MONTHLY BOND LETTER

AlphaFixe Capital

OCTOBER 2025

ECONOMIC EVENTS

- After two months of decline, the Canadian job market saw a strong rebound in September, with the creation of 60,400 jobs. Since the beginning of the year, net job creation has reached 97,900, for a monthly average of 10,900. Several positive aspects stand out from this report. The new jobs were entirely full-time positions (+106,100), while part-time employment fell by 45,600. The manufacturing industry led the growth (+28,000), followed by the health sector (+14,000) and agriculture (+13,000). Employment declined in wholesale and retail trade (-21,000), while the unemployment rate among youth aged 15 to 24 climbed to 14.7%, its highest level since 2010 (excluding the pandemic period). Geographically, the gains were concentrated in Alberta (+42,500), while the situation changed little in Ontario (+8,800) and slightly worsened in Quebec (-4,400).

Overall, this survey presents a slightly more optimistic picture of the Canadian economy. The trade conflict does not appear to have significantly shaken the manufacturing sector, since over 90% of our exports remain exempt from tariffs. However, economic momentum has clearly slowed compared to 2024, when more than 28,000 jobs were being created per month during the first three quarters of the year. The economy has had to overcome two major challenges in 2025: the trade dispute with the United States and the new immigration rules. Monetary easing has likely provided appreciable support during this period.

- The U.S. government shutdown prevents us from getting an accurate picture of the current economic situation. Investors therefore have to monitor statistics from private sources such as the payroll firm ADP. According to its monthly labor market report, the U.S. economy created 42,000 private-sector jobs in October, just offsetting the cumulative loss of 32,000 jobs recorded in August and September. Half of the industries saw employment gains, but two sectors stood out in particular: trade, transportation and public utilities (+47,000), and health care and education (+25,000). Conversely, the information sector (-17,000) and professional and business services (-15,000) recorded job losses.

This report reassured investors who had feared a more significant deterioration in the labor market. Even though this job creation represents a rebound, it remains modest. The slowdown in the labor market is becoming increasingly evident. The average monthly job creation stands at just under 60,000 in 2025, compared to 144,000 last year. Uncertainty is leading many companies to maintain hiring freezes. Normally, this indicator has less impact on the markets, but in the absence of data from the BLS (Bureau of Labor Statistics), it is now drawing greater attention.

- Inflation remains stubborn in the United Kingdom. The consumer price index held steady between August and September, keeping the annual inflation rate at 3.8% for a third consecutive month — nearly double the Bank of England's 2% target. Excluding energy and food, the index slowed slightly, from 3.6% in August to 3.5% in September, its lowest level in four months. The persistence of core inflation is due to the continued rise in service prices, which increased 4.7% year over year .

The United Kingdom is showing the highest inflation rate among G7 countries and weak economic growth. In its upcoming budget, the government is expected to announce support measures for households to help ease the high cost of living. However, strict management of public spending will be necessary to avoid another fiscal crisis like the one that occurred under Liz Truss.

RATE TRENDS

- Despite signs of recovery in the labor market in September, the Bank of Canada nevertheless announced a 0.25% reduction in its key interest rate in October, bringing it down to 2.25%, the lower end of its neutral rate range (2.25% to 3.25%). The trade conflict with the United States is mainly affecting trade-sensitive sectors, with a decline of 25,500 jobs in the manufacturing industry since February, when tariff threats began to take effect. The Bank expects weak economic growth in the second half of the year and a moderation of inflationary pressures, thereby justifying the monetary easing announced. If the economy develops according to its projections, the Bank has made it clear that its monetary easing cycle is complete, and that the current rate is appropriate to maintain inflation at its target level.

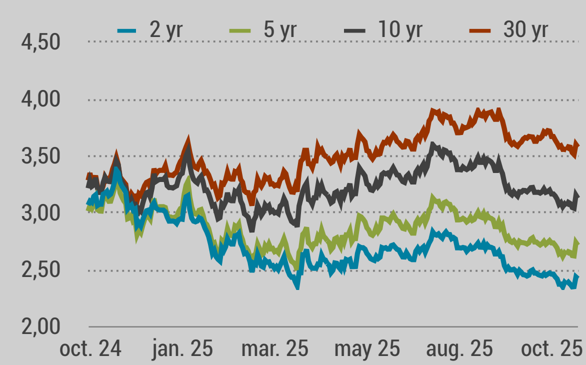
After an economic contraction in the second quarter under the weight of Trump's tariffs, the Bank of Canada expects a slight rebound in the third quarter (+0.5% annualized), followed by modest acceleration thereafter. With an unemployment rate above 7%, the economy is growing below its potential, thereby reducing inflationary pressures. It would take a further deterioration in economic conditions for the Bank to consider resuming monetary easing. The federal government's announced fiscal support should also serve as a springboard for the economy in 2026, helping to ease the burden of economic recovery that currently rests on the Bank's shoulders.

