



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Feb 21 – Feb 24 2017

Most sectors were tighter again this week amid continued solid demand, robust earnings, balanced trading flows, and a decreasing supply of new issues. Investment grade bond sales fell for the third consecutive week, slumping to the lowest weekly total of the year. Issuance is likely to reverse next week with an uptick in volume, however it is not expected to revert to the levels posted in early January. YTD issuance now stands at \$15.2bn vs. \$11.4bn a year ago, driven mostly by bank issuance.

Two new issues in the high yield world were accepted with much fanfare. Superior Plus (\$SPBCN) printed a \$250MM 7NC3 with a 5.25% coupon as it prepares to purchase \$GEICN's industrial propane business. The deal caught the interest of many investors with a record 70 buyers. Crew Energy (\$CRCN) also tapped the market for a \$300MM (upsized from \$250MM) 7NC3 with a 6.5% coupon.

NAMES IN THE NEWS



- Goldman Sachs (\$GS) announced that they will be redeeming their GS 5.2% 4/17 bonds at their redemption date (April 19) at par. The call has increased the chances of a refinancing in the Canadian market.
- The Veresen (\$VSNCN) sale of its power assets for \$1.18bn looked to be at the high end of the expected range, removing funding issues in terms of its midstream asset development and in terms of its repayment of its March maturity. The bonds have been performing well since the December 2016 bond issue.
- Royal Bank of Canada (\$RYCN) and CIBC (\$CMCN) started off Canadian bank earnings with very strong Q1 results. CIBC's CET1 ratio rose to 11.9% vs 11.3% q/q (10.6% y/y) and its Tier 2 capital remained stable at 2.0% q/q. RBC's CET1 level was similar, up to 11.0% vs 9.9% q/q, with the Tier 2 steady to 2.1% q/q. The results were strong regarding credit quality, with no apparent need for any capital raising.



- Cameco (\$CCOCN) was downgraded by S&P to BBB Stable (from BBB+ CW-Negative) as the company's 2016 financial results and credit measures were below the agency's expectations. S&P does not expect CCOCN's earnings and cash flow to materially improve this year.

| INDEX WATCH | 1-WEEK | MTD | YTD | SOURCE |
|--|--------|--------|-------|---------------------|
| Investment Grade Credit (Excess Return) | | | | |
| Canadian Credit | 0.05% | 0.41% | 0.99% | Merrill Lynch: FOCO |
| US Credit | 0.13% | 0.34% | 0.43% | Barclays: LUCRER |
| European Credit | -0.11% | -0.09% | 0.18% | Barclays: BECI |
| Barclays Global Credit Index | 0.06% | 0.22% | 0.39% | Barclays: BGCI |
| Fixed Income (Total Return) | | | | |
| Canadian Bond Universe | 0.67% | 1.14% | 0.94% | Merrill Lynch: CANO |
| Canadian High Yield | 0.19% | 0.42% | 2.57% | Bloomberg: BCAH |
| US High Yield | 0.57% | 1.31% | 2.65% | Merrill Lynch: HOAO |
| Preferred Shares (Total Return) | | | | |
| Canadian Preferred | 1.15% | 2.24% | 6.37% | Bloomberg: TXPRAR |
| US Preferred | 0.50% | 2.16% | 4.63% | Bloomberg: SPTREFTR |
| Equities | | | | |
| Canadian Stocks: S&P TSX | -1.95% | 1.00% | 1.89% | Bloomberg: SPTSX |
| US Stocks: S&P 500 | 0.73% | 4.12% | 6.09% | Bloomberg: SPX |

