



THE SENTINEL



Highlights from the week in Corporate Credit

Feb 5 – Feb 9 2018

The global equity selloff dominated headlines throughout the week with one of the worst weeks for US stock indices since the financial crisis. Credit markets attempted vainly to shrug off the moves in equities, and it was not until late in the week where spread widening began to take hold. Flows were below average as trading dried up while the VIX hit multi-year highs not seen since 2015. The relentless rise in interest rates is exacerbating market unease, and with Friday headlines that the US government agreed to an additional \$400 Billion in deficit spending, it seems higher rates may be around for a while.

There was a notable ebb in new issue supply this week and Rogers Communications (\$RCICN) was the top performer, tapping the market with a 30-year USD bond which came at a spread of 125 and tightened 4bp by weeks-end. As volatility took hold, Canadian new issue markets shut down but deals continued to sporadically price in the US. Spread concessions notably widened later in the week and most deals were able to at least perform modestly, albeit by pushing secondary spreads wider in the process.

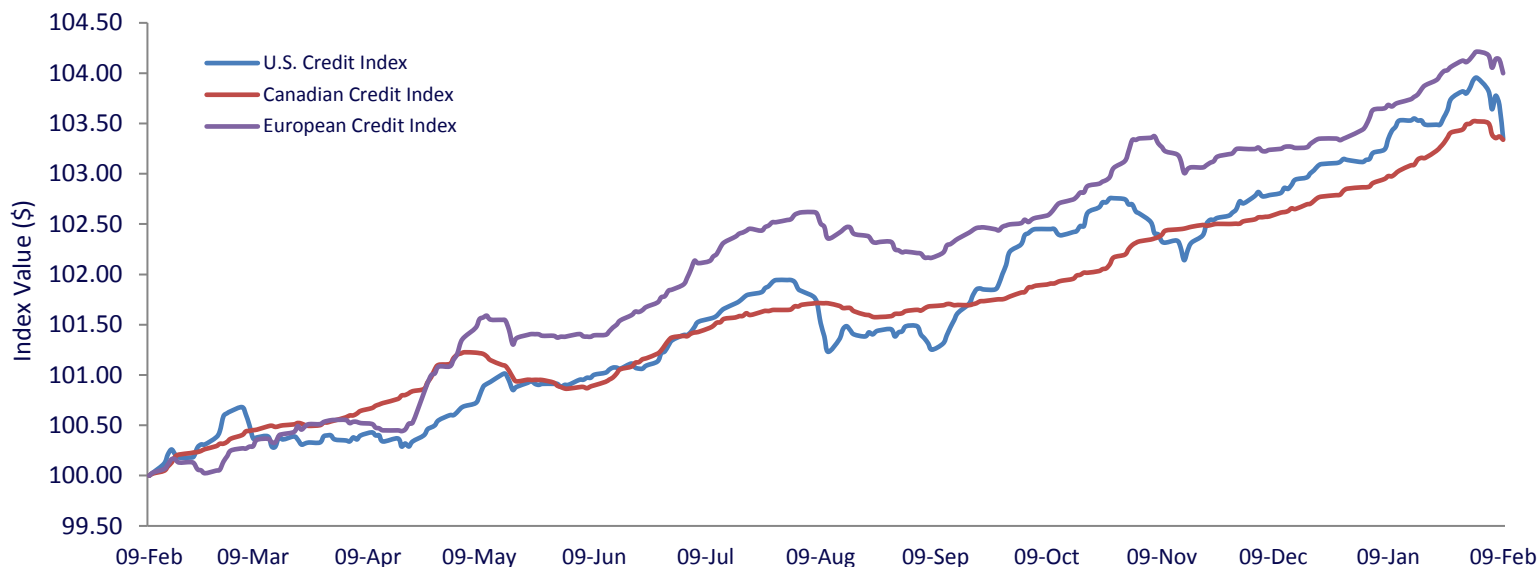
Canadian spreads were subdued as strong earnings, the inclusion of NVCC bonds in the FTSE Index and decreasing chances of a March rate hike kept spreads inside US levels. Approximately \$13.6bn worth of NVCC bank bonds were added to the FSTE Index on Wednesday, forcing some buying by passive funds. Despite this week's widening, credit markets remain firmly onside year-to-date, demonstrating more resilience than equities or rates.

	<ul style="list-style-type: none"> General Motors (\$GM) reported adjusted EBIT of US\$3.08bn vs \$2.60bn y/y, as a stronger mix of vehicles, better pricing, and progress in cost cutting all helped to drive stronger profits. Strong results in the US and in Asia helped boost results, and the outlook looks more stable than was guided by Ford.
	<ul style="list-style-type: none"> The credit rating of Wells Fargo (\$WFC) was cut to A- by S&P this week after the Federal Reserve announced it would cap the bank's balance sheet size at 2017 levels. Credit spreads notably underperformed for the week. Expedia (\$EXPE) saw spreads trade 20bp wider after forecasting lower earnings amid a shakeup in the online travel industry.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.18%	-0.15%	0.47%	Merrill Lynch: FOCO
US Credit	-0.58%	-0.48%	0.21%	Barclays: LUCRER
European Credit	-0.21%	-0.13%	0.61%	Barclays: BECI
Barclays Global Credit Index	-0.46%	-0.37%	0.35%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.09%	-0.58%	-1.53%	Merrill Lynch: CANO
Canadian High Yield	-0.30%	-0.35%	0.53%	Bloomberg: BCAH
US High Yield	-1.43%	-1.89%	-1.25%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	-1.84%	-1.84%	-0.29%	Bloomberg: TXPRAR
US Preferred	-0.20%	-1.32%	-2.66%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-3.75%	-5.82%	-7.12%	Bloomberg: SPTSX
US Stocks: S&P 500	-5.10%	-7.15%	-1.84%	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
02/05	Rogers Communications	BBB+	750mm	30y	+125	+121	Performed well despite pricing well inside C\$ spreads.
02/06	Fair Hydro Trust	AAA	500mm	15.25y	+92	+93	Canada's sole issue for the week was a quasi-government deal from Ontario.
02/07	Lincoln National Corp	BBB+	1.1bn	5y, 10y & 30y	+98 (10y)	+95	
02/08	JPMorgan Chase & Co	A+	1.75bn	2y FRN	+25	+23	
02/08	Celgene	A-	3bn	Multi-tranche	+110 (10y)	+110	One of the later deals in the week offered 10bp of pricing concession.

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