



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: May 29 – Jun 2 2017

Despite the US withdrawal from the Paris Climate Accord and a surprisingly soft May employment report, global equity and credit markets managed to finish the week modestly positive. Canada continues to wade through a glut of May issuance and credit negative headlines from a number of institutions. However a large June 1 coupon payment has left many Canadian bond funds long cash, and there was evidence of renewed buying later in the week. For now, Canadian Banks are avoiding issuing more debt into a soft market, with National Bank as the second institution to raise money via the preferred market following the CIBC deal last week.

The US payroll report on Friday suggested the pace of job growth has slowed in the first half of 2017, which was enough to drive 10-year bond yields to a 6-month low. Significant downward revisions to the prior two months have cast doubt over the pace of monetary-policy normalization in 2017. The European Central Bank meets on Thursday as some economists expect a shift in tone to a more neutral stance with a tapering of stimulus to follow later in the year.

NAMES IN THE NEWS



- National Bank (\$NACN) and Bank of Nova Scotia (\$BNS) rounded off quarterly bank reporting this week on a positive note. Both banks performed well in virtually all business units. Provisions for credit losses (PCL) continued to fall and capital structure ratios remained strong. Spreads were relatively unchanged for the week.
- Saputo Inc.'s (\$SAPCN) rating was upgraded by Moody's to A3 from Baa1, with a stable outlook assigned. Moody's attributed the upgrade to Saputo's strong credit metrics and substantial free cash flow. With this upgrade, the Saputo bonds will move to the "A" segment of the index, creating a small positive for already tight spreads.



- North West Redwater (\$NWRWPT) was downgraded to BBB+ from A- by S&P, following the 2-notch downgrade of the Province of Alberta. This downgrade was not a surprise, but still a small negative for spreads.
- Auto sales in the US remained mixed for the month of May. Ford, Honda, and Volkswagen all saw increases in sales, while GM, BMW, and Daimler saw decreases in monthly sales. Spreads were slightly wider as investors continue to fear potential discounting and lower residual values of autos.

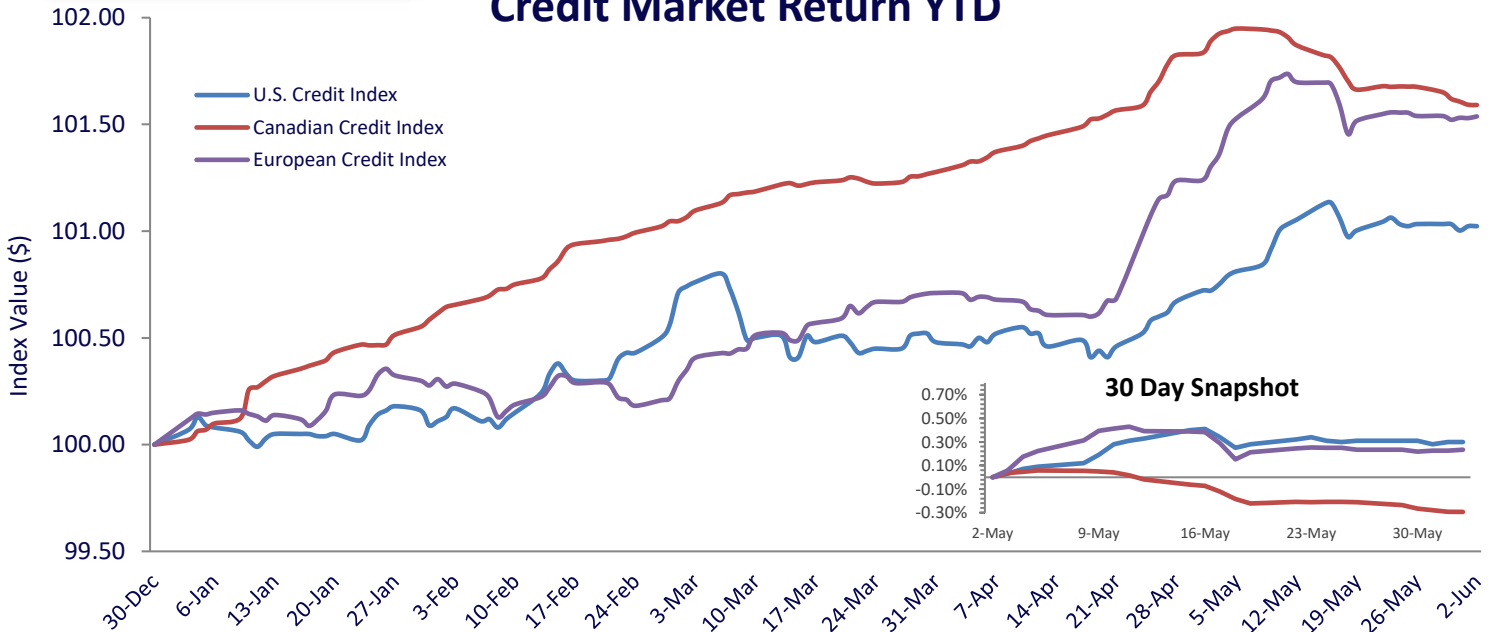
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.08%	-0.02%	1.59%	Merrill Lynch: FOCO
US Credit	-0.01%	0.02%	1.02%	Barclays: LUCRER
European Credit	0.00%	0.01%	1.54%	Barclays: BECI
Barclays Global Credit Index	0.01%	0.02%	1.24%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.55%	0.35%	4.10%	Merrill Lynch: CANO
Canadian High Yield	0.24%	0.08%	4.23%	Bloomberg: BCAH
US High Yield	0.40%	0.25%	5.05%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-0.41%	-0.51%	5.18%	Bloomberg: TXPRAR
US Preferred	0.34%	0.48%	7.54%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.20%	0.61%	1.99%	Bloomberg: SPTSX
US Stocks: S&P 500	1.01%	1.14%	9.91%	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
06/01	Cardinal Health Inc	A-	5.2bn	Multi-tranche	+120 (10y)	+121	Highly anticipated deal but priced with a negative concession.
05/31	Intact Financial Corp	A-	425mm	10y	+143	+141	Sole bond deal of the week in Canada saw solid institutional demand.
06/01	Moody's Corp	BBB+	1bn	6y & 11y	+115 (11y)	+115	
06/01	Arrow Electronics	BBB-	500mm	11y	+170	+168	
06/01	UBS Group AG	A+	3.5bn	3y	+78	+75	
06/01	National Bank (Pref)	Pfd-2	400mm	Perp (5y call)	4.45%	N/A	Tight to recent CIBC 4.4% deal and mainly targeted at retail buyers.

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