



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Nov 13 – Nov 17 2017

The selloff in US credit spreads has lingered in November on the back of outflows from High Yield funds. Spreads took a significant step wider early in the week before recovering on Thursday and Friday. Weak industrial output and government crackdowns out of China set the tone on Monday, enabling the Bloomberg commodity index to decline the most in six months. Along with a slip in crude, spreads of energy and material producers led the losses. However on Thursday Republicans passed their tax-overhaul bill in Congress and TMT spreads tightened over further M&A talk, enabling corporate bonds to finish the week significantly off the Wednesday lows.

The weaker macro tone translated into the Canadian corporate market, albeit still outperforming other risk markets. Deposit notes continue to outperform as Moody's shifts its bank rating methodology. Canadian 10y yields are almost back to unchanged on the month though still stuck just under 2%. Despite the soft tone in Canada, we saw four deals price. Daimler priced a 3 & 5y deal which traded about 2 bps tighter, while Crombie (the REIT arm of Sobeys) priced a 5y that traded as much as 9 bps tighter.

NAMES IN THE NEWS



- Home Depot (\$HD) reported strong third quarter results with sales and earnings exceeding consensus expectations. HD also boosted full year guidance, leaving spreads tighter by up to 4 bps on the week.
- Mattel Inc. (\$MAT) rebuffed Hasbro Inc.'s (\$HAS) latest takeover approach on Wednesday, casting uncertainty over the potential merger. Bonds of both companies traded modestly tighter as expectations of debt financing diminished.
- Loblaw Companies (\$LCN) reported a 7.5% increase in net income. Operating earnings in the retail segment benefited from lower costs and higher margins, and bond spreads were slightly tighter amid a widening environment.



- Moody's downgraded General Electric (\$GE) to A2 from A1. The downgrades reflect the severe deterioration in the financial performance of GE's Power division along with weak earnings and cash flows in several segments. GE spreads widened up to 10 basis points on the news before partially recovering by week's end.

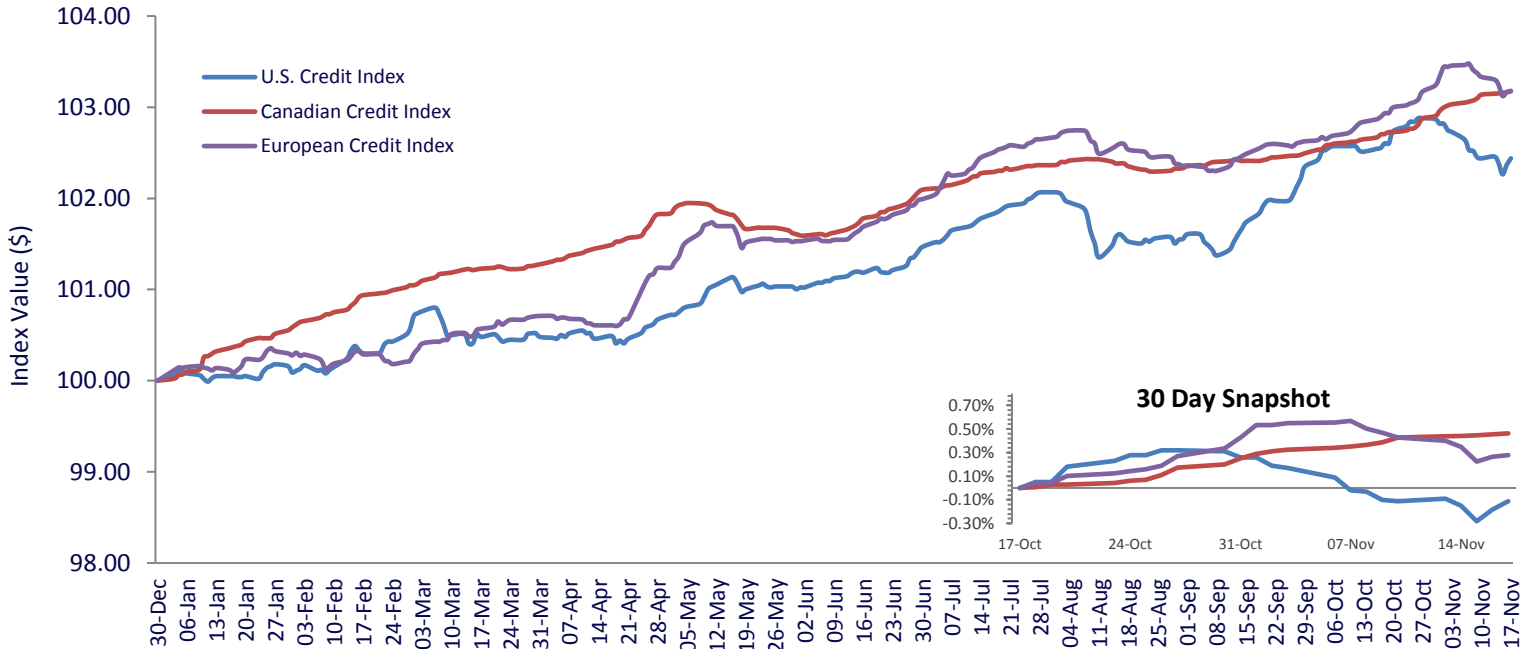
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.04%	0.21%	3.17%	Merrill Lynch: FOCO
US Credit	0.00%	-0.37%	2.44%	Barclays: LUCRER
European Credit	-0.15%	-0.15%	3.18%	Barclays: BECI
Barclays Global Credit Index	-0.06%	-0.33%	2.75%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.17%	0.37%	2.52%	Merrill Lynch: CANO
Canadian High Yield	0.08%	0.38%	8.45%	Bloomberg: BCAH
US High Yield	0.04%	-0.77%	6.60%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.12%	0.45%	13.27%	Bloomberg: TXPRAR
US Preferred	0.62%	0.46%	8.95%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.18%	-0.15%	7.17%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.06%	0.31%	17.27%	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 (FOC0) 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
11/14	Anthem Inc	A	5.5bn	Multi-tranche	+130 (10y)	+121	Priced with a generous concession and a top performer on the week.
11/15	Daimler AG	A	750mm	3y & 5y	+93 (5y)	+90	
11/15	Crombie REIT	BBB-	150mm	5y	+242	+233	First issue from Crombie since 2015 and very well received.
11/16	EPCOR Utilities Inc	A-	400mm	30y	+126	+126	
11/16	AerCap Corp	A	800mm	7y	+135	+131	

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