



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jan 23 – Jan 27 2017

Stable earnings, moderating supply, and the Dow reaching 20,000 were enough to send global credit markets tighter for the week. Despite the milestone in stocks, the outlook remains somewhat cautious as Trump's early enactments maintain a distinctly protectionist and populist tone. US volatility markets reached a two-and-a-half year low on Friday, which suggests the equity rally may be tired.

Canadian credit spreads continue to grind tighter and are headed to comfortably outperform US markets for the month. The White House sought to reassure Canada that they remain an important trading partner, and key executive orders to allow the construction of the Keystone XL (KXL) project and advancement of the Dakota Access Pipeline (DAPL) project were generally well received north of the border.

NAMES IN THE NEWS



- Dream Office REIT (\$D-UCN) announced the sale of 12 properties in their Alberta office portfolio for proceeds of \$200mm. Reduced overall exposure to Alberta office space was viewed positively by the market. Spreads closed 10-15bps tighter on that development with 2020s outperforming.
- The upgrade of \$BMW by Moody's to A1 from A2 is seen as relatively good news. In terms of valuation, spread upside is contained given that BMW bonds already trade in line with highly-rated automakers such as (\$HNDA) and (\$TOYOTA).
- Moody's affirmed Bank of America's (\$BAC) ratings and changed the outlook to positive from stable. The change in outlook is based on Moody's view that there is an increased likelihood that \$BAC's profitability will strengthen over the next 12-18 months, while the bank continues to adhere to its conservative risk profile, lowering its earnings volatility.



- Metro's (\$MRUCN) profit fell modestly to \$138.1mm vs \$139.8mm y/y, due in large part to a decline in the share of earnings from the ownership of Couche-Tard shares. Same store sales were up by 0.7%, lower than recent quarters.
- Hyundai Motors' (\$HYNMTR) operating profit fell to 1.02 trillion won (\$875 million) in the three months ended Dec 31 and net income declined for a 12th consecutive quarter. Management cited production problems caused by the auto labour strike in Korea, economic headwinds in emerging markets and a slowing auto market.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.08%	0.51%	0.51%	Merrill Lynch: FOCO
US Credit	0.13%	0.18%	0.18%	Barclays: LUCRER
European Credit	0.09%	0.32%	0.32%	Barclays: BECI
Barclays Global Credit Index	0.11%	0.25%	0.25%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.22%	-0.30%	-0.30%	Merrill Lynch: CANO
Canadian High Yield	0.16%	1.80%	1.80%	Bloomberg: BCAH
US High Yield	0.49%	1.42%	1.42%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	1.89%	3.94%	3.94%	Bloomberg: TXPRAR
US Preferred	1.07%	2.25%	2.25%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.26%	2.14%	2.14%	Bloomberg: SPTSX
US Stocks: S&P 500	1.04%	2.60%	2.60%	Bloomberg: SPX

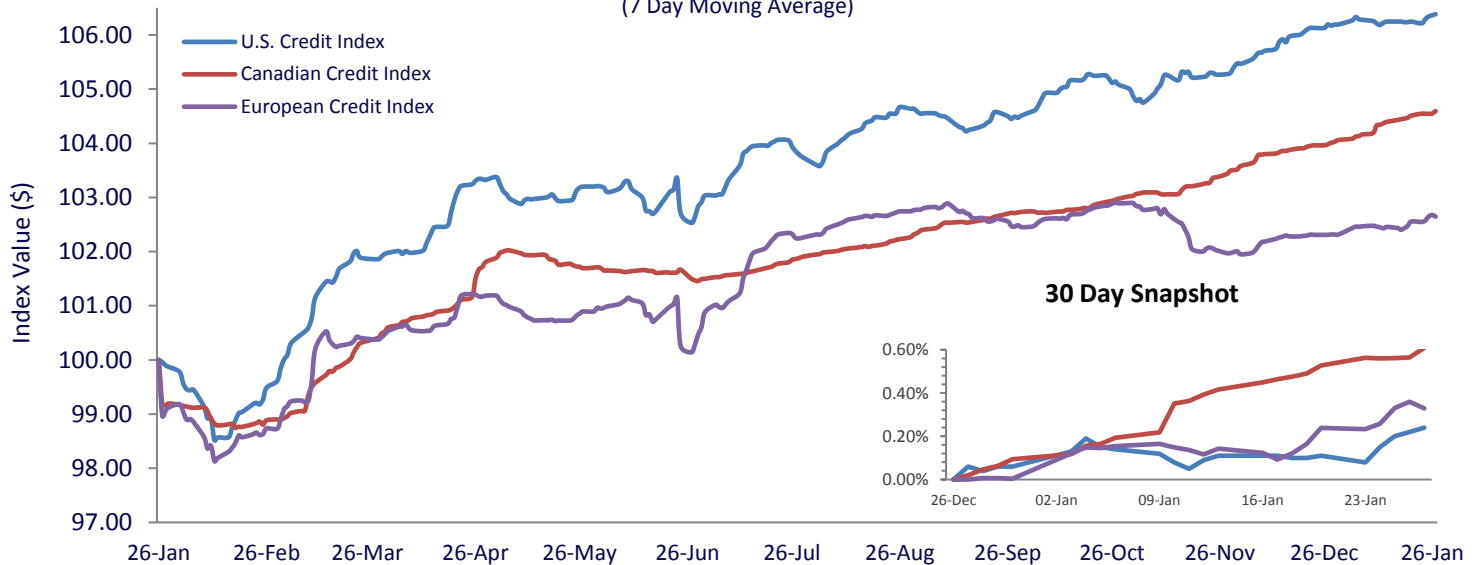


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Credit Market Return YOY

(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
01/23	Investors Group (IGM)	A+	600mm	10y & 30y	+176 (10y)	+168	
01/23	H&R REIT	BBB+	200mm	7y	+202	+200	Expected ongoing supply from REIT sector limited near term performance.
01/23	Goldman Sachs Group	BBB+	5bn	Multi-tranche	+148 (10y)	+141	
01/23	AerCap Holdings	BBB-	600mm	5y	+170	+159	Very successful first issue since upgrade to investment grade.
01/25	Royal Bank of Canada	Aa3	1.75bn	5y	+78	+73	
01/25	JPMorgan Chase & Co.	A-	2.75bn	11y (10y call)	+127	+125	
01/26	Power Corp of Canada	A	250mm	30y	+232	+221	Deep demand for rare holding company issuer. Top performer.

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