



# THE SENTINEL

## Highlights from the week in Corporate Credit

Jan 29 – Feb 2 2018

The relentless rise in global yields finally took the shine off stocks last week, which culminated on Friday with the worst single day loss for the Dow in almost two years. So far global credit spread reaction has been somewhat muted, with bond investors willing to view the selloff in stocks as overdue profit-taking after a near relentless four-month rally. However, any protracted downturn will undoubtedly spark a more measured reaction from bond spreads. Despite the Fed holding rates steady on Thursday, investors showed some jitters as firm core inflation, accelerating wages and strong job growth fuelled fears the Fed may actually be behind the inflation curve. The U.S. Treasury curve steepened, with 2-year Treasury yields finishing the week 3bp higher while 10-year and 30-year yields both finished 17bp higher. In Europe, a similar bond selloff deepened across the continent, and equities suffered the longest losing streak since November. Disappointing results from companies including Deutsche Bank AG and BT Group Plc. paced losses, with Germany's DAX giving up year-to-date gains. Bund yields reached a fresh two-year high, while the Euro and British Pound weakened.

Canadian credit was similarly spared although heavier supply took the shine off the strong rally we enjoyed for most of January. A new NVCC sub-debt bond for National Bank and a \$2 billion 10-year deposit note for Scotiabank saw bank spreads trade heavy throughout the week. In spite of the supply credit spreads overall enjoyed another week of net-tightening, although the tone was decidedly defensive heading into the weekend. If the stock selloff continues expect wider spreads to prevail this week.

### NAMES IN THE NEWS



- AT&T (\$T) results beat street expectations for profit and for subscriber additions in Q4 while management guided for moderate organic profit growth in 2018. Investors cheered the positive news and increase in cash flow, keeping spreads near their tights as the overall market felt softer.

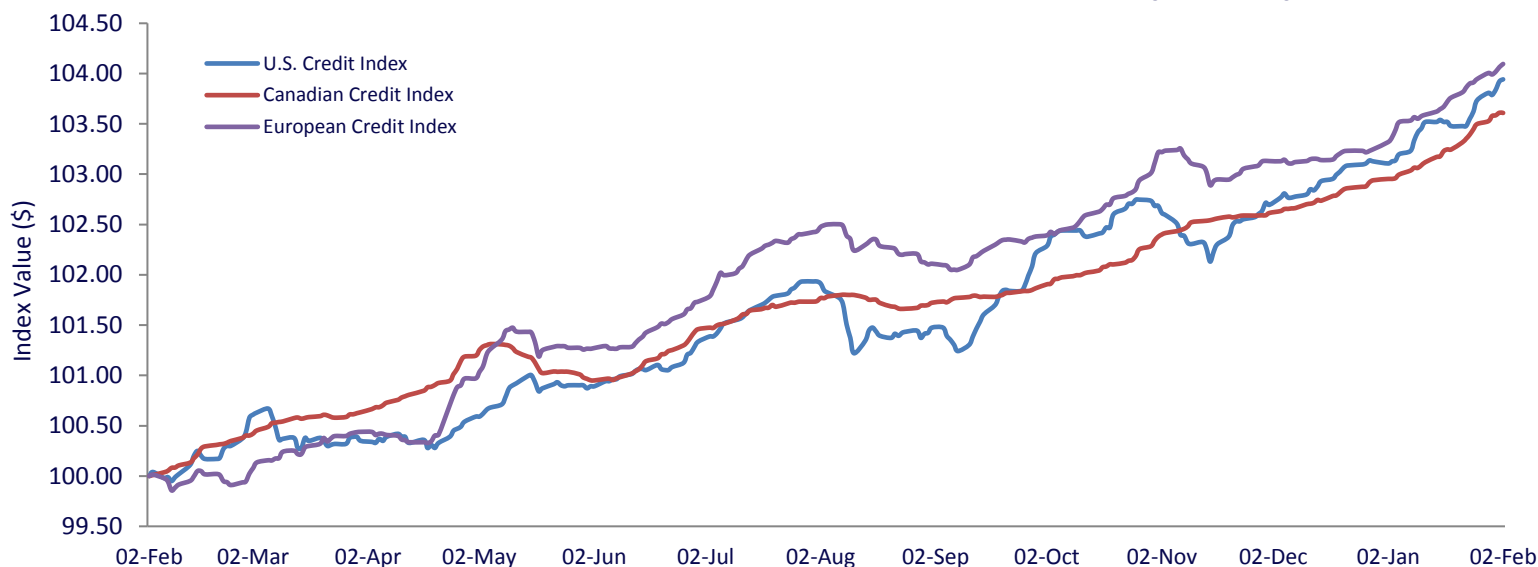


- Moody's lowered their outlook on Ford (\$F) to negative from stable, noting concerns including rising commodity prices, softening demand in North America, and increased spending on electric vehicles. Spreads widened by up to 8 bp.
- Moody's placed Thomson Reuters (\$TRICN) on review for downgrade following the agreement to sell a 55% stake in its Financial & Risk ("F&R") division to The Blackstone Group. Spreads were mixed as TRICN intends to use the proceeds to prepay approximately \$3 billion of debt, while being exposed to a downgrade pending the loss of revenue.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.11%	0.02%	0.65%	Merrill Lynch: FOCO
US Credit	0.20%	0.10%	0.79%	Barclays: LUCRER
European Credit	0.14%	0.07%	0.82%	Barclays: BECI
Barclays Global Credit Index	0.17%	0.09%	0.81%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.72%	-0.48%	-1.43%	Merrill Lynch: CAN0
Canadian High Yield	0.01%	-0.05%	0.83%	Bloomberg: BCAH
US High Yield	-0.75%	-0.46%	0.18%	Merrill Lynch: HOA0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	0.29%	0.00%	1.57%	Bloomberg: TXPRAR
US Preferred	-1.84%	-1.12%	-2.47%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	-3.86%	-2.15%	-3.50%	Bloomberg: SPTSX
US Stocks: S&P 500	-3.81%	-2.16%	3.44%	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 (BECL) 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
01/29	TD Bank	AA	1bn	1.5y FRN	3m BA+5	3m BA+5	
01/29	National Bank of Canada	BBB	750mm	10NC5	+111	+114	Sector struggled with anticipation of further supply.
01/31	Bank of Nova Scotia	AA	2bn	10y	+81	+82	Longest outstanding dep note; upsized to fill demand.
02/01	Comcast Corp	A-	3bn	10y, 20y, 30y	+80 (10y)	+80	
02/01	CIBC	AA	600mm	2y FRN	+8	+8	
02/02	Artis REIT	BBB-	200mm	2y FRN	+107	+101	Short-dated with spread is what investors want. Deal of the week!

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