



THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Nov 27 – Dec 1 2017

The post-Thanksgiving Day week has traditionally been active for Canadian credit markets and this week was no exception, with bank earnings, a strong employment report, and over 7 billion in new corporate bond issuance. The tone throughout the week was generally positive though cautious given the heavy amount of supply. Despite reporting solid earnings, Canadian bank spreads finished wider on the week as Royal and CIBC both issued new deposit notes. Consumer/Retail was one of the stronger performing sectors on the week after Metro Inc. (\$MRUCN) successfully launched a three-tranche deal that priced at the tighter side of guidance and traded well in secondary markets.

For the most part global credit markets managed to shrug off macro events including the latest North Korean missile firing, although reports on Friday that former National Security Adviser Michael Flynn was co-operating with the Russian collusion investigation sent spreads modestly wider into the close. Issuance in US dollars also came back to life this week, highlighted by a successful \$7 billion multi-tranche deal by Chinese online marketplace Alibaba. The passing of a tax plan in the Senate over the weekend should improve market tone on Monday.

NAMES IN THE NEWS



- TD Bank, CIBC, Scotiabank, RBC and National bank all reported fiscal year-end earnings this week. A strong jump in Canadian and US retail profits more than offset a small downturn in the Wholesale Banking segment. Although the results were solid, heavy new issuance saw spreads trade marginally wider on the week.
- Alimentation Couche-Tard (\$ATDCN) reported record quarterly earnings as recent US acquisitions begin to contribute cash flow. The company was able to pay down nearly \$400mm of debt during the quarter, which made for a positive reaction from bond investors.
- Bond spreads of US grocery giant Kroger (\$KR) traded as much as 15bp tighter this week as the company shrugged off fierce competition from Wal-Mart and Amazon to report better-than-expected earnings.



- Enbridge Inc. (\$ENBCN) announced its three-year financial outlook including a \$1.5bn equity private placement, an increase in its dividend and hybrid issuance. Given the elevated issuance, ENBCN hybrids traded 7 bps wider.

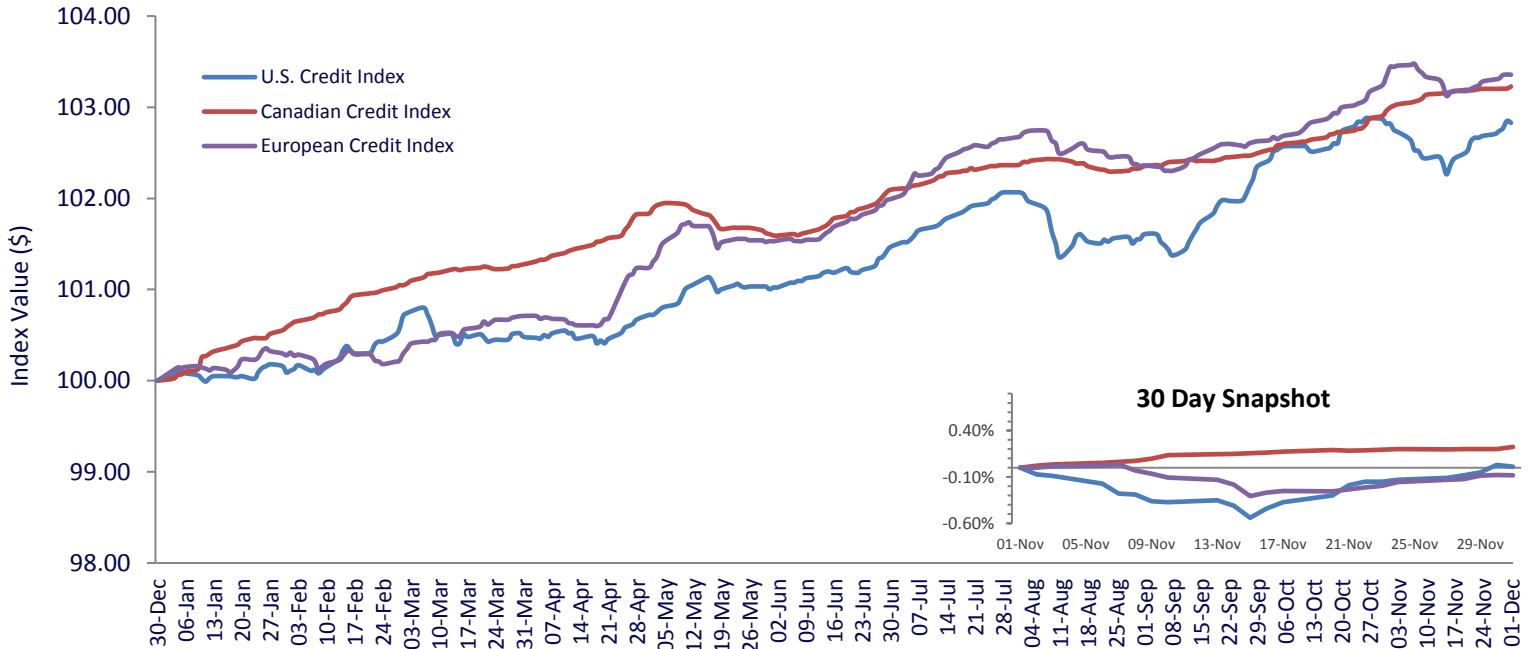
INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.02%	0.02%	3.23%	Merrill Lynch: FOCO
US Credit	0.14%	-0.02%	2.83%	Barclays: LUCRER
European Credit	0.07%	0.00%	3.36%	Barclays: BECI
Barclays Global Credit Index	0.12%	-0.01%	3.07%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.00%	-0.05%	2.99%	Merrill Lynch: CANO
Canadian High Yield	0.27%	0.09%	8.89%	Bloomberg: BCAH
US High Yield	0.14%	0.01%	7.12%	Merrill Lynch: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	-0.61%	-0.40%	13.11%	Bloomberg: TXPRAR
US Preferred	-0.10%	0.26%	9.41%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-0.34%	-0.18%	7.61%	Bloomberg: SPTSX
US Stocks: S&P 500	1.60%	-0.20%	20.25%	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
11/28	Fairfax Financial Holdings	BBB-	650mm	10y	+240	+237	
11/28	TMX Group	A	300mm	7y	+130	+121	Highly anticipated rare name found plenty of buyers. Deal of the week!
11/29	Alibaba Group	A+	7bn	Multi-tranche	+108 (10y)	+103	Priced with minimal concession but cheap vs US counterpart Amazon.
11/29	Metro Inc	BBB	1.2bn	5y, 10y & 30y	+153 (10y)	+146	Well received and sent grocer spreads tighter for the week.
11/30	Royal Bank of Canada	AA	2.25bn	5y	+75	+74	A combined 3.5 billion in new supply needed a 2-3 bp concession to clear, leading to bank sector widening.
11/30	CIBC	AA	1.25bn	5y	+75	+75	

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