



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Nov 6 – Nov 10 2017

Global credit spreads took a step back from all time tights as investors struggled to digest headlines regarding the US tax plan amid large amounts of corporate supply. US credit moderately underperformed equities with broad widening led by Technology (+4bps) and Communications (+2bps) on the back of continued M&A chatter in the sector. Outperformers included Energy, Utilities and Industrials as oil prices hover above \$56/barrel. A 7 billion issue from Apple Inc. (AA+) on Monday got the week off on a sour note as a lack of concession saw the deal trade as much as 7bp wider in early trading. Investors were quick to demand greater pricing concessions on subsequent issues and a deal from Oracle (A1/AA-) on Tuesday priced with a generous 5bp concession, trading as much as 10bp better mid week. In Europe banks were active issuers again and market tone held up early in the week before softening as Brexit negotiations continue to languish.

Canadian credit continues to hold up relatively well on the back of strong commodities and energy prices. The deposit note space saw continued better buying in the 5-yr part of the curve, with a few extension trades going through. Dealer inventories remain light and other than the HSBC and BNS deals, Canadian dollar issuance has been relatively benign so far this month.

### NAMES IN THE NEWS



- Intact Financial (\$IFCN) reported stronger net income of \$171mm vs \$125mm y/y due to strong insurance results in both the personal and commercial segments. Management also noted they expect that debt will be repaid with free cash flow in the coming quarters. Overall the paper is trading 1 bp tighter amid a weak credit environment.



- Broadcom (\$AVGO) officially confirmed its bid for Qualcomm (\$QCOM) on Monday. AVGO is offering a combination cash-and-stock deal of \$70 per share for QCOM. The \$130 billion offer includes \$25 billion in assumed debt. Spreads of Broadcom widened further this week by 20 – 25 bps over concerns of acquisition funding.
- Anheuser Busch (\$ABIBB) is in the running to buy a stake in Sabeco, Vietnam's largest brewery. The stake is reportedly worth about \$2.9bn. Since the company is already 5x levered, the potential for further funding spooked investors, pushing out spreads by 3 - 4 bps for the week.

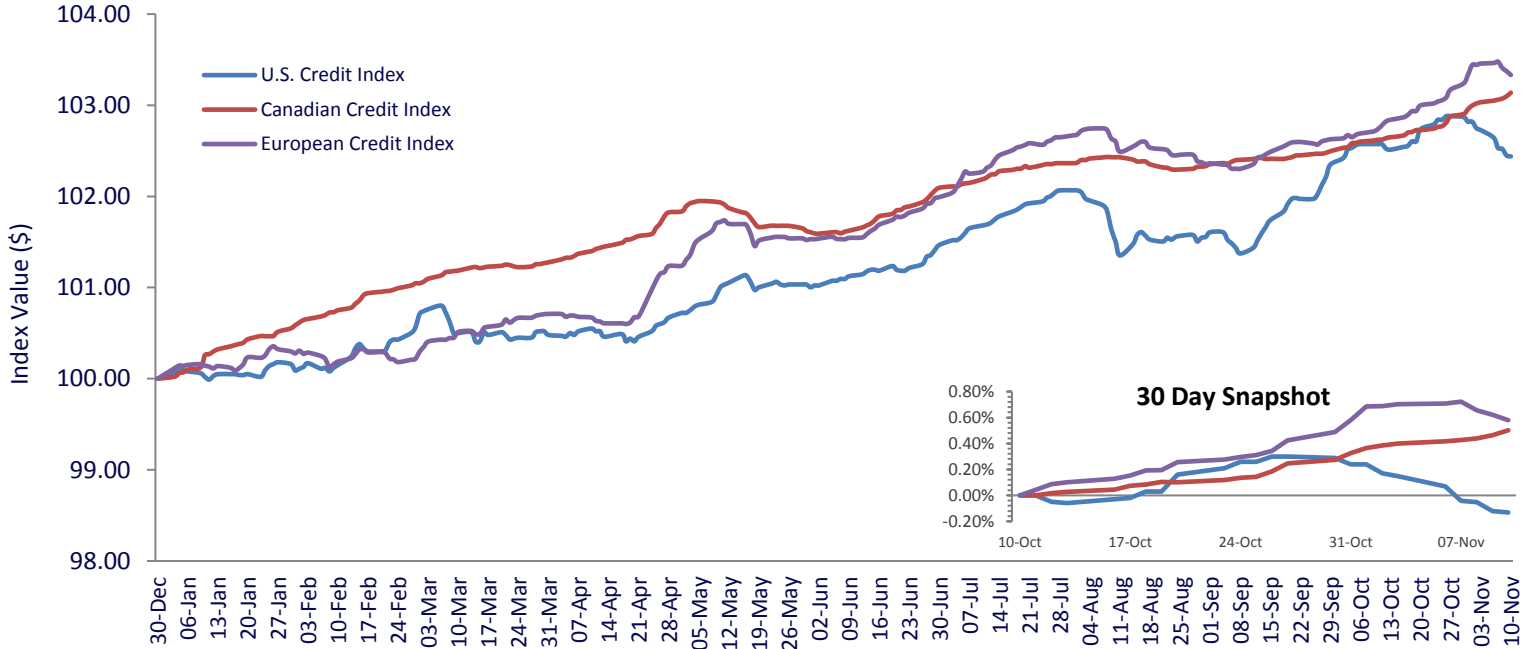
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.10%	0.18%	3.14%	Merrill Lynch: FOCO
US Credit	-0.28%	-0.37%	2.44%	Barclays: LUCRER
European Credit	-0.12%	0.00%	3.33%	Barclays: BECI
Barclays Global Credit Index	-0.25%	-0.27%	2.81%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.05%	0.20%	2.35%	Merrill Lynch: CANO
Canadian High Yield	0.16%	0.31%	8.37%	Bloomberg: BCAH
US High Yield	-0.80%	-0.82%	6.56%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.24%	0.32%	13.14%	Bloomberg: TXPRAR
US Preferred	-0.23%	-0.16%	8.28%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.07%	0.03%	7.37%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.14%	0.37%	17.33%	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
11/06	Bank of Nova Scotia	AA	2bn	5y	+73	+74	Large size caused some indigestion.
11/06	Apple Inc	AA+	7bn	Multi-tranche	+72 (10y)	+76	Lack of concession led to underperformance.
11/07	Oracle Corp	AA-	10bn	Multi-tranche	+95 (10y)	+85	In contrast to Apple, healthy concession meant rapid tightening.
11/07	BNP Paribas (Tier 1 CoCo)	BBB	750mm	10y	5.125% (\$100)	\$99.30	Squeezed 25bp tighter than fair value.
11/09	Toronto Hydro Corp	A	200mm	30y	+121	+119	Zero concession but demand for utilities led to after-market buying.

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