



THE SENTINEL

Highlights from the week in Corporate Credit

Oct 5 – Oct 9 2020

Global risk assets rallied last week on expectations of a definitive US election result and increased hopes of a fiscal stimulus package. US credit spreads were 5-10 bp tighter with higher beta Financials and TMT outperforming. Despite Trump's comments earlier in the week to seemingly cancel negotiations, the Republicans and Democrats have been working to prepare some sort of fiscal bill in the coming weeks, helping to buoy tone. Although COVID continues to provide headlines as new cases surge across the northern hemisphere, public opinion appears to be shifting toward riding out the pandemic until vaccines can be released early in the new year.

The Canadian credit market was about 5 bp tighter this week with Trudeau announcing further stimulus measures and Friday's employment for September suggesting Canada continues to recover lost jobs at a good pace. Primary issuance surprised to the upside with over 3.5bn CAD printed across five issuers. Hydro One issued 1.2bn CAD across three tranches, while Scotiabank broke the drought in Canadian dollar senior bank debt, printing 1.25bn CAD of a 7y. Most deals this week found good support and finished 3-5 bp tighter.

NAMES IN THE NEWS



- Morgan Stanley (\$MS) announced the acquisition of asset manager Eaton Vance for a total of \$7bn. The move is intended to boost MS' asset management business, totalling \$1.2T in AUM and over \$5bn in combined revenues post merger. The \$7bn acquisition will be financed with an equal combination of stock and cash. Spreads were in line with peers as investors viewed the acquisition positively following the closing of E*Trade and the recent ratings upgrade.

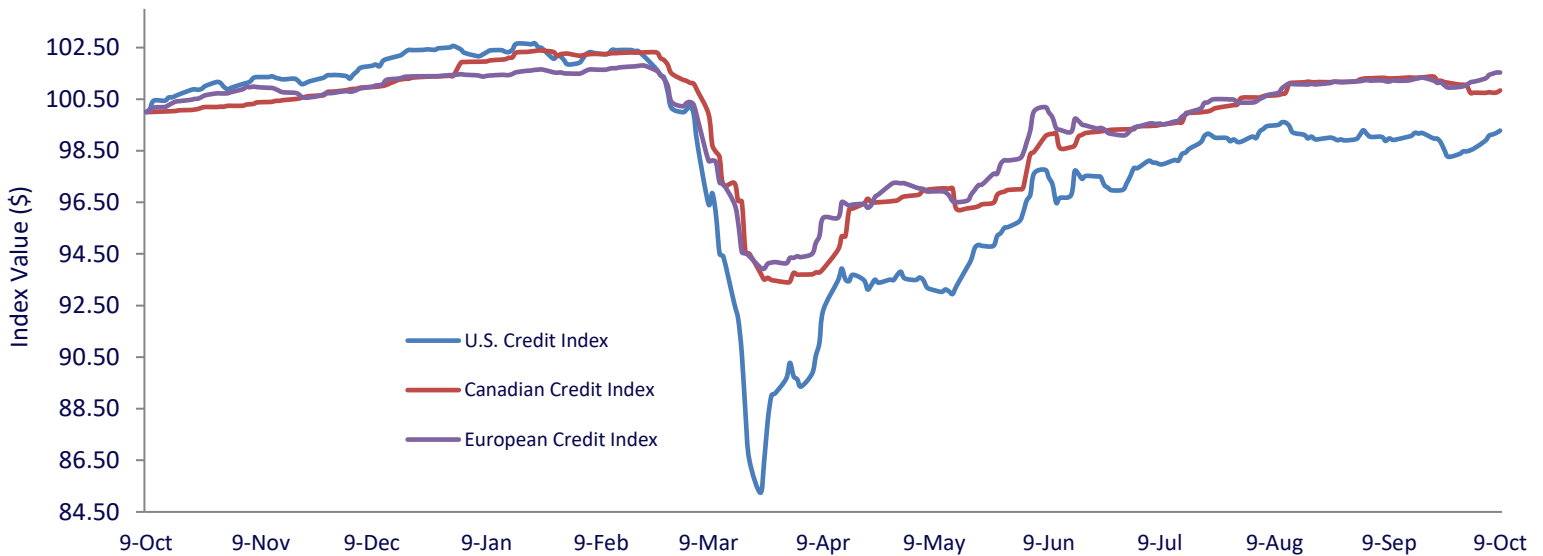


- General Electric (\$GE) announced that it recently received a notice from the SEC advising that it is considering a civil in juncture against GE for possible securities law violations regarding GE's revenue recognition practices and internal controls. GE credit spreads were up to 15 bp wider on the news due to the material risk of a downgrade.
- IBM announced the spin off of its managed infrastructure business this week. The announcement came as a surprise as the old IBM will lose about 30% of revenue and will potentially materially increase leverage. Credit spreads of IBM were about 5-10 bp wider following the announcement.

INDEX WATCH	1-WEEK	MTD	YTD	SOURCE
Investment Grade Credit (Excess Return)				
Canadian Credit	0.09%	-0.18%	-1.06%	Merrill Lynch: FOCO
US Credit	0.70%	0.82%	-3.20%	Barclays: LUCRER
European Credit	0.34%	0.47%	0.15%	Barclays: BECI
Barclays Global Credit Index	0.61%	0.73%	-1.74%	Barclays: BGCI
Fixed Income (Total Return)				
Canadian Bond Universe	-0.54%	-0.57%	7.44%	Merrill Lynch: CANO
Canadian High Yield	0.18%	0.17%	3.49%	Bloomberg: BCAH
US High Yield	1.28%	1.35%	1.69%	Merrill Lynch: HOAO
Preferred Shares (Total Return)				
Canadian Preferred	1.31%	0.86%	-0.22%	Bloomberg: TXPRAR
US Preferred	1.09%	2.20%	3.18%	Bloomberg: SPTREFTR
Equities				
Canadian Stocks: S&P TSX	2.47%	2.92%	0.14%	Bloomberg: SPTSX
US Stocks: S&P 500	3.89%	3.46%	9.22%	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
10/05	Hydro One	A-	1.2bn	Multi-issue	+105	+102	
10/05	Berkshire Hathaway	BBB-	2bn	10y & 30y	+70 (10y)	+72	
10/06	LyondellBasell	BBB-	3.25bn	Multi-issue	+160 (10y)	+153	Strong demand for merger financing.
10/07	Scotiabank	AA-	1.25bn	7y	+104	+102	Longest bail-in issue to date.
10/07	Lowe's Co	BBB+	4bn	Multi-issue	+95 (10y)	+97	

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