



In a week of falling bonds and stocks, credit was a notable outperformer with investors globally electing to sell government debt to buy corporate paper. The move in bond yields was precipitated by a report out of Europe that the ECB was considering plans to taper their bond purchase program sometime in 2017. The word “taper” sent chills down the spines of traders, harkening back to a similar pronouncement by US Fed Chair Ben Bernanke in the summer of 2013 that left treasury and stock markets reeling. The reaction wasn’t nearly as dramatic this time around, but nevertheless yields on G7 government bonds rose 15-20bp on the week, and re-inforces our view that we’ve seen the near term low in interest rates.

Canadian markets continue to benefit from higher oil prices and a robust jobs report on Friday. Energy sector bonds such as Canadian Natural Resources were generally 10bp tighter on the week. In Europe Deutsche Bank paper recovered somewhat as fears over capital adequacy recede, however European bank names generally lagged their North American counterparts.

Market activity was somewhat subdued overall with many participants out for the Jewish holidays and the long weekend in North America. New issue volumes were notably lower than we saw in September; however we would expect supply to pick up again this week with demand in our markets still feeling technically very solid.

NAMES IN THE NEWS



- Spreads of H&R REIT (\$HRU) were tighter on the week after announcing \$250mm sale of its interest in Calgary’s TCPL Tower. Bond investors were encouraged by both debt reduction and a decrease in the company’s aggregate Calgary property exposure.



- In an effort to protect banks and the NHA mortgage insurance programme the Canadian Department of Finance announced rule changes that were perceived to negatively impact non-bank mortgage lenders. First National (\$FN) and Genworth MI (\$MIC) were among the names trading wider on the week.
- Bank of Montreal (\$BMO) subordinated debt underperformed after announcing a revision to its capital calculations that saw its leverage and Tier 1 ratios fall. The news came as a surprise to markets and sent BMO’s recent 2026 issue 10bp wider on the week, while Moody’s noted the apparent “weakness in internal controls and risk governance”.
- Holdings of certain Lam Research (\$LRCX) bonds were left disappointed when the company announced it was terminating its proposed merger with KLA-Tencor. Under special provisions written into the bonds at issue they will now be called at a \$101, above their initial \$100 issue price but below last week’s \$104 trading price.

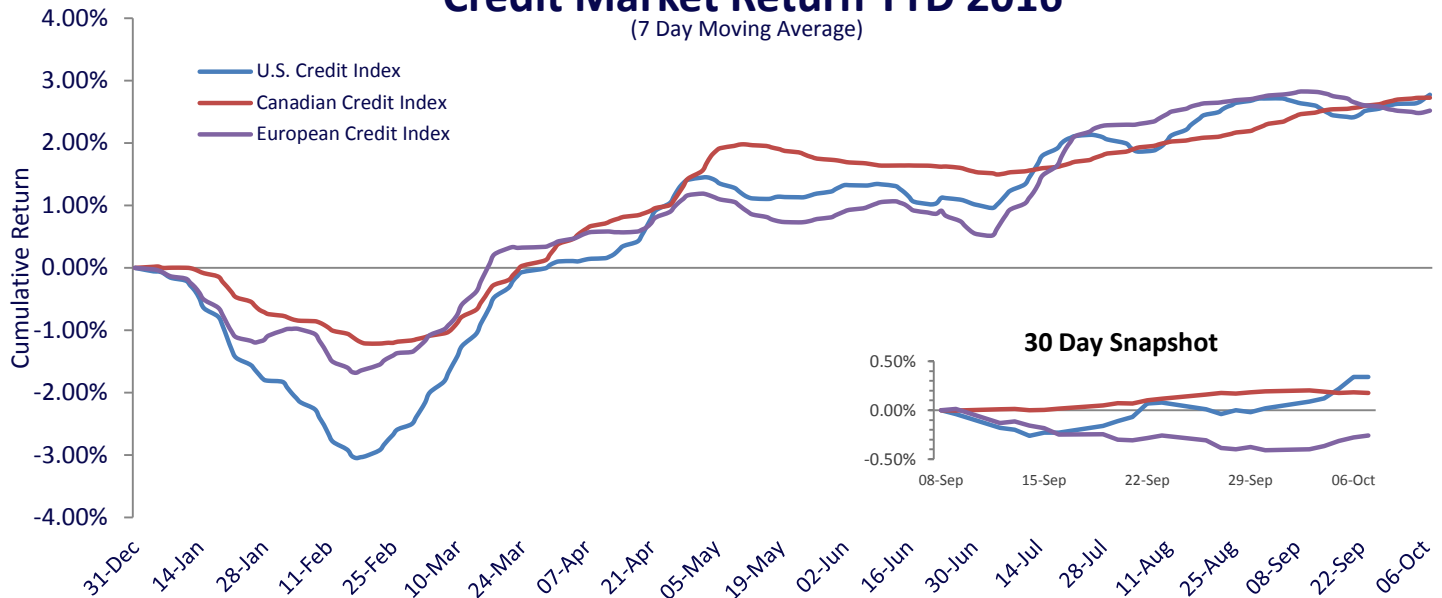
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.02%	-0.02%	2.72%	Merrill Lynch: FOCO
US Credit	0.32%	0.32%	2.96%	Barclays: LUCRER
European Credit	0.15%	0.15%	2.61%	Barclays: BECI
Barclays Global Credit Index	0.25%	0.25%	3.15%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-1.13%	-1.13%	4.30%	Merrill Lynch: CANO
Canadian High Yield	0.18%	0.18%	14.51%	Bloomberg: BCAH
US High Yield	0.51%	0.51%	15.83%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.39%	-0.39%	1.20%	Bloomberg: TXPRAR
US Preferred	-0.18%	-0.18%	5.68%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.97%	-0.97%	14.73%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.60%	-0.60%	7.19%	Bloomberg: SPX



THE SENTINEL

Highlights from the week in Corporate Credit

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 (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
10/03	Gaz Metro Inc.	A+/A	125mm	30yr	+162	+158	Heavily oversubscribed.
10/03	Xylem Inc.	Baa2/BBB	900mm	10y & 30y	+165	+143	A rare issuer and attractively priced. Deal of the week.
10/03	General Motors	Ba1/BBB-	1.75bn	3y & 10y	+240 (10yr)	+224	4% coupon attracted plenty of buyers and a solid performer through the week.
10/03	PepsiCo	A1/A	4.5bn	Multi-tranche	+75 (10yr)	+70	Minimal concession but still found solid demand.
10/04	Lower Mattagami Energy	A2/A-high	220mm	10yr	+124	+124	
10/04	Realty Income Corp.	Baa1/BBB+	600mm	10yr	+147	+140	First bond issue for 2 years and well-received.

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