



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: January 25-29, 2016

A disappointing week in Investment Grade Credit considering the strong bounce in equities to close the month. Credit was slow to sell off earlier in January, so not unreasonable that there is some catch up. While the US Federal Reserve may have disappointed the market on Wednesday by not stating that rate hikes were on pause, the Bank of Japan made up for it on Friday with a surprise rate cut to negative 0.1. Government bonds in the US and Europe rallied, while Canada bonds continued to underperform as the currency strengthens. Despite the bounce in oil prices, we saw energy sector bonds remain near recent lows. If the improved market tone holds, we expect increased bond issuance next week, which may account for some of the spread weakness heading into month end.

NAMES IN THE NEWS



- Athabasca Oil ([\\$ATH](#)) bonds up \$7 overnight after entering into a joint venture with Murphy Oil to develop shale oil reserves in western Canada. The transaction gives Athabasca sufficient working capital to develop its existing properties without relying on debt. Bonds were downgraded by DBRS from B to B-low in October.



- Moody's downgraded Bank of Nova Scotia ([\\$BNS](#)) one notch, with the senior unsecured rating falling to Aa3. Moody's cited increased focus on cyclical businesses, including emerging markets, credit cards, and auto finance. \$BNS now in line with 5 of the big 6 banks, with only TD maintaining a Aa1 rating at Moody's.
- Deutsche Bank ([\\$DB](#)) senior debt was also cut one notch by Moody's, to Baa1. The bank has now been cut 4 times in 6 years, holding a Aa1 rating as recently as 2010.
- JP Morgan's decision to not call it's Canadian dollar sub-debt deal issued in 2011 has had negative repercussions in the foreign bank space. It has been assumed by many that banks would call the bonds at the first possible date, despite Deutsche Bank making a similar decision in 2011.
- Moody's finally caught up to what the market has known for months: Freeport McMoran ([\\$FCX](#)) is not an investment grade credit. The agency downgraded Freeport 4 notches from Baa3 to B1, and left on negative outlook. Bonds have fallen nearly 50 points in 6 months, and currently trade at 40c on the dollar.

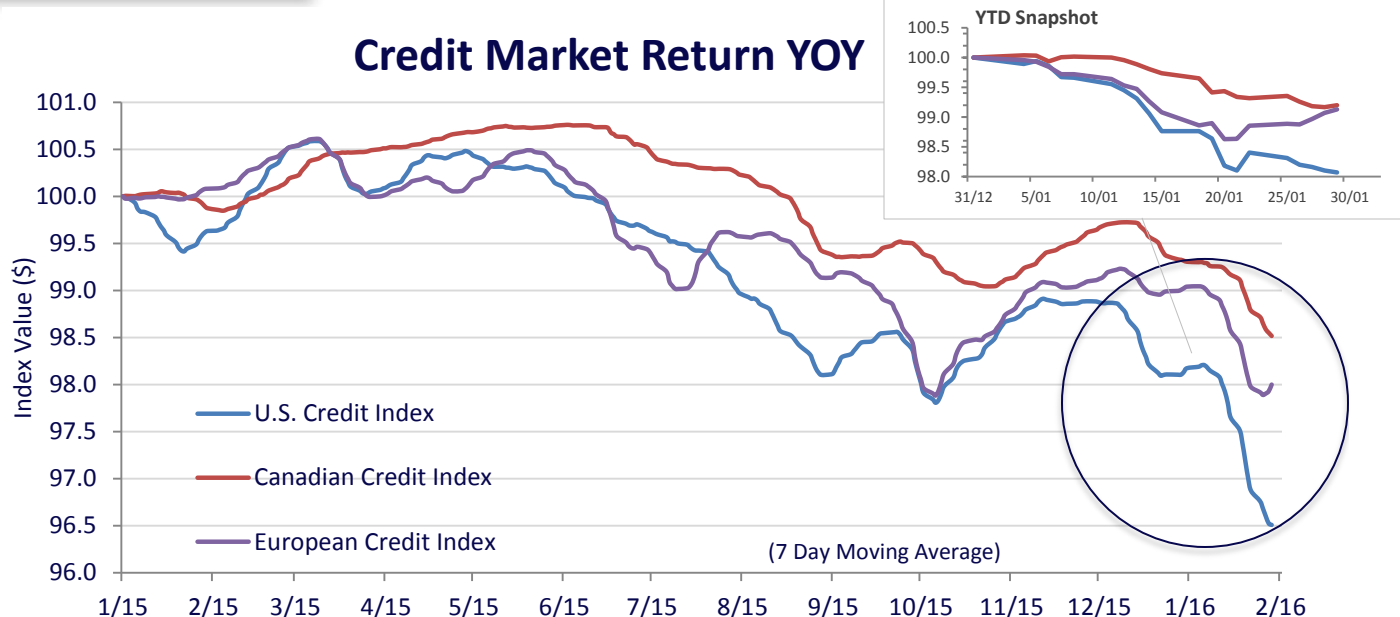
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.12%	-0.80%	-0.80%	Merrill Lynch: FOCO
US Credit	-0.34%	-1.93%	-1.93%	Barclays: LUCRER
European Credit	0.28%	-0.87%	-0.87%	Barclays: BECI
Fixed Income (Total Return)				
Canadian Bond Universe	0.46%	0.45%	0.45%	Merrill: CAN0
Canadian High Yield	-0.07%	-1.83%	-1.83%	Bloomberg: BCAAH
US High Yield	1.10%	-1.58%	-1.58%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	1.72%	-10.40%	-10.40%	Bloomberg: TXPRAR
US Preferred	0.60%	-0.95%	-0.95%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	3.59%	-1.19%	-1.19%	Bloomberg: SPTSX
US Stocks: S&P 500	1.77%	-4.96%	-4.96%	Bloomberg: SPX



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Credit Market Return YOY



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 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
01/25	John Deere Canada	A2/A	200mm	3y	+135	+132	
01/26	NorthWest Redwater Partnership	A3/A-	850mm	Multi-tranche	+260(13y)	+259	J/V between Prov of Alberta & CNQ
01/26	GFL Environmental Inc	B3	300mm	5y	+839	+831	9.875% Coupon
01/28	Procter & Gamble	Aa3/AA-	1.2Bn	Multi-tranche	+75(10y)	+74	
01/29	AT&T	Baa1/A-	6Bn	Multi-tranche	+220	+220	Healthy concession to secondaries

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