





THE SENTINEL

Highlights from the week in Corporate Credit

Feb 20 – Feb 23 2018

A holiday-shortened week in the US and Canada contributed to a relatively narrow trading range for credit. Despite a more balanced tone and improving equity markets, credit continues to react to heightened volatility, ongoing supply and retail outflows. The market struggled to digest \$200bn in new treasury supply this week with US 10-year yields hitting a mid-week high of 2.95%, but once the auctions were out of the way interest rates managed to trade lower by Friday. Corporate bond issuance picked up in the US with \$17 billion of new investment grade paper pricing this week. Most deals traded with minimal new issue concessions, but still found decent demand – a positive sign for market tone going forward. European bank spreads underperformed after Barclays was placed on review for downgrade, sparking fears of another wave of negative ratings actions in the sector.

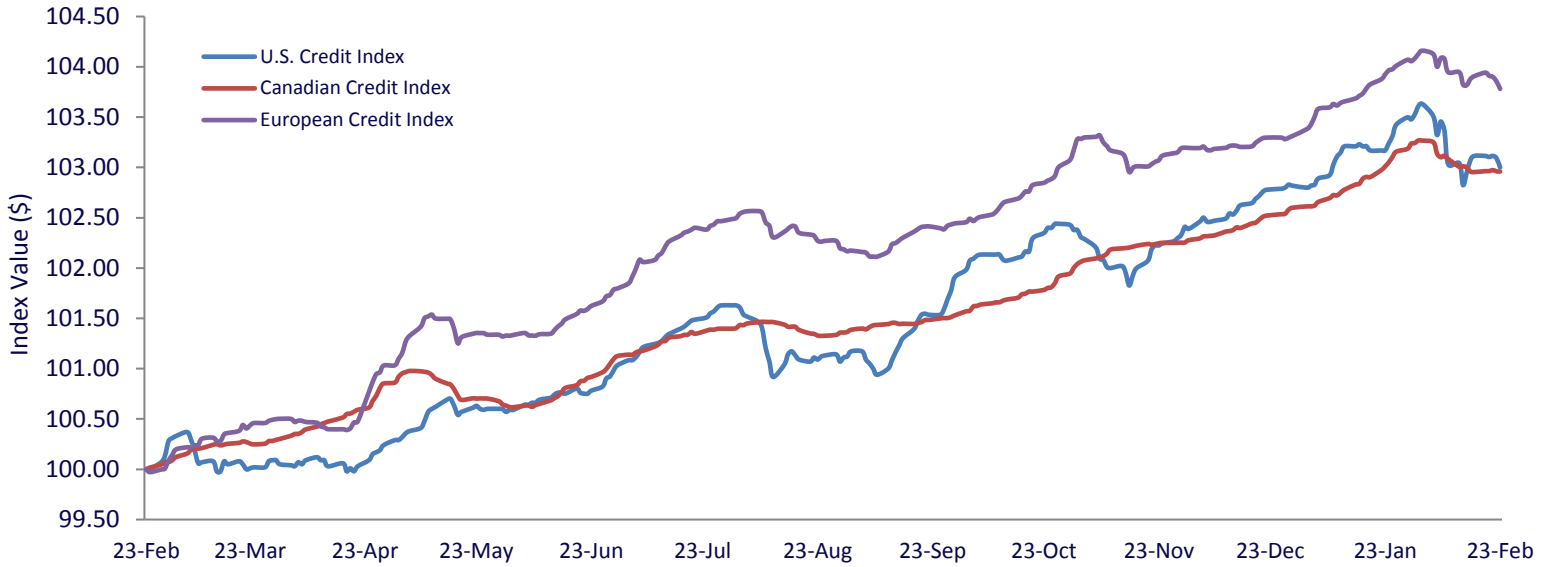
Canadian credit moderately outperformed as investors bid up higher quality paper, pushing spreads in sectors such as Infrastructure, Deposit Notes and Pensions 1-3bps tighter on the week. After a two-week drought, Canadian primary bond markets were active again with \$1.9 billion of new supply concentrated in the Auto sector. General Motors led the way with a C\$500mm 3-year deal that was well oversubscribed and performed 6 basis points tighter on the break.

	<ul style="list-style-type: none"> CIBC (\$CM) and RBC (\$RY) both reported strong earnings driven largely by the contribution from acquisitions and wealth management revenues while reducing provisions for credit losses. Both banks reported a continued slowdown in mortgage loan growth as federal rules aimed at cooling the housing market took effect. Investors will be looking for new issuance as banks emerge from their blackout periods.
	<ul style="list-style-type: none"> Moody's placed Barclays PLC's (\$BACR) ratings on review for downgrade due to ongoing credit challenges and ring-fencing implementation after BACR announced mixed earnings last week. BACR senior debt traded 7-10 bps wider and sub-debt traded 15-18 bps wider as investors feared the bonds could be excluded from the index. Wal-Mart (\$WMT) reported earnings that missed analysts' expectations for the holiday period as its e-commerce operations cooled off, overshadowing the fact that same-store sales and revenue surpassed forecasts. The stock fell more than 10% while WMT spreads closed 3bps wider for the week.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.00%	-0.28%	0.35%	Merrill Lynch: FOCO
US Credit	-0.11%	-0.51%	0.18%	Barclays: LUCRER
European Credit	-0.12%	-0.29%	0.45%	Barclays: BECI
Barclays Global Credit Index	-0.10%	-0.47%	0.25%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.44%	-0.01%	-0.96%	Merrill Lynch: CANO
Canadian High Yield	0.16%	-0.35%	0.53%	Bloomberg: BCAH
US High Yield	-0.16%	-1.21%	-0.57%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.16%	-1.30%	0.26%	Bloomberg: TXPRAR
US Preferred	0.79%	-0.15%	-1.50%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	1.35%	-1.85%	-3.20%	Bloomberg: SPTSX
US Stocks: S&P 500	0.58%	-2.53%	3.05%	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
02/21	GM Financial	BBB	500mm	3y	+107	+101	A well-received deal which improved overall tone in Canada.
02/22	Ford Financial	BBB	500mm	2.75y FRN	+68	+64	
02/22	BNP Paribas	A+	2.75bn	5y & 10y	+90 (5y)	+91	
02/22	American Express	BBB+	2bn	5y FXD/FRN	+77 (FXD)	+77	
02/22	Ford FAST ABS	AAA	600mm	A-1, A-2, A-3	+56 (A-2)	+54	

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