



THE SENTINEL

Highlights from the week in Corporate Credit

Mar 5 – Mar 9 2018

Despite a volatile week on the back of the resignation of White House Economic Advisor Gary Cohn, concern over tariffs and a strong jobs report, US credit markets finished broadly unchanged. Friday's February employment report (+313k vs 205k forecast) was a significant driver given its "Goldilocks" composition of strong growth and only moderate inflationary pressure. Pharma giant CVS finally issued its long anticipated jumbo bond deal, the third largest IG deal in history at US\$40 billion to fund its purchase of Aetna. The issue priced with generous concession and finished the week 7-12bp tighter, giving comfort to markets there is still ample demand for credit, though anticipated further supply is stemming any rally in secondary spreads.

Canadian credit endured a difficult start to the week as investors awaited further details surrounding Trump's tariff proposal with no real advancements in NAFTA talks. Tone improved in the latter half of the week following a dovish outlook on interest rates from the Bank of Canada and confirmation that Canada and Mexico would be excluded from steel tariffs, at least for now. Choice Properties issued C\$1.3 billion to fund its purchase of CREIT, causing REIT sector spreads to underperform, while bank NVCC spreads outperformed due to lower than expected post-earnings supply. The combination of softer spreads and higher yields ensured Canadian bond indices remain near 2018 lows.

NAMES IN THE NEWS



- Canadian Western Bank (\$CWBCN) was the last major Canadian bank to release Q1 earnings, showing an increase in net income with good loan growth and stronger margins contributing to the increase YoY. Credit quality remained strong as the western economy continues to recover from earlier weakness and the price of oil stabilizes.

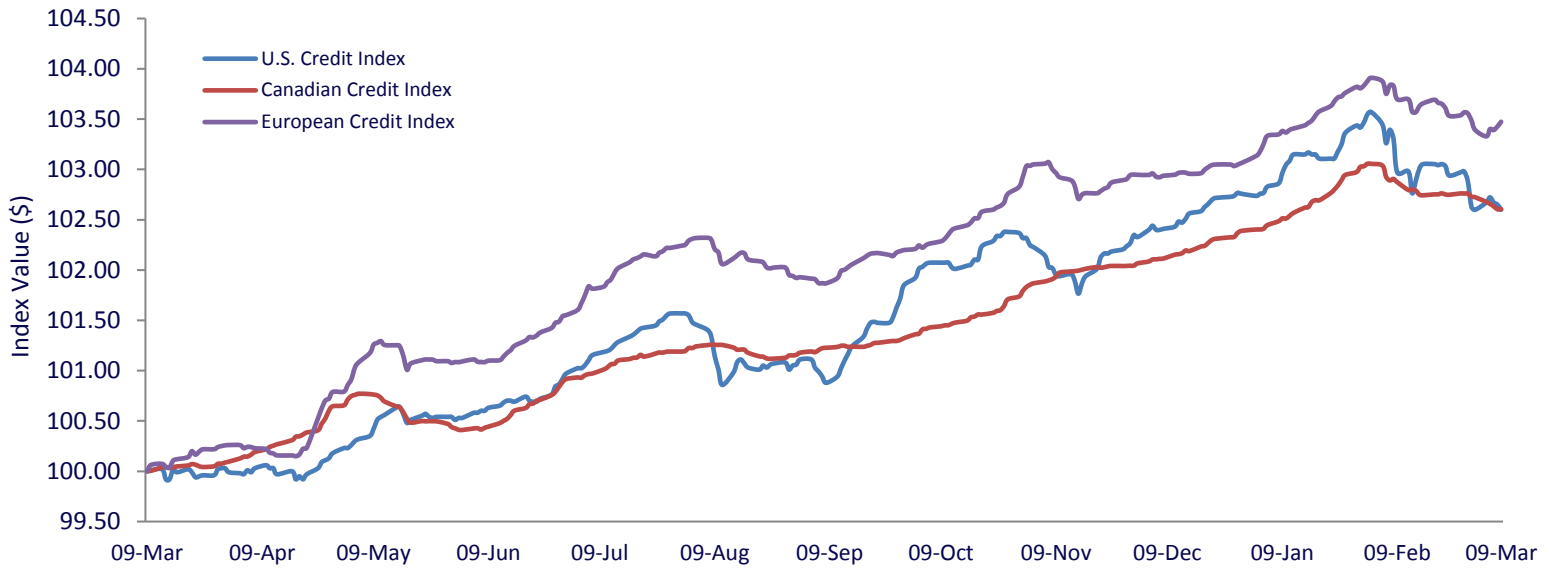


- Nissan (\$NSANF) reported an interest in buying France's 15% share in Renault (\$RNO) for \$6bn USD. Nissan already owns 15% of RNO but no voting rights. Nissan bonds are trading 2-3 bp wider on the news due to funding concerns.
- Insurer Cigna Corp. (\$CI) announced the acquisition of Express Scripts Holdings (\$ESRX) in the latest of a flurry of deals among U.S. companies that manage health benefits. Funded with cash on hand and new debt issuance, Cigna will acquire ESRX in a \$67bn deal. Spreads of CI opened +4-5 wider after the announcement due to leverage concerns.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	-0.11%	-0.15%	0.21%	Merrill Lynch: FOCO
US Credit	0.00%	-0.28%	-0.15%	Barclays: LUCRER
European Credit	0.08%	-0.08%	0.40%	Barclays: BECI
Barclays Global Credit Index	0.02%	-0.22%	0.00%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.63%	-0.44%	-1.24%	Merrill Lynch: CAN0
Canadian High Yield	0.00%	0.33%	0.91%	Bloomberg: BCAH
US High Yield	0.38%	-0.15%	-0.44%	Merrill Lynch: HOA0
Preferred Shares (Total Return)				
Canadian Preferred	0.16%	-0.08%	0.43%	Bloomberg: TXPRAR
US Preferred	0.65%	0.52%	-0.55%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	1.32%	0.95%	-3.50%	Bloomberg: SPTSX
US Stocks: S&P 500	3.59%	2.75%	4.63%	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
03/05	Mondelez Intl.	BBB	600mm	7y	+119	+122	
03/06	CVS Health Inc.	BBB	40bn	Multi-Tranche	+195 (30y)	+177	Seemingly the only name trading for much of the week. Top performer.
03/06	Choice REIT	BBB	1.3bn	6.5y & 10y	+194 (10y)	+194	Barely held new issue spread despite reasonable concession.
03/07	Bell Inc	BBB	500mm	7y	+119	+118	
03/08	Sysco Corp	BBB+	1bn	7y & 30y	+85 (7y)	+84	
03/08	Bank of America	BB+	2.35bn	Perp (10y call)	5.875% (\$100)	\$100.10	

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