



THE SENTINEL



Highlights from the week in Corporate Credit

Jan 22 – Jan 26 2018

Despite a negative week for Canadian stocks, domestic credit spreads continued to move tighter as higher interest rates and underwhelming supply created technical demand. Canadian Tire's real estate subsidiary CT REIT successfully issued a 10 year note that was heavily over-subscribed and pushed REIT spreads to new tight for the year. Floating rate notes were in the headlines with two significant Canadian dollar private placements and one syndicated deal launched during the week, demonstrating there is deep demand for notes offering carry and protection against rising rates. Only bank NVCC spreads bucked the trend by moving wider, as profit-taking and anticipation of supply undercut what has been a very successful month for the sector.

US credit shrugged off a temporary government shutdown and a weaker dollar to finish another positive week. Earnings blackouts meant it was an unusually quiet week on the new issue front. In terms of supply year to date, an astonishing \$94bn of the \$105bn has come from names within the financial sector. The fall in the US Dollar followed comments by the US Treasury Secretary and furthered by strong GDP numbers out of Europe as well as speculation the ECB would allow interest rates to rise more quickly than anticipated. The global story for 2018 continues to be stronger-than-expected growth pushing interest rates higher and bonds lower, while stocks and credit markets maintain generally positive momentum.

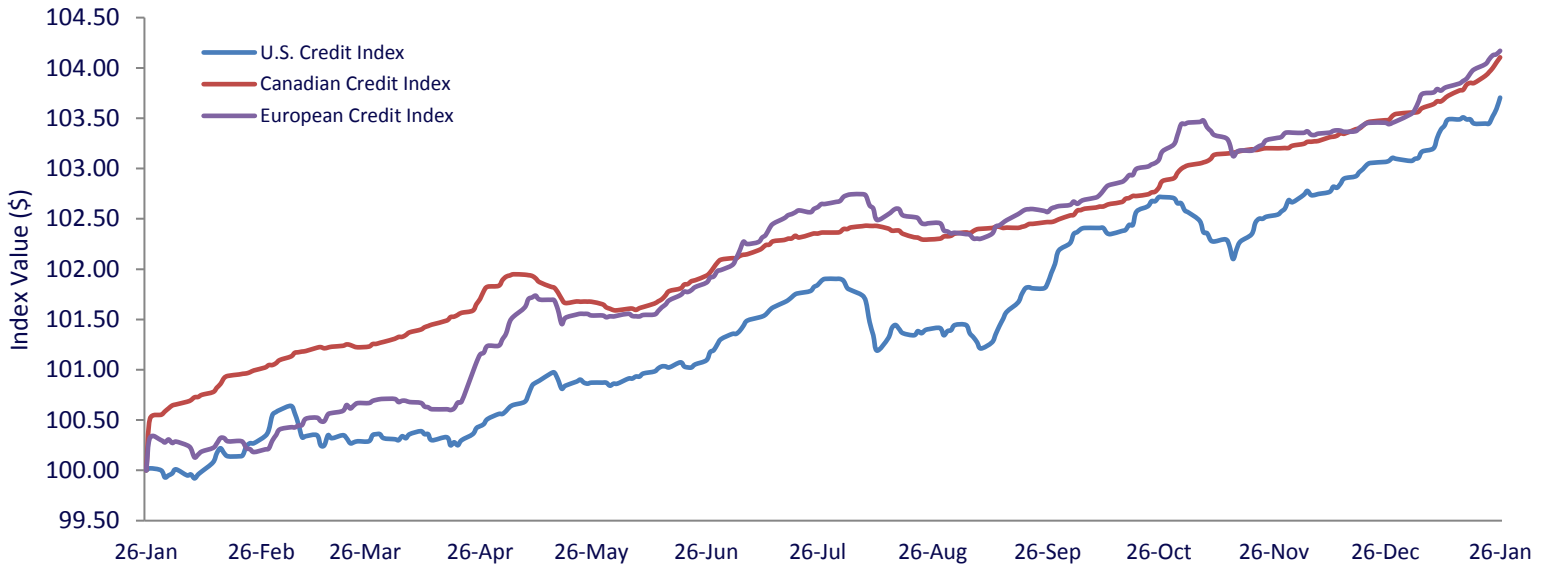
NAMES IN THE NEWS

	<ul style="list-style-type: none"> ▪ Dell Technologies (\$DELL) is reportedly reviewing options of an IPO or the buy-in of the rest of VMWare. The option of cash raising is seen as beneficial toward debt reduction, tightening spreads by as much as 10 bps late on Friday. ▪ American manufacturer Caterpillar (\$CAT) capped off a great 2017 with the announcement on Thursday that its full-year revenue grew by about 18% in 2017, while profit almost doubled. CAT also said it expects growth in all three of its major sales segments – construction, mining, and oil and gas, realizing profit growth of up to 35% in 2018.
	<ul style="list-style-type: none"> ▪ General Electric (\$GE) announced it's under investigation by the SEC regarding a \$6.2bn charge to its old insurance business and accounting procedures in GE's power-equipment unit. Bonds are trading 10 bps wider following the news. ▪ Ford Motors (\$F) reported weaker YoY results in Q4 on the back of weaker markets in Europe and Asia. Ford spreads were mildly weaker as management guided softer earnings in 2018 due to higher spending and margin pressure.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.25%	0.54%	0.54%	Merrill Lynch: FOCO
US Credit	0.25%	0.59%	0.59%	Barclays: LUCRER
European Credit	0.18%	0.68%	0.68%	Barclays: BECI
Barclays Global Credit Index	0.23%	0.64%	0.64%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.06%	-0.71%	-0.71%	Merrill Lynch: CANO
Canadian High Yield	0.16%	0.82%	0.82%	Bloomberg: BCAH
US High Yield	0.32%	0.93%	0.93%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.30%	1.28%	1.28%	Bloomberg: TXPRAR
US Preferred	0.15%	-0.64%	-0.64%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.69%	0.36%	0.36%	Bloomberg: SPTSX
US Stocks: S&P 500	2.23%	7.55%	7.55%	Bloomberg: SPX



Investment Grade 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 (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	Morgan Stanley	BBB+	500mm	3y FRN	+37.5	+29	Private placement
01/24	CT REIT	BBB+	200mm	10y	+159	+150	Heavily oversubscribed and repriced sector spreads tighter
01/25	Dollarama Inc	BBB	300mm	3y FRN	+27	+25	
01/25	Capital One Financial	BBB+	3bn	5y & 10y	+120 (10y)	+116	
01/26	Bank of Montreal	A-	1bn	5y FRN	+19	+17	Private Placement
01/26	CIBC	AA-	1.35bn	3yr FIX/FRN	+50 (FIX)	+48	

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