



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Jun 12 – Jun 16 2017

Central Bank policy and inflation were in focus last week as the US Federal Reserve hiked rates for the third time since December. The Fed continues to suggest more rate hikes to come in the next 18 months and is committed to reducing the size of its balance sheet in 2018 despite US CPI trending lower for the third consecutive month. US credit markets had a decidedly defensive tone amid a backdrop of flat stocks and oil prices falling to a 6-month low.

Here in Canada the tone was somewhat more upbeat. Bank of Canada Governor Poloz and Senior Deputy Wilkins delivered hawkish speeches confirming that the Bank of Canada has taken a more optimistic view of the economy. The Canadian dollar strengthened and bond yields rose nearly 10 bps even as US yields fell modestly. The fall in oil weighed on the domestic stock market, but credit continues to rebound from a soft May as new issue supply has slowed considerably.

### NAMES IN THE NEWS



- Home Capital Group (\$HCG) has reached a settlement agreement with the Ontario Securities Commission over the regulator's allegations of misleading disclosures that helped spur a run on the lender's deposits. Sources also indicated HCG is in ongoing talks with a bank syndicate to replace the expensive HOOPP loan. HCG 2018 bonds ended the week 3 points higher as investors were comforted with the string of good news.



- Amazon (\$AMZN) acquired Whole Foods Market (\$WFM) for US\$13.7 billion on Friday. The potentially disruptive acquisition can combine the brick-and-mortar grocery stores of WFM with AMZN's e-commerce infrastructure. Spreads of US and Canadian supermarkets like Walmart, Kroger, Costco, Loblaws (\$LCN), Sobeys (\$EMPACN) and Metro (\$MRUCN) widened on the news. LCN and MRUCN were 3-5 bps wider while EMPACN bonds were 5-10 bps wider.
- Aimia Inc (\$AIMCN) announced it is suspending dividends on all common and preferred shares saying it would not meet the capital impairment test included in the Canada Business Corporations Act due to the precipitous fall in its share price. The announcement sent AIMCN's preferred shares down 35-45%. Aimia's 2019 bonds held up due to the potential increase in liquidity, however the loss of the Air Canada contract in 2020 continues to weigh on the credit.

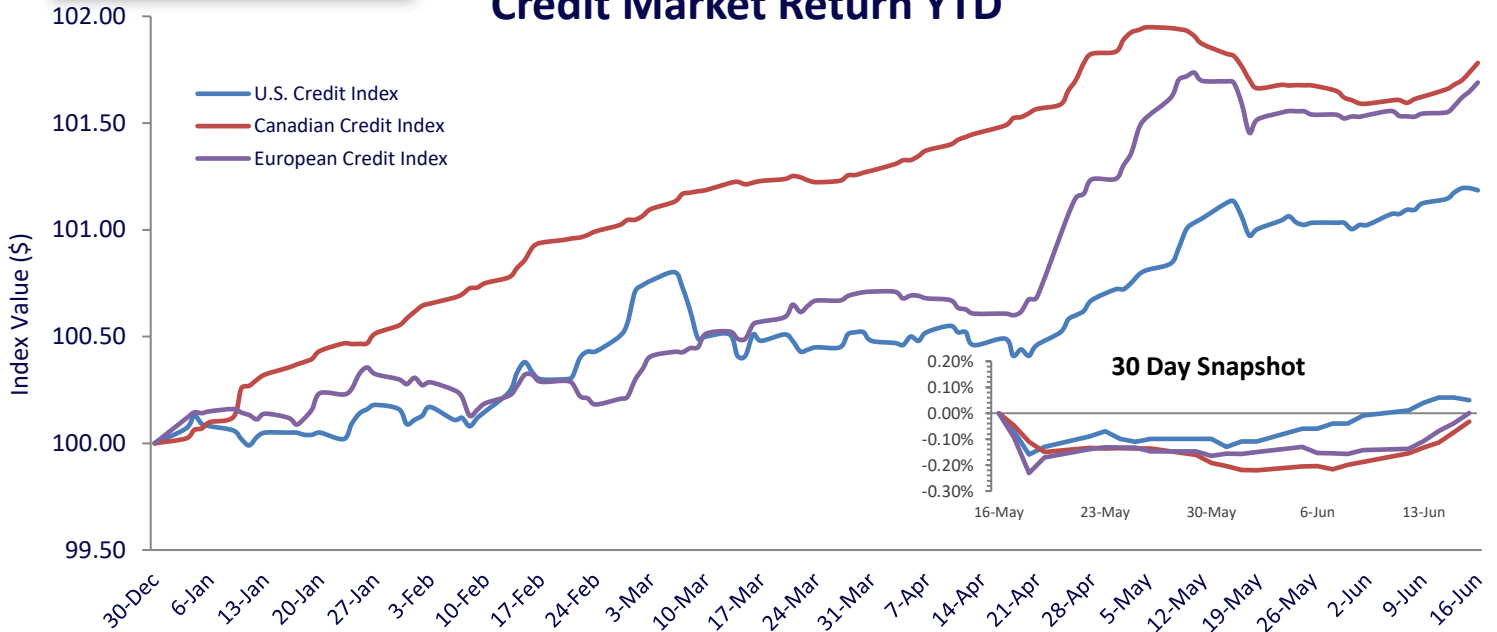
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.16%	0.17%	1.78%	Merrill Lynch: FOCO
US Credit	0.06%	0.18%	1.18%	Barclays: LUCRER
European Credit	0.14%	0.16%	1.69%	Barclays: BECI
Barclays Global Credit Index	0.12%	0.19%	1.41%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.38%	-0.30%	3.45%	Merrill Lynch: CANO
Canadian High Yield	-0.08%	0.17%	4.33%	Bloomberg: BCAH
US High Yield	0.03%	0.15%	4.95%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	1.90%	2.00%	7.83%	Bloomberg: TXPRAR
US Preferred	0.44%	0.62%	7.68%	Bloomberg: SPTREFTTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-1.77%	-0.91%	0.45%	Bloomberg: SPTSX
US Stocks: S&P 500	0.12%	0.99%	9.74%	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 (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
06/12	Bank of Montreal	A+	2bn	3y	+62	+62	Canadian banks continue to tap foreign markets for liquidity.
06/13	Apple Inc	AA+	1bn	10y	+82	+80	
06/13	BMW Canada Inc	A+	500mm	3y	+86	+83	
06/13	Canadian Western Bank	A-	350mm	5y	+157	+154	
06/15	Ford Credit Canada	BBB	600mm	5y	+159	+158	
06/15	Laurentian Bank	BBB-low	350mm	10y (5y call)	+308.6	+301	Limited buyer base for split-rated NVCC paper but found a good bid in secondary.
06/16	PSP Capital Inc	AAA	3.5bn	5y	+56.6	+56	Sized to fill all available demand.

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