



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jul 17 – Jul 21 2017

Following last week's Bank of Canada rate announcement, Canadian corporate spreads tightened modestly across most sectors as investors took advantage of lower volatility, strong corporate earnings and quality new issuance. Government yields steadied throughout the week, falling slightly lower on Friday on the back of a mixed CPI report, reinforcing the Bank of Canada's gradual path towards higher rates. On the American side, the second quarter earnings parade was also in focus as the last of the banks reported. Many financials, notably Bank of America (\$BAC) and Morgan Stanley (\$MS), came to market following their quarterly results.

Investors digested \$2.7bn of Canadian issuance this week across three issuers. The bulk of which was brought by TD in the first index-eligible NVCC that boasted 85 buyers, the broadest participation for an NVCC deal to date. Lastly, on the heels of a three-tranche deal in the US to finance recent transactions, Alimentation Couche-Tard (\$ATDBCN), tapped the Canadian market for \$700MM of 7-yr notes at G+132bps. The deal was very well received given the success of the US financing and the scarce opportunities in the retail sector.

NAMES IN THE NEWS



- CP Rail (\$CP) posted very strong quarterly results with income rising to \$480mm vs \$328mm y/y and the key operating ratio improving to 58.7 vs 62.0 y/y. Strong volume and revenue growth was seen from the metals, fertilizer, grain, and energy segments. The results enabled investors to justify a strong bid on tight spreads.
- Morgan Stanley (\$MS) announced strong quarterly earnings as the firm outperformed the peer group in Capital Markets, especially in Fixed Income, where net revenues were only 4% lower. MS's superior asset management franchise provided a degree of earnings stability and a modest drain on capital, modestly tightening spreads.



- Both S&P and Moody's changed their outlooks of Hydro One (\$HYDONE) to negative following the announcement that it has agreed to acquire Avista Corp. for \$6.7bn. Avista is currently rated "BBB" by S&P and Moody's. The addition of lower rated operations, the weaker financial metrics, and the potential erosion of provincial government support weighed on credit spreads and ratings.

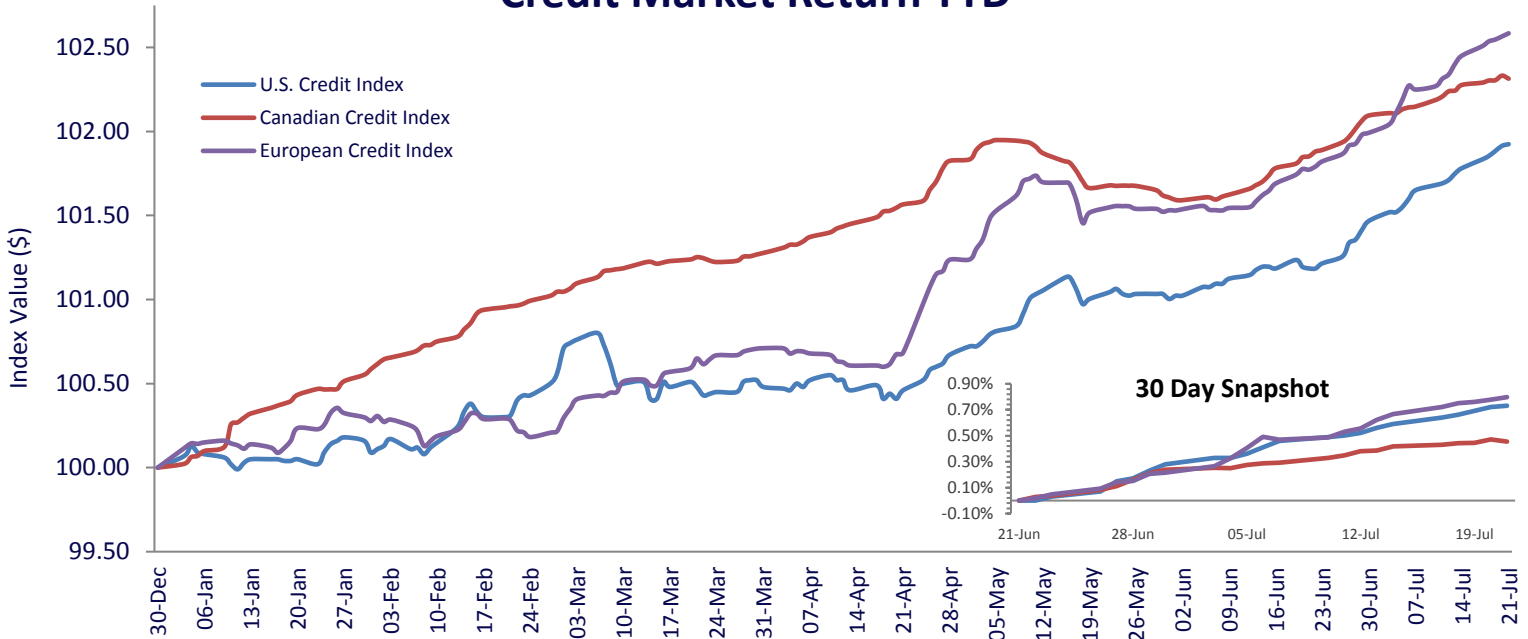
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.04%	0.21%	2.31%	Merrill Lynch: FOCO
US Credit	0.14%	0.45%	1.92%	Barclays: LUCRER
European Credit	0.13%	0.58%	2.58%	Barclays: BECI
Barclays Global Credit Index	0.13%	0.40%	2.18%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.11%	-0.61%	1.82%	Merrill Lynch: CAN0
Canadian High Yield	0.08%	0.22%	4.68%	Bloomberg: BCAH
US High Yield	0.59%	0.92%	5.83%	Merrill Lynch: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	0.01%	0.48%	9.24%	Bloomberg: TXPRAR
US Preferred	0.86%	1.13%	9.35%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.07%	0.10%	0.71%	Bloomberg: SPTSX
US Stocks: S&P 500	0.56%	2.13%	11.67%	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 (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
07/18	TD Bank	A-	1.5bn	12y	+155	+150	First index eligible issue was well received.
07/18	Ford Floorplan Trust	AAA	1bn	3y	+87	+80	Priced cheap compared to deposit notes for AAA paper.
07/19	Morgan Stanley	BBB+	7bn	5y, 11y & 21y	+133 (11y)	+132	
07/19	Alimentation Couche – Tard	BBB	700mm	7y	+133	+130	Deal of the week – secondaries repriced tighter.
07/19	Bank of America	BBB+	7bn	4y, 6y & 11y	+133 (11y)	+130	
07/19	Alimentation Couche – Tard	BBB	2.5bn	5y, 10y & 30y	+130 (10y)	+122	New issuer with ample demand.

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