



# THE SENTINEL

## Highlights from the week in Corporate Credit

Sep 2 – Sep 6 2019

It was an eventful holiday-shortened week for corporate credit with plenty of market-moving headlines and economic releases acting as a backdrop to one of the busiest weeks on record for new issue supply. Interest rates bounced meaningfully off recent lows following optimism over trade talks and modestly supportive economic data. US dollar corporate new issues totalled \$77 billion across 53 deals, both new weekly records and dramatically exceeding estimates of \$40 billion. While most new issues performed well, secondary bond spreads could only hold their ground given the heavy supply. In Europe, Brexit headlines dominated markets as the chance of an October 31<sup>st</sup> “hard exit” fluctuated throughout the week. Meanwhile Italy moved toward another coalition government, averting a messy election.

Canadian corporate bonds were able to modestly tighten amidst a relatively quiet week where all the action occurred south of the border. We saw four issuers come to market, printing a total of \$1.8 billion. The highlight of the week was the issuance from Caterpillar Inc., printing \$300mm of a 3yr bond @ G+83. The deal was well over-subscribed and priced with a generous concession, finishing the day 8 bp tighter.

### NAMES IN THE NEWS



- Alimentation Couche-Tard (\$ATDBCN) reported mixed headlines results with profit rising while consolidated revenues fell due to lower fuel prices. As a result of an improved cost structure, ATDBCN repaid approximately \$270mm of debt during the quarter. Investors showed their content for the capital structure clean-up, tightening spreads by 2-3 bp.
- US auto sales for August came in stronger than expected from a number of the manufacturers. The improvement was highlighted by the light truck segment, driven by low oil prices, improved fuel efficiency and cheap financing. Of the specific issuers, Daimler fared the best, increasing sales by 25% YoY and enabling DAIGR credit to tighten by 2 bp.

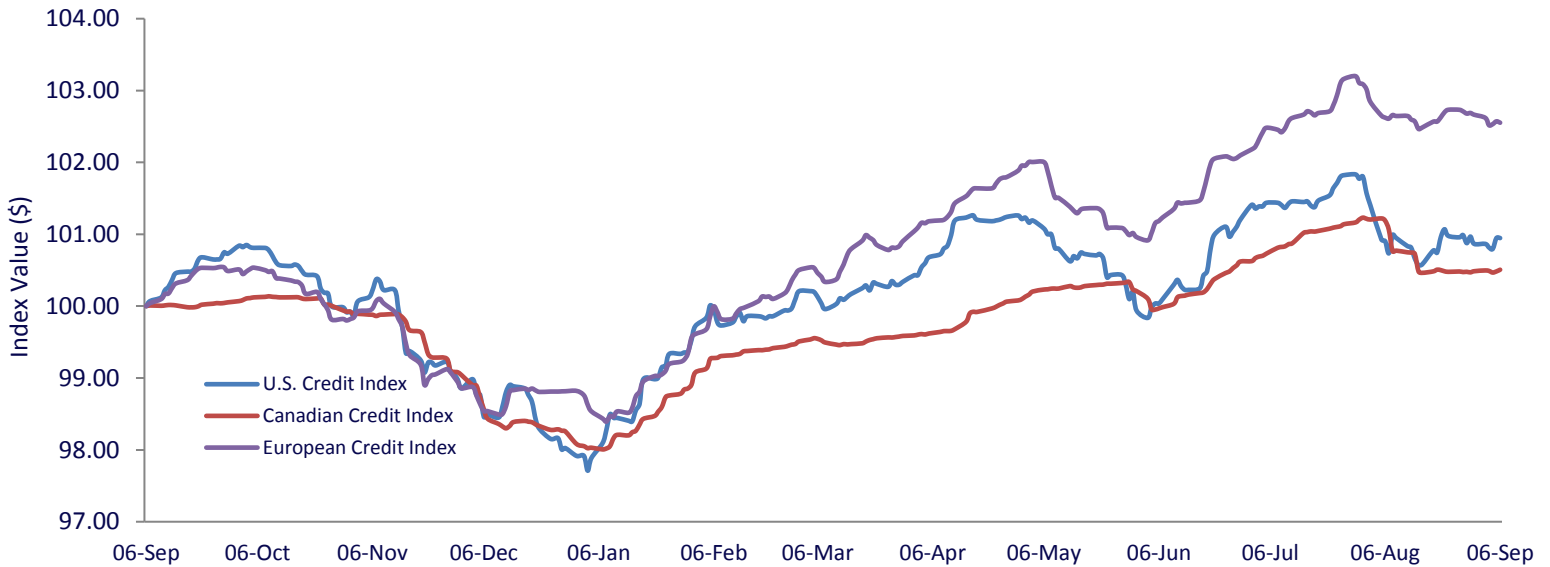


- Opioid producer Mallinckrodt (\$MNK) hit all time lows this week after rumours swirled that opioid lawsuits might force the company into bankruptcy. If the deal is finalized, MNK will pay \$24 million and donate another \$6 million in generic products. As a result of the crack down on opioid, other pharma names like TEVA and ENDP have seen their value erode.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
<b>Investment Grade Credit (Excess Return)</b>				
Canadian Credit	0.02%	0.02%	2.47%	Merrill Lynch: FOCO
US Credit	0.08%	0.08%	3.10%	Barclays: LUCRER
European Credit	-0.11%	-0.11%	3.78%	Barclays: BECI
Barclays Global Credit Index	0.03%	0.03%	3.62%	Barclays: BGCI
<b>Fixed Income (Total Return)</b>				
Canadian Bond Universe	-0.83%	-0.83%	7.85%	Merrill Lynch: CANO
Canadian High Yield	0.19%	0.19%	7.51%	Bloomberg: BCAH
US High Yield	0.26%	0.26%	10.86%	Merrill Lynch: HOA0
<b>Preferred Shares (Total Return)</b>				
Canadian Preferred	1.84%	1.84%	-1.84%	Bloomberg: TXPRAR
US Preferred	0.85%	0.85%	14.97%	Bloomberg: SPTREFTR
<b>Equities</b>				
Canadian Stocks: S&P TSX	0.62%	0.62%	17.53%	Bloomberg: SPTSX
US Stocks: S&P 500	1.83%	1.83%	20.50%	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
9/03	Walt Disney Co	A	7bn	Multi-issue	+50 (5y)	+47	
9/03	Canadian Utilities	A-	580mm	30y	+156	+152	
9/03	Canadian Western Bank	A-	350mm	5y	+143	+136	
9/04	Caterpillar	A	300mm	3y	+83	+75	Deal of the week! The high-quality bond generated significant demand.
9/04	Apple Inc	AA+	7bn	Multi-issue	+53 (5y)	+48	
9/05	JPMorgan Chase	A	5bn	5y & 10y	+118 (10y)	+114	Large issuance to finance an earlier tender.
9/05	Bell Inc	BBB+	550mm	10y	+166	+163	

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