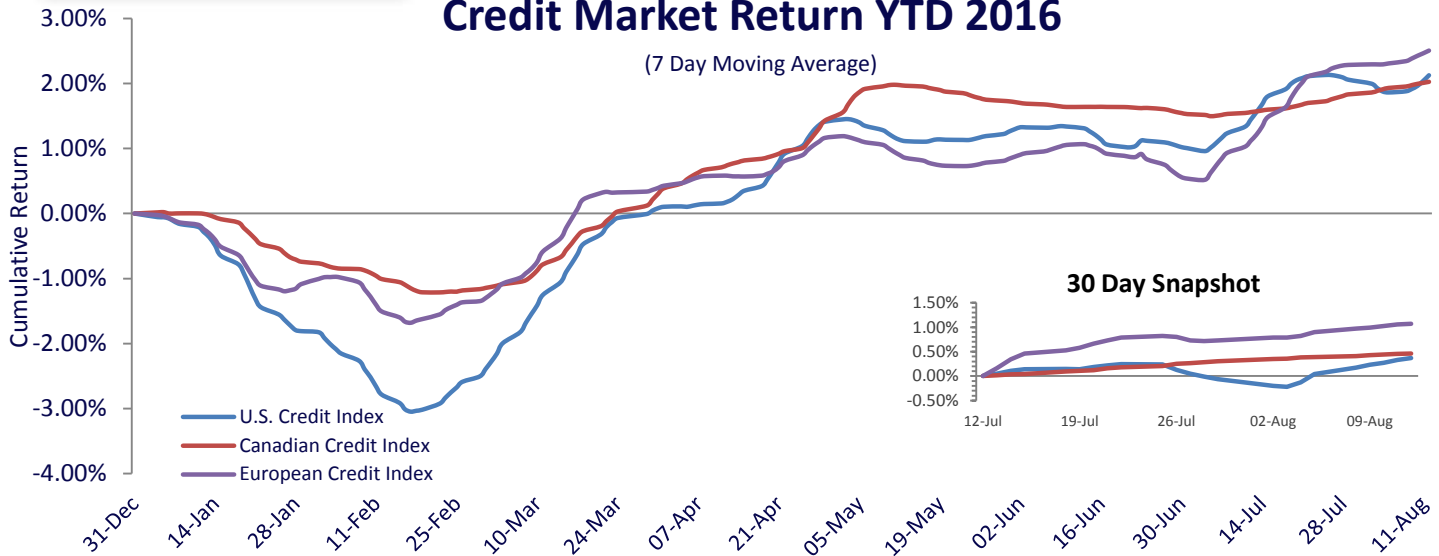
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.07%	0.16%	2.06%	Merrill Lynch: FOCO
US Credit	0.33%	0.43%	2.32%	Barclays: LUCRER
European Credit	0.17%	0.34%	2.60%	Barclays: BECI
Barclays Global Credit Index	0.29%	0.48%	2.63%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.25%	0.12%	5.12%	Merrill Lynch: CANO
Canadian High Yield	0.50%	0.73%	11.60%	Bloomberg: BCAH
US High Yield	0.92%	1.53%	13.59%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.35%	1.99%	2.57%	Bloomberg: TXPRAR
US Preferred	0.14%	0.36%	7.03%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.83%	1.34%	15.46%	Bloomberg: SPTSX
US Stocks: S&P 500	0.12%	0.61%	8.32%	Bloomberg: SPX



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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 (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
08/08	Royal Bank of Scotland (Tier 1)	B/BB-	2.65Bn	Perp (5y call)	8.625% (\$100)	\$101.5	A successful return to the USD "CoCo" market for RBS. Deal of the week!
08/08	Pembina Pipelines	BBB/BBB	500mm	10y	+265	+257	Launched prior to the jumbo deals from Bell & CNQ and able to perform as a result.
08/09	Canadian Natural Resources	Baa3/BBB+	1Bn	5.5y	+269	+268	Doubled from initial size, caught markets off guard and initially underperformed.
08/09	Bell Canada	Baa1/BBB+	1.5Bn	5y & 10y	+192 (10y)	+191	Issued on the heels of a downgrade to BBB+ at DBRS, nevertheless found good demand.
08/09	Brookfield Renewable Partners	BBB-high	500mm	10y	+261	+256	
08/09	Duke Energy Corp	Baa1/BBB+	3.75Bn	Multi-tranche	+115 (10y)	+110	Heavily oversubscribed and allocations were scarce.
08/11	Westpac Banking Corp	Aa2/AA-	5Bn	Multi-tranche	+115 (10y)	+112	

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