



# THE SENTINEL

## Highlights from the week in Corporate Credit

Apr 9 – Apr 13 2018

Despite a challenging few days for the White House and a heightening of tensions over Syria, bond traders focused instead on first quarter earnings and a conciliatory tone from China to take credit markets higher for a second consecutive week. Chinese President Jinping calmed investors with a speech giving comfort that fears of a trade war were overblown. Focus then shifted to the first earnings season under the new tax reform, kicked off by Wells Fargo, JP Morgan and Citigroup. Investors are now expecting an average earnings boost of 5%. Inflation remains firm with March core CPI at 2.1% and Fed minutes showed further support for rate hikes, pushing 10-year Treasury yields higher to 2.83%.

Higher commodity prices set a positive tone for Canadian credit, though the rally here at home feels more cautious. Credit spreads were generally tighter across the board with higher beta sectors like REITs, Oil and Gas, Consumer and NVCC all tightening 5-7 basis points. Banks lagged after Scotiabank printed a C\$2.25 billion 5-year deposit note at a generous spread which pushed secondary paper wider, while both Enbridge and CCL printed successful deals that performed well on the break.

### NAMES IN THE NEWS



- General Electric (\$GE) stated that the company is exploring a potential IPO or a merger for its transportation business. Investors viewed the potential options as slightly positive, pushing spreads of GE bonds tighter by 2 bp.
- Shaw Communications' (\$SJRCN) quarterly results were better than expected. Stronger wireless results helped to offset a modest decline in the wireline segment. Investors cheered the wireless results, tightening the SJRCN bonds by 3 bp.

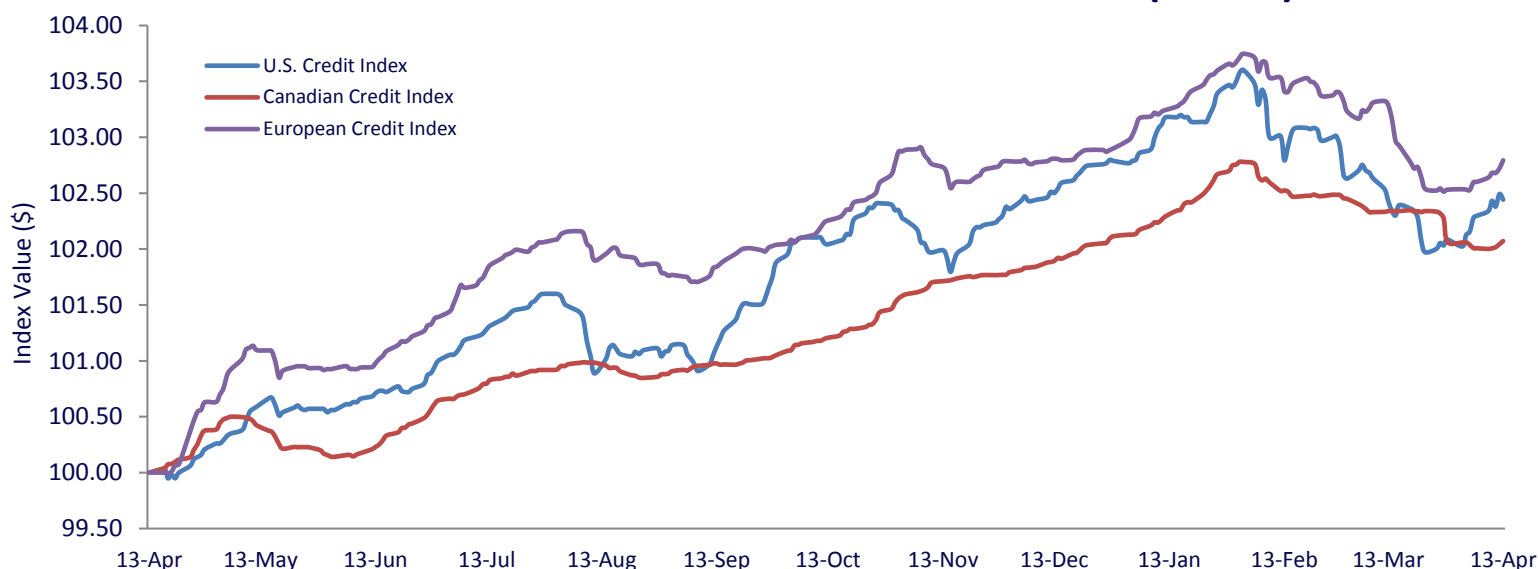


- Wells Fargo (\$WFC), JPMorgan (\$JPM) and Citigroup Inc. (\$C) all posted their first quarterly results following the tax reform. All three banks posted higher revenue and less interest expense while investment banking revenue sagged. Shares fell while bonds stayed firm as JPMorgan Chief Executive Officer Jamie Dimon warned of the intensely competitive lending environment and as WFC warned that a settlement with regulators still looms.
- Reuters reported that Mylan (\$MYL) is in advanced discussions to acquire Merck KGaA's consumer health unit for an undisclosed amount. Bond investors expressed leverage concerns, pushing Mylan spreads out 10-15bps.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.06%	0.01%	-0.04%	Merrill Lynch: FOCO
US Credit	0.14%	0.35%	-0.34%	Barclays: LUCRER
European Credit	0.19%	0.26%	-0.10%	Barclays: BECI
Barclays Global Credit Index	0.17%	0.32%	-0.29%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.32%	-0.89%	-0.73%	Merrill Lynch: CANO
Canadian High Yield	0.15%	0.11%	1.33%	Bloomberg: BCAH
US High Yield	0.83%	1.16%	0.23%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.72%	-0.12%	-0.27%	Bloomberg: TXPRAR
US Preferred	-0.08%	-0.36%	-0.91%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.55%	-0.46%	-5.08%	Bloomberg: SPTSX
US Stocks: S&P 500	2.04%	0.66%	-0.10%	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
04/09	Banco Santander	A-	3bn	5y & 10y	+160 (10y)	+150	One of the best performing USD bank deals since January.
04/09	Enbridge Inc.	BBB-	750m	60NC10	+445	+403	Well anticipated and rallied hard after generous pricing. Deal of the week!
04/10	Bank of Montreal	A+	2.25bn	3y	+70	+63	Valued in line with CAD paper.
04/11	CCL Industries	BBB	300m	10y	+167	+154	Despite pricing tight vs USD paper, found solid demand and rallied sharply.
04/12	Bank of Nova Scotia	A+	2.25bn	5y	+84	+82	Printed with slight concession to secondaries.
04/12	FairFax Financial	BBB-	600m	10y	+205	+201	

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