BOND RATES

Oct. 31, 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	2,25 %	-0,25 %	-1,50 %	4,00 %	-0,25 %	-1,00 %
3 months	2,25 %	-0,19 %	-0,90 %	3,80 %	-0,15 %	-0,51 %
2 years	2,41 %	-0,06 %	-0,52 %	3,57 %	-0,05 %	-0,67 %
5 years	2,70 %	-0,05 %	-0,27 %	3,69 %	-0,04 %	-0,69 %
10 years	3,12 %	-0,06 %	-0,11 %	4,08 %	-0,06 %	-0,49 %
30 years	3,58 %	-0,05 %	0,25 %	4,65 %	-0,05 %	-0,13 %
RRB 30 years	1,60 %	-0,05 %	0,15 %			

Source: Bloomberg

CANADIAN RATE TRENDS



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CREDIT BOND RISK PREMIUMS

Issuers	Credit Rating DBRS	Spread 5 yrs	Spread 10 yrs	Spread 30 yrs	Change 5 yrs month	Change 5 yrs 2025	Change 10 yrs month	Change 10 yrs 2025	Change 30 yrs month	Change 30 yrs 2025
Royal Bank, Bail-in-debt	AA	70	95	125	0	-10	0	-10	0	-15
Royal Bank, NVCC	A	110	140	175	0	-15	0	-20	0	-30
Sun Life, subordinated debt	A	90	120	155	-5	-5	-5	-15	-10	-20
Hydro One	A high	55	85	105	0	-5	0	-5	-5	-15
Enbridge Inc	A low	90	120	145	0	0	-5	-5	-10	-30
Altalink LP	A	55	85	105	0	-5	0	-5	-5	-15
GTAA	A high	50	80	100	0	-5	0	-5	-5	-15
Bell Canada	BBB	90	120	150	-5	-10	-5	-25	-10	-40
Rogers Communications	BBBL	90	120	150	-5	-15	-10	-30	-10	-40
Loblaw	BBB high	70	100	130	0	-5	0	-15	-5	-30
Canadian Tire	BBB	90	120	155	0	-15	0	-25	-5	-40
Province Québec	AA low	16	54	79	0	-8	-1	-11	-5	-11
Province Ontario	AA low	18	52	76	0	-6	-1	-10	-5	-10
CMHC	AAA	11	26	-	0	-2	-2	-10		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuances reached $10.6 billion in October, a decline of $9.9 billion compared with the previous month and $3.8 billion lower than in October 2024. Since the beginning of the year, total bond financing has amounted to $120 billion, which is 6% higher than at the same time last year. Among the new issues in October was a $200 million bond issued by the Bank of Montreal with a four-year term and a call option after three years. The proceeds from this debt will be used exclusively to finance Indigenous businesses and communities in Canada. AlphaFixe participated in this first Indigenous bond ever issued by a North American bank.

- Investor appetite for riskier assets did not weaken in October. Spreads on corporate bonds included in the FTSE Canada Index closed the month at 0.90%, down 0.01% from September. Although this is a slight decrease, investors showed strong demand, financing six high-yield bond issues totaling $1.7 billion. This represents 31% of all high-yield bond financing carried out since the beginning of 2025. Among these six issues, four came from the industrial sector, which has been severely affected by the tariff dispute with the United States. This enthusiasm for non-investment-grade companies is also evident in the United States, where spreads of the high-yield bond index stood at 2.94%, a historically low risk premium.

- The period of mid-fiscal-year economic updates from provincial finance ministers is now in full swing. Quebec is expected to release its statement in the coming weeks. To date, the combined total of provincial deficits stands at $48.2 billion, or 1.5% of provincial GDP. This