

# MONTHLY BOND LETTER

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## ECONOMIC EVENTS

JANUARY 2026

- The Carney government announced a trade agreement with China allowing 49,000 electric vehicles to enter Canada, thanks to a reduction in customs duties from 100% to 6.1%. Canada is thus returning to a level of Chinese vehicle imports comparable to that of 2023, before the imposition of tariffs aligned with U.S. trade policy. The preliminary agreement between the two countries also provides for investments in Canada in the form of joint ventures with trusted partners to develop the Canadian electric vehicle supply chain. In return, China will reduce customs duties on canola from 76% to 15% starting March 1st and until the end of the year, and will abolish tariffs on lobster, crab, and peas for the same period.
- American households maintained their shopping habits in the fall despite the uncertainty related to the government shutdown. Consumer spending increased by 0.5% in October, then again by 0.5% in November, bringing annual growth to 5.4%. To support their purchases, households benefited from an increase in their income, but the monthly increases observed in October (+0.1%) and November (+0.3%) remained below the growth in spending, indicating that they tapped into their savings to spend. Indeed, the savings rate as a proportion of disposable income now stands at 3.5%, compared to 4.0% in September.
- China's GDP grew by 5.0% between 2024 and 2025, in line with the expectations of Chinese authorities. This performance is largely attributable to international trade, as China recorded a historic trade surplus of US\$1,200 billion. To capture a record share of global demand, the country increased its industrial production by 5.9% in 2025. In contrast, consumer spending only increased by 3.7% in 2025, while fixed asset investments fell by 3.8%. This is the first annual decline in investment since China began compiling this data in 1996.

*This is a symbolic agreement that fits into Carney's historic speech at Davos. The world economic order is broken and middle powers must unite and think differently. At the rate of vehicle sales in Canada in 2025, these new imports would represent just under 3% of the market. It is small, but symbolically significant as the CUSMA renegotiation approaches in 2026. The message sent to the Americans is clear: the door is slightly open to Chinese vehicles, but it could open further if the United States attempted to repatriate all Canadian vehicle production.*

*The American economy seems to be ending the year 2025 on a positive note despite the obstacles encountered. Even if job creation has slowed recently, households appear confident enough in the economic situation to support their consumption by relying on their savings and the wealth effect related to the stock market. However, this foundation remains fragile and unsustainable in the long term. Job gains will be necessary to maintain the pace of spending.*

*It will be increasingly difficult for China to repeat similar growth in 2026. Its ability to rely on international trade to support activity is now more limited, after a nearly 20% increase in the trade surplus last year. Furthermore, the population is declining for the fourth consecutive year. In this difficult geopolitical context, fiscal stimulus measures will be necessary to revive domestic demand.*

## RATE TRENDS

- It is status quo regarding monetary policies, both in Canada and the United States. By maintaining its key interest rate at 2.25%, the Bank of Canada believes that its policy is adequately calibrated. It expects inflation to remain near the 2% target over the projection horizon, with upward pressures related to trade costs being offset by excess supply in the economy. For its part, the Fed deemed it appropriate to wait and gather more information on the economic situation. Growth remained sustained despite various obstacles encountered in 2025, but job creation has recently slowed. There have been no massive job losses and the unemployment rate shows signs of stabilization. However, core inflation remains high, and the Fed prefers to wait for more details on price trends to assess the impact of tariffs on inflation.

*The Canadian economy will have to deal with various obstacles in 2026. In addition to the USMCA renegotiation, the slowdown in population growth and a final wave of mortgage refinancings will weigh on economic activity. Nevertheless, investors still expect an increase in the policy rate this year. Conversely, the Fed is expected to reduce its rate two or three times, while the American economy could accelerate in 2026. The fiscal impulse stemming from tax refunds planned under the "One Big Beautiful Bill," as well as investment incentives, could dynamize an economy that is still performing above its potential.*

## BOND RATES

		Monthly Change	Change 2026		Monthly Change	Change 2026
Jan. 31, 2026						
Key Interest Rate	2,25 %	0,00 %	0,00 %	3,75 %	0,00 %	0,00 %
3 months	2,20 %	0,00 %	0,00 %	3,65 %	0,03 %	0,03 %
2 years	2,56 %	-0,03 %	-0,03 %	3,52 %	0,05 %	0,05 %
5 years	2,92 %	-0,05 %	-0,05 %	3,79 %	0,06 %	0,06 %
10 years	3,42 %	-0,02 %	-0,02 %	4,24 %	0,07 %	0,07 %
30 years	3,87 %	0,01 %	0,01 %	4,87 %	0,03 %	0,03 %
RRB 30 years	1,81 %	-0,04 %	-0,04 %			

