



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: May 9-13, 2016

A pretty lethargic week for credit overall. Almost exactly three months after risk markets bottomed out in February, the rally is feeling tired. Stocks and bonds are trading with a limited amount of conviction, which normally precedes a change of direction. We are trading with caution.

Despite the lack of direction it was a busy week for corporate bond issuance. The US had one of its busiest weeks of the year with over \$60 billion of new supply. As is typically in a late rally stage, the after-market performance of new issues was mixed, with issuers trying to squeeze out every last basis point of yield. A few underperforming deals are normally necessary to see concessions widen – it pays to be selective!

Lots of discussion around the longer term impact of ECB buying of European corporate debt, and overall that market was an underperformer this week. Issuers and investors are concerned that ECB buying will limit the amount of bonds trading in the market, which could suppress market liquidity and ultimately reduce the number of non-central bank buyers willing to participate. There is a risk that the purchase program has a negative effect on issuing spreads.

NAMES IN THE NEWS



- BMO (\$BMO) announced it will call its 3.979% sub-debt issue in full at the first opportunity. Investors were reassured after both Great West Life and JP Morgan had elected not to call similar issues earlier in the year sending the price of those bonds sharply lower. The call will leave BMO with \$1.5 billion of Tier 2 capital to raise and we would expect a new NVCC deal to be announced in short order.
- Husky Energy (\$HSE) agreed to sell some of its production capacity for cash in a deal worth approximately \$600mm. The move improves liquidity at the expense of future earnings and is net positive for bondholders. However, we continue to see Husky spreads tied closely to the price of oil.



- Dell Inc. (\$DELL), which is attempting to takeover network storage giant EMC in a deal valued at \$67 billion, proposes to issue at least \$16 billion in secured notes backed by EMC assets. The deal will be particularly large for a BB-rated issuer, and is expected to come with a significant pricing concession in order to find sufficient demand.
- Crombie REIT (\$CRR-U) announced it will purchase a property portfolio from Sobeys under a sale-and-leaseback program. Crombie will fund the purchase through a combination of equity raise and bank lines, though they may come to market with a bond deal later in the year. Crombie spreads were 5-10bp wider on the week, though in the long term the acquisition of quality properties with a strong anchor tenant should be a positive development for the company.
- General Motors (\$GM) spreads were 10bp wider on the week, in part due to a report they used special software to pass emissions testing similar to Volkswagen. GM has denied the report.

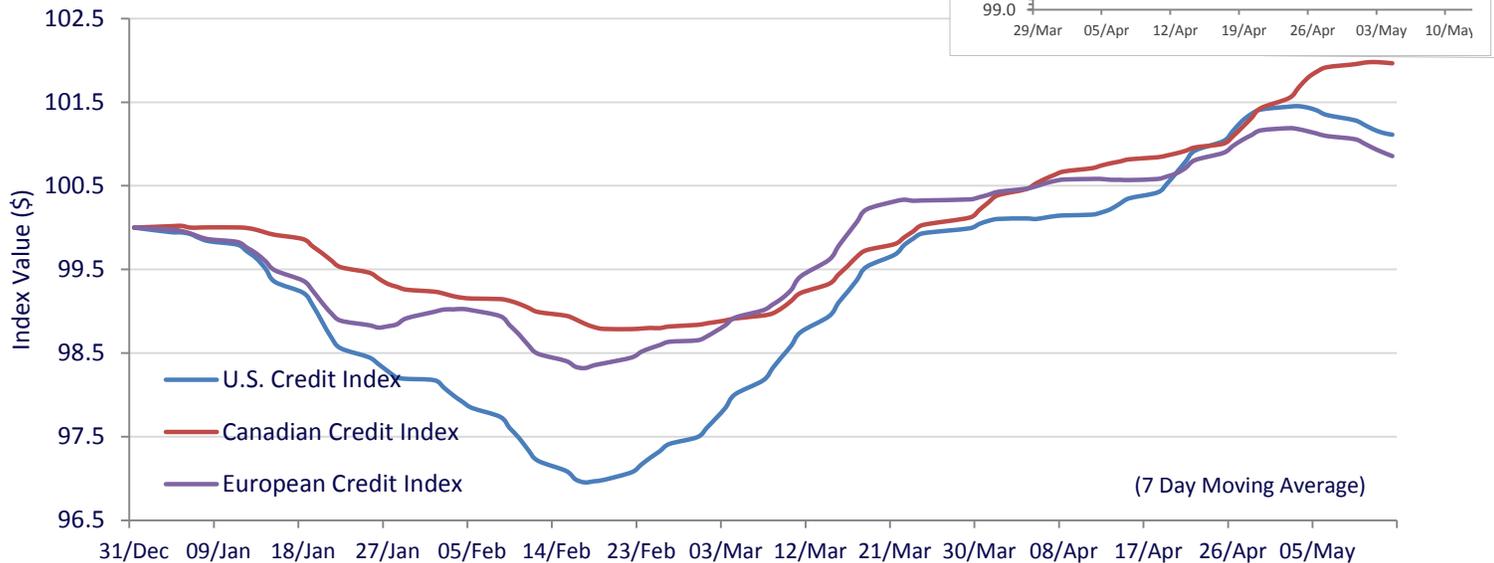
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.08%	0.12%	1.94%	Merrill Lynch: FOCO
US Credit	-0.01%	-0.35%	1.11%	Barclays: LUCRER
European Credit	-0.24%	-0.45%	0.73%	Barclays: BECI
Barclays Global Credit Index	-0.07%	-0.36%	1.11%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.25%	1.11%	2.44%	Merrill: CAN0
Canadian High Yield	0.13%	0.28%	5.09%	Bloomberg: BCAH
US High Yield	0.49%	-0.44%	6.91%	Merrill: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	-0.59%	-0.79%	-3.60%	Bloomberg: TXPRAR
US Preferred	0.44%	0.65%	2.84%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	0.34%	-1.54%	6.67%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.44%	-0.77%	0.96%	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
05/09	Allied Properties	BBB-low	150mm	6.5y	+306	+292	A rare name in the REIT space offering plenty of yield. Heavily oversubscribed. Top performer, but expect future volatility.
05/10	Wells Fargo	A2/A	1Bn	10y	+167	+168	Wells continues to find deep demand for the new Maple bonds which it began issuing last year.
05/09	AbbVie Inc	Baa2/A-	7.8Bn	Multi-tranche	+150 (10y)	+146	The jumbo deal for the week traded as much as 8bp tighter but faded into the weekend.
05/09	Chevron	Aa2/AA-	6.8Bn	Multi-tranche	+120 (10y)	+110	Started slowly but managed solid performance with oil closing up the week.
05/10	Kraft Heinz Co.	Baa3/BBB-	5Bn	10y & 30y	+130 (10y)	+135	Large size and lack of concession led to underperformance.
05/09	AstraZeneca PLC	A3/A-	2.2Bn	Multi-tranche	+98 (8y)	+102	Reflects the overall struggle for European debt this week.

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