



# THE SENTINEL

## Highlights from the week in Corporate Credit

Summary: Dec 11 – Dec 15 2017

As markets prepared to enter into holiday mode during the next couple weeks, a smattering of new issues, central bank meetings and strong secondary trading kept corporate bond investors busy throughout the week. US interest rate policy was the main focus, with the Federal Reserve hiking rates by 25bps as expected. This was Janet Yellen's final press conference as Fed chair and investors interpreted her comments as mildly dovish, even as 2018 GDP growth was revised upwards and the Fed forecast three more rate hikes next year. This allowed the US Treasury yield curve to flatten once again this week, with the difference between the 2-yr and 10-yr bonds now at 52bps compared to 100bp as recently as July. European credit stayed firm while stocks faltered as Draghi reaffirmed the ECB's plan to halve its asset purchases to 30 billion euros (\$35 billion) per month starting in January.

Corporate credit continues to be well bid as investors anticipate a quiet end to the year. Despite rate and currency fluctuations around Bank of Canada communications, the domestic credit market followed global markets tighter. The tone of Canadian credit was focused a handful of successful new issues including Reliance, Honda and SmartCentres REIT.

### NAMES IN THE NEWS



- Disney (\$DIS) announced that it has entered into a definitive agreement to acquire 21st Century Fox (\$FOXA) for \$52.4bn in stock and the assumption of FOXA's \$13.7bn of net debt. Bond investors cheered that no new debt financing would be required for the all-stock deal, and Disney spreads finished the week a few basis points tighter.
- Anheuser-Bush InBev (\$ABIBB) unexpectedly announced it will no longer be bidding for Sabeco after weeks of talks. ABIBB spreads closed 5-6bps tighter on the news as investors welcomed the prospect of debt reduction.



- Teva Pharmaceuticals (\$TEVA) announced it was laying off about 25% of its staff, while cutting its dividend to zero. They also announced about \$700mm in restructuring charges regarding the layoffs. Bonds opened 10-15bps tighter on the news before reversing and finishing +3-6bps wider on the day with the 2026's underperforming.

