



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Jul 10 – Jul 14 2017

Central bank policies continued to dominate headlines on both sides of the border as Canada raised its key interest rate for the first time since 2010 and as Fed Chair Yellen provided dovish guidance during a testimony to Congress. Canadian government yields continued to rise as Governor Poloz provided hawkish comments following a rate increase of 25 bps. Global corporate credit tone continues to be receptive and modestly risk-on, further supported by a light amount of issuance in the primary market.

Apart from Central bank talk, second quarter earnings started off this week with notable Canadian companies like Alimentation Couche-Tard (\$ATDBCN), Cogeco Communications (\$CCACN) and MCAP Commercial LP (\$MCAPCO). A number of US banks also reported earnings with JPMorgan (\$JPM), Wells Fargo (\$WFC) and Citigroup (\$C) all releasing second quarter numbers on the same day.

### NAMES IN THE NEWS



- PepsiCo (\$PEP) generated strong quarterly results as profit rose 5% y/y to US \$2.1bn, with strength seen in the Frito Lay segment. Cash flow fell to \$2.24bn vs \$3.1bn y/y due to working capital changes but the liquidity position remained very strong, with \$10.3bn in cash. Stronger full year profit guidance supported a modest tightening in spreads.
- Royal Bank of Scotland (\$RBS) announced a settlement with the Federal Housing Finance Agency (FHFA) following an investigation into its former US RMBS business for \$4.75bn. RBS spreads tightened as the bank continues to resolve legal disputes while maintaining strong metrics.
- Citigroup (\$C), JPMorgan Chase (\$JPM) and Wells Fargo (\$WFC) posted better than expected results for the past quarter, supported by stronger margins and lower credit losses. Capital levels for all three firms also improved. The overall performance of all three banks remained strong enough to maintain credit spreads.

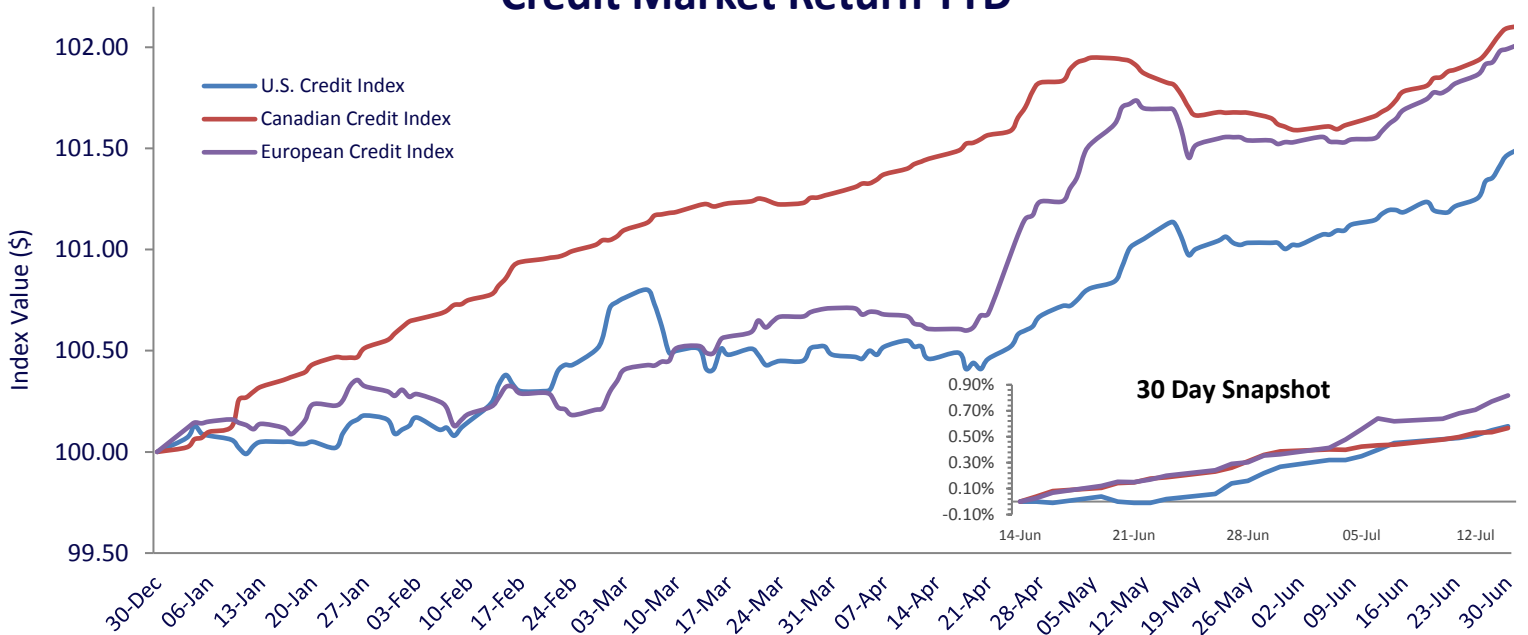


- Alimentation Couche-Tard (\$ATDBCN) reported relatively strong fiscal Q4 results (ended April 30), with net income up to \$278mm vs \$204mm y/y and EBITDA growing to \$522mm vs \$461mm. ATDBCN is expected to issue more debt over the coming quarters following the close of the CST transaction and the recent announcement of the Sunshine purchase. The expected increase in leverage pushed out spreads by 1-2 bps for the week.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.13%	0.18%	2.28%	Merrill Lynch: FOCO
US Credit	0.13%	0.31%	1.78%	Barclays: LUCRER
European Credit	0.20%	0.45%	2.45%	Barclays: BECI
Barclays Global Credit Index	0.14%	0.27%	2.05%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.01%	-0.73%	1.71%	Merrill Lynch: CANO
Canadian High Yield	0.00%	0.14%	4.60%	Bloomberg: BCAH
US High Yield	0.61%	0.33%	5.24%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.21%	0.46%	9.22%	Bloomberg: TXPRAR
US Preferred	0.27%	0.27%	8.42%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	1.02%	0.03%	0.65%	Bloomberg: SPTSX
US Stocks: S&P 500	1.42%	1.56%	11.05%	Bloomberg: SPX



### 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
07/11	Toyota Motor Corp	AA	600mm	2y & 5y	+88 (5y)	+85	Strong demand for this regular issuer
07/11	Bank of Nova Scotia	A+	1.5bn	3y	+60	+57	In line with comparables
07/11	Banque Federative du Credit Mutuel	A	2.5bn	3y & 5y	+80 (5y)	+77	Senior preferred
07/11	Aurlia & New Zealand Bank	AA-	1bn	30y	+112	+108	Small Fills
07/13	Marathon Oil Corp	BBB	1bn	10y	+210	+213	Struggled with oil volatility

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.