





THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Feb 27 – Mar 3 2017

President Trump's speech to congress on Tuesday was enough to drive credit spreads tighter this week as investors were encouraged by an upbeat and conciliatory tone. Later in the week attention turned to the Fed Funds rate, where a series of speeches and statements by Fed members actively promoted a March rate hike. That was enough to move the rate hike probability priced into futures markets from 40% a week ago to 96% by Friday, and ensured US credit markets finished the week with a more cautious tone.

European credit generally had a good week as the chances of a LePen victory in France appeared to recede. Here in Canada the corporate market remained active, with signs the market is focusing more on secondary flows to make up for the lack of issuance. Much of the anticipated bank issuance post-earnings ended up occurring south of the border with both Royal Bank (\$RYCN) and Bank of Nova Scotia (\$BNSCN) issuing US dollar deals. On Wednesday TELUS (\$TCN) revisited the US\$ market for US\$500MM of 10-yr bonds, and announced a 30y Canadian deal later in the day.

	<ul style="list-style-type: none"> Canadian banks finished reporting last week, with the peer group posting material improvements relative to the same period last year. Bank of Montreal (\$BMOCN) reported net income of \$1.49bn vs \$1.06bn q/q. Once more, capital levels continued to grow, with the CET1 up to 11.1% vs 10.0% y/y (and up from 10.0% q/q). Deutsche Bank (\$DBK) announced a plan to issue 8 billion Euro of stock as it seeks to shore up its balance sheet after 2 years of losses. Bond investors were encouraged by the news and drove \$DBK spreads up to 30bp tighter on the week. Perrigo (\$PRGO) announced that it expects to use the proceeds of the Tysabri sale for debt reduction instead of share buybacks or a special dividend. The stock fell as equity investors were disappointed but bond spreads tightened.
	<ul style="list-style-type: none"> Target (\$TGT) released disappointing fiscal Q4/16 earnings and provided full-year 2017 guidance that was well below consensus estimates. \$TGT guided FY/17 EPS of \$3.80 - \$4.20 versus \$5.06 consensus. \$TGT equity was down double digits, while cash spreads were 5-10bps wider.

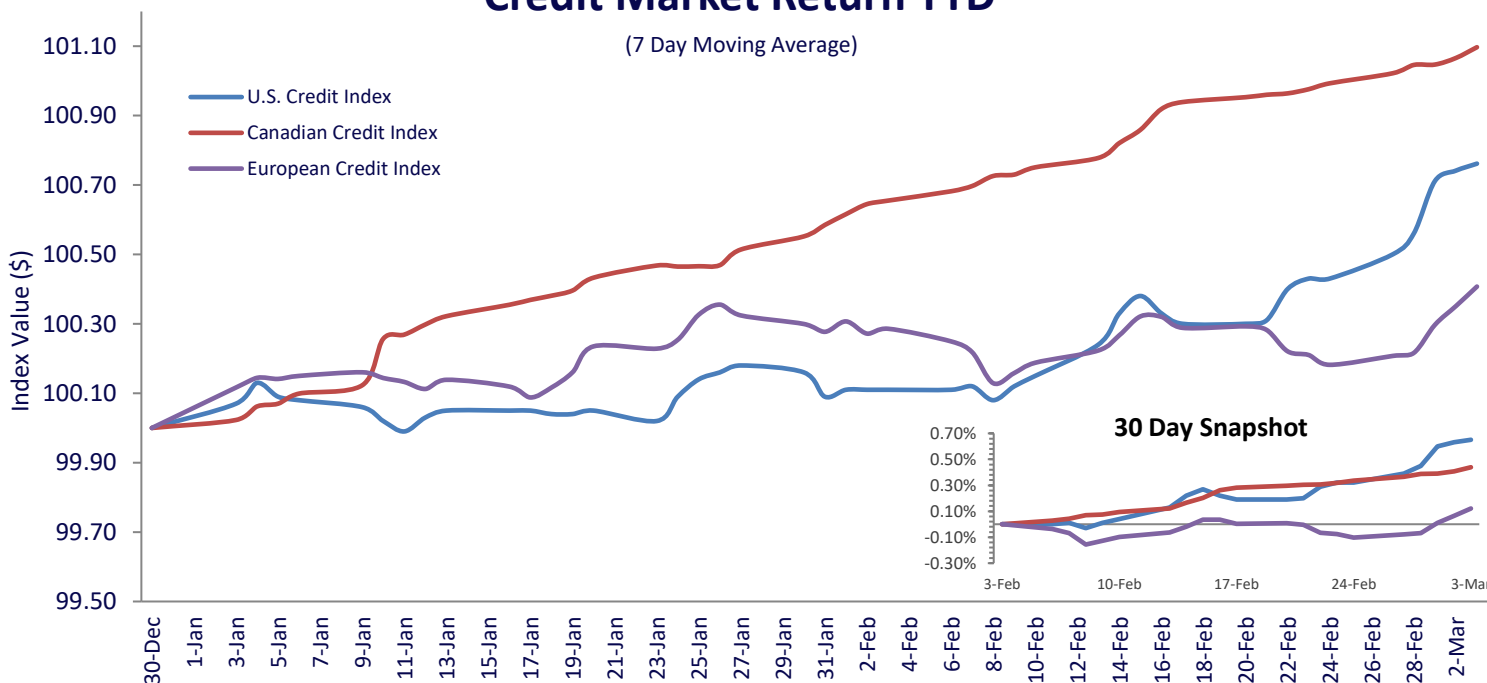
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.10%	0.05%	1.10%	Merrill Lynch: FOCO
US Credit	0.33%	0.20%	0.76%	Barclays: LUCRER
European Credit	0.23%	0.19%	0.41%	Barclays: BECI
Barclays Global Credit Index	0.30%	0.19%	0.69%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.45%	-0.36%	0.49%	Merrill Lynch: CANO
Canadian High Yield	0.41%	0.31%	2.98%	Bloomberg: BCAH
US High Yield	0.32%	0.04%	2.97%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.66%	0.06%	5.67%	Bloomberg: TXPRAR
US Preferred	-0.29%	-0.28%	4.32%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.59%	1.48%	2.49%	Bloomberg: SPTSX
US Stocks: S&P 500	0.71%	0.85%	6.85%	Bloomberg: SPX



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Credit Market Return YTD



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
02/27	Transcanada Corp	BBB	1.5Bn	Perp (10y call)	+293	+275	Hybrid notes; found solid demand in US market.
02/27	Crombie REIT	BBB-	75mm	4y	+245	+235	Re-opening of existing 2021 bond.
02/28	Royal Bank of Canada	AA-	2bn	3y	+67	+63	
02/28	American Express Co	A-	4.5bn	Multi-tranche	+82 (5y)	+77	
03/01	Telus Corp	BBB+	500mm	10y	+125	+122	
03/01	Bank of Nova Scotia	A+	2bn	5y	+75	+73	A busy week for Canadian issuers in the US.
03/01	Telus Corp	BBB+	325mm	31y	+235	+232	Well received but overhang from last week's BCE deal tempered performance.

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