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ASSET MANAGEMENT

THE SENTINEL

Highlights from the week in Corporate Credit

Summary: Jan 15 – Jan 19 2018

American credit spreads finally took pause last week after two months of near relentless tightening. A flurry of new issue supply from US banks was the main catalyst, which followed generally positive quarterly earnings reports. Bank of America, Wells Fargo and Morgan Stanley posted stronger year over year performance, although trading revenues hit multi-year lows. On Thursday nine borrowers entered the market for a total of $25bn in new supply, making it the most active day of 2018 so far. Morgan Stanley led the way, printing $7.5bn worth of new notes across three tranches. As the threat of debt-ceiling deadlock loomed towards the end of the week spreads finished moderately wider, though reaction is expected to remain muted unless a prolonged government shutdown emerges.

Canadian credit ignored US headlines and continued to tighten as investors remain starved for new paper. A 25bp rate hike by the Bank of Canada was largely anticipated and did little to stem the demand for spread in bond land. What supply there was only served to re-price credit tighter, with a new issue by H&R REIT moving sector spreads 5-7bp for the week. UK bank Lloyds was a notable entrant in the C$ maple market this week, bringing a $500mm 7-year deal that offered a healthy 135bp spread and traded as much as 7bp tighter in secondary markets. Canada will be keeping a nervous eye on the latest round of NAFTA negotiations which are underway this week. A withdrawal by the US could be enough to de-rail the positive sentiment in Canadian credit.

NAMES IN THE NEWSNAMES IN THE NEWS

- Apple ($AAPL) announced it will repatriate overseas profits as a direct result of the Trump tax bill. AAPL plans to pay about $38 billion in taxes and spend tens of billions on domestic jobs and manufacturing in the coming years. Spreads were a couple bp tighter on the back of expected larger cash balances and less supply in 2018.

- General Electric ($GE) announced GE Capital's insurance business will incur an after-tax charge of $6.2bn, more than double what was expected. The CEO also floated the idea of a company breakup, widening spreads by as much as 15bp.
- Goldman Sachs Group ($GS) suffered the worst annual commodities performance in its history as a drop of about 75 percent in net revenue in 2017 put it behind long-time rival Morgan Stanley. A glut of new issuance also didn't help spreads, widening up to 5 bp on the week.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.12%	0.30%	0.30%	Merrill Lynch: F0C0
US Credit	-0.04%	0.34%	0.34%	Barclays: LUCRER
European Credit	0.16%	0.50%	0.50%	Barclays: BECI
Barclays Global Credit Index	0.03%	0.41%	0.41%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.09%	-0.77%	-0.77%	Merrill Lynch: CAN0
Canadian High Yield	0.27%	0.66%	0.66%	Bloomberg: BCAH
US High Yield	-0.12%	0.61%	0.61%	Merrill Lynch: H0A0
Preferred Shares (Total Return)				
Canadian Preferred	0.24%	0.98%	0.98%	Bloomberg: TXPRAR
US Preferred	-0.72%	-0.79%	-0.79%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	0.30%	1.06%	1.06%	Bloomberg: SPTSX
US Stocks: S&P 500	0.88%	5.20%	5.20%	Bloomberg: SPX

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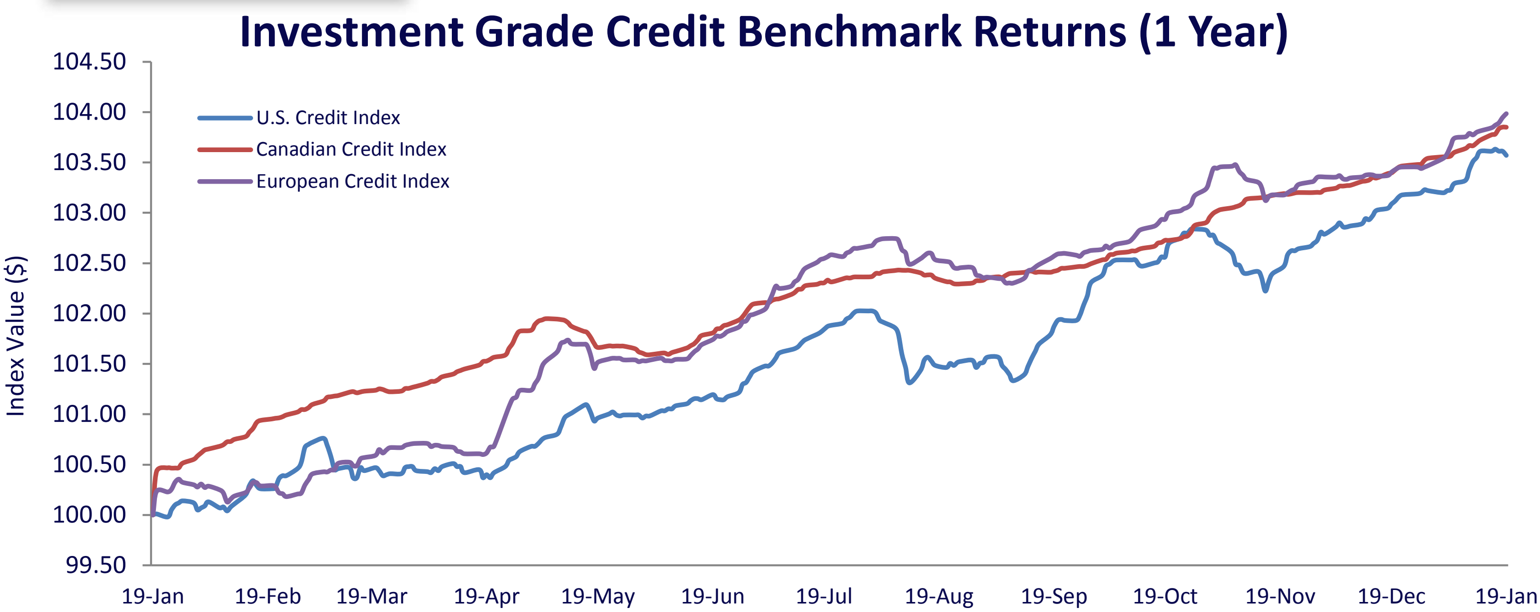

US Credit Index: Barclays US Aggregate Corporate Index (LUCRER) measures the excess return of a broad-based index of US investment-grade corporate bonds over a comparable index of US Treasuries with similar duration. Return data in USD.
Canadian Credit Index: Bank of America Merrill Lynch Canada Corporate 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
01/17	Laurentian Bank	A-	550mm	21mo FRN	+65	+60	
01/18	Morgan Stanley	BBB+	7.5bn	3y, 5y & 10y	+117 (10y)	+111	Priced with concession and performed well despite jumbo size.
01/18	Goldman Sachs Group	BBB+	6.75bn	5y & 10y	+120 (10y)	+117	Performed but widened issuer secondary spreads.
01/18	Toyota Motor Corp	AA-	600mm	2y & 5y	+70 (5y)	+69	
01/18	Lloyds Banking Group	A+	500mm	7y	+139	+132	Healthy spread for the rating and a top performer.
01/18	H&R REIT	BBB+	250mm	5y	+139	+128	Very well received and tightened sector spreads signficantly.