



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jun 5 – Jun 9 2017

A surprise increase in employment mixed with a light week of domestic issuance contributed to an improved tone in Canadian credit last week, specifically in higher quality utility and infrastructure issuers. On the back of its recent upgrade to Single-A, Saputo came to market with a 5-year deal which priced tight and drove spreads on existing bonds tighter.

Credit was also better in the US as investors quickly moved past the testimony of FBI director, James Comey, to focus on expectations of a dovish hike from the FOMC next week. Meanwhile, European markets were disappointed with the UK election results after Theresa May failed to win a decisive mandate for Brexit negotiations. The collapse and takeover of Spanish bank Banco Popular also gave cause for concern; the regulator moved decisively to limit risk contagion which left bond investors stunned by a write-down of Tier 1 and Tier 2 securities to zero.

NAMES IN THE NEWS



- Spreads of Home Capital Group (\$HCG) tightened significantly as media sources reported the company had received preliminary takeover offers from firms including Brookfield Asset Management and Onex Corp. In the meantime, HCG's liquidity position appears to have stabilized with GIC balances holding near \$12.1 billion in the month of June.
- Transcontinental Inc. (\$TCLACN) delivered Q2/17 adjusted EPS of \$0.55, up from \$0.44 a year ago and ahead of estimates of \$0.51. Proceeds from recent asset sales and the continued transformation of the company into the packaging business have allowed for improvements to TCLACN's leverage position, pushing spreads marginally tighter.



- The ECB moved quickly on Tuesday night to mandate a takeover of Banco Popular (\$POP SM) by Santander after determining the bank was "failing or likely to fail". Holder's of POPSM Tier 1 CoCo bonds were disappointed after the notes were converted to equity at a near zero valuation after trading above \$50 the day before.
- Molson Coors Inc. (\$TAP) provided disappointing EBITDA guidance during an investor day on Wednesday. TAP guided EBITDA margin improvement of 30-60bps per year, whereas expectations were closer to 100bps of margin growth. TAP spreads widened only slightly as the issuer reaffirmed its focus on debt pay down in support of its IG rating.

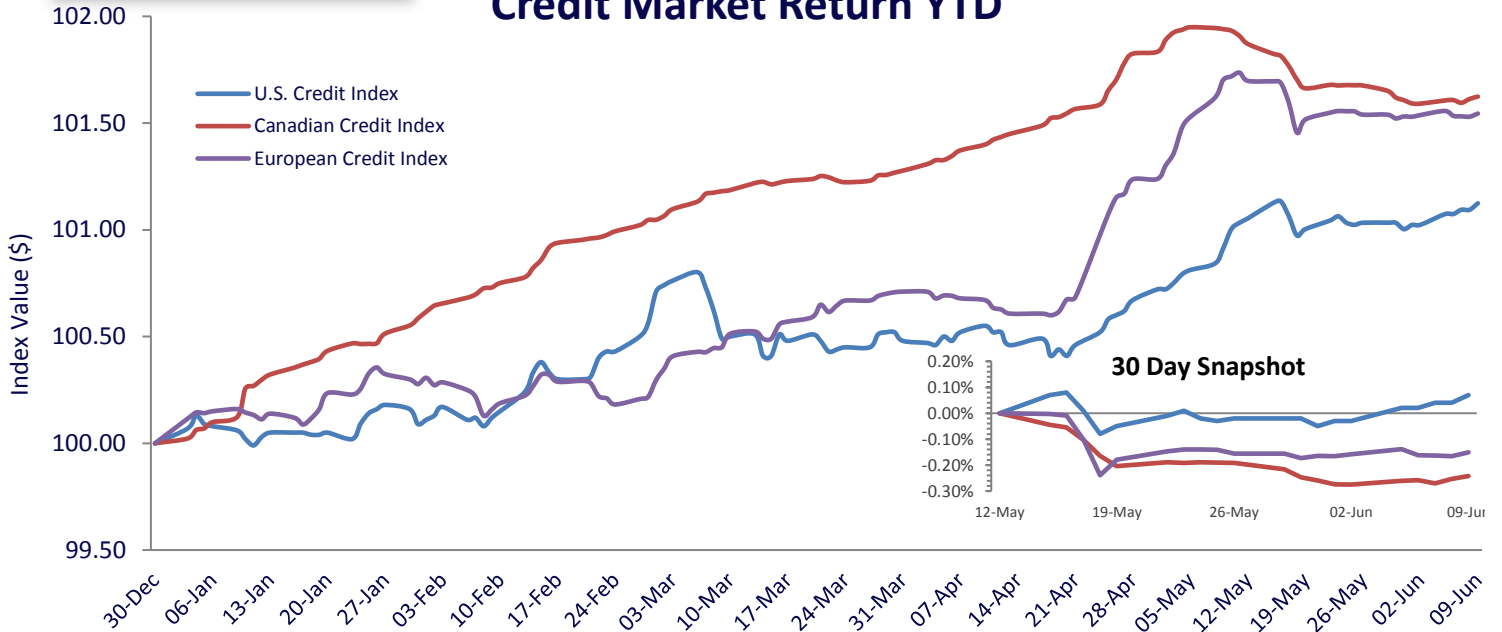
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.03%	0.02%	1.62%	Merrill Lynch: FOCO
US Credit	0.10%	0.12%	1.12%	Barclays: LUCRER
European Credit	0.01%	0.01%	1.54%	Barclays: BECI
Barclays Global Credit Index	0.05%	0.07%	1.29%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.15%	0.08%	3.83%	Merrill Lynch: CANO
Canadian High Yield	0.17%	0.25%	4.41%	Bloomberg: BCAH
US High Yield	-0.09%	0.12%	4.92%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.62%	0.11%	5.83%	Bloomberg: TXPRAR
US Preferred	-0.30%	0.18%	7.21%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.26%	0.87%	2.25%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.27%	0.87%	9.61%	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 (F0C0) 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
06/05	National Bank of Canada	A-	1.5bn	3y	+75	+73	
06/05	AstraZeneca PLC	A-	2bn	5y & 10y	+100 (10y)	+101	
06/06	Enbridge Inc	BBB+	1.2bn	5y, 10y & 27y	+180 (10y)	+179	Re-opening of 2044 issue pushed spreads 10bp wider while the 5y outperformed.
06/06	Citigroup Inc	A+	2.5bn	3y	+70	+66	
06/06	Coach Inc	BBB-	1bn	5y & 10y	+200 (10y)	+195	
06/07	Saputo Inc	A-	300mm	5y	+100	+97	Priced with no concession and pushed existing spreads tighter.
06/09	CIBC	A+	1bn	5y	+80	+78	Canadian banks tapped the US this week to avoid a saturated domestic market.

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