



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Dec 5 – Dec 9, 2016

The melt-up in stocks this week had a positive effect on credit markets as things begin to quiet down for the holiday break. European banks had a particularly strong week, led by names such as Royal Bank of Scotland and Intesa San Paolo which were up to 25bp tighter. These names had been weighed down recently by UK regulatory stress tests (RBS) and the failed Italian constitutional reforms (Intesa).

Mario Draghi and the European Central Bank surprised the market on Thursday when they elected to cut the bond purchase program from 80 billion to 60 billion while extending it by another three months. Draghi was keen to avoid the word “taper” and even went so far as to deny it was a taper in the ensuing press conference. The market was unconvinced and sent European interest rates to 10-month highs. This pushed global bonds lower overall extending one of the worst months in the past decade.

The US Fed will make its pronouncement on rates on Wednesday, and a 25bp hike is almost universally expected. We believe the market reaction will be limited, but it does reinforce the trend toward higher rates as we head into 2017.

NAMES IN THE NEWS



- RioCan REIT (\$REI-U) was upgraded one notch to BBB from BBB- by S&P. The agency cited greater financial flexibility due to RioCan’s increase in unencumbered assets, as the company shifts its debt mix from secured to unsecured.
- Industrial Alliance (\$IAG) announced it would purchase Hollis Wealth from ScotiaBank. The deal adds significant scale to IAG and will be funded using cash on hand and common equity.
- Veresen (\$VSN) bond spreads finished tighter last week after the US Energy regulator (FERC) upheld its rejection of Veresen’s proposed gas export terminal at Jordan Cove in Oregon. Veresen’s C\$ 5y bond has tightened nearly 35bp since its launch in early November.



- Credit Agricole held investor calls on Friday to discuss a proposed “Senior Non-Preferred” debt issuance. The new bonds, which would rank below senior debt but ahead of existing sub-debt, will be in heavy supply as French banks are expected to issue tens of billions in the next three years to meet new French regulatory rules.

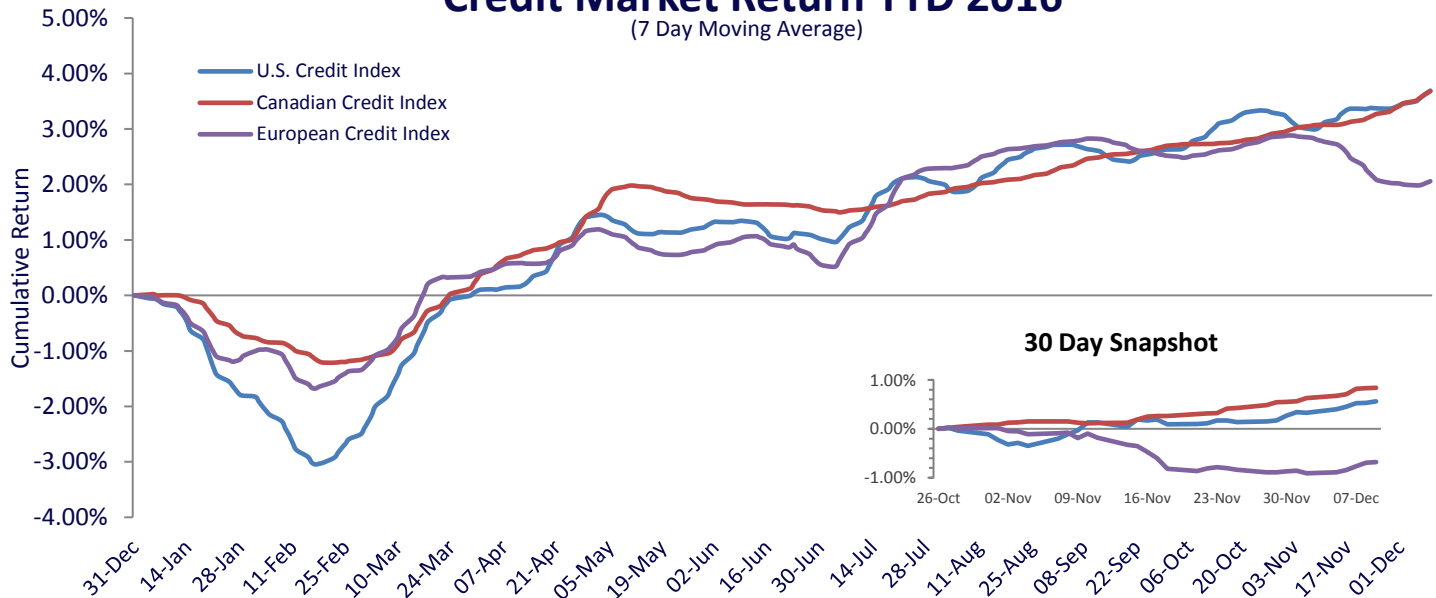
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.21%	0.29%	3.80%	Merrill Lynch: FOCO
US Credit	0.23%	0.29%	3.81%	Barclays: LUCRER
European Credit	0.23%	0.19%	2.19%	Barclays: BECI
Barclays Global Credit Index	0.20%	0.25%	3.71%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.60%	-1.02%	1.14%	Merrill Lynch: CANO
Canadian High Yield	0.44%	0.47%	17.19%	Bloomberg: BCAH
US High Yield	1.49%	1.57%	16.80%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.70%	-0.38%	2.88%	Bloomberg: TXPRAR
US Preferred	0.28%	-0.33%	1.22%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	1.82%	1.60%	21.27%	Bloomberg: SPTSX
US Stocks: S&P 500	3.13%	2.81%	12.87%	Bloomberg: SPX



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Credit Market Return YTD 2016 (7 Day Moving Average)



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

SELECTED NEW ISSUES

DATE	ISSUER	RATING	SIZE	MATURITY	LAUNCH SPREAD	CLOSING SPREAD	ADDITIONAL COMMENTS
12/06	Bank of Montreal	Aa3/AA	1.5Bn	5y & 10y	+107 (10y)	+104	10y found solid demand despite flat credit curves for banks.
12/08	Daimler Canada	A3/A-	700mm	3y & 5y	+121 (5yr)	+117	
12/07	Fortis Inc	Baa3/BBB+	500mm	7yr	+156	+145	Inaugural holdco deal in domestic market, very well received.
12/08	Fortis BC Energy	A3/A	150mm	30yr	+152	+150	
12/05	Granite REIT	Baa2/BBB	400mm	7y	+256	+249	Early call of 2018 bonds added to demand.
12/09	Empire Life Insurance	A-low	200mm	10y (5y call)	+230	+228	Sub debt deal from rare insurance issuer
12/05	Ford Motor Co.	Baa2/BBB	2.8Bn	10y & 30y	+195 (10y)	+186	First 30y issue for Ford in 3 years, but 10y has outperformed since launch.
12/07	Bank of Montreal	Aa3/A+	1Bn	3y	+75	+69	Strong quarterly results announced on Tuesday helped this issue perform.

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