Source: Bloomberg

## CANADIAN RATE TRENDS



## CREDIT BOND RISK PREMIUMS

Issuers	Credit Rating DBRS	Change								
		Spread			5 yrs		10 yrs		30 yrs	
		5 yrs	10 yrs	30 yrs	month	2026	month	2026	month	2026
Royal Bank, Bail-in-debt	AA	60	85	110	-5	-5	-5	-5	-5	-5
Royal Bank, NVCC	A	90	120	150	-10	-10	-10	-10	-10	-10
Sun Life, subordinated debt	A	80	110	140	-10	-10	-10	-10	-10	-10
Hydro One	A high	45	70	90	-10	-10	-10	-10	-10	-10
Enbridge Inc	A low	75	105	130	-5	-5	-10	-10	-10	-10
Altalink LP	A	45	70	90	-10	-10	-10	-10	-10	-10
GTAA	A high	40	65	85	-10	-10	-10	-10	-10	-10
Bell Canada	BBB	75	105	130	-10	-10	-15	-15	-15	-15
Rogers Communications	BBBL	80	110	135	-10	-10	-15	-15	-15	-15
Loblaw	BBB high	60	90	115	-5	-5	-10	-10	-10	-10
Canadian Tire	BBB	80	110	140	-5	-5	-10	-10	-10	-10
Province Québec	AA low	17	46	75	-2	-2	-6	-6	-5	-5
Province Ontario	AA low	14	39	67	-3	-3	-7	-7	-6	-6
CMHC	AAA	9	17	-	0	0	-5	-5		

Source: National Bank Financial

## CREDIT MARKET

- The total of new Canadian corporate bond issuances reached \$16.3 billion in January, up \$3.6 billion from the previous month and \$4.5 billion from January 2025. This is the most active January in history, surpassing the previous record set in 2024 by \$3.65 billion. The banking sector was particularly active with 4 issuances totaling \$8.5 billion, more than half of the amount financed in January. Automotive financing companies also took a share of the market, with 3 issuers issuing bonds for a total sum of \$2.2 billion.
- Among the 16 companies that borrowed on the Canadian market in January, three issuers managed to obtain financing relying solely on a single credit rating produced by the Morningstar DBRS agency. Mini Mall Storage is a good example. The company, rated BBB (low) by DBRS, took on debt in the amount of \$650 million through two issuances, one with a two-year maturity and the other maturing in 2031. This practice of "rating shopping" has gained momentum in recent years, attracting the attention of Bloomberg, which published an article on the subject. In 2025, 111 financings were completed relying on a single rating agency, and DBRS represented 80% of them, according to data compiled by Bloomberg. On average, the ratings assigned by DBRS are one notch higher than those assigned by other agencies, namely S&P, Moody's, and Fitch, the article states.
- On average, yield spreads for long-term provincial bonds narrowed by 6 bps in January. On the eve of tabling new provincial budgets, some provinces, like Quebec and Ontario, have already completed their financing needs for the current fiscal year and have moved ahead for the next fiscal year. This increase in new issuances had no significant impact on yield spreads, as provinces were active in foreign markets, which reduced pressure on the Canadian market. Despite the importance of its manufacturing sector and its integration into American production chains, Ontario's bonds continue to perform well. The province has the lowest financing cost for long-term bonds.

## FTSE TMX INDEX PERFORMANCE

Sector	Weight	Jan. 2026	2026
Universe	100 %	0,58 %	0,58 %
Short Term	42,7 %	0,45 %	0,45 %
Mid Term	31,5 %	0,60 %	0,60 %
Long Term	25,8 %	0,80 %	0,80 %
Federal	42,9 %	0,34 %	0,34 %
Provincial	31,1 %	0,74 %	0,74 %
Corporates	24,2 %	0,80 %	0,80 %
RRB		0,52 %	0,52 %

Source: ftse.com

*The use of a single credit rating is an issue to watch. Rating shopping can lead to an underestimation of credit risk when the chosen assessment is more lenient than those of other agencies. In the current context of spread compression, the risk is hidden but could quickly resurface if the economic situation deteriorates.*

*The long-term financing cost in Quebec remains higher than that of Ontario (+0.08%). Quebec is more indebted, has a deficit as a proportion of GDP (1.5%) higher than Ontario's (1.1%), and its economy is growing less rapidly. The election in the fall and the risk of a referendum also weigh on Quebec's spreads. This referendum risk could also appear in the valuation of Alberta's bonds.*

## STRATEGIC POSITIONNING

American indicators show that the economy remains resilient in the face of various shocks it is undergoing. The robustness of final domestic demand should continue in the fourth quarter of 2025, but it rests on increasingly fragile foundations. Households maintained their consumption pace by relying on their savings and the wealth effect from stock market gains. This may reflect a certain confidence in the future and an absence of marked concern about their employment situation. However, this pace cannot be maintained without an increase in income and job creation. For the moment, the labor market remains anemic, disrupted by various tariff threats from the White House. That said, the fiscal stimulus plan ("One Big Beautiful Bill") could stimulate consumer and investment demand and restart hiring, at a time when immigration policies are more restrictive. The next Federal Reserve Chairman, Kevin Warsh, would like to lower the key rate but must first convince other Fed members. In this year of midterm elections and the country's 250th anniversary, the White House wants to present a solid economic situation to voters. The probabilities that households will receive a special dividend from tariff revenues increase as the labor market takes time to improve. On the other hand, if the latter recovers, an acceleration in wages could revive inflationary pressures.