



A surprisingly heavy week of new issue supply against a backdrop of rising geopolitical tensions proved too much for global credit markets last week. US markets fared the worst, with the benchmark corporate spread index widening by 7bps – its worst 1-week performance in 18 months. Even as Canadians were enjoying an extended weekend on Monday, US bond markets kicked off the week with 13 new corporate issues, a surprising number for mid-August which set the tone for softer spreads. By Friday the US saw 27 deals come to market for a total of \$43bn, the third busiest week of the year. Meanwhile US interest rates fell back toward year-to-date lows as Friday's inflation report came in below expectations.

Amid the heightened volatility, the Canadian corporate market remained relatively calm. Flows were stable throughout the week and no new bond deals came to market. Government bond yields followed the US lower, with the 10-year benchmark government bond yield falling approximately 7 bps on the week.

### NAMES IN THE NEWS



- Beleaguered loyalty points provider Aimia Inc. (\$AIMCN) provided some re-assurance to investors by reporting second quarter earnings in line with expectations. Bonds were over a point higher on the week, but remain 8% below the recent highs.
- Crombie REIT's (\$CRRUCN) performance was relatively stable during the second quarter, with net operating income of \$72mm vs \$73mm y/y and same property NOI increasing by 3.4% y/y. The company ended the quarter with almost no draws on its credit facilities, further tightening spreads by 5-8bps.



- Mylan (\$MYL) reported total revenue of \$2.96bn and EPS of \$1.10 in the second quarter, missing estimates of \$3.03bn in revenues and EPS of \$1.16. Spreads widened slightly as the forthcoming drug Advair is being held up by regulators.
- Disney (\$DIS) released dim Q3 earnings outlining a decline of 23% in operating income due to troubles at ESPN, plagued by higher programming costs and lowers advertising revenue. Spreads widened 8-10bps as DIS announced it will no longer stream its new film releases on Netflix, instead building its own streaming service.

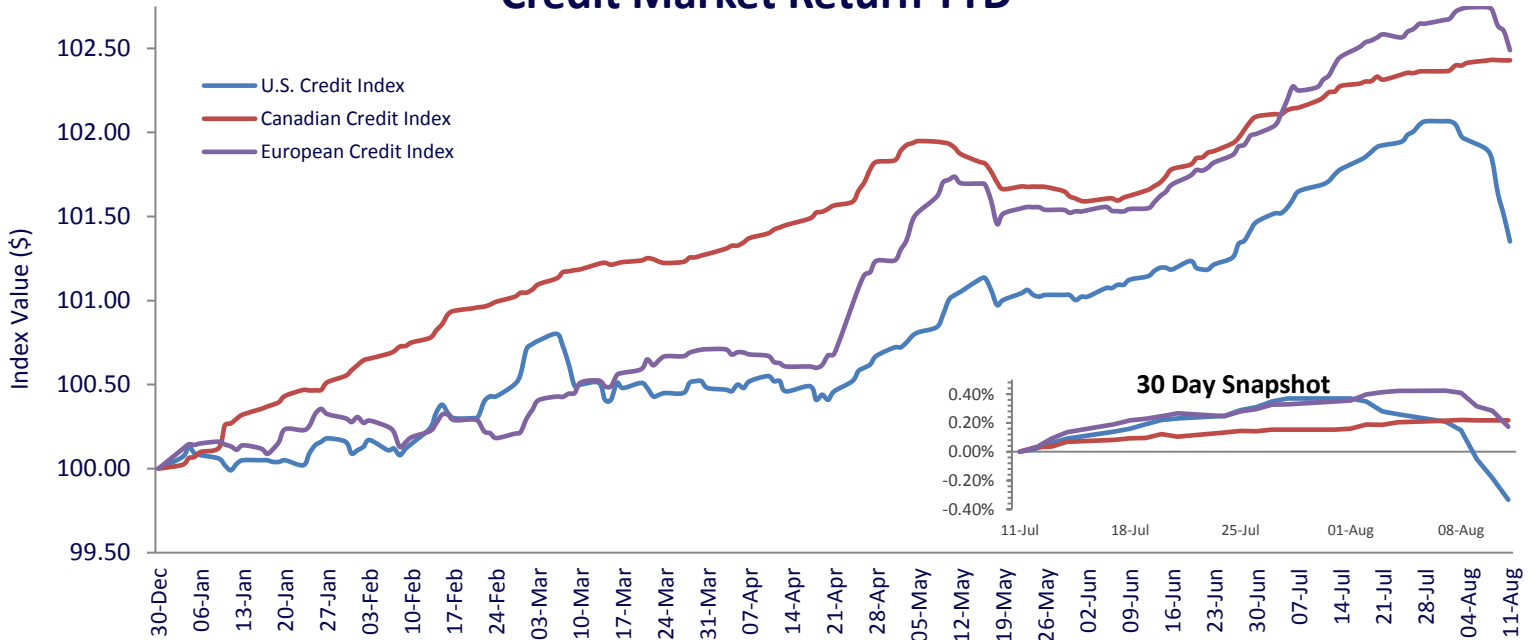
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.01%	0.06%	2.43%	Merrill Lynch: FOCO
US Credit	-0.59%	-0.70%	1.35%	Barclays: LUCRER
European Credit	-0.25%	-0.17%	2.49%	Barclays: BECI
Barclays Global Credit Index	-0.48%	-0.52%	1.79%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.42%	1.38%	1.84%	Merrill Lynch: CANO
Canadian High Yield	0.13%	0.35%	5.37%	Bloomberg: BCAH
US High Yield	-0.79%	-0.76%	5.30%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	-1.55%	-1.69%	8.07%	Bloomberg: TXPRAR
US Preferred	-1.01%	-0.94%	7.97%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-1.45%	-0.69%	-0.10%	Bloomberg: SPTSX
US Stocks: S&P 500	-1.37%	-1.06%	10.40%	Bloomberg: SPX



# THE SENTINEL

## Highlights from the week in Corporate Credit

### 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 (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
08/07	UBS Group AG	A-	3.25bn	6y	+105	+115	Priced fairly but struggled with excess supply.
08/07	Kraft Heinz	BBB-	1.5bn	2y, 4y & 5y	L+82 (5y)	L+85	FRNs held in well relative to fixed paper.
08/08	British American Tobacco	BBB+	17.25bn	Multi-issue	+130 (10y)	+134	Jumbo deal size, held up well despite market weakness.
08/09	McCormick & Co.	BBB	2.5bn	Multi-issue	+120 (10y)	+115	A rare performer in last week's sea of deals.
08/11	Tesla Inc.	B-	1.8bn	8y (3y call)	5.30% (\$100)	\$99.75	Inaugural bond deal. Good initial demand but little follow through.

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