



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Sep 26 – Sep 30, 2016

Deutsche Bank continued to dominate headlines last week with focus on capital levels, profitability and hedge funds withdrawing excess margin. Credit spreads for the beleaguered bank widened throughout the week, before staging a partial recovery on Friday following rumours of a potential settlement with the Department of Justice in the amount of USD 5.4bn (significantly below the original amount of USD 14bn). European bank debt generally was wider last week in sympathy with Deutsche, while US credit was mixed and Canada continues to outperform.

Headlines from Algiers - where OPEC ministers continue their discussions to curb output – were met with great enthusiasm leading to a 6% rally in crude. Most corporate credits related to energy rallied last week, having drifted wider in the past month. Corporate new issuance was slower as volatility has picked up and thin concessions have meant investor appetite was lower with many recent deals just trading water.

NAMES IN THE NEWS



- Veresen (\$VSN) hosted investor updates this week outlining their plans to reduce leverage from 5.1x down to 4.0-4.5x over the next 18 months. Veresen bonds traded 15-20bps tighter on the week.



- Deutsche Bank (\$DB) – despite Friday’s rally DB senior credit spreads are wider by 40-200+bps over the past two weeks. The credit curve showed signs of inverting this week (with short-dated debt trading at a wider spread than long-dated) which suggests investors are becoming concerned about an actual default rather than just long-term credit weakness.
- Wells Fargo (\$WFC) equity and credit spreads continued to struggle as CEO John Stumpf faced an incredibly negative and aggressive congressional testimony – with some calling for his resignation
- Commerzbank (\$CBK) announced plans to cut 9,600 jobs, suspend dividends, and reduce securities trading. The stock was down as much as 8.5% on the news.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.08%	0.38%	2.73%	Merrill Lynch: FOCO
US Credit	-0.06%	-0.07%	2.63%	Barclays: LUCRER
European Credit	-0.15%	-0.31%	2.45%	Barclays: BECI
Barclays Global Credit Index	-0.08%	-0.10%	2.90%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.24%	0.24%	5.43%	Merrill Lynch: CANO
Canadian High Yield	0.31%	1.11%	14.30%	Bloomberg: BCAH
US High Yield	0.48%	0.74%	15.32%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.53%	-0.10%	1.59%	Bloomberg: TXPRAR
US Preferred	-0.87%	-1.02%	5.88%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.38%	1.26%	15.86%	Bloomberg: SPTSX
US Stocks: S&P 500	0.20%	0.02%	7.84%	Bloomberg: SPX

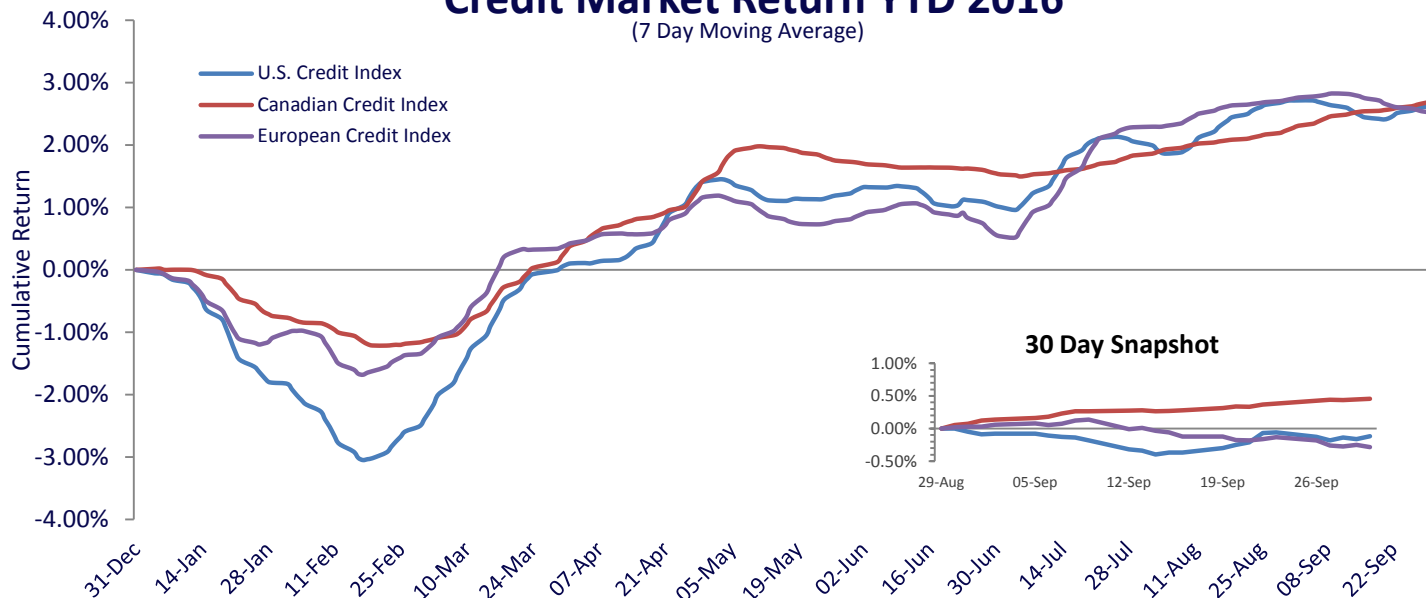


THE SENTINEL

Highlights from the week in Corporate Credit

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 (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
09/26	Kroger Co	Baa1/BBB	1.25bn	Multi-tranche	+110 (10y)	+112	Lukewarm response for the sector
09/26	Air Lease Corp	BBB-	500mm	3yr	+137.5	+133	
09/28	HSBC Holdings PLC	A1/A	2.5bn	5yr	+155	+154	Modest concession – traded as tight as 151
09/28	American Tower Corp	Baa3/BBB-	1bn	Multi-tranche	+157 (10yr)	+157	3 rd time issuing this year and priced tight
09/29	Fortis Inc	Baa3	2bn	Multi-tranche	+150 (10yr)	+149	
9/29	Nissan Canada	A3	500mm	3yr	+107.1	102	First time issuer in CAD. Well received.
9/29	Viacom Inc	Baa3	1.3bn	Multi-tranche	+195 (10yr)	+187	Massive tightening from initial guidance and still managed to perform.

The information contained in this document is drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed; nor in providing it does LPAM assume any responsibility or liability whatsoever. Nothing contained herein is a promise or forecast and thus should not be relied upon as such.