



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Oct 23 – Oct 27 2017

An array of blue-chip corporate giants including Amazon, Google, and Ford reported strong third-quarter earnings fuelling a positive tone in credit markets last week. Tech and Energy led the corporate spread rally, while banks lagged as Citigroup and Goldman Sachs contributed to heavy supply in the sector. The dollar rallied to its highest since July 12 after the U.S. House passed a budget resolution seen as advancing the prospects for tax reform. Finally, American 3rd quarter GDP surprised to the upside at 3.0% on Friday, beating market consensus. US 10-year treasury yields rose above 2.4% for the first time since March, which attracted yield-buyers of investment-grade bonds. In Europe, rates fell and credit rallied as ECB President Mario Draghi outlined plans to halve its monthly bond purchases to 30 billion euros, but refused to set a target date for asset purchases to end.

The strong sentiment in global credit also shifted over to Canadian markets, mixing with a dovish rate decision from the Bank of Canada on Wednesday. Similar to the US, Canadian earnings have been very strong so far, enabling client buying throughout most industries. In the primary market, Toromont issued its long-awaited deal, printing 500mm 10-year paper priced at CRV+175 bps. The deal was very well received, closing 10 bps tighter for the week. Goldman Sachs was the latest Maple issuer, filling more of the gap left by domestic banks who continue to source funding overseas.

NAMES IN THE NEWS



- Ford Motors (\$F) results beat expectations, reporting net income of US\$1.56bn vs \$957mm y/y. Full year guidance was also moved up to the high end of previous ranges. Spreads were tighter by 3bps on the week.
- Caterpillar (\$CAT) earnings of \$1.95/ share beat estimates of \$1.25. Credit investors favoured the decline in industrial leverage and elevated liquidity levels, tightening spreads by 3 bps.



- CVS Health (\$CVS) spreads widened 12-13bps on speculation the company will be offering to buy Aetna Inc. for more than \$200 a share. Drug retailers came under further pressure as Amazon (\$AMZN) announced it had gained wholesale pharmacy licenses in multiple states.
- Mattel (\$MAT) reported adjusted EPS of 9 cents vs estimates of 57 cents. Net sales in North America dropped by 22 percent, spurred partly by the bankruptcy of Toys R Us. MAT spreads widened by 15 bps after earnings.

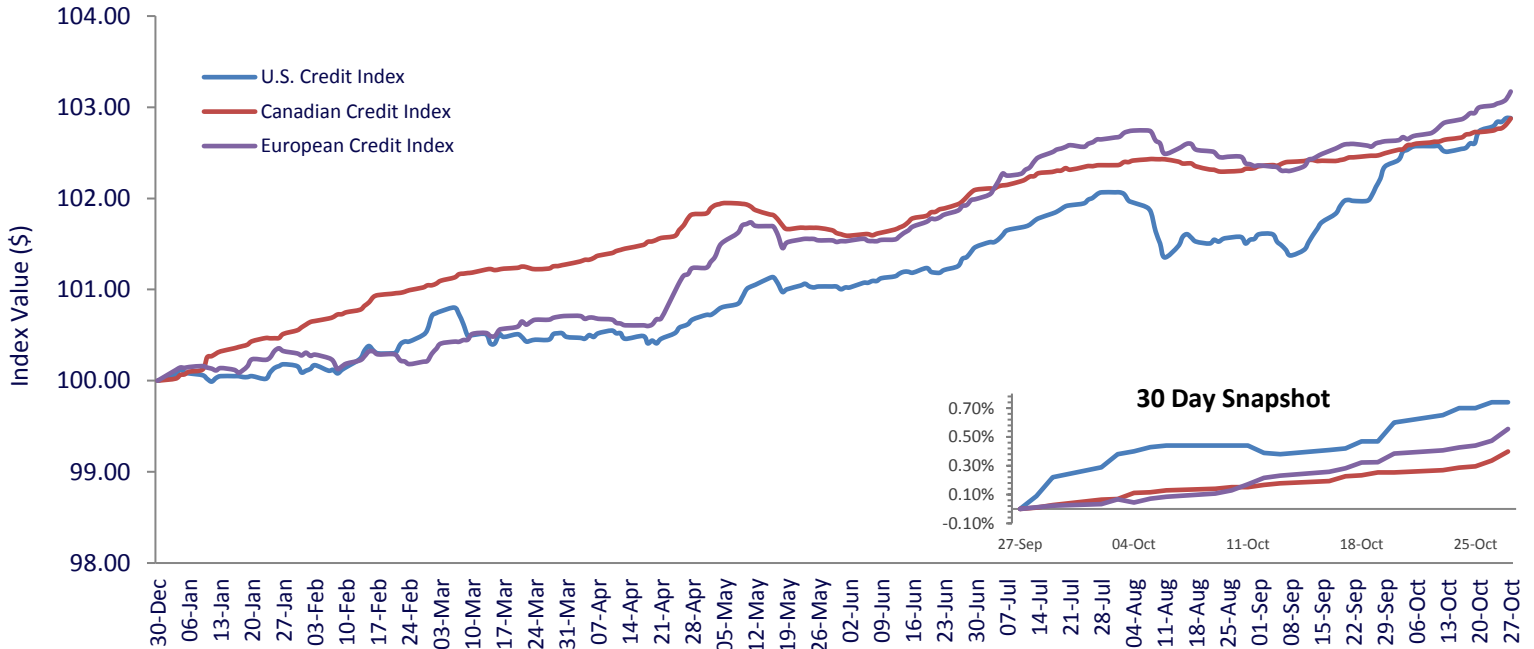
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.15%	0.37%	2.88%	Merrill Lynch: FOCO
US Credit	0.14%	0.52%	2.88%	Barclays: LUCRER
European Credit	0.17%	0.53%	3.17%	Barclays: BECI
Barclays Global Credit Index	0.15%	0.55%	3.07%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.43%	1.50%	1.89%	Merrill Lynch: CANO
Canadian High Yield	0.28%	0.98%	7.91%	Bloomberg: BCAH
US High Yield	-0.13%	0.32%	7.30%	Merrill Lynch: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	-0.27%	1.71%	12.49%	Bloomberg: TXPRAR
US Preferred	-0.55%	-0.54%	8.41%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.70%	2.20%	6.76%	Bloomberg: SPTSX
US Stocks: S&P 500	0.23%	2.55%	17.16%	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
10/23	Citigroup	A	4.4bn	5y & 10y	+77 (5y)	+77	
10/24	Toromont Industries Ltd.	BBB+	500mm	10y	+177	+166	Top performer
10/24	Fortified Trust	AAA	2.5bn	3y	+61	+58	BMO asset-backed vehicle
10/24	Goldman Sachs Group	AA	7bn	4y & 20y	+83 (4y)	+83	
10/25	Goldman Sachs Group	A	750mm	8NC7	+146	+143	7-year maples continue to find solid demand.

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