



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Aug 29 – Sep 2, 2016

Typical for late summer it was a fairly subdued week in credit markets punctuated by the US employment report on Friday, which came in about 30k below expectations. Following comments by Yellen and Fischer the previous week, markets had been looking for a definitive signal regarding a September rate hike in the US. The weak jobs number certainly reduces the likelihood but is not definitive enough to be conclusive (particularly considering the July report was revised up 20k). We have felt for the past few months that risk markets are stable enough to justify a hike if the Fed was so-inclined however they have chosen to remain on the sidelines. We would not rule out a September hike but suspect it will be December.

With summer now past we look for a robust week of new issuance which will undoubtedly spur increased secondary trading activity. Tone remains fairly strong however we would not be surprised to see some indigestion due to supply causing credit spreads to remain firm or even widen. This is a quiet week for economic data, so expect the market to trade primarily based on technicals up until the Fed meeting on the 21st.

NAMES IN THE NEWS



- Canadian bank earnings continued to beat expectations this week, with \$BNS and \$NBF both posting strong quarters with provisions for credit losses coming in much more benign than expected.
- Dollarama posted strong quarterly results on Thursday with same-store sales increasing 5.7% year-over-year. Ongoing share buy-backs limit any near-term credit upside in this name, however continued growth makes it a solid hold.



- Hot on the heels of its acquisition of US chain CST, in a separate transaction Alimentation Couche-Tard (\$ATD/B) announced the purchase of 52 convenience stores in Louisiana. While this purchase is relatively small, it underscores that \$ATD/B will continue to be aggressive with its US expansion. For now, the company has sufficient liquidity, however further transactions in the near term may negatively impact credit spreads.

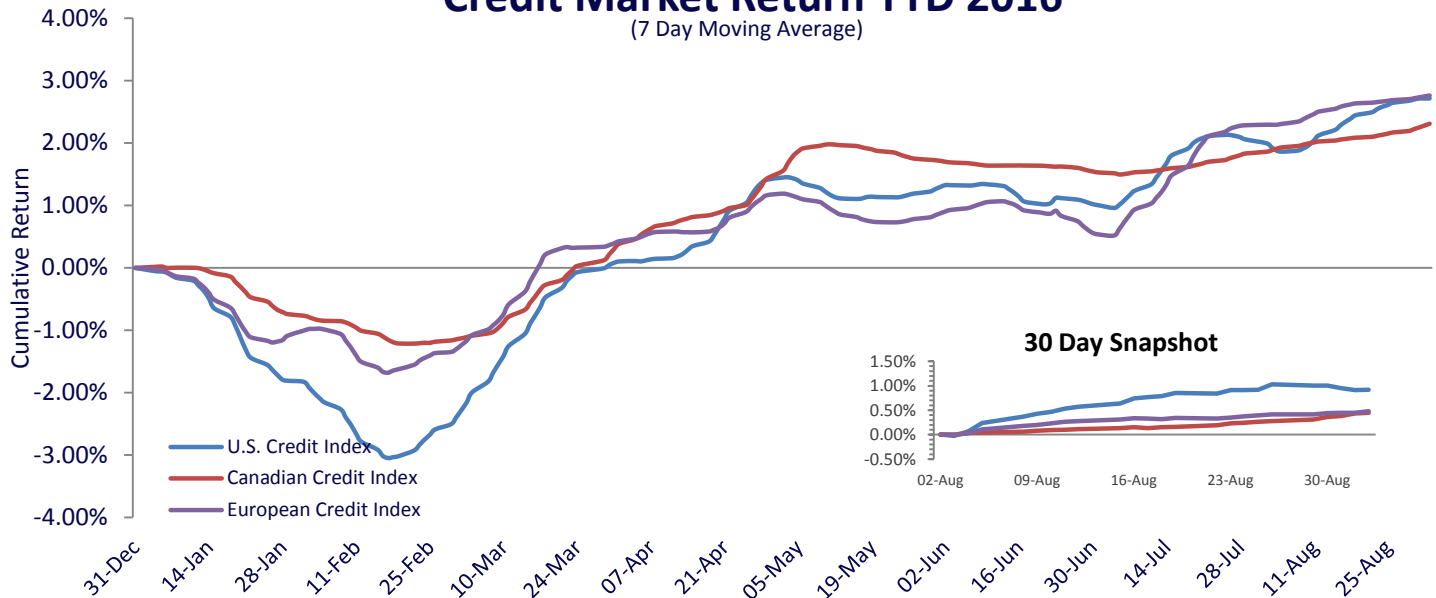
| INDEX WATCH | 1-WEEK | MTD | YTD | SOURCE |
|--|--------|--------|--------|---------------------|
| Investment Grade Credit (Excess Return) | | | | |
| Canadian Credit | 0.17% | 0.06% | 2.41% | Merrill Lynch: FOCO |
| US Credit | -0.11% | -0.03% | 2.67% | Barclays: LUCRER |
| European Credit | 0.06% | 0.03% | 2.81% | Barclays: BECI |
| Barclays Global Credit Index | -0.02% | 0.00% | 3.00% | Barclays: BGCI |
| Fixed Income (Total Return) | | | | |
| Canadian Bond Universe | 0.31% | -0.19% | 5.00% | Merrill Lynch: CANO |
| Canadian High Yield | 0.10% | 0.04% | 13.09% | Bloomberg: BCAH |
| US High Yield | 0.13% | 0.01% | 14.59% | Merrill Lynch: H0A0 |
| Preferred Shares (Total Return) | | | | |
| Canadian Preferred | -0.38% | -0.09% | 1.61% | Bloomberg: TXPRAR |
| US Preferred | 0.12% | 0.18% | 7.16% | Bloomberg: SPTREFTR |
| Equities | | | | |
| Canadian Stocks: S&P TSX | 1.22% | 1.40% | 16.02% | Bloomberg: SPTSX |
| US Stocks: S&P 500 | 0.56% | 0.42% | 8.27% | 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 |
|-------|--------------------------------|---------|-------|---------------|---------------|----------------|--|
| 08/29 | Commonwealth Bank of Australia | Aa2/AA- | 3.3bn | Multi-tranche | +110 (10y) | +113 | Aggressive pricing from a frequent issuer made this an underperformer on the week. |
| 08/29 | Coca-Cola Co. | Aa3/AA- | 2bn | 5y & 10y | +70 (10y) | +68 | |
| 08/29 | CIBC | Aa3/A+ | 1.5bn | 3y | +70 | +69 | Plenty of US dollar supply recently from Canadian banks in recent weeks. Priced fairly but most are only holding at launch spread. |
| 08/29 | Toronto-Dominion Bank | Aa1/AA- | 1bn | 2y | +65 | +65 | |
| 08/30 | Honda Canada Finance Inc | A1/A+ | 600mm | 3y & 5y | +115 (5y) | +113 | |

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