



# THE SENTINEL

## Highlights from the week in Corporate Credit

SUMMARY: March 28-April 1, 2016

Coming out of the Easter long weekend, global risk markets were dominated by two events: a speech by Janet Yellen on Tuesday and the US employment report on Friday. We finished with credit mildly better and rates lower, although the tone was decidedly mixed by Friday. The market is seemingly baffled by opposing forces: a “dovish” Fed chair who seems content to move slowly on rates, and evidence of rising wage pressure which suggests inflation is moving higher and more rate action is warranted. We think the not-too-hot-not-too-cold scenario is a better one for credit than equities though with markets having moved a long way in 6 weeks we shall tread more cautiously in the short term.

From a technical point of view, investment-grade credit feels solid. New issue supply slowed considerably in the second half of March while IG and High Yield bonds funds saw decent inflows throughout the month. Most new issues this week performed well, and we saw consistent buying of credit into quarter-end. Next week sees us moving into earnings season, which should set the tone for risk markets in April.

### NAMES IN THE NEWS



- Scotiabank ([\\$BNS](#)) confirmed it will be redeeming its Series 14 Preferred shares at the earliest opportunity in May. This is a positive trend for the preferred market as Canadian banks issue new style “NVCC” preferreds and retire old paper. The Series 14 prefs carry a 4.5% coupon and were trading 6% below par as recently as January.
- Encana ([\\$ECA](#)) increased its previously announced tender of US dollar debt to \$400mm from the expected \$250mm. The recent trend for troubled energy producers to buy back debt at a discount is encouraging for bondholders and reflects a prudent use of balance sheet.
- Following completion of its acquisition of Shaw Media, Corus ([\\$CJR](#)) confirmed it will be redeeming its 2020 bonds in full on April 18th. Bonds are currently quoted near the expected redemption price of 109.50, after trading at \$106 earlier in March. Corus is still expected to tap the bond market for new debt at some point this year.



- Finning ([\\$FTI](#)) bonds were lowered one notch by DBRS to BBB(low). Spreads were modestly tighter on the week but are close to 100bp wider since last summer. We remain cautious on the name.
- Moody’s cut the ratings on Valeant bonds for the second time in a month after the company replaced its CEO and added Bill Ackman to its board. Bonds were lowered to B2 from B1, after being lowered from Ba3 on March 15.

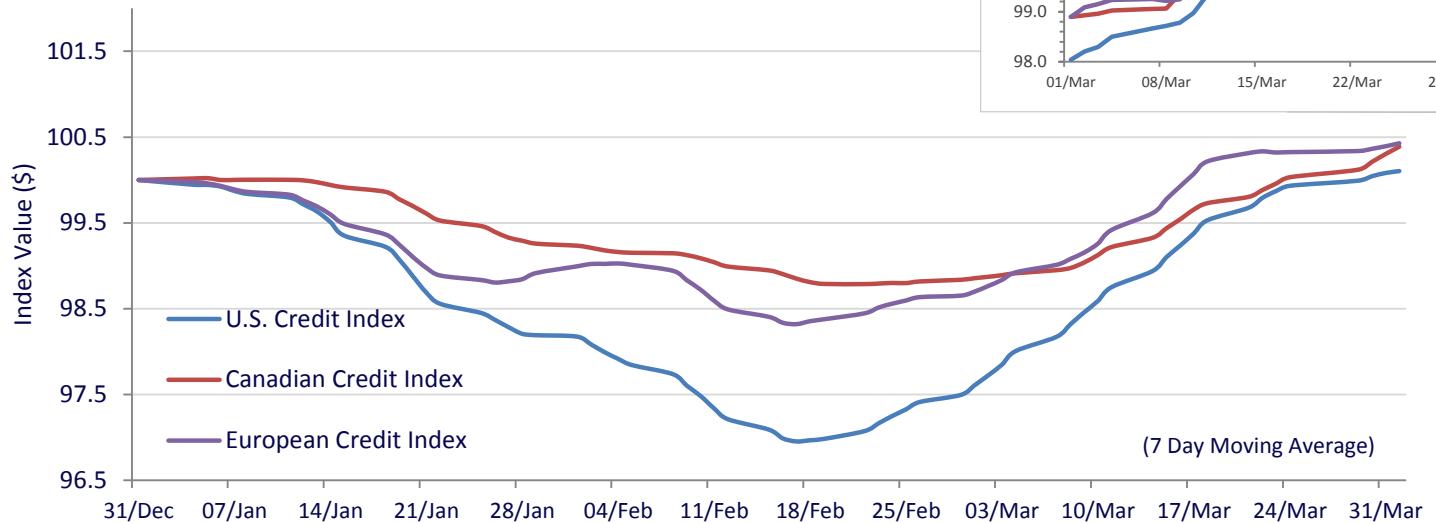
INDEX WATCH	1-WEEK	MTD-April	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.29%	0.08%	0.60%	Merrill Lynch: FOCO
US Credit	0.09%	0.02%	0.14%	Barclays: LUCRER
European Credit	0.13%	0.06%	0.54%	Barclays: BECI
Barclays Global Credit Index	0.11%	0.05%	0.21%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.19%	-0.14%	1.20%	Merrill: CAN0
Canadian High Yield	0.51%	0.03%	2.11%	Bloomberg: BCAH
US High Yield	0.35%	-0.01%	3.23%	Merrill: HOA0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.32%	0.08%	-5.55%	Bloomberg: TXPRAR
US Preferred	0.01%	-0.59%	0.61%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: TSX 300	0.69%	-0.37%	4.02%	Bloomberg: SPTSX
US Stocks: S&P 500	1.84%	0.63%	1.99%	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 (BECL) 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
03/28	Omnicom Group	Baa1/BBB+	1.4Bn	10y	+175	+153	Rare issuer saw great demand. Deal of the week.
03/29	Bank of Montreal	Aa3/AA	1.5bn	5y	+123	+114	Met with heavy demand in a quiet week and drove bank deposit notes tighter.
03/29	UBS Group	Baa2/BBB+	5Bn	Multi-Tranche	+235 (10y)	+237	Large size + Fully-priced = Flat performance
03/30	Western Digital	BB+/BBB-	1.9Bn	7y (callable)	7.375%	\$102 (price)	Secured tranche of jumbo HY deal (also 3Bn unsecured). Priced wider than expected but decent follow-through buying.
03/31	TD Bank	Aa1/AA-	1.75Bn	5y	+97	+93	Met with solid demand

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