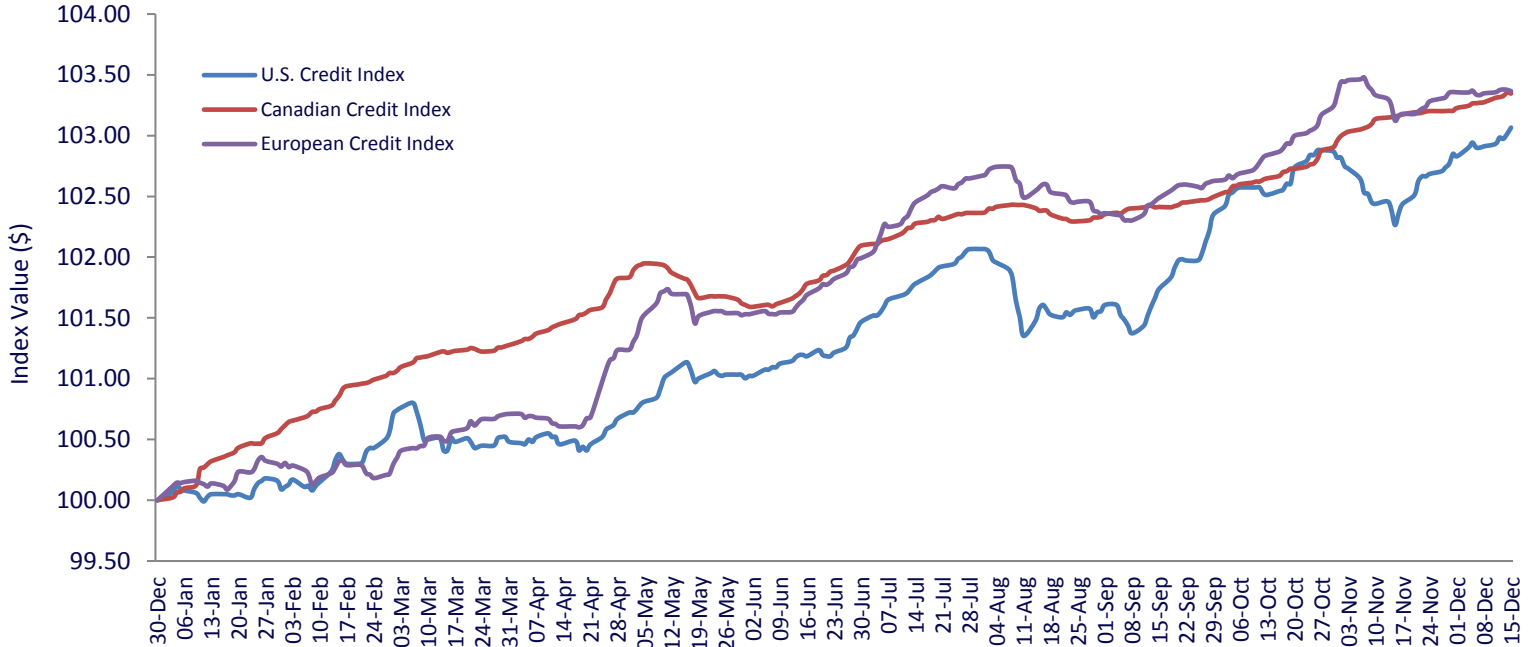
| INDEX WATCH                                    | 1-WEEK | MTD    | YTD    | SOURCE              |
|--|--------|--------|--------|---------------------|
| <b>Investment Grade Credit (Excess Return)</b> |        |        |        |                     |
| Canadian Credit                                | 0.07%  | 0.14%  | 3.35%  | Merrill Lynch: FOCO |
| US Credit                                      | 0.15%  | 0.21%  | 3.07%  | Barclays: LUCRER    |
| European Credit                                | 0.02%  | 0.01%  | 3.37%  | Barclays: BECI      |
| Barclays Global Credit Index                   | 0.14%  | 0.21%  | 3.28%  | Barclays: BGCI      |
| <b>Fixed Income (Total Return)</b>             |        |        |        |                     |
| Canadian Bond Universe                         | 0.33%  | 0.60%  | 3.64%  | Merrill Lynch: CANO |
| Canadian High Yield                            | 0.17%  | 0.42%  | 9.26%  | Bloomberg: BCAH     |
| US High Yield                                  | 0.02%  | 0.06%  | 7.17%  | Merrill Lynch: HOAO |
| <b>Preferred Shares (Total Return)</b>         |        |        |        |                     |
| Canadian Preferred                             | -0.01% | -1.22% | 12.18% | Bloomberg: TXPRAR   |
| US Preferred                                   | -0.41% | 0.03%  | 9.16%  | Bloomberg: SPTREFTR |
| <b>Equities</b>                                |        |        |        |                     |
| Canadian Stocks: S&P TSX                       | -0.31% | -0.09% | 7.71%  | Bloomberg: SPTSX    |
| US Stocks: S&P 500                             | 0.95%  | 1.14%  | 21.86% | Bloomberg: SPX      |



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### I.G. Credit Benchmark Returns 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   |
|-------|---------------------------|--------|--------|----------|---------------|----------------|---|
| 12/11 | Banco Santander USA       | BBB    | 1.25bn | 5y & 10y | +130 (5y)     | +129           |   |
| 12/11 | Honda Motors Corp         | A+     | 600mm  | 3y & 5y  | +83 (5y)      | +77            |   |
| 12/11 | Reliance Home Comfort     | BBB-   | 400mm  | 7y       | +208          | +198           | Top performer and pushed existing bond spreads tighter by 8-10bp. |
| 12/11 | Packaging Corp of America | BBB    | 1bn    | 3y & 10y | +105 (10y)    | +101           |   |
| 12/12 | Canadian Western Bank     | A-     | 350mm  | 5y       | +123          | +118           |   |
| 12/14 | SmartCentres REIT         | BBB    | 500mm  | 3y & 10y | +197 (10y)    | +192           | Heavily oversubscribed.   |

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