



# THE SENTINEL

## Highlights from the week in Corporate Credit

Mar 19 – Mar 23 2018

Trump's threat of a trade war coupled with the FOMC meeting drove global equities and credit weaker for the week, causing investors to jump into safer assets such as gold and the Yen. The much-anticipated rate increase of 25 bp from Fed Powell's first testimony was viewed as slightly dovish upon lower chances of a fourth rate hike in 2018. Although an increase in the 2018 GDP forecast to 2.7% (2.5% prior) and potentially more rate hikes in 2019/2020 kept investors on edge. The US Treasury curve finished barely unchanged for the week, with the 2s30s curve steepening by 3 bps. Markets took a significant turn for the worse once Trump announced tariffs on approximately \$50bn worth of Chinese goods on Thursday. China announced a retaliation to President Trump's tariffs compounding a selloff that started with technology and escalated across most sectors.

The threat of a trade war weighed on the Canadian market, although an uptick in WTI and strong primary issuance enabled Canadian credit to outperform. There was \$4.2bn of issuance this week from six issuers, staying on track for a record-breaking month. Volkswagen Credit Canada issued the largest auto deal in Canada, printing a total of \$1.5bn of 2-yr FRNs, 3-yr fixed and 5-yr fixed paper. All tranches performed well on the break with the 5yr trading 3 bp tighter. Canadian CPI released on Friday was surprised to the upside, putting a slight dampener of market tone. Core CPI for February was 2.1% y/y, up from 1.8% in January and the first 2% print in 20 months. Results like these were not ignored by investors, increasing odds of an April hike from the Bank of Canada to a high of 55%.

### NAMES IN THE NEWS



- S&P raised the credit rating of Kraft Heinz (\$KHC) to BBB from BBB- citing expected lower leverage partly due to the completed integration of the Kraft acquisition. Spreads tightened slightly on the news.
- Newell Brands (\$NWL) announced an agreement with activist investor Carl Icahn to expand the transformation program, which includes deleveraging and divestitures totalling \$10bn. Bonds were 7-10 tighter on the day.

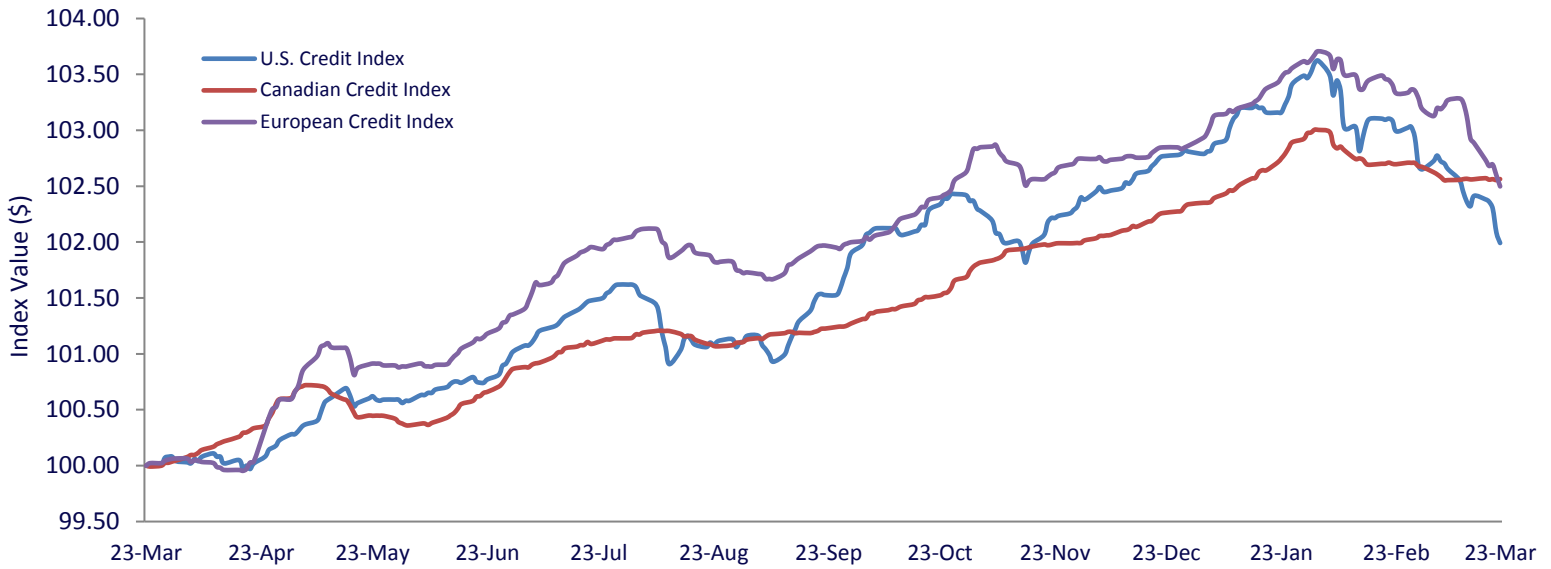


- Alimentation Couche-Tard (\$ATDTCN) reported weaker than expected Q3 results, with adjusted earnings essentially flat. Lower US fuel margins and slower sales growth in the US markets was the primary driver for the weaker performance. With no debt reduction this quarter, and with the weaker margins, spreads widened by 3 bp on the news.
- The Board of Directors of Nordstrom Inc. (\$JWN) announced that it terminated discussions with members of the Nordstrom family to take the company private. Spreads widened by 15-20 bp as the company plans to stay public.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.00%	-0.14%	0.22%	Merrill Lynch: FOCO
US Credit	-0.41%	-0.92%	-0.80%	Barclays: LUCRER
European Credit	-0.38%	-0.83%	-0.35%	Barclays: BECI
Barclays Global Credit Index	-0.40%	-0.88%	-0.66%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.28%	0.39%	-0.41%	Merrill Lynch: CANO
Canadian High Yield	0.07%	0.58%	1.15%	Bloomberg: BCAH
US High Yield	-0.37%	-0.72%	-1.01%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	-1.26%	-1.23%	-0.72%	Bloomberg: TXPRAR
US Preferred	-0.66%	0.16%	-0.90%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-3.19%	-1.28%	-5.63%	Bloomberg: SPTSX
US Stocks: S&P 500	-5.93%	-4.50%	-2.76%	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 (FOC0) 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
03/19	HSBC	BBB	4bn	PERPNC5 PERPNC10	6.25%	+101.25	
03/19	Unilever	A+	2.1bn	Multi-Issue	+83 (10y)	+83	
03/20	Anheuser-Busch InBev	A-	10bn	Multi-Issue	+120 (10y)	+117	Priced with decent concession to secondaries.
03/22	BMO	AA-	1.65bn	2y & 5y FRN	+19 (5y)	+26	
03/22	Penbina Pipeline	BBB	700mm	10y & 30y	+182 (10y)	+179	
03/23	Volkswagen Canada	AA-	1.5bn	2yr, 3y & 5y	+95 (3y)	+92	Deal of the week!

The information contained in this document is drawn from sources believed to be reliable, but the accuracy or completeness of the information is not guaranteed; nor in providing it does LPAM assume any responsibility or liability whatsoever. Nothing contained herein is a promise or forecast and thus should not be relied upon as such. Content contained herein has been prepared for clients of Lawrence Park and is not intended for attribution or reproduction without permission.