



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Feb 13 – Feb 17 2017

The testimony by Fed Chair Yellen last week did not materially change expectations for credit markets as they continued to advance alongside global equities. The main cloud on the horizon (apart from Trump-related uncertainty) continues to be the French political situation. 10y France-Germany spreads currently trading at a 4 year wide of 76bp after trading as low as 20bp last in September. We continue to see French banks trade wider in sympathy.

In Canada, a highly successful new issue from Shaw Communications (\$SJRCN) proved to be a catalyst for the Canadian corporate market as many related credit spreads snapped tighter. Other issuers were quick to take advantage of the hot market in Canada, resulting in one of the busier weeks of the year. A number of Canadian credits traded significantly tighter, including Inter Pipeline, Spectra Energy, and Barrick Gold.

NAMES IN THE NEWS



- Aircraft leasing giant AerCap (\$AER) was upgraded to Baa3 at Moody's, completing their move to investment grade by all three major rating agencies. AerCap spreads are 40bp tighter in the month of February.
- Aimia (\$AIMCN) reported strong Q4/16 earnings as total debt fell \$200MM given the early redemption of the January 2017 bonds.



- Molson Coors (\$TAP) reported a net loss for the quarter of \$608MM vs. a profit of \$6.7MM YOY. One-time items included a \$495MM impairment charge recorded for the Molson brands in Canada, higher US GAAP tax expense, and a \$50MM indirect tax provision recorded in Europe.
- Kraft Foods (\$KHC) and Unilever (\$UNANA) confirmed that KHC made a take-over proposal to UNANA that was firmly rejected as undervaluing the company. Despite the rejection, bond spreads for both companies traded wider on the week on potential of a leveraged buyout situation.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.19%	0.35%	0.94%	Merrill Lynch: FOCO
US Credit	0.15%	0.21%	0.30%	Barclays: LUCRER
European Credit	0.10%	0.01%	0.29%	Barclays: BECI
Barclays Global Credit Index	0.15%	0.16%	0.33%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.02%	0.47%	0.27%	Merrill Lynch: CANO
Canadian High Yield	-0.18%	0.23%	2.37%	Bloomberg: BCAH
US High Yield	0.20%	0.74%	2.08%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.33%	1.08%	5.17%	Bloomberg: TXPRAR
US Preferred	0.17%	1.65%	4.11%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.75%	3.01%	3.91%	Bloomberg: SPTSX
US Stocks: S&P 500	1.60%	3.36%	5.32%	Bloomberg: SPX

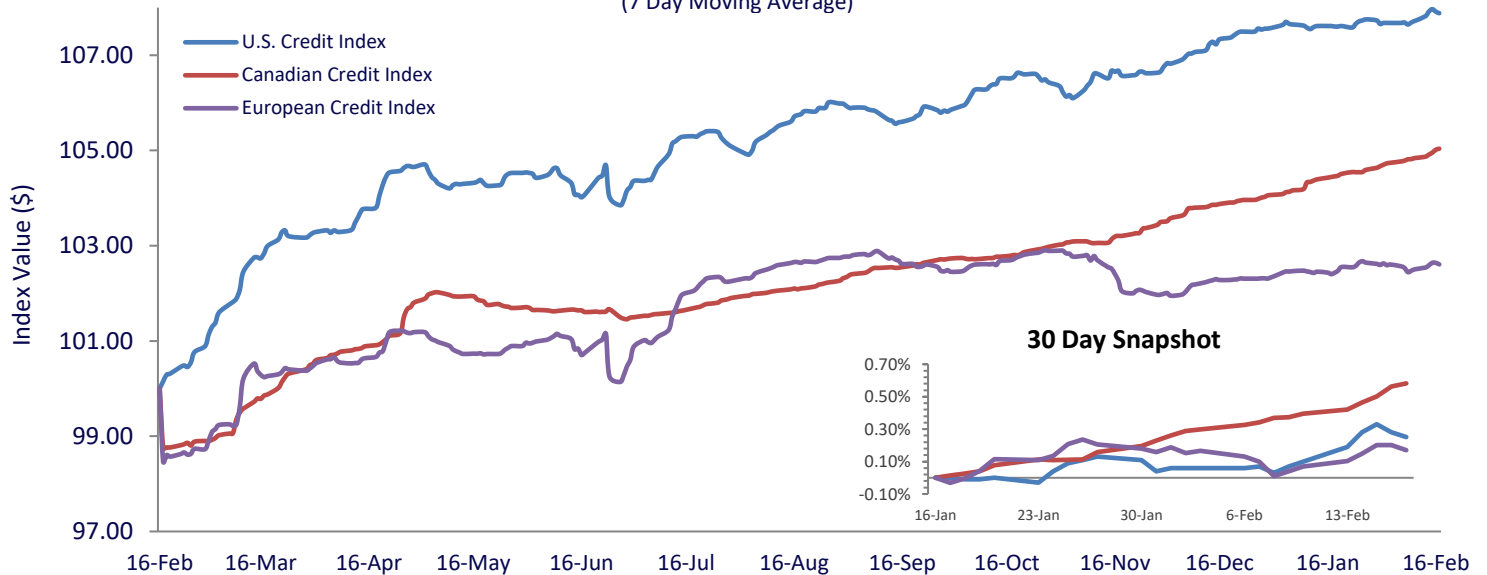


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Credit Market Return YOY

(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 (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
02/13	Honda Motor Co Ltd.	A+	1.75bn	Multi-tranche	+77 (7y)	+74	
02/13	AltaGas	Pfd-3	200mm	Pref (5y call)	5%	N/A	
02/14	Novartis	AA-	3bn	Multi-tranche	+73 (10y)	+73	
02/14	Shaw Communications	BBB	300mm	10y	+202	+192	Smaller than expected deal size led to secondary spreads snapping tighter.
02/14	Morgan Stanley (FRN)	BBB+	3bn	3y (2y call)	L+80	L+68	Generously priced short-dated FRN structure & heavily oversubscribed.
02/15	Ford Motor Co.	BBB+	750mm	5y	+148	+143	
02/15	Enercare Solutions Inc.	BBB	500mm	5y & 7yr	+253 (7y)	+238	Another heavily oversubscribed deal.
02/16	Brookfield Infrastructure Part.	BBB+	300mm	7y	+189	+182	

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