



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jul 25 - Jul 29, 2016

A modest pullback in global credit markets last week rounded out what nevertheless remained a positive month of July. The fall in oil prices back towards \$40 weighed heavily on energy names; but credit spreads continue to remain tighter than when oil was last at \$40 in April and we are cautious on the sector overall. US new issue market remained busy, however concessions have shrunk to virtually nothing which combined with the softer market tone meant after-market performance was limited for most deals. The Canadian new issue market was very quiet this week.

The US Federal Reserve unsurprisingly left rates on hold again in July. While the statement released on Wednesday left the door open for a September hike, market participants remain skeptical that we will see a rate hike in 2016. Government yields across the globe rallied last week, and as a result finished the month generically flat after selling off sharply mid-month.

Finally the results of European Bank stress tests were released late on Friday night. While there were some obvious (and expected) shortfalls, most notably Italian bank Monte di Paschi, overall the results were better than expected and should give markets some comfort that bank balance sheets continue to improve, even as earnings are weighed down by restructuring costs.

NAMES IN THE NEWS



- Loblaws (\$L) earnings came in ahead of consensus and up year-over-year. Loblaws has benefitted from a successful integration of Shoppers Drug Mart, and bonds should continue to trade well in the near term. REIT subsidiary Choice Properties also reported an increase in revenues year over year.
- Fortis Inc. (\$FTS) results came in ahead of expectations on Friday, however credit markets are looking ahead to the expected issuance of USD 2 billion in debt later this year to fund the acquisition of ITC.
- After a week of back-and-forth, the AB InBev acquisition of SAB Miller looks set to go ahead after the SAB board voted in favour of InBev's revised offer. The transaction had looked in jeopardy as recently as Wednesday as the decline in the British Pound in the wake of the Brexit vote had significantly altered the economics.

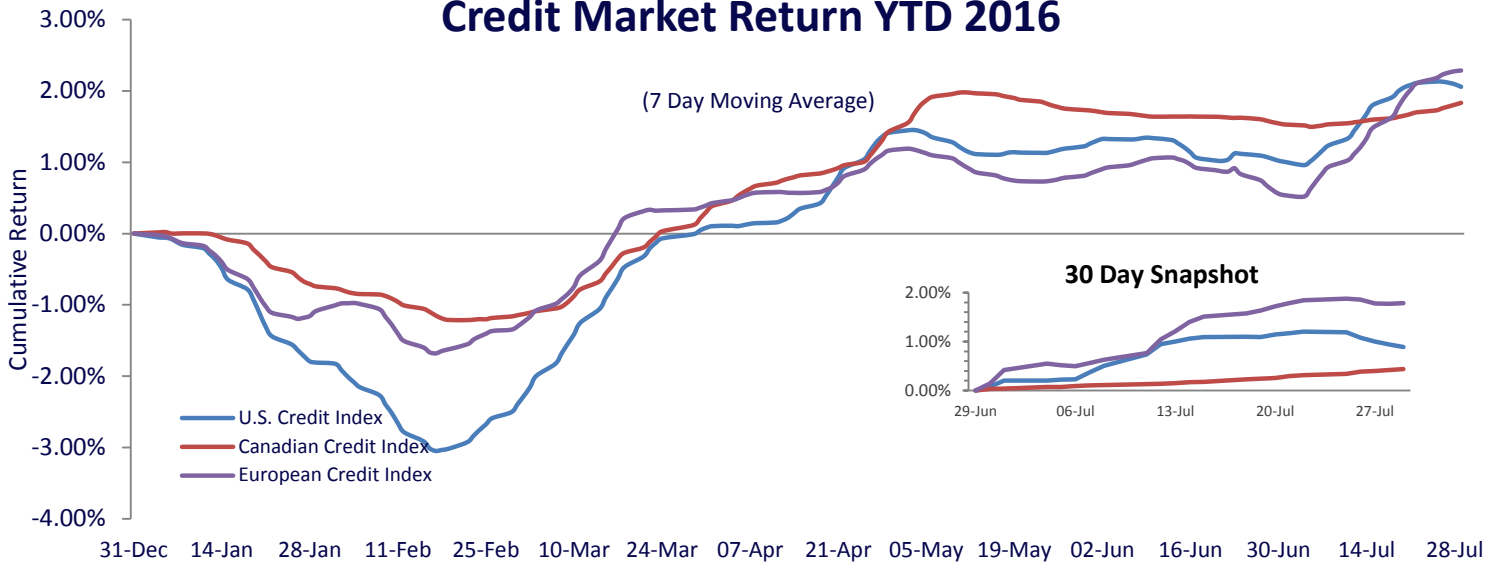


- Caterpillar Inc (\$CAT) released earnings Tuesday, beating street expectations but lowering the outlook for the remainder of the year and boosting expected restructuring costs.
- Ford (\$F) results were disappointing on Thursday, missing consensus and down year over year. Ford also lowered its forward outlook. Notwithstanding, balance sheet and liquidity metrics continue to look solid and we see this as an improving credit over the medium term.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.12%	0.41%	1.90%	Merrill Lynch: FOCO
US Credit	-0.31%	0.81%	1.88%	Barclays: LUCRER
European Credit	-0.06%	1.64%	2.26%	Barclays: BECI
Barclays Global Credit Index	-0.20%	1.22%	2.15%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.68%	0.89%	5.00%	Merrill Lynch: CANO
Canadian High Yield	0.24%	2.56%	10.79%	Bloomberg: BCAH
US High Yield	-0.46%	2.74%	12.06%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.58%	3.61%	0.57%	Bloomberg: TXPRAR
US Preferred	0.33%	1.47%	6.64%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.09%	3.94%	13.93%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.05%	3.69%	7.66%	Bloomberg: SPX



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
07/25	Royal Bank of Canada	Aa3/AA-	1.5 Bn	3yr	+68	+65	Demand for Canadian banks has been solid; RBC is a well-liked name south of the border.
07/25	Brookfield Inf. Prop. (Pfd)	BBB-	250mm	Perp (5y call)	5.35%	--	Fix-float structure with minimum 5.35% coupon and upside if rates rise. Deal of the week!
07/27	Verizon Inc.	Baa1/BBB+	6.1 Bn	Multi-tranche	+115	+116	
07/28	Apple Inc.	Aa1/AA+	7 Bn	Multi-tranche	+98 (10y)	+96	Issued after better-than-expected earnings. Priced with almost no concession but found solid demand.
07/28	Canadian National Railway	A2/A	650mm	30yr	+102	+101	Not for sale into Canada.

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