THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jun 27 – Jun 30, 2016

June ended on a positive note after a volatile month. While UK politicians begin a game of cat-and-mouse with the EU, central banks chose rhetoric over action, to good effect. Bank of England governor Mark Carney suggested a rate cut to come at some point this summer, while unnamed ECB sources described an expanded bond-buying program to counteract Brexit related volatility. With Britain clearly playing a longer term game rather than triggering Article 50 exit provisions immediately, the market decided there was no reason to panic just yet, and we saw a widespread short-covering rally. June finished lower overall, but with positive momentum, which continued on the Canada Day Friday in the US and Europe.

The other conclusion markets made from this week is that rates are headed lower. US treasuries finished their best month since January 2015; 30 year notes up 8% and yields falling to 2.28%. In terms of yield, treasuries are testing all-time lows, and a sustained break below 1.38% in 10y or 2.22% in 30 years will take us into uncharted territory. The prospect of lower yields for longer is clearly contributing to the equity rally, and as we saw both stocks and bonds rally this week, it is reasonable to expect that, at some point, the reverse will occur.

With major event risk out of the way and a July rate hike seemingly off the table, there does look to be some clear runway for a credit rally through the summer. However liquidity will inevitably be thin, and political headlines out of the US and UK will only increase. In Europe, recapitalization situations around Italian banks and Deutsche Bank will continue. We look to position ourselves constructively, but cautiously.

NAMES IN THE NEWS

- Volkswagen AG ($VOW) announced it has reached a U$ 14.7 billion settlement with the US Department of Justice over the emissions scandal. Volkswagen still faces a number of hurdles to restore its reputation, but bondholders will be encouraged that at least one significant hurdle has been overcome. VW spreads were up to 15bp tighter on the week.
- In another positive note for the banking sector that gets lost in the Brexit shuffle, the Fed announced this week that it has approved capital plans for all US banks, most of which include share buybacks and dividend increases. The approval reflects increasing Fed confidence in bank balance sheets. Meanwhile two foreign banks, Deutsche and Santander, had their US capital plans declined.

- Sobeys Inc ($EMP/A) spreads were up to 25bp wider this week following quarterly earnings and a negative research report published by RBC. Sobey's continues to face headwinds with its integration of Safeway, and appears to be losing market share. RBC suggests there a risk of downgrade from BBB-low, which would see it fall out of the investment grade index.
- CIBC ($CM) is to acquire Chicago-based Private Bancorp for C$4.9 billion. Shareholders were decidedly lukewarm on the transaction, sending CM stock 3% lower on the week. However bond spreads were able to finish 2-3bp tighter in line with market.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.17%	-0.22%	1.49%	Merrill Lynch: F0C0
US Credit	0.20%	-0.29%	1.06%	Barclays: LUCRER
European Credit	0.35%	-0.35%	0.61%	Barclays: BECI
Barclays Global Credit Index	0.19%	-0.42%	0.93%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.65%	1.81%	4.12%	Merrill: CAN0
Canadian High Yield	0.54%	1.26%	8.02%	Bloomberg: BCAH
US High Yield	0.83%	1.17%	9.32%	Merrill: H0A0
Preferred Shares (Total Return)				
Canadian Preferred	0.92%	-0.63%	-2.93%	Bloomberg: TXPRAR
US Preferred	1.04%	1.25%	5.10%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: TSX 300	1.33%	0.22%	9.62%	Bloomberg: SPTSX
US Stocks: S&P 500	3.05%	0.26%	3.84%	Bloomberg: SPX

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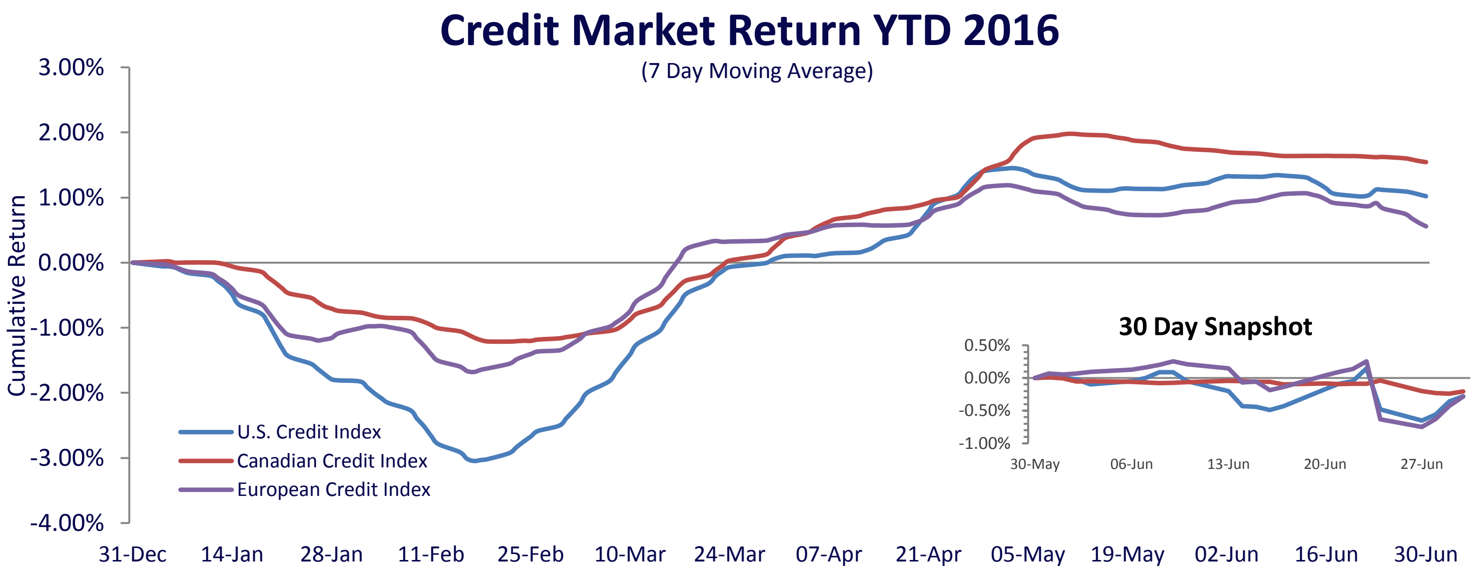

US Credit Index: Barclays US Aggregate Corporate Index (LUCRER) measures the excess return of a broad-based index of US investment-grade corporate bonds over a comparable index of US Treasuries with similar duration. Return data in USD.
Canadian Credit Index: Bank of America Merrill Lynch Canada Corporate Index (F0C0) 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
06/28	Molson Coors Brewing	Baa3/BBB-	5.3Bn	Multi-Tranche	+155 (10y)	+151	Priced tight. Limited initial performance but rallied with market by the end of the week.
06/28	Molson Coors Int'l	Baa3/BBB-	1Bn	7y & 10y	+236 (10y)	+231	Well anticipated and saw deep demand, despite low concession relative to US deal.
06/29	Oracle Corp	A1/AA-	14Bn	Multi-Tranche	+120 (10y)	+111	Offered decent concession to get size done.
06/29	General Motors	Ba1/BBB-	2Bn	5y	+220	+213	Good concession, pushed secondary spreads initially wider.
06/30	Lloyds Banking Group	Baa1/A+	1Bn	5y	+210	+188	First UK bank post-Brexit saw heavy demand and rallied hard on the break. Deal of the week!

Lawrence Park Asset Management 15 York Street, 4th Floor | Toronto, ON M5J 0A3 | Office: (416) 646-2180 | Fax: (647) 693-9276 | www.lawrenceparkam.com