

For the week ending October 6, 2017.

Government bond yields globally, continued to rise this week with the major impetus coming from employment data in the U.S. and Canada. The headline employment data in the U.S. was impacted by the recent hurricanes and therefore jobs growth in September actually declined by 33k. However, employment gains in previous months were revised higher, the unemployment rate declined from 4.4% to 4.2% and average hourly earnings were reported at 2.9% versus expectations of 2.6%. Ten year U.S. Treasuries pulled back to 2.40% following the release of the employment data which, on the week, was 7 basis points higher. But the market bounced off of these levels on a strong short covering rally and conviction not to be short over the long weekend given concerns about North Korea and Spain. Ten year U.S. Treasuries closed at 2.36%. Ten year Government bond yields in the UK and Germany were unchanged on the week. In Canada, yields closed 3 basis points higher.

The employment data in Canada was pretty firm across the board. Overall employment gains were on consensus at +10k but the mix of full-time jobs versus part-time employment was very positive, as were earnings (+2.2% versus +1.8%) and total hours worked. These numbers will keep the needle moving toward another Bank of Canada rate hike in the coming months which the market largely has priced in. However, it is important to note that Canada's trade deficit figure on Thursday highlighted further weakness in exports which will dampen Q3 GDP. Clearly, the Bank of Canada needs to balance its interest rate hiking path relative to an economy in which growth appears to have peaked.

Investment grade corporate credit spreads maintained a very strong bid again this week. The factors supporting spreads remained the same as those articulated in our commentary last week. The U.S. Investment Grade Corporate Credit Default Index ("CDX") tightened 2 basis points on the week hitting its tightest levels of the year. Cash corporate credit spreads were 2-8 basis points tighter in the U.S., while those in Canada and Europe were 2 and 1 basis points tighter respectively. The tightening of credit spreads in the U.S. was led by technology and Yankee bank subordinated debt.

Activity in the investment grade corporate new issue market in Canada remained robust. Below is a summary of this week's new issues.

- AltaGas \$200mm 3.98% 10/04/2027 +186.7 bps
- AltaGas \$250mm 4.99% 10/04/2047 +250 bps
- Eagle Credit Card Trust \$232.5mm 2.631% 10/17/2022 +86.7 bps
- Toyota Credit Canada \$400mm 2.62% 10/11/2022 +85.5 bps
- Walt Disney Co. \$1.25bn 2.758% 10/07/2024 +83.7 bps
- Ryerson University \$130mm 3.768% 10/11/2057 +128 bps (private placement)

The First Asset Investment Grade Bond ETF (the "Fund") did not participate in any of these new issues.

Portfolio Transactions

As credit spreads in the technology sector moved tighter, we sold a portion of our position in Microsoft 2026's.

Fund portfolio duration is currently 1.5 years below that of the benchmark which has a duration of 6.3 years. During the week, we adjusted duration lower a further 0.5 years via 6 separate trades in U.S. Treasury 30 year cash bonds and 10 and 30 year U.S. treasury futures. Each of these trades was unwound at a profit.



Paul Sandhu
Vice-President and Portfolio Manager
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Paul Sandhu has 29 years of domestic and international fixed income experience. Prior to joining Marret, Paul was responsible for the global distribution of Canadian fixed income and money market products at BMO Capital Markets. Through offices in Toronto, Montreal, Vancouver, New York, London and Hong Kong, Paul was directly responsible for advising the world's largest fixed income asset managers on portfolio strategy, asset mix, security selection and alpha/beta generation.

Paul's career also includes positions with Goldman Sachs and Citibank in Europe, the United States and Canada.

Paul holds a B.A. (Economics and Political Science) from the University of British Columbia and a Masters in Public Administration from the University of Victoria.

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First Asset - Smart Solutions™

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