



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Nov 14 – Nov 18, 2016

Interest rates continue to push higher this week with the US 10 year yield rising another 15bp to a 12 month high. The TMX Canadian Bond Universe index has now given up over 50% of its year-to-date gains in just two weeks and highlights the benefit of diversifying your fixed income allocation away from rate-sensitive strategies.

The tone in credit has tempered somewhat with the ongoing selloff in rates. Yield-sensitive institutional buyers, who were initially attracted to the spike in corporate yields, have ceased to buy as aggressively as they were last week. Meanwhile, there is evidence that retail flows are cycling out of bonds and into stocks in reaction to recent moves. The scale of the selling remains modest in Investment Grade relative to High Yield and Emerging Markets (one dealer estimate suggested EM and HY selling was outpacing IG selling by an 8:1 ratio). Nevertheless, it contributed to a marginally softer tone for Investment Grade spreads as the week wore on.

US new issue markets saw their busiest week in two months and Canada had a similarly active week. There was some evidence of price concessions returning, although we continue to see limited performance. Canada continues to feel better than the US in terms of follow-through demand however it pays to be selective. 30-year bonds from Hydro One and Canadian Utilities were examples of Canadian issues that can languish after pricing with little concession.

And finally, it is worth noting the Preferred market has been notably underperforming this month. In the US, where fixed-for-life coupons structures dominate, the selloff is a definite reaction to materially higher rates. Canadian preferred's are typically less rate sensitive due to the fixed-float structure. However, a hefty 2 billion of supply this month has created an imbalance which may take a few weeks to resolve.

NAMES IN THE NEWS



- Bonds of aircraft leasing company AerCap (\$AER) improved this week after Moody's placed their Ba1 rating on review for upgrade. A one-notch upgrade to Baa3 would see the company rated investment grade by all three major rating agencies.



- Royal Bank of Scotland (\$RBS) paper underperformed this week after it was reported the company could face up to a \$12 billion (USD) fine related to misselling of mortgages in the US. RBS now finds itself in a similar position to Deutsche Bank, which was recently told by the US Department of Justice it could face up to a \$14 billion fine sparking a selloff of bonds and equity.

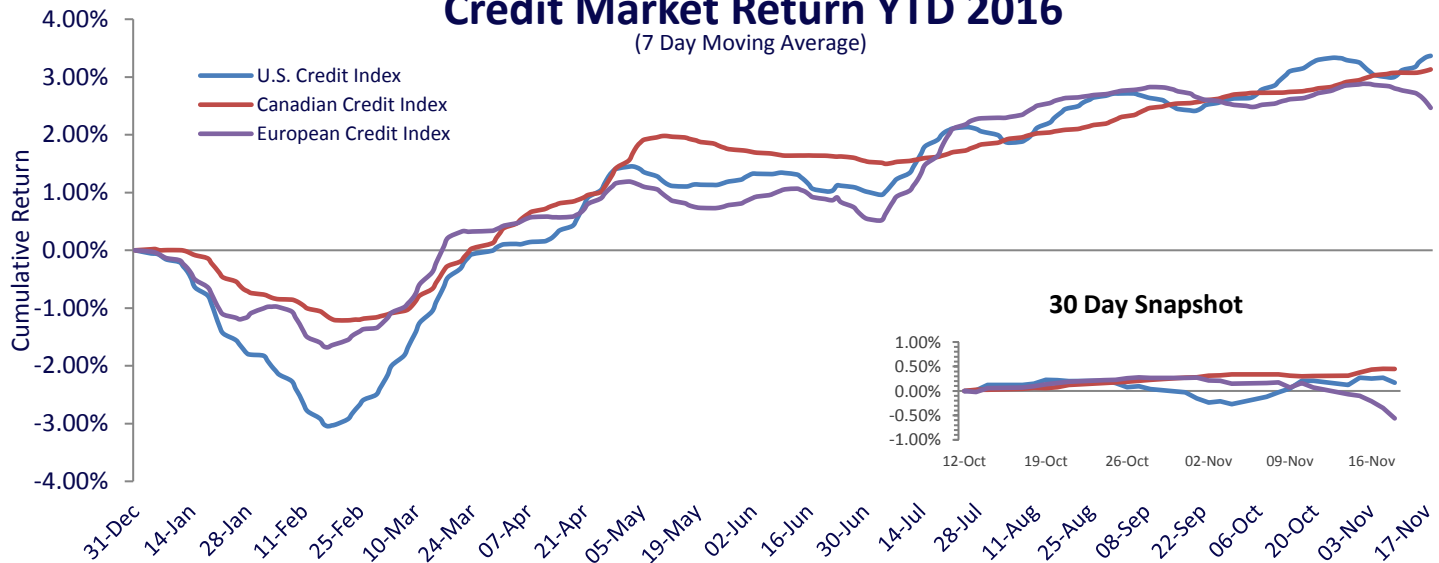
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.15%	0.18%	3.21%	Merrill Lynch: FOCO
US Credit	-0.04%	0.20%	3.32%	Barclays: LUCRER
European Credit	-0.72%	-0.83%	2.05%	Barclays: BECI
Barclays Global Credit Index	-0.19%	-0.04%	3.34%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.84%	-2.37%	1.94%	Merrill Lynch: CANO
Canadian High Yield	0.21%	0.25%	15.89%	Bloomberg: BCAH
US High Yield	-0.38%	-1.40%	14.28%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-2.68%	-1.94%	1.93%	Bloomberg: TXPRAR
US Preferred	-0.44%	-3.85%	0.90%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.88%	0.73%	17.52%	Bloomberg: SPTSX
US Stocks: S&P 500	0.75%	2.83%	8.87%	Bloomberg: SPX



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Credit Market Return YTD 2016 (7 Day Moving Average)



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
11/14	Pfizer Inc.	A1/A+	6bn	Multi-Tranche	+85	+85	Well-anticipated but offered little concession.
11/14	Morgan Stanley	A3/BBB+	3.25Bn	5y	+110	+106	Market welcomed a fixed-maturity benchmark.
11/14	CU Inc.	A-high	375mm	30y	+157	+157	Both deals fairly priced and well placed but offered little after-market performance.
11/15	Hydro One Ltd.	A3/A	950mm	3y & 30y	+156 (30y)	+156	
11/15	Morguard Corp	BBB-low	200mm	4y	+315	+306	Rare issuer found solid demand for shorter-dated deal - top performer.
11/16	Saputo Inc.	Baa1/A-low	300mm	7y	+161	+157	
11/16	Bombardier Inc.	B3/B-	1.4Bn	5y	+726	+748	Held new issue spread briefly before fading.
11/17	Abbott Laboratories	Baa3/A+	15.1Bn	Multi-Tranche	+155	+156	Offered concession but the jumbo size and softer markets to close the week limited performance.

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