



# THE SENTINEL



## Highlights from the week in Corporate Credit

Summary: Feb 6 – Feb 10 2017

A steady week for commodities and treasury yields saw global stocks reach new highs. France was in the spotlight last week as political headlines suggest a hotly contested presidential race this year. The Republican party nominee, Francois Fillon, remains mired in scandal for allegedly paying his wife a salary for work she never did. Incendiary headlines caused French senior bank spreads to widen as much as 10bp and subordinated debt by 25bp, while other parts of Europe were dragged wider in sympathy.

A slower week for credit market supply gave investors some time to digest the record amount of new issuance this year. Canadian bond markets remain overheated, as evidenced by the only Canadian bond issue this week for Bruce Power LP. The deal managed to be tightened and upsized from initial talk, and still rallied 10bp in secondary trading. Reception for a preferred issue by Brookfield Office Properties was more subdued, as institutional investors begin to question whether the preferred market has run too far too fast since the start of the year.

### NAMES IN THE NEWS

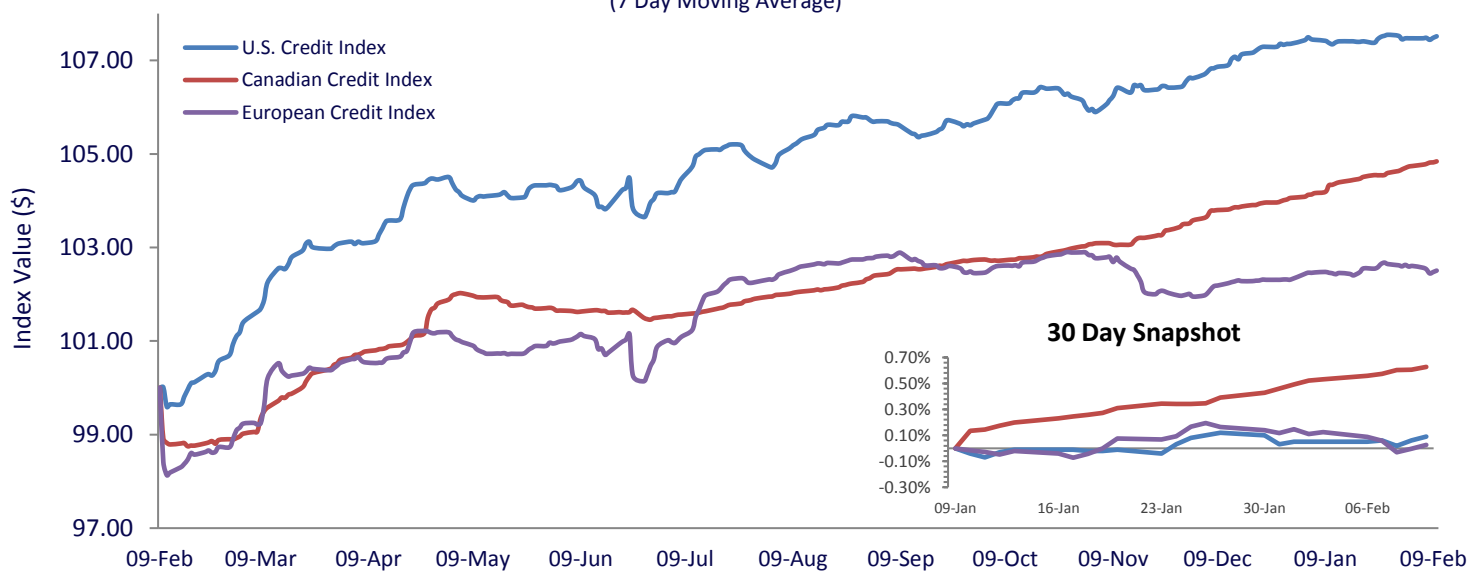
	<ul style="list-style-type: none"> <li>GM's (\$GM) adjusted profit of \$2.2bn was slightly lower in the current quarter vs \$2.3bn y/y. Vehicle sales were up 3.3% y/y in the quarter, while free cashflow grew to \$1.7bn vs -\$289mm y/y. Overall, we see these results as better for credit than for equity.</li> <li>S&amp;P affirmed the BBB credit rating of Algonquin Power &amp; Utilities (\$AQNCN) and revised the outlook to Stable from Negative. The revision follows the company's announcement that it had received the proceeds under the final installment of the \$1.15bn convertible debentures used to finance the Empire District Electric (EDE) acquisition.</li> </ul>
	<ul style="list-style-type: none"> <li>TELUS (\$TU) reported lower net income of \$87mm vs \$261mm y/y, as larger restructuring charges and compensation changes offset higher revenues. Capital spending/acquisitions rose to \$855mm vs \$665mm y/y, resulting in \$550mm of cash burn during the quarter. The higher debt and cash usage placed pressure on spreads.</li> <li>BP PLC (\$BP) reported net income of US\$543mm vs a loss of \$3.3bn, but down from the profit of \$1.6bn in the prior quarter. The major changes in profit came from lower production and lower prices.</li> </ul>

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.10%	0.17%	0.75%	Merrill Lynch: FOCO
US Credit	-0.02%	0.06%	0.15%	Barclays: LUCRER
European Credit	-0.10%	-0.09%	0.19%	Barclays: BECI
Barclays Global Credit Index	-0.02%	0.01%	0.18%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.50%	0.49%	0.28%	Merrill Lynch: CANO
Canadian High Yield	0.33%	0.41%	2.55%	Bloomberg: BCAH
US High Yield	0.10%	0.54%	1.89%	Merrill Lynch: HOA0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	-0.08%	0.74%	4.82%	Bloomberg: TXPRAR
US Preferred	0.78%	1.49%	3.94%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	1.65%	2.24%	3.14%	Bloomberg: SPTSX
US Stocks: S&P 500	0.87%	1.73%	3.66%	Bloomberg: SPX



### 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 (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
02/06	Estee Lauder Cos Inc	A+	1.5bn	Multi-tranche	+75 (10y)	+77	
02/06	Wells Fargo & Co. (FRN)	A	2bn	5y (4y call)	L+93	L+89	Bank FRNs growing in popularity in 2017.
02/07	MPLX LP	BBB-	2.25bn	10y & 30y	+175 (10y)	+171	Pipeline spinoff from Marathon Oil.
02/08	BP PLC	A-	1.85bn	7y & 10y	+125 (10y)	+120	Struggled initially but rallied with oil into week's end.
02/09	Bruce Power LP	BBB+	700mm	7y & 12y	+155 (7y)	+143	Canada continues to outperform. Deal of the week.
02/09	Brookfield Office Properties	Pfd-3	250mm	Pref (5y call)	5.1%	N/A	

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