



THE SENTINEL

Highlights from the week in Corporate Credit

SUMMARY: April 18-22, 2016

US bond investors appeared to have an almost insatiable appetite for credit this week, as spreads marched to a 9-month tight. Even as stocks and high yield faltered (somewhat) towards the end of the week in the face of mediocre earnings, investment grade markets continued to perform. Government yields are partly a catalyst, as the Canadian 10-year yield has now retraced all of its YTD gains. Credit spreads can tighten while benchmark yields are rising without reducing overall corporate yields.

The lack of a deal on oil supply out of Doha last weekend briefly pushed prices below \$40, but the selloff was short-lived. It's clear there were investors waiting in the wings to buy risk on any weakness. Energy sector bonds are generally finishing the week 20-40bp tighter. European Bank bonds also performed well this week as odds of a yes vote on the UK referendum were seen falling to around 30% (based on a consortium of UK bookmakers).

Central banks back in focus this week as both the US Federal Reserve and Bank of Japan hold meetings on rate policy. We expect US rates to remain unchanged but the statement will point to the potential for a June hike.

NAMES IN THE NEWS



- Canada's Ministry of Finance confirmed in its budget it will implement a "Bail-In" regime whereby new senior debt issued by banks will be subordinate to Canadian depositors, and could be converted to equity in extreme circumstances. The Ministry also confirmed that existing senior debt (deposit notes) would be grandfathered. We will be interested to see what spread premium the new notes command in the market, and see potential relative-value trading opportunities ahead between deposit notes and bail-in bonds.
- Volkswagen ([\\$VOW](#)) cut its dividend as it agreed a \$10 billion buyback settlement with US officials over diesel emissions scandal. Bond investors liked the potential for a final resolution that would be funded by equity holders; bonds were 15bp tighter on the week.
- Morgan Stanley ([\\$MS](#)) and Goldman Sachs ([\\$GS](#)) both reported weaker earnings this week, but beat analyst estimates. Both firms issued new senior bonds after earnings which were heavily oversubscribed.
- General Motors ([\\$GM](#)) reported first quarter net income of \$1.95 billion, double this time last year. Bonds were 15bp tighter and outperformed the general market. We continue to like and own the name.



- Great West Life announced it would extend a US dollar fixed-float note at Libor+254bp rather than call it at par as it had done with similar notes in the past. The notes were trading at 100% par as recently as January but fell to 75% as investors digested the news. Similar structures in the Canadian market also traded lower in sympathy.

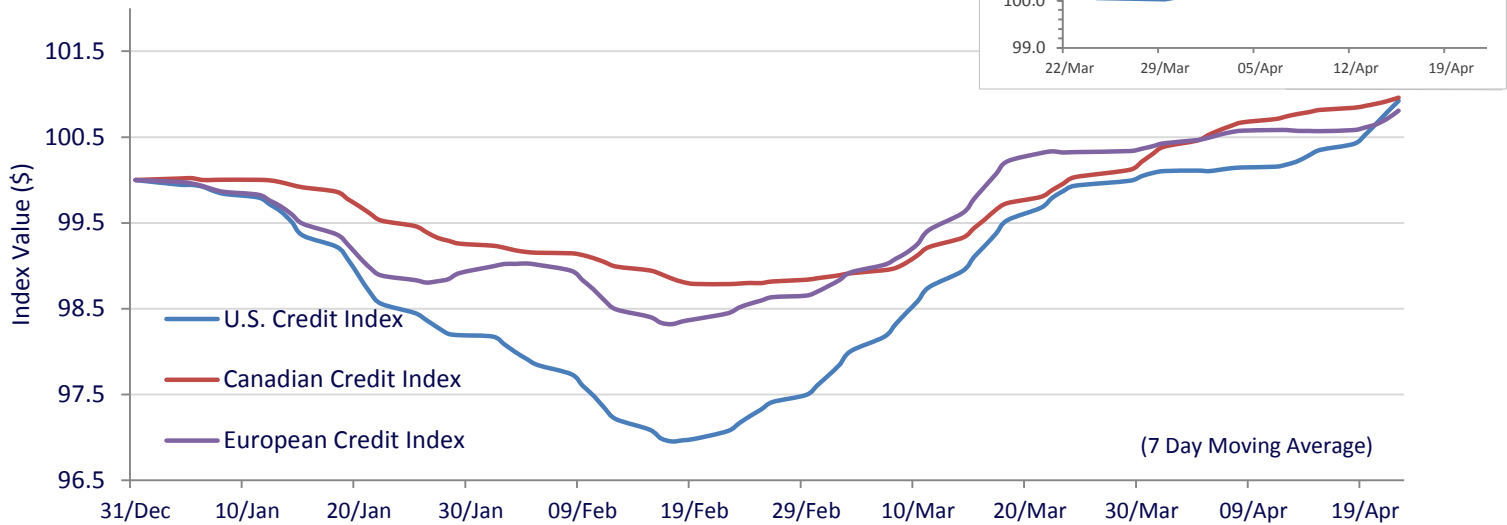
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.22%	0.58%	1.11%	Merrill Lynch: FOCO
US Credit	0.74%	1.23%	1.35%	Barclays: LUCRER
European Credit	0.55%	0.71%	1.19%	Barclays: BECI
Barclays Global Credit Index	0.71%	1.15%	1.32%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.53%	-0.22%	1.12%	Merrill: CAN0
Canadian High Yield	0.96%	1.71%	3.82%	Bloomberg: BCAH
US High Yield	1.19%	3.29%	6.54%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	0.05%	2.24%	-3.51%	Bloomberg: TXPRAR
US Preferred	0.84%	0.65%	1.87%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	1.90%	3.16%	7.70%	Bloomberg: SPTSX
US Stocks: S&P 500	0.53%	1.65%	3.02%	Bloomberg: SPX



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Credit Market Return YTD 2016



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
04/18	Morgan Stanley	A3/BBB+	3.5Bn	5y	+135	+117	Large demand after earnings, with great performance throughout the week.
04/19	Laurentian Bank	A-low	300mm	5y	+200	+192	Initial lukewarm reception was dragged tighter by CIBC deal (see below).
04/19	Bank of Nova Scotia	Aaa/AAA	2.5Bn	5y	+75	+73	US dollar covered bond.
04/20	Royal Bank (covered)	Aaa/AAA	2Bn	3y	+78	+74	Rare covered bond for the Canadian market. Well received.
04/20	Goldman Sachs	Baa1/BBB+	3.5Bn	3y & 5y	+133 (5y)	+122	Another solid performer in a light issuance week.
04/21	CIBC (deposit note)	Aa3/AA-	1.5Bn	5y	+109	+100	Significant oversubscription in the wake of bail-in discussions (see commentary), and re-priced the deposit note curve tighter.

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