



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Jan 9 – Jan 13 2017

The pace of activity picked up mid-week with heavy issuance on both sides of the border and positive earnings from American financials. The mixed tone on equities created a widening bias on financial spreads, with issuance also resulting in some selling. While the macro market continues to deal with the implications of a new government in the US, credit spreads (ex-financials) continue to feel relatively strong.

The mixed tone remains as a level of support for all risk assets, however any surprises from the Trump camp prior to inauguration along with the comments of Theresa May regarding a “Hard Brexit” will be sure to place downward pressure on global spreads this week.

### NAMES IN THE NEWS



- Volkswagen (\$VW) announced it has reached an agreement with the US government regarding the diesel emission scandal. VW also kept a positive tone as world-wide sales for 2016 reached all-time record levels. The company will now work to restore its credit ratings towards previous levels.
- In what was described as a victory for bondholder rights, General Motors (\$GM) and Broadcom (\$AVGO) bowed to investor protests by removing language on new issues that would have allowed the companies to avoid penalty payments for breaching credit covenants. Such language had been inserted into some new issue indentures starting late in 2016.

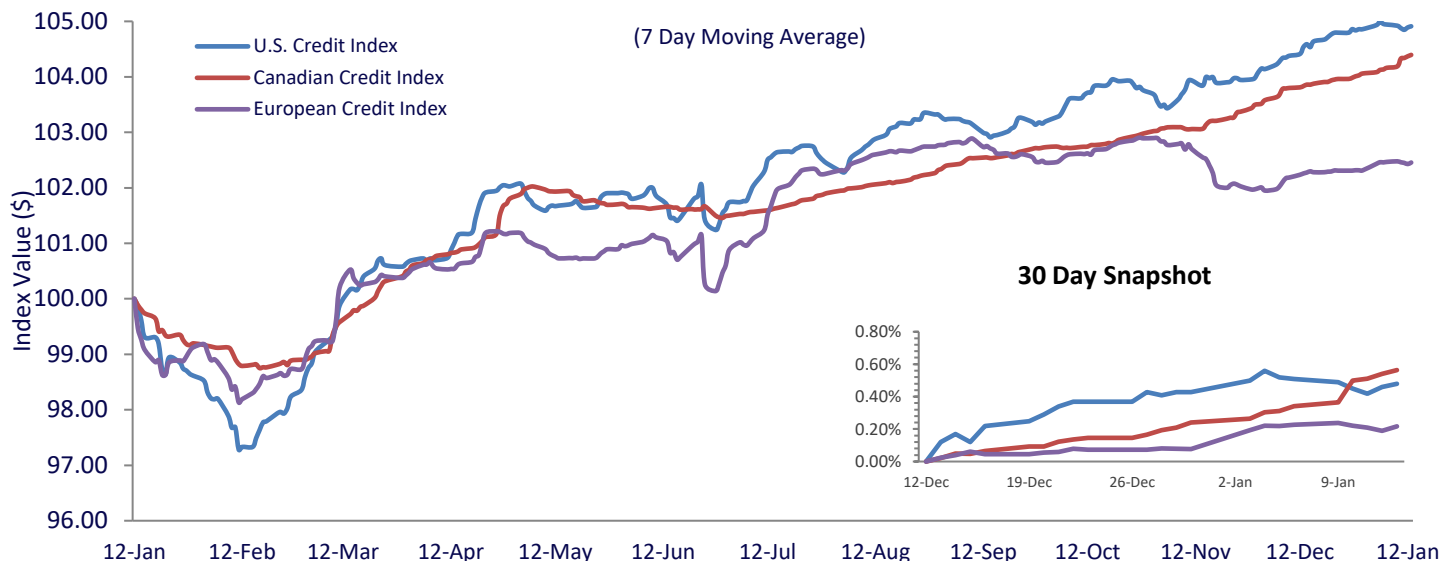


- Fiat Chrysler Automobiles (\$FCAU) was accused of violating pollution laws with 104,000 diesel vehicles, sending the shares plunging on the prospect the automaker may follow Volkswagen AG in facing billions of dollars in fines. The Environmental Protection Agency alleged FCA put software in Jeep Grand Cherokee and Ram 1500 models that allows them to exceed pollution limits. FCA said it meets all regulatory requirements and will contest the allegations.
- Wells Fargo (\$WFC) posted fourth-quarter earnings Friday that missed on the top and bottom lines. Wells Fargo’s community banking division, which includes the unit responsible for the unauthorized accounts, declined by 14% from a year earlier.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.22%	0.32%	0.32%	Merrill Lynch: FOCO
US Credit	-0.03%	0.05%	0.05%	Barclays: LUCRER
European Credit	-0.01%	0.14%	0.14%	Barclays: BECI
Barclays Global Credit Index	-0.02%	0.10%	0.10%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.11%	0.21%	0.21%	Merrill Lynch: CANO
Canadian High Yield	0.95%	1.43%	1.43%	Bloomberg: BCAH
US High Yield	0.15%	1.07%	1.07%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.34%	2.06%	2.06%	Bloomberg: TXPRAR
US Preferred	0.66%	2.36%	2.36%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.07%	1.51%	1.51%	Bloomberg: SPTSX
US Stocks: S&P 500	-0.09%	1.67%	1.67%	Bloomberg: SPX



### Credit Market Return YOY



**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
01/10	Honda Canada	A1e	600mm	3yr & 5yr	+104 (5yr)	+101	
01/10	Nissan Motors	A-	2bn	3yr & 5yr	+93 (5yr)	+92	
01/11	General Motors	BBB	2.5bn	5yr & 10yr	+200 (10yr)	+197	Frequent issuer
01/11	Broadcom Corp	BBB-	13.55bn	Multi-tranche	+155 (10yr)	+146	Despite aggressive pricing, deal still managed to perform well
01/11	Algonquin Power Co.	BBB	300mm	10yr	+244	+232	6x oversubscribed for this anticipated deal
01/11	RioCan REIT	BBB	300mm	5yr	+160	+155	Deal well received
01/12	Caisse Desjardins	Aa2	1bn	5yr	+102	+98	First time issuer since merger and trades cheap to deposit notes

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