



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jan 3 – Jan 6 2017

New Issues started off strong in 2017 as companies, lead mostly by financial issuers, introduced approximately USD \$50 billion of debt within the first couple days of the year. The surprise amount proved hard to digest considering USD \$90 billion of new issues are expected this month.

Credit spreads stayed relatively flat throughout the week despite strong employment figures in the U.S. and Canada on Friday. Nonfarm payrolls in the U.S. posted a higher than expected revision for November and stronger wage growth for December, pushing treasury yields higher. Canada posted a huge surprise gain in employment of 53.7k jobs, mostly from Quebec and British Columbia. A jump in exports pushed Canada to a \$526-million trade surplus in November, the first surplus since September 2014.

Credit spreads will be tested in the coming weeks as a number of US banks kick off the fourth quarter earnings season. More issuance is also expected as issuers try to take advantage of favourable market conditions before the inauguration of Mr Trump on January 20th.

NAMES IN THE NEWS



- Ford (\$F) is abandoning a plan to build a \$1.6 billion factory in Mexico, after saying for months it wouldn't be persuaded from the project. The automaker will instead invest \$700 million to expand a plant in Michigan and create 700 jobs.
- The GAP (\$GPS) reported companywide comparable sales rose 4% in December, a strong finish to a very competitive holiday season. The big improvement was led by the performance of Old Navy, the low-price brand. Old Navy's comparable sales rose 12%, much better than Wall Street expectations.



- Both Kohl's (\$KSS) and Macy's (\$M) reported lower sales during November and December 2016 than the year before. Both retailers announced sales declines of 2.1% from the same two months in 2015. Additionally, both Kohl's and Macy's said that sales at owned and operated stores were down by 2.7% this holiday season. The spreads of both companies widened considerably following the news.

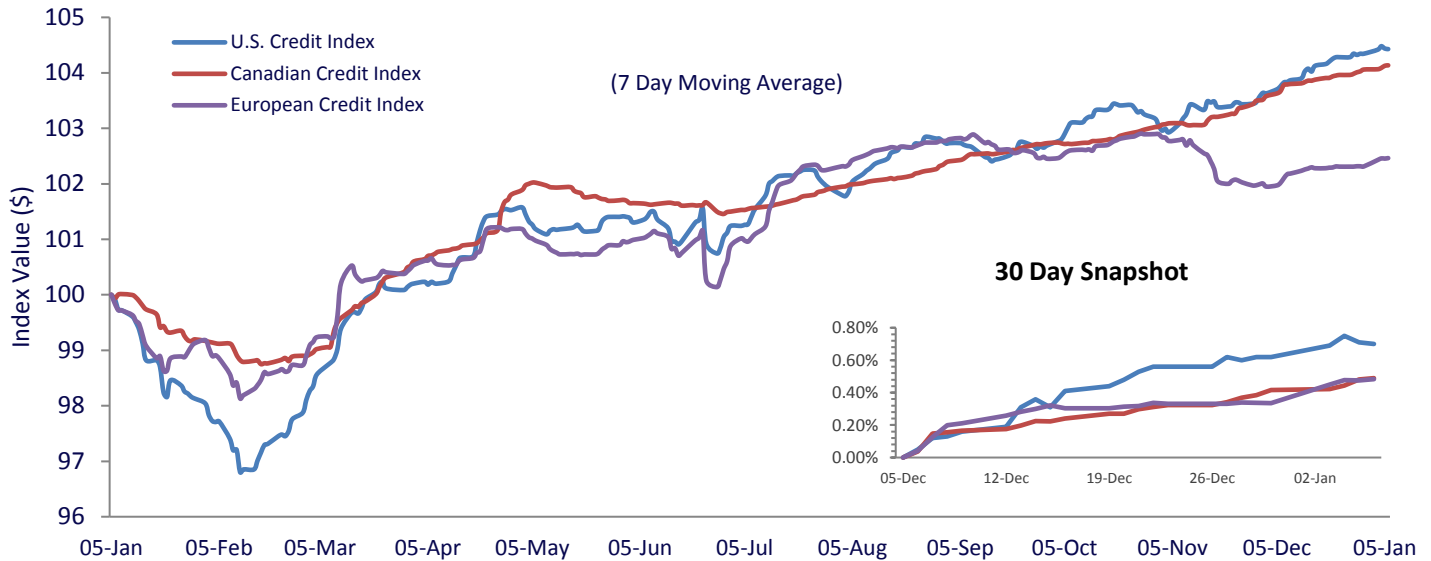
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.08%	0.08%	0.08%	Merrill Lynch: FOCO
US Credit	0.08%	0.08%	0.08%	Barclays: LUCRER
European Credit	0.15%	0.15%	0.15%	Barclays: BECI
Barclays Global Credit Index	0.12%	0.12%	0.12%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.09%	0.09%	0.09%	Merrill Lynch: CANO
Canadian High Yield	0.48%	0.48%	0.48%	Bloomberg: BCAH
US High Yield	0.92%	0.92%	0.92%	Merrill Lynch: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	1.71%	1.71%	1.71%	Bloomberg: TXPRAR
US Preferred	1.69%	1.69%	1.69%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	1.44%	1.44%	1.44%	Bloomberg: SPTSX
US Stocks: S&P 500	1.76%	1.76%	1.76%	Bloomberg: SPX



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Credit Market Return YOY



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
01/03	Barclays PLC	BBB	5bn	6yr, 11yr, 30yr	+190 (11yr)	186	
01/04	Citigroup Inc	BBB+	5.25bn	3yr & 10yr	+145 (10yr)	150	Deal upsized to 2.75bn with minimal new issue concession
01/04	Credit Suisse Group AG	BBB+	4bn	6yr & 11yr	+185 (11yr)	186	
01/04	Toyota Motors	AAA-	3.5bn	5yr & 10yr	+70 (5yr)	69	
01/04	Ford Motors	BBB	3bn	3yr & 7yr	+120 (3yr)	117	Not available into Canada

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