



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Oct 16 – Oct 20 2017

Credit investors managed to brush off macro issues including the NAFTA negotiations and the Catalan independence vote, focusing instead on the advancement of Trump's legislative agenda to maintain spreads at or near the tight of the year. Fixed income continues to see steady inflows as US treasury yields finish the week at 2.38% - near the top of the 6-month range. By contrast, Canadian bond yields fell to 5-week lows as an unexpected decline in August retail sales suggested our economy may not be as hot as anticipated.

The Canadian High Yield market feels strong, with CES Energy Solutions pricing a \$300mm 7NC3 issue that quickly traded up \$2. But the main story is the ongoing lack of supply from Canadian banks, who continue to tap foreign markets to raise funding. Royal, TD and BMO all issued foreign currency bonds this week, causing domestic deposit note spreads to trade to new tight. Preferred share markets also continue to rally on lower than expected supply.

NAMES IN THE NEWS



- Morgan Stanley (\$MS) and Goldman (\$GS) rounded out US bank earnings season, with both reporting a modest beat vs estimates. Morgan Stanley surprised the market by not immediately issuing new debt, while Goldman successfully issued a Tier 1 Capital note with a 5% coupon.
- CP Rail (\$CP) reported higher net income of \$510mm vs \$347mm y/y, with stronger Metals/Minerals as well as Potash shipments driving a modest 3% boost in revenues. The company has approximately \$750mm in debt maturing over the next year, potentially giving way to refinancing opportunities. Secondary spreads tightened by 3-4 bps on the news.



- Moody's downgraded their rating of Enbridge Income Fund (\$ENFCN) to Baa3 from Baa2, and kept a negative outlook. The increase in spending on a variety of new projects (including the Line 3 replacement) has increased leverage above the 6x level. With the move to the edge of investment grade, spreads widened by 5-7 bps on Friday.
- General Electric Co. (\$GE) slashed its 2017 profit forecast after reporting dismal third quarter results as its new boss grappled with one of the deepest slumps in the beleaguered manufacturer's history. With hurdles from poor cash flows to slumping power-generation markets, GE spreads traded 8 – 10 bps wider on the week.

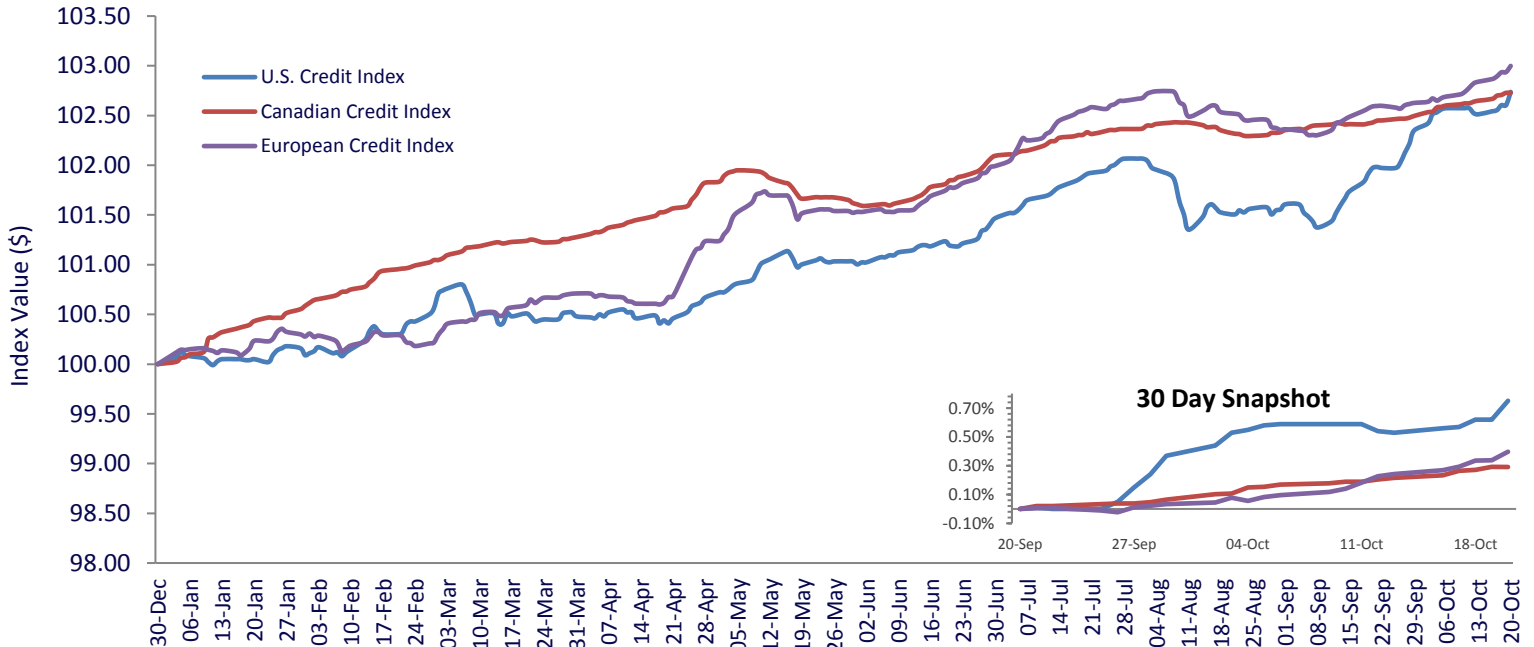
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.08%	0.23%	2.73%	Merrill Lynch: FOCO
US Credit	0.22%	0.38%	2.74%	Barclays: LUCRER
European Credit	0.15%	0.36%	3.00%	Barclays: BECI
Barclays Global Credit Index	0.19%	0.40%	2.92%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.34%	1.07%	1.46%	Merrill Lynch: CANO
Canadian High Yield	0.39%	0.71%	7.61%	Bloomberg: BCAH
US High Yield	0.28%	0.46%	7.43%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.34%	1.99%	12.80%	Bloomberg: TXPRAR
US Preferred	0.30%	0.01%	9.02%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.33%	1.49%	6.02%	Bloomberg: SPTSX
US Stocks: S&P 500	0.88%	2.31%	16.88%	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 (FOC0) 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
10/17	Banco Santander SA	BBB	2.5bn	5y & 10y	+155 (10y)	+150	Well received despite concerns over Catalan unrest.
10/17	CES Energy Solutions	B	600mm	7Y	\$100	\$102	Very successful launch after pulling a deal earlier in the year.
10/18	Royal bank of Canada	AA-	2.5bn	3y	+47	+43	
10/18	Goldman Sachs Group	BB+	1.5bn	PERP 5%	\$100	+100.25	
10/19	TD Bank	AA-	2bn	2y	+40	+36	

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