



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Aug 14 – Aug 18 2017

Canadian credit was in focus this week with a C\$2.5 billion inaugural maple deal for Apple grabbing investor attention. The launch on Tuesday ensured plenty of two-way trading throughout the week as investors made room for such a large new issue. Despite looking rich relative to US Dollar Apple paper, the deal held reasonably well in early trading. The overall tone in Canada however was decidedly soft.

Credit spreads in the US rebounded after the North Korean selloff of the prior week. Market tone remains lukewarm as investors weigh the Trump administration's ability to follow through on its reform agenda. Benign inflation data and the release of Fed minutes pushed US rates down to a 2-month low. Canadian bank earnings are in focus next week, while new issue supply is expected to slow materially. If politics can stay out of the headlines, we may see spreads start to recover from what has been generally a soft month for credit.

NAMES IN THE NEWS



- Home Depot (\$HD) delivered an impressive second quarter highlighted by a 6.3% increase in comparable sales versus 4.9% consensus. HD also increased FY sales and EPS guidance. Investors approved of HD's resilience in the retail and home improvement sector as spreads tightened by approximately 7 bps for the week.
- Target (STGT) reported second quarter adjusted EPS of \$1.23 that beat consensus of \$1.19 and the company raised its adjusted EPS view to \$4.34-\$4.54 from \$3.80-\$4.80. The strong results and the improved guidance drove TGT and other retail spreads tighter by 5-8bps.



- Aimia Inc. (\$AIMCN) was downgraded by S&P to BB- with negative implications, reflecting S&P's view that the company's business and cash flow would be pressured following Air Canada's (\$ACACN) notice that it will not renew its contract with AIMCN in 2020. Spreads of AIMCN's single bond maturing in 2019 widened by 20 bps.
- Foot Locker (\$FL) reported a 6% same-store sales decline in the second quarter and a 4.4% year-over-year decrease in sales, to \$1.78 billion. Investors feared the direct-to-consumer actions being taken by some of the biggest names on its shelves, pushing yields out by 7bps.

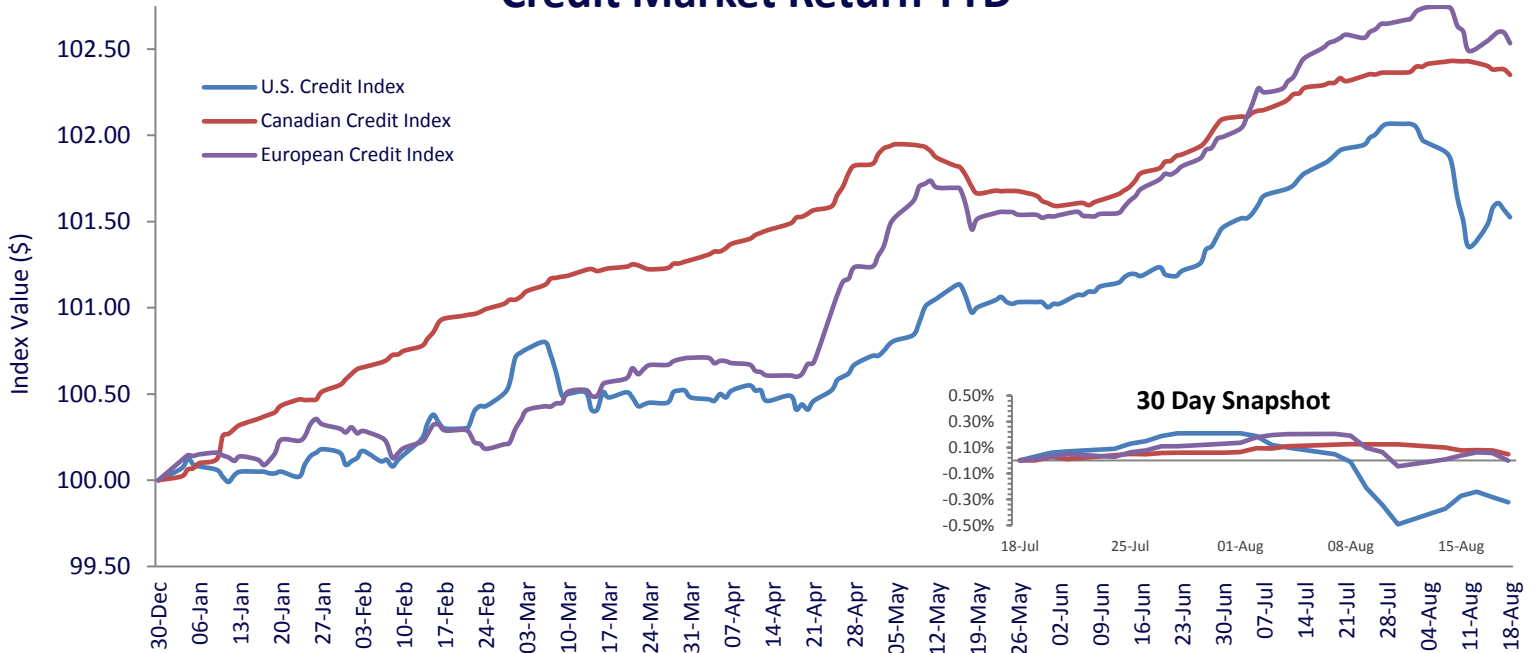
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.08%	-0.01%	2.35%	Merrill Lynch: FOCO
US Credit	0.17%	-0.53%	1.53%	Barclays: LUCRER
European Credit	0.04%	-0.13%	2.53%	Barclays: BECI
Barclays Global Credit Index	0.13%	-0.39%	1.92%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.02%	1.40%	1.85%	Merrill Lynch: CANO
Canadian High Yield	0.10%	0.45%	5.47%	Bloomberg: BCAH
US High Yield	0.04%	-0.72%	5.34%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.16%	-1.53%	8.24%	Bloomberg: TXPRAR
US Preferred	0.29%	-0.65%	8.29%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.55%	-1.23%	-0.65%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.58%	-1.64%	9.76%	Bloomberg: SPX



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Credit Market Return YTD



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
08/14	Pembina Pipeline Corp	BBB	600mm	7y & 30y	+150 (7y)	+150	Re-opening of existing issues.
08/15	Apple Inc.	AA+	2.5bn	7y	+81	+82	
08/15	Manulife Financial Corp	A-	750mm	12y	+133	+134	
08/15	Amazon.com Inc	AA-	16bn	Multi-issue	+90 (10y)	+90	Jumbo deal to finance Whole Foods acquisition. Traded well.
08/16	VMWare Inc.	BBB-	4bn	3y, 5y & 10y	+170 (10y)	+175	New issuer. Subsidiary of Dell.

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