



THE SENTINEL

Highlights from the week in Corporate Credit

Mar 26 – Mar 29 2018

Global credit markets remained choppy but finished the week on a positive note as fears of a global trade war eased. American credit was firm amid light volumes in a holiday-shortened week, largely underperforming the move higher in equities but still outperforming global credit for the week. While equity volatility has remained elevated (VIX closed ~20), credit has been consistently less volatile. In investment grade credit, bonds under 3 years to maturity stabilized after a significant amount of pressure during the first couple months this year, a positive sign as IG performance has significantly lagged to start the year (IG -3.36% YTD).

The Canadian credit index underperformed last week, playing catch-up to the widening in global spreads, though in reality the tone improved as the week went on. Canadian investors received a significant amount of issuance for a holiday-shortened week with \$3.2bn across four unique issuers. Canadian banks were responsible for the vast majority with both CIBC (\$CM) and Bank of Nova Scotia (\$BNS) tapping the market with \$1.5bn of subordinated debt ("NVCC") and \$1bn senior debt, respectively. The CM NVCC deal was notable, printing at a large concession of 10+ bp and repricing the NVCC space wider by roughly 5+ bp. Finally, Canadian GDP contracted by 0.1% in January, the second monthly setback in the past 15 months. The primary drags were on the Oil & Gas and Real Estate sectors. Yields fell throughout the week as chances of a rate hike in April faded.

NAMES IN THE NEWS



- Constellation Brands (\$STZ) reported fourth quarter results that were ahead of estimates with adjusted operating profit up 10%. The company again saw solid strength in beer in the quarter with volumes up 10.2% and sales up 11.9% while wine & spirits generated +7.6% organic net sales growth in the quarter. Spreads traded slightly tighter at week-end.
- S&P upgraded Air Canada's (\$ACACN) corporate credit rating yesterday to 'BB' from 'BB-' while the senior secured debt goes to 'BBB-' from 'BB+'. S&P commented that ACACN's credit measures have exceeded their previous estimates and that they expect cost control and positive free operating cash flow to facilitate continued debt reduction.

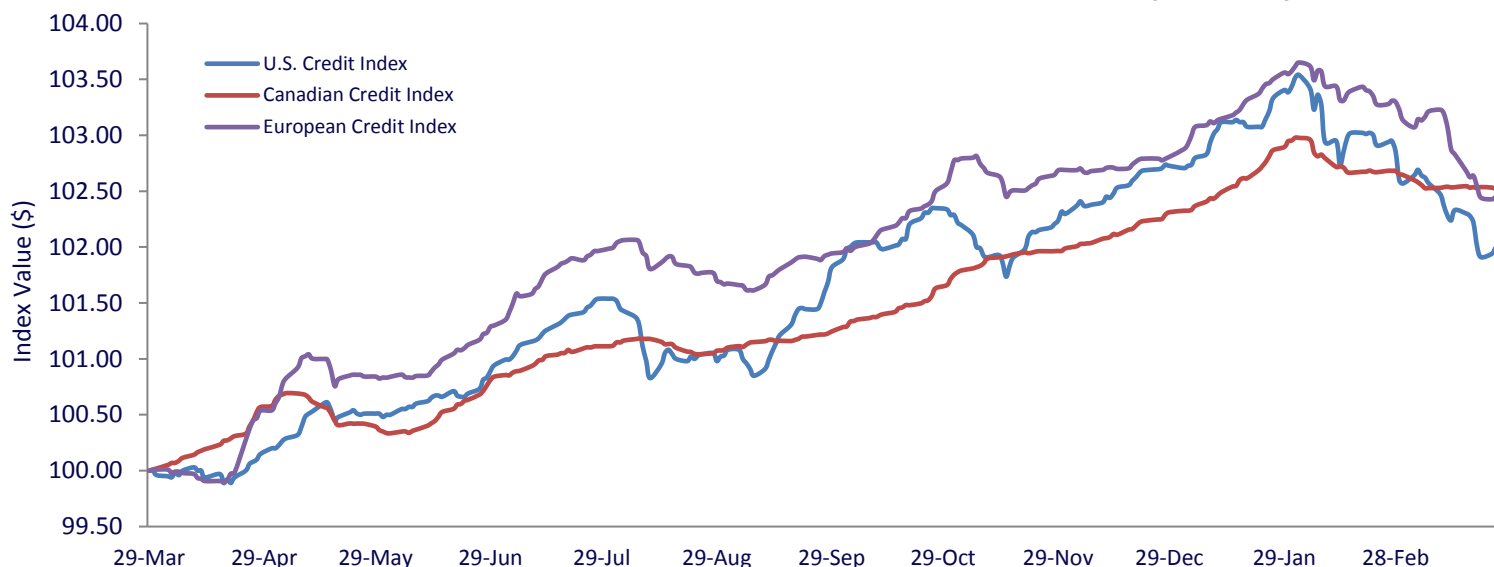


- Tesla Inc. (\$TSLA) had a tough week after a Model X accident, a Model S recall and skepticism of troubled Model 3 production pushed down the price of both TSLA stock and bonds. Moody's downgraded Tesla's bonds citing the \$3.4 billion in cash and securities was "not adequate to cover" its normal operations and production increases.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.27%	-0.41%	-0.05%	Merrill Lynch: FOCO
US Credit	0.11%	-0.81%	-0.68%	Barclays: LUCRER
European Credit	-0.01%	-0.83%	-0.36%	Barclays: BECI
Barclays Global Credit Index	0.05%	-0.83%	-0.61%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.57%	0.96%	0.15%	Merrill Lynch: CANO
Canadian High Yield	0.06%	0.64%	1.22%	Bloomberg: BCAH
US High Yield	0.09%	-0.64%	-0.92%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.58%	-0.66%	-0.15%	Bloomberg: TXPRAR
US Preferred	0.35%	0.52%	-0.55%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	1.05%	-0.23%	-4.64%	Bloomberg: SPTSX
US Stocks: S&P 500	2.05%	-2.54%	-0.76%	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 (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
03/26	Bell Inc	BBB+	750mm	30y	+140	+137	Refinance of existing USD bonds.
03/27	CRH America Inc	BBB+	1.5bn	10y & 30y	+125 (10y)	+125	
03/27	CIBC	A-	1.5bn	10y (5y call)	+141	+140	Healthy concession only pushed sector spreads wider.
03/27	Greater Toronto Airport (GTAAIR)	A+	500mm	19y	+100	+100	
03/28	Mylan NV	BBB-	1.5bn	10y & 30y	+180 (10y)	+178	Performed well amid a tough US new issue market.
03/28	BNS	A-	1bn	2y FRN	+18	+18	

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