



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: May 23 - 27, 2016

The last full week of May was a strong one for global risk markets including credit. A number of factors combined to drive corporate bond spreads tighter in the US and Europe. The market grew more comfortable with the idea of a June or July rate hike in the US, but continues to presume interest rates will not move materially higher over the medium term. This gives corporate bond buyers appetite to add risk, and fund flow data suggests new money continues to move into investment grade credit even as other sectors see net outflows. More positive news out of Europe, as Greece was able to negotiate additional funds from Europe this week which should prevent a July default, and Brexit polls continue to point to Britain remaining in the EU. The one market that struggled to perform this week was Canadian credit, a technical result of outperforming global markets earlier in the month, increased new issue supply, and mixed bank earnings.

The supply calendar was heavy again this week, and May 2016 looks set to finish in the top 3 months of all-time in terms of US corporate bond issuance. We expect that supply to continue in June, which leads to increased secondary turnover and a profitable environment for bond traders. The US employment report next Friday, the Fed meeting on June 15<sup>th</sup>, and the Brexit vote on June 23<sup>rd</sup> will be the key directional catalysts for the coming month before we head into the slower summer period.

### NAMES IN THE NEWS



- Ford (\$F) and Ford Credit Canada were upgraded by Fitch from BBB- to BBB. This brings Fitch ratings broadly in line with Moody's and S&P. Spread impact was neutral.
- Teck Resources (\$TCK/B) took steps to improve its balance sheet this week with a successful \$1.25 billion bond sale in the US. The move was enough to secure an upgrade from B3 to B1 at Moody's. Bonds rallied 1-2% in a volatile week.



- Canadian bank earnings (\$BMO, \$RY, \$TD, \$CM) were broadly in line with expectations from a credit point of view, with all four citing higher loan loss reserves related to energy sector exposure. Deposit note spreads were modestly wider on the week on expectations of new supply.
- Anheuser-Busch (\$BUD) credit ratings were cut from A2 to A3 at Moody's. The move had been expected after the company was placed on watch last fall as part of its acquisition of SAB Miller, and spreads were modestly tighter on the week.
- Spreads of Hewlett Packard Enterprises (\$HPE) widened early in the week after the company announced it will spin off its Services unit and merge it with Computer Sciences Corp (\$CSC). Spreads managed to recover by week's end as part of a broader market rally.

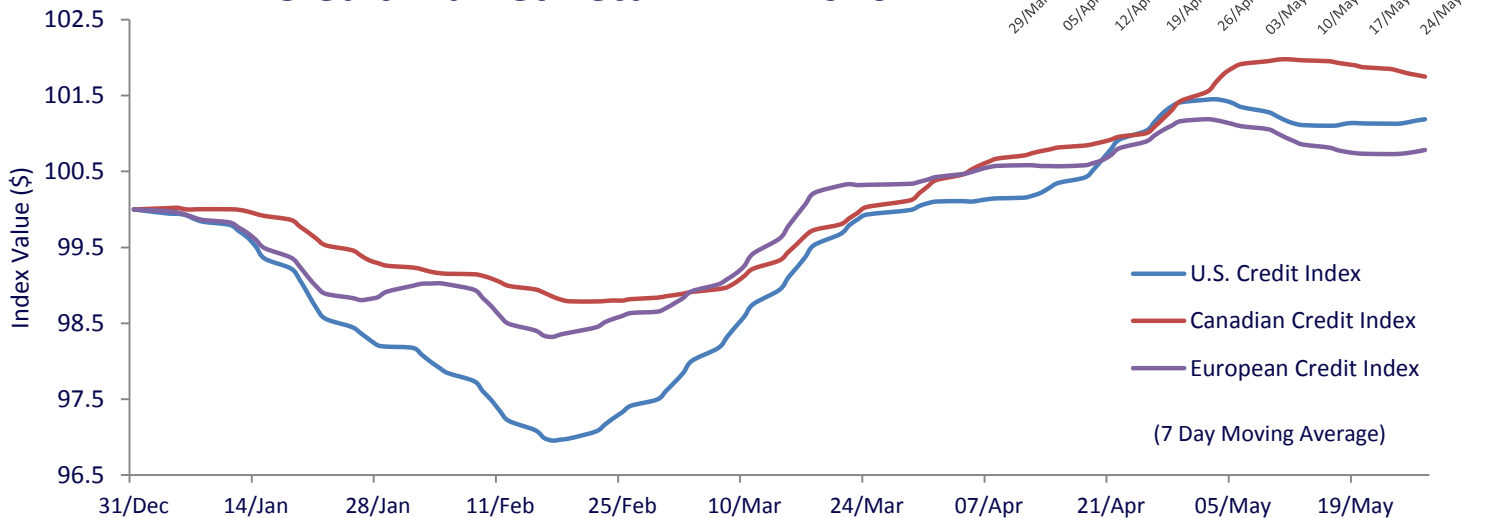
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	-0.06%	-0.11%	1.69%	Merrill Lynch: FOCO
US Credit	0.24%	-0.14%	1.32%	Barclays: LUCRER
European Credit	0.17%	-0.29%	0.89%	Barclays: BECI
Barclays Global Credit Index	0.23%	-0.15%	1.32%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.08%	0.73%	2.07%	Merrill: CAN0
Canadian High Yield	0.66%	1.53%	6.40%	Bloomberg: BCAH
US High Yield	0.85%	0.66%	8.01%	Merrill: HOA0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	1.02%	0.22%	-2.62%	Bloomberg: TXPRAR
US Preferred	0.63%	1.42%	3.63%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: TSX 300	1.41%	1.19%	9.62%	Bloomberg: SPTSX
US Stocks: S&P 500	2.32%	1.89%	3.67%	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
05/25	Bank of Montreal	Baa1/BBB (sub-debt)	1.25Bn	10y (5y call)	+250	+245	Highly anticipated deal found good demand and drove bank sub spreads tighter.
05/26	Union Gas	BBB+/A	450mm	10y & 30y	+147 (10y)	+146	Priced with only modest concession but found solid demand.
05/25	AltaLink	A/A	350mm	10y	+139	+138	Successful deal; oversubscribed and priced right.
05/26	Walgreens Boots	Baa2/BBB	6Bn	Multi-tranche	+165 (10y)	+163	Jumbo deal to finance purchase of Rite-Aid. Priced tight to secondaries with over 40Bn order book and traded modestly tighter.
05/24	HSBC Holdings (AT1)	Baa3/BBB	2Bn	Perp (5y call)	+545	+524	Follows up last week's 5Bn senior deal with a 2Bn Tier 1 CoCo. Very well received.
05/26	Teck Resources	B1/B+ (secured)	1.25Bn	5y & 8y	+663 (5y)	+595	Traded very well in secondary and drove Teck unsecured bond higher as well.

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