



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Jun 19 – Jun 23 2017

Spreads of Canadian credit continued to tighten this week, driven by strong secondary trading in financials and banks on the back of preliminary bail-in rules released last Friday. Deposit notes were among the strongest performers of the week as the bail-in release provided clarity on implementation dates, the bail-in process and final TLAC requirements. Energy continued to weigh as oil fell to a seven-month low on more signs of growing crude stockpiles and less demand.

American credit was subdued as a light week for economic data and downward revisions for inflation expectations placed a cooler on credit. The Dodd-Frank Act Stress Test (DFAST) results were largely in line, giving banks the likelihood to raise shareholder payouts.

### NAMES IN THE NEWS



- Home Capital Group (\$HCG) received two bouts of good news this week. First, the company announced the divestiture of a portfolio of commercial mortgages to KingSett Capital for \$1.2bn, with the proceeds intended to pay down its \$2bn HOOPP credit facility. Secondly, HCG announced an investment from Warren Buffett's Berkshire Hathaway, under which Berkshire would acquire up to 38% of the company's stock at a material discount. Berkshire would also be providing a new line of credit to HCG with a marginally lower interest rate. Investors showed their pleasure for the new funding and the endorsement by Mr. Buffett as the December 2018 bonds tightened 4 points week over week.
- REIT investors cheered the announcement that Sears Canada was seeking CCAA protection and would close select stores, giving REITs the chance to re-lease the space at higher rents. The closures include seven stores in properties owned by RioCan (\$REIUCN), four stores by Cominar (\$CUFCN), two stores by H&R REIT (\$HRUCN) locations and one store each at Artis REIT (\$AXUCN) and Canadian REIT (\$REFUCN). Most REITs above tightened 5-10 bps for the week.



- Moody's reduced the ratings of Australian banks by a notch, noting the elevated risks in the household sector have increased bank risks to an adverse shock. The senior ratings for each of Australia & New Zealand Bank (\$ANZ), Commonwealth Bank (\$CBA), National Australia Bank (\$NAB) and Westpac Banking Corp. (\$WSTP) were all lowered to Aa3 from Aa2. The agency noted that it is still incorporating 2-notches of uplift for implied government support.

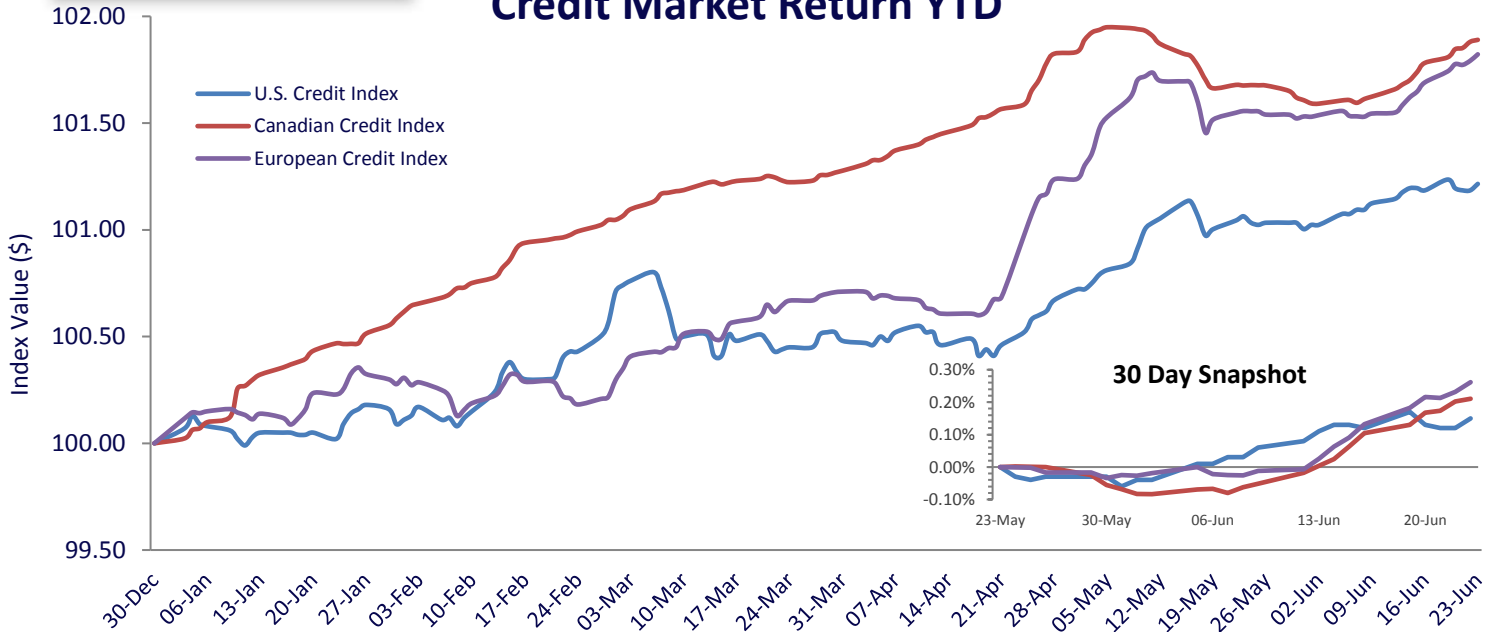
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.11%	0.28%	1.89%	Merrill Lynch: FOCO
US Credit	0.03%	0.21%	1.22%	Barclays: LUCRER
European Credit	0.13%	0.29%	1.82%	Barclays: BECI
Barclays Global Credit Index	0.08%	0.27%	1.49%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.46%	0.16%	3.91%	Merrill Lynch: CANO
Canadian High Yield	0.04%	0.22%	4.37%	Bloomberg: BCAH
US High Yield	-0.34%	-0.19%	4.61%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	-0.06%	1.94%	7.77%	Bloomberg: TXPRAR
US Preferred	0.36%	0.98%	8.07%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.87%	-0.05%	1.32%	Bloomberg: SPTSX
US Stocks: S&P 500	0.22%	1.21%	9.98%	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
06/19	Sysco Corp	BBB+	750mm	10y	+113	+114	
06/19	First Energy Corp	BB+	3bn	Multi-issue	+175 (10y)	+162	Surprisingly strong performer in light of oil weakness.
06/19	Deere & Co	A	1.25bn	Multi-issue	+67 (7y)	+66	Regular issuer.
06/20	BMO (Preferred)	P-3	400mm	5y Rate Reset	4.4%	N/A	Met with tepid interest.
06/21	Reckitt Benckiser Group	A-	7.75bn	Multi-issue	+87 (10y)	+87	
06/21	Westpac Banking Corp	AA-	1.5bn	5y	+77	+75	
06/21	AIMCo Realty LP	AA-	400mm	7y	+97	+93	First time issuer received strong demand.

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