



# THE SENTINEL



## Highlights from the week in Corporate Credit

Summary: Dec 12 – Dec 16, 2016

Despite delivering a heavily telegraphed 25bp rate hike on Wednesday, Fed governors still managed to surprise markets by pointing to a more aggressive path for rates in 2017. Treasury yields continued to move higher, with the yield on some securities now having doubled since the summer lows. Prices of ten-year Treasuries have fallen 8.5% in just 9 weeks and now look set to deliver the worst annual returns since 2013.

By contrast, credit markets continue to improve, confirming that credit-focused strategies can offer a viable alternative in a rising rate environment. Bank spreads were tighter on the week in keeping with the performance of the equity market.

### NAMES IN THE NEWS

	<ul style="list-style-type: none"> <li>The Federal Reserve announced its final rules relating to total loss absorbing capacity (TLAC) for the US Banks. Although expectations are for fairly significant issuance over the next couple of years related to this rule, the grandfathering of existing debt and formal clarity of expectations should provide comfort to investors.</li> <li>Canadian Natural Resources (\$CNQ) announced the \$527mm sale of non-core ownership in the Cold Lake Pipeline to Inter Pipeline (\$IPLCN) for cash and stock. CNQ rallied on the news while IPLCN was unchanged.</li> </ul>
	<ul style="list-style-type: none"> <li>Sobeys' earnings missed reduced expectations with sales falling 2.1% and profit margins lower as the company struggles with its integration of Safeway. With leverage now over 4.0x, there is risk of a rating agency downgrade into the non-investment grade category. Credit spreads were 25-50bps wider on the news.</li> </ul>

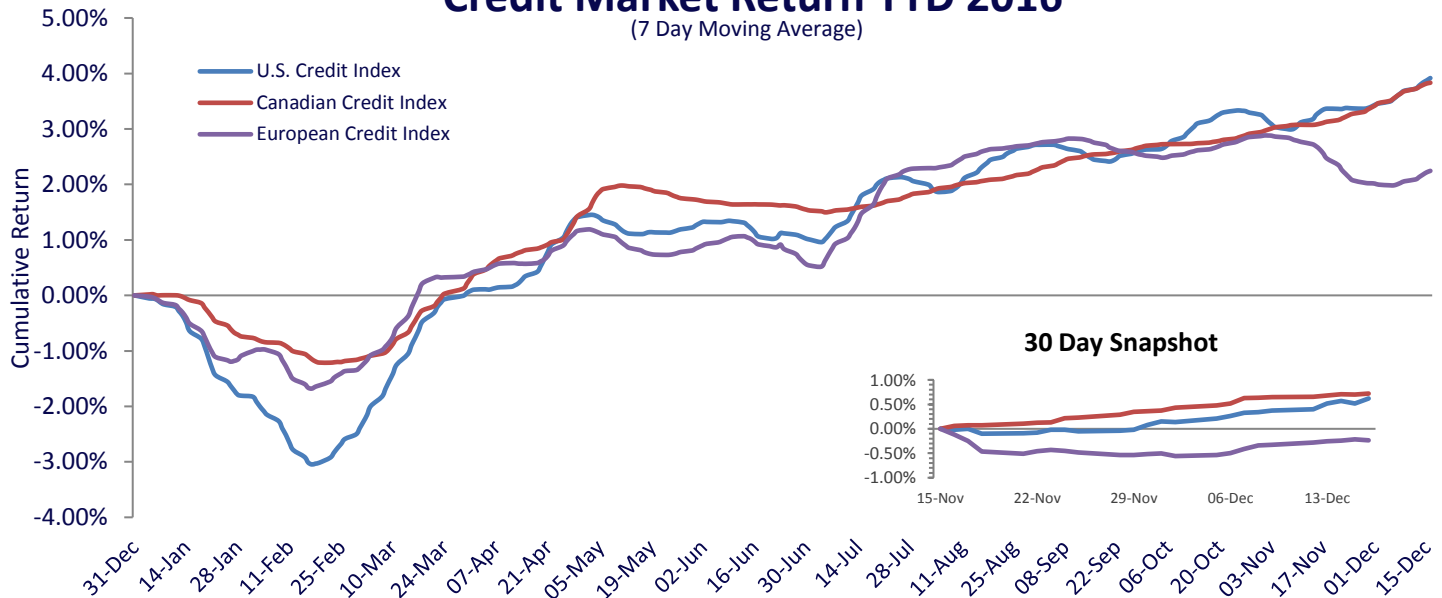
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.07%	0.36%	3.88%	Merrill Lynch: FOCO
US Credit	0.25%	0.54%	4.06%	Barclays: LUCRER
European Credit	0.09%	0.28%	2.28%	Barclays: BECI
Barclays Global Credit Index	0.21%	0.46%	3.92%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.58%	-1.60%	0.56%	Merrill Lynch: CANO
Canadian High Yield	0.57%	1.04%	17.86%	Bloomberg: BCAH
US High Yield	-0.16%	1.42%	16.64%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	2.29%	1.90%	5.23%	Bloomberg: TXPRAR
US Preferred	-0.20%	-0.54%	1.02%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-0.32%	1.28%	20.88%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.03%	2.78%	12.84%	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
12/13	🇨🇦 Inter Pipeline	BBB+	450mm	10yr	+173	+166	Very well received despite minimal price concession.
12/13	🇨🇦 Fairfax Financial	Baa3/BBB-	450mm	10yr	+295	+291	Despite being the 2 <sup>nd</sup> 10yr deal of the day the wide spread was attractive.
12/15	🇨🇦 AGT Foods	B+/BB-	200mm	5Nc2yr	6%	5.62%	Impressive interest and upsized deal performed well for this high yield name
12/12	🇺🇸 Met Life	A-low	2bn	2yr & 10yr	+97 (10yr)	+92	
12/12	🇺🇸 Enbridge Inc.	Ba1/BBB-	750mm	PerpNC10	6%	6.05%	Subordinated hybrid security was not available to Canada
12/15	🇺🇸 United Health	A3/A+	1.5bn	10yr & 30yr	+85 (10yr)	+85	

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