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ASSET MANAGEMENT

THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jan 2– Jan 5 2018

The first trading days of the new year extended the positive momentum from 2017 as investors came back from the holidays with a slew of positive economic news out of Europe, North America and Asia. US corporate bond investors continue to react positively to tax reforms as it lowers expectations for 2018 domestic supply. Germany's unemployment rate hit a record low in December, underpinning a broad based economic upswing. European spreads outperformed their global counterparts, and European banks were particularly active issuers in the US dollar market, contributing to over $25 billion of new supply. American government yields and the USD fell throughout the week as investors reduced expectations of a Fed hike in March, capped off by a soft US jobs report on Friday.

Canadian credit was also very well bid, driven by a lack of new supply, strong economic numbers and higher oil prices. Investors put cash to work in the energy market as spreads tightened by 3- 10 bps on the back of WTI trading above $61. Subordinated debt of domestic banks traded very well as investors reacted to the news that $15bn of NVCC bonds will be added to the Canadian bond index. Finally, Canadian government yields popped drastically to start the year on the back of solid market tone and a stellar employment report on Friday. The jobless rate fell to the lowest since 1976 at 5.7% while both full time jobs and wages increased more than expected. Given the strength of the report, Canadian 5yr rates rose 8 bps on Friday as the market increased bets for a rate hike in January. Expect Canadian bond supply to pick up as early as next week.

NAMES IN THE NEWS NAMES IN THE NEWS

- The auto sector showed a surprisingly strong performance for December US sales, although the results by company were still somewhat mixed. Ford, Daimler, and BMW were the outperformers, enabling spreads of these names to generally tighten by 3-4 bps.

- Allergan ($AGN) announced the company is planning to reduce its global workforce by over 1,000 employees as it anticipates future generic competition in 2018 with its best-selling drug, Restasis. The headline was consistent with the company's restructuring program, keeping spreads flat as most sectors outperformed.
- Tesla Motors ($TSLA) reported disappointing sales numbers for the Model 3 sedan, as production problems continued for the electric automaker. Tesla bonds traded down at $95 1/2 after being issued at $100 in August.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.06%	0.06%	0.06%	Merrill Lynch: F0C0
US Credit	0.07%	0.07%	0.07%	Barclays: LUCRER
European Credit	0.26%	0.26%	0.26%	Barclays: BECI
Barclays Global Credit Index	0.13%	0.13%	0.13%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.71%	-0.71%	-0.71%	Merrill Lynch: CAN0
Canadian High Yield	0.14%	0.14%	0.14%	Bloomberg: BCAH
US High Yield	0.80%	0.80%	0.80%	Merrill Lynch: H0A0
Preferred Shares (Total Return)				
Canadian Preferred	0.82%	0.82%	0.82%	Bloomberg: TXPRAR
US Preferred	-0.28%	-0.28%	-0.28%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.96%	0.96%	0.96%	Bloomberg: SPTSX
US Stocks: S&P 500	2.63%	2.63%	2.63%	Bloomberg: SPX

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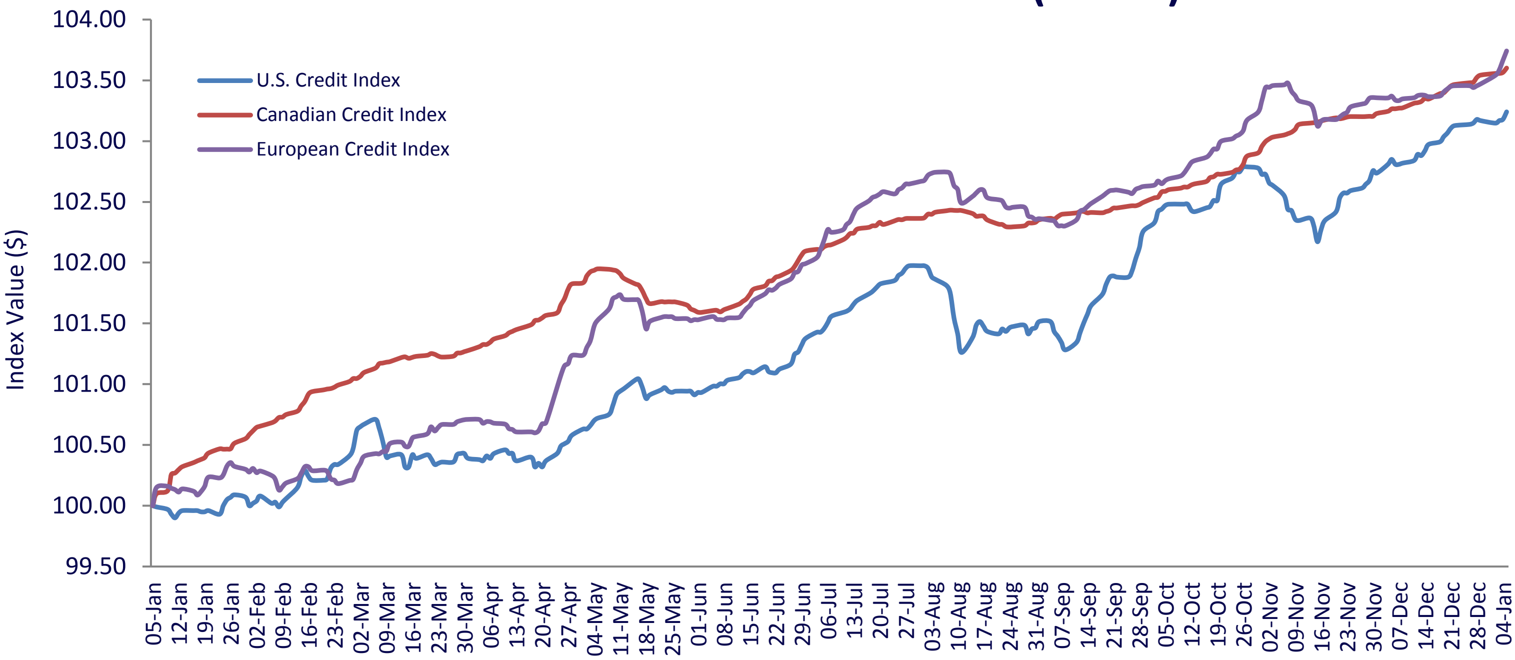
I.G. Credit Benchmark Returns (1 Year)



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
01/02	Berkshire Hathaway Inc	BBB+	2.2bn	Multi-tranche	+55 (5y)	+52	
01/02	BNP Paribas	A-	2bn	7y	+103	+98	
01/03	Deere & Co	BBB	1.75bn	Multi-tranche	+47 (5y)	+45	
01/04	Barclays	A	3bn	3y	+65	+62	
01/05	Intesa Sanpaolo SpA	BBB	2.5bn	5y, 10y & 30y	+115 (5y)	+112	
01/05	Credit Suisse	BBB+	2bn	11NC10	+140	+135	

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