



Credit markets shrugged off rising rates and NAFTA headlines to continue a strong start to 2018. Demand from Asia, positive political news from Italy, and strong bank earnings all contributed to the constructive tone despite steady new issue supply throughout the week. Asian investors were better buyers out of the gate on Monday, focused predominantly on longer dated corporate bonds to take advantage of 10-year bond yields above 2.5% for the first time in ten months. US rates rose throughout the week as news broke that officials reviewing China's foreign-exchange holdings have recommended slowing purchases of U.S. Treasuries. Stronger core CPI and retail sales released on Friday put the finishing touches on a tough week for rates, raising the odds of a March 2018 rate hike to 92% from 80%. European spreads tightened after the Five Star Italian party suggested they don't see any reason to leave the Euro, reducing the likelihood of that an EU withdrawal will become a contentious issue in spring parliamentary elections.

Canadian credit lagged later in the week following news that the US is close to announcing its withdrawal from NAFTA. Both the loonie and Canadian rates reacted to the news while spreads of sectors like autos and lumber widened. Despite the negative headlines, Canada's first corporate issues of 2018 stormed to success. Choice Properties REIT, Manulife, and John Deere all issued new bonds which were heavily oversubscribed and trading tighter in secondary markets.

### NAMES IN THE NEWS



- Italian bank IMI San Paolo (\$ISPIM) announced it is in talks to sell its portfolio of non-performing loans to a Swedish debt collection agency. ISPIM spreads traded as much as 15bp tighter on the week.
- Beleaguered electronics company Pitney Bowes (\$PBI) reportedly held preliminary talks with suitors about a sale last month. PBI bonds rose moderately as CEO Lautenbach expressed he is open to an outright sale of the company.
- Nordstrom (\$JWN) and Target (\$TGT) both reported improvements in holiday sales due to growth at discount retailers and online sales. Retail investors cheered the news, pushing spreads 3-5bps tighter.

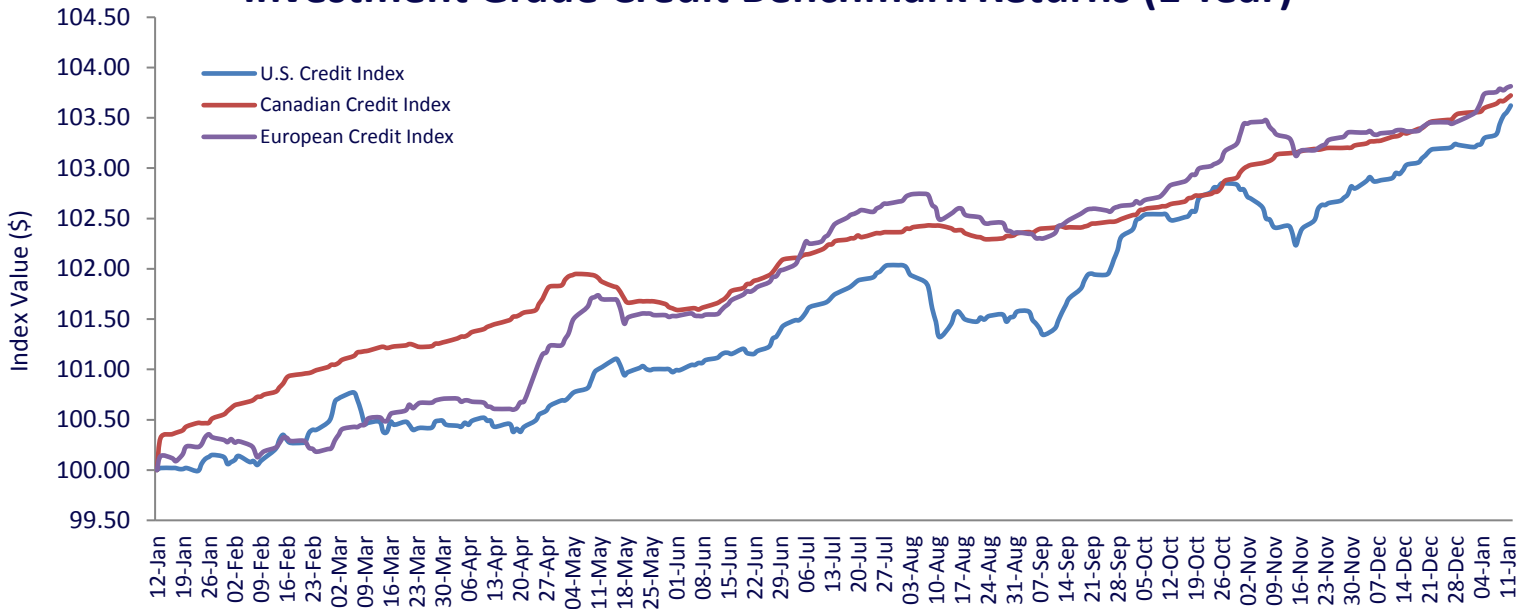


- Teva Pharmaceuticals (\$TEVA) traded down to \$81 late Friday afternoon as the senior unsecured ratings were cut to junk by Moody's. The downgrade of Teva's ratings to Ba2 from Baa3 reflects a combination of the company's significant debt burden while facing a prolonged period of earnings erosion.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.12%	0.17%	0.17%	Merrill Lynch: FOCO
US Credit	0.31%	0.38%	0.38%	Barclays: LUCRER
European Credit	0.07%	0.33%	0.33%	Barclays: BECI
Barclays Global Credit Index	0.25%	0.38%	0.38%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	0.03%	-0.68%	-0.68%	Merrill Lynch: CANO
Canadian High Yield	0.25%	0.39%	0.39%	Bloomberg: BCAH
US High Yield	-0.07%	0.73%	0.73%	Merrill Lynch: HOAO
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	-0.08%	0.74%	0.74%	Bloomberg: TXPRAR
US Preferred	0.22%	-0.07%	-0.07%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-0.20%	0.75%	0.75%	Bloomberg: SPTSX
US Stocks: S&P 500	1.61%	4.28%	4.28%	Bloomberg: SPX



### Investment Grade Credit Benchmark Returns (1 Year)



**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 (FOCO) 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
01/05	Sumitomo Mitsui Bank	A-	4.75bn	2y, 5y & 10y	+100 (10y)	+99	
01/09	Sempra Energy	BBB+	4.3bn	Multi-tranche	+93 (10y)	+91	Still performed despite no price concession.
01/09	Manulife Bank	A+	500mm	5y	+86	+80	
01/10	Choice Properties REIT	BBB	650mm	4y & 7y	+143 (7y)	+136	Heavily oversubscribed and top performer on the week.
01/11	Tencent Holdings	A+	5bn	Multi-tranche	+105 (10y)	+103	
01/11	Deere & Co	A	300mm	5y	+72	+68	

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