



THE SENTINEL

Highlights from the week in Corporate Credit

Feb 26 – Mar 2 2018

Threats by US President Trump to introduce tariffs on steel and aluminum, potentially sparking a global trade war, were enough to push credit and equity markets into the red last week, and sent US credit spreads close to a three-month wide. Financials, particularly Yankee bonds, underperformed as the relentless flow of supply since the start of the year caused indigestion particularly in short paper under five years. Chairman Powell's testimony earlier in the week was taken as relatively hawkish by the financial markets, sparking talk of a possible fourth rate hike for 2018. By the end of the week, the fed funds futures contracts were fully priced for three hikes with small odds of a fourth. The U.S. Treasury yield curve flattened further with front end yields unchanged while 30-year yields fell by 2bps. Italian elections over the weekend contributed to ongoing volatility in Europe, although the most likely outcome of a coalition government will likely mean little change to existing policy.

Despite the soft tone, primary markets continued to push out new supply, and concessions were rising throughout the week. Canada saw 14 deals for a total of \$6.4 billion in new corporate bonds. Most deals were met with solid initial demand but struggled to perform after launch. A jumbo 40 billion multi-tranche US dollar deal for pharma giant CVS is expected to price on Tuesday, and will undoubtedly set the tone for the week.

NAMES IN THE NEWS



- The last of the banks kept the strong earnings streak alive as BNS, BMO and TD all reported stronger earnings driven by Canadian retail and wealth management while reducing provisions for credit losses.
- Macy's (\$M) reported stronger than expected Q4 results with net sales up 1.8% and a debt reduction of \$988mm year-over-year. Spreads tightened roughly 20 bp as investors cheered the debt reduction and optimistic outlook for 2018.

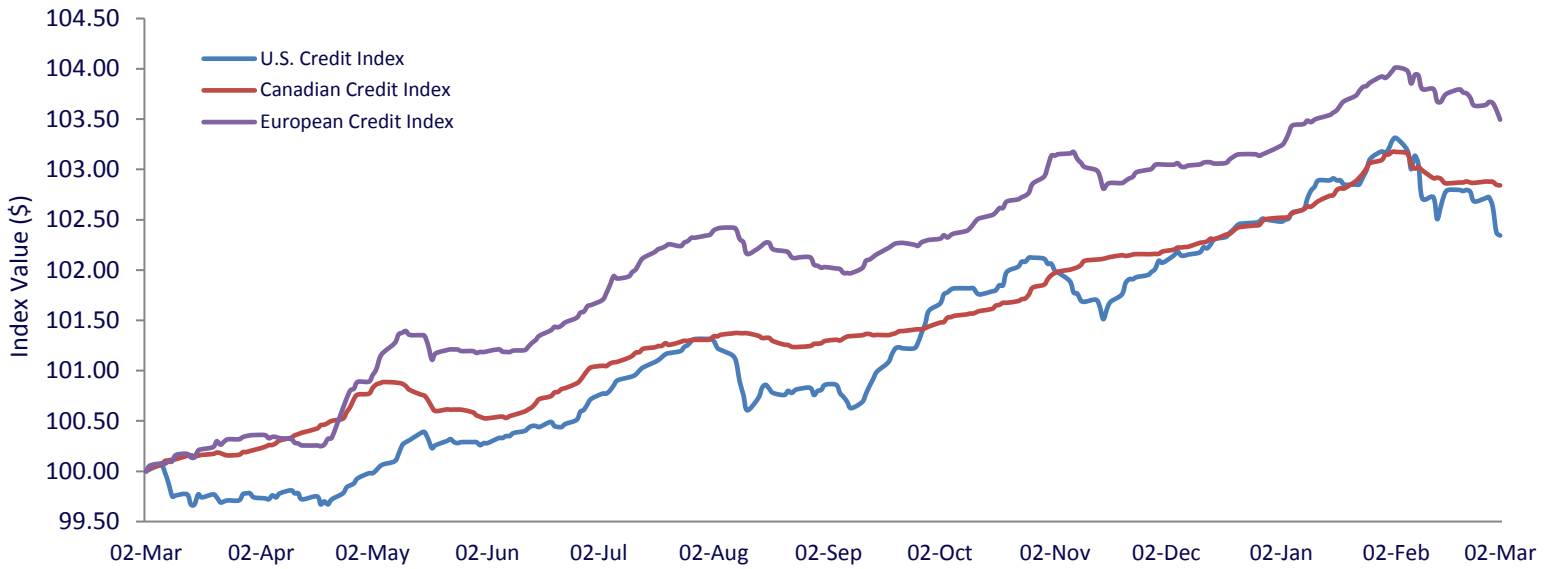


- Comcast Corp (\$CMCSA) announced an offer to acquire 100% of Sky for \$31 billion, representing a 16% increase over the current FOX offer for the 61% of Sky that it doesn't already own. CMCSA widened by 10bp amid funding woes.
- AltaGas (\$ALACN) reported weak Q4 results and a meager update on the company's progress with respect to asset sales to fund the WGL acquisition. The company has abandoned the plan to sell its California gas assets, questioning their available sources of de-leveraging and widening spreads by 5-10bps on the week.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.02%	-0.03%	0.33%	Merrill Lynch: FOCO
US Credit	-0.33%	-0.28%	-0.15%	Barclays: LUCRER
European Credit	-0.14%	-0.16%	0.32%	Barclays: BECI
Barclays Global Credit Index	-0.27%	-0.24%	-0.02%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	0.35%	0.19%	-0.61%	Merrill Lynch: CANO
Canadian High Yield	0.37%	0.33%	0.91%	Bloomberg: BCAH
US High Yield	-0.25%	-0.53%	-0.82%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	0.01%	-0.24%	0.27%	Bloomberg: TXPRAR
US Preferred	0.31%	-0.14%	-1.20%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	-1.61%	-0.36%	-4.76%	Bloomberg: SPTSX
US Stocks: S&P 500	-1.98%	-0.81%	1.01%	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 (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
02/26	Mitsubishi Financial	A-	3.5bn	Multi-Tranche	+85 (5y)	+85	
02/26	Telus	BBB+	750mm	10y & 30y	+150 (10y)	+145	Limited supply expected from Cdn telecoms: deal of the week!
02/27	Bank of Montreal	AA	1.25bn	10y	+92	+94	Modest concession but only served to push bank spreads wider.
02/27	Bruce Power LP	BBB	750mm	8y & 15y	+174 (15y)	+176	
02/28	Goldman Sachs	BBB+	750mm	4NC3 FRN	+54	+53	
02/28	Bank of America	A-	7bn	6NC5 & 11NC10	+90 (6NC5)	+93	

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