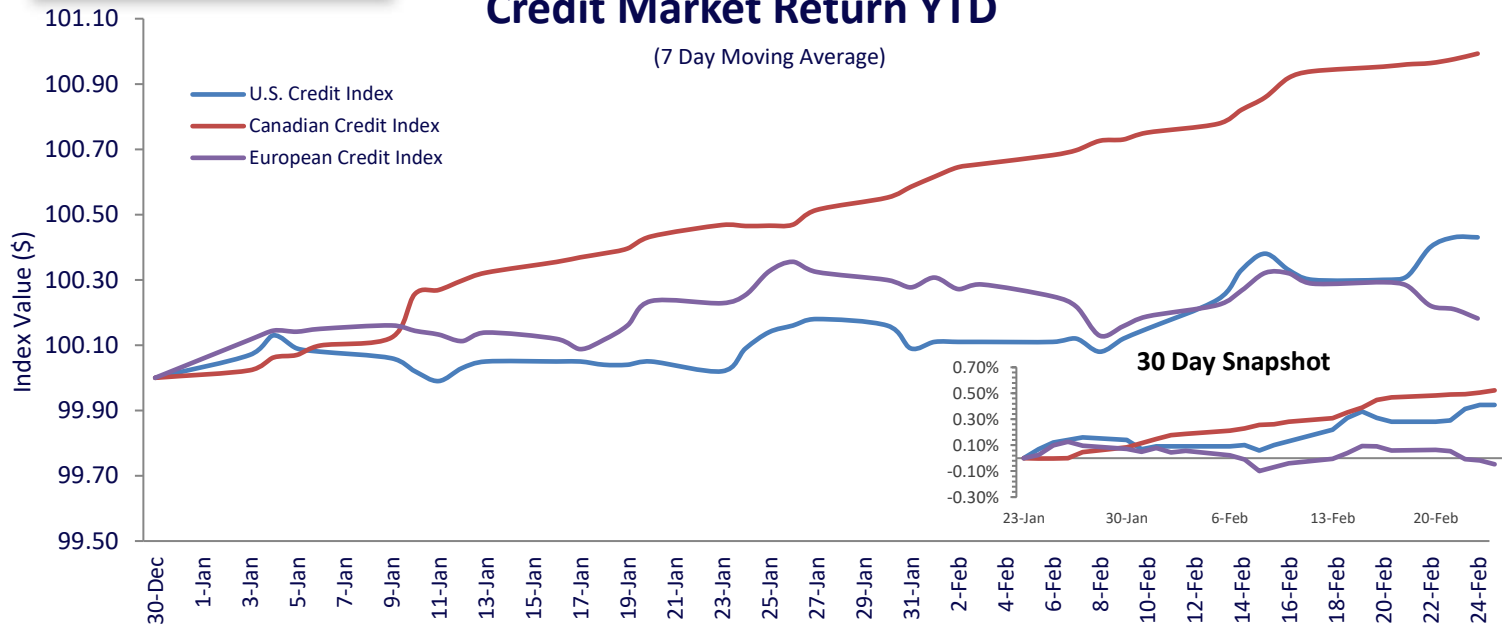


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Credit Market Return YTD

(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 |
|-------|-------------------------|--------|--------|------------------|---------------|----------------|--|
| 02/21 | Toyota Motor Corp | AA- | 600mm | 5y | +86 | +85 | Regular issuer. Deal priced fairly. |
| 02/21 | Metro Inc | BBB | 400mm | 3y FRN | +57 | +55 | Not many corporate frn deals meant this was well received. |
| 02/22 | BCE Inc | BBB+ | 1.5bn | 7y & 30y | +134 (7y) | +131 | Oversubscribed but the 30yr tranche has struggled. |
| 02/22 | Superior Plus LP | BBB | 250mm | 7y | +387 | +360 | Blowout HY deal. |
| 02/22 | Mizuho Financial Group | A | 3.25bn | 5y & 10y | +105 (5y) | +104 | |
| 02/22 | Bristol-Myers Squibb Co | A+ | 1.5bn | 2y & 10y | +90 (10y) | +90 | |
| 02/23 | Viacom Inc | BBB- | 1.3bn | 40y (NC5 & 10yr) | 6.25% (NC10) | \$100.50 | Heavily oversubscribed for this unique structure. |
| 02/24 | Crew Energy | B | 300mm | 7y | +520 | +507 | Solid demand for 6.5% coupon. |

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