DYNAMIC CONDITIONS IN THE CANADIAN DEBT CAPITAL MARKETS

Scotiabank®

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Increasingly connected markets in an ever-changing world

As global financial markets become increasingly connected, ever-changing economic and political conditions around the world can significantly impact markets here at home. Wide-spread volatility in 4Q 2018, attributed primarily to global trade and tariff concerns, led to domestic credit spread widening and contributed to a 53% year-over-year decline in CAD corporate new issue supply in the quarter.

Since then, many central banks have signalled a shift to more accommodative monetary policy as a response to the economic risks posed by trade uncertainty. While the Bank of Canada has held policy rates steady, conditions in the Canadian bond market have improved significantly through the first half of 2019. Lower spreads and all-in yields, as well as strong investor demand for corporate new issues, are currently providing corporate borrowers with attractive issuance opportunities.

Canadian corporate bond market supply review

Despite markedly lower volumes in the latter months of the year, 2018 saw total corporate new issues of $115 billion, making it the third busiest year on record. This supply was led by the financial sector and domestic banks, in particular. Issuance from the financial sector accounted for 61% of total supply for the year.

A notable regulatory development also took effect in September 2018 as the new "bail-in" regime was implemented for the largest six Canadian banks, designated "domestic systemically important banks" (D-SIBs). Under this regime, authorities would be able to convert a failing bank's debt into common shares in order to recapitalize the bank and restore its viability. The first "bail-inable" senior notes were issued shortly after implementation. However, as market conditions deteriorated in Q4, other banks elected to wait for a more favourable backdrop for their inaugural issues, particularly as investors demand more yield on these securities to compensate for the shift in risk exposure.

Through the first half of 2019, total issuance has trailed 22% year-over-year, led by a decline in financial volumes (-33%) and partially offset by an increase in activity from non-financial borrowers (+7%).

Against a materially improved general market backdrop, this reduced supply has only increased the demand for new issues. Furthermore, fixed income portfolio managers continue to seek diversification across sectors, ratings categories and issuers, creating opportunities for domestic and foreign borrowers to access the Canadian debt capital markets.

The Scotiabank advantage

In an increasingly connected world, issuers and investors are best served by maintaining a global perspective. Scotiabank's established international footprint, with a physical presence and expertise across the Americas, Europe, and the Asia Pacific region, provides an insight into the interconnectivity of financial markets that helps guide debt capital markets strategies and makes Scotiabank a trusted partner in supporting the long term needs of its customers.

For more information on Scotiabank's debt capital markets solutions, please contact:

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