



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jul 31 – Aug 4 2017

Strong Canadian earnings and a shortage of new issuance resulted in heavy secondary trading throughout the week, specifically in the telecom and financial sectors. Government yields were lower as Canada pulled back from the momentum of the last couple of weeks. Solid jobs data on Friday finished off the week on a good note and gave new life to the growth argument. Canadian jobs growth came in close to expectations of 11k with gains skewed to full-time jobs. Hours worked picked up to 1.9% y/y while wages remained subdued at 1.2% y/y. Overall, Canadian investors cheered the progress in the labour market.

American credit took a breather as a combination of specific earnings misses, disappointing auto sales data and political turmoil in the Trump camp caused spreads to widen. Disappointing July auto sales reports on Tuesday led the negative tone in the auto sector and the general credit market as investors transferred the sales weakness into other sectors over fears of weaker consumer spending. Friday finished off the week with non-farm payrolls unexpectedly increasing by 209k while wage growth steadied at 2.5%, pushing up yields.

NAMES IN THE NEWS



- Bell Inc. (\$BCECN) reported an increase in operating revenues of 6.7% y/y due to higher service revenue, driven by growth across segments due to acquisitions (MTS, Q9 Networks), wireless, Internet, IPTV and media. Spreads tightened slightly due to outperformance of the sector in recent months.
- DBRS downgraded Cominar (\$CUFCN) to high yield as a result of high leverage with few prospects for improvement in the near term. As CUFCN replaces maturing unsecured debt with mortgage debt, investors pushed aside the downgrade and focused on the “scarcity value” of outstanding bonds. Spreads tightened 30bps during the month of July.



- Teva Pharmaceuticals Industries (\$TEVA) reported poor Q2/17 earnings, cut FY/17 guidance, wrote off \$6.1bn in goodwill from its \$40bn US generics acquisition from Allergan, and warned that the company is at risk of tripping covenants later this year. TEVA spreads finished the week 50bps wider.
- Fiat Chrysler (\$FCAIM) July US auto sales were down 10.5% vs. estimates of a 6.1% decline. Ford Motor Co (\$F) July US light-vehicle sales were down 7.4% vs. estimates of -5.5%. General Motors (\$GM) July US auto sales were down 15% vs. estimates of -8.0%. As a result of the disappointing sales figures, auto spreads were generically 2-5bps wider.

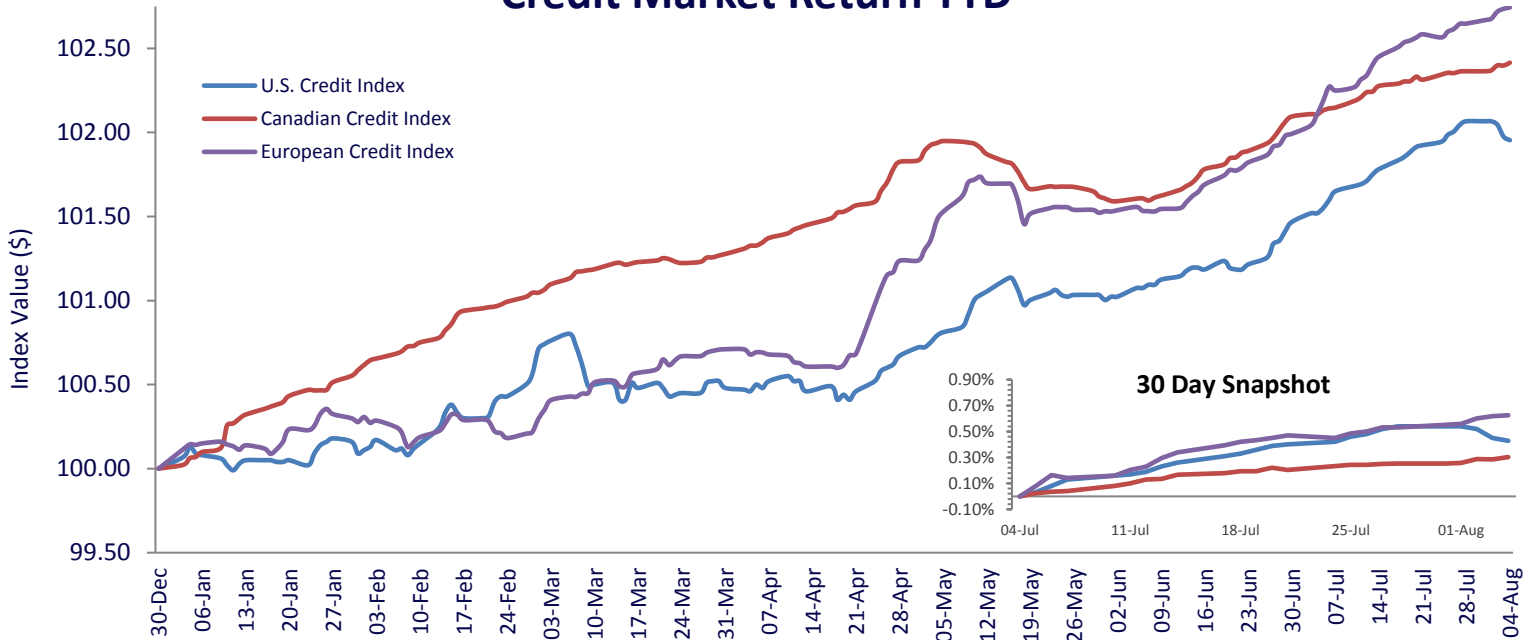
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.05%	0.05%	2.41%	Merrill Lynch: FOCO
US Credit	-0.11%	-0.11%	1.95%	Barclays: LUCRER
European Credit	0.09%	0.07%	2.74%	Barclays: BECI
Barclays Global Credit Index	-0.03%	-0.04%	2.27%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.81%	0.96%	1.41%	Merrill Lynch: CANO
Canadian High Yield	0.31%	0.22%	5.23%	Bloomberg: BCAH
US High Yield	0.03%	0.03%	6.09%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.10%	-0.14%	9.77%	Bloomberg: TXPRAR
US Preferred	0.09%	0.07%	9.08%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.88%	0.77%	1.37%	Bloomberg: SPTSX
US Stocks: S&P 500	0.23%	0.30%	11.93%	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
07/31	Ford Motor Co.	BBB	1.5bn	5y	+115	+122	Weak auto sales numbers caused the name to underperform.
08/01	Verizon Communication Inc.	A-	3bn	16y	+165	+168	
08/01	Comcast Corp	A-	2.5bn	30y & 10y	+90 (10y)	+97	Jumbo US deals generally struggled to hold issue spread this week.
08/01	Kinger Morgan Canada	Pfd-3	300mm	Fixed-Reset	5.25%	N/A	Mostly retail demand with limited interest from institutions.
08/02	General Motors	BBB	3bn	Multi-issue	+195 (10y)	+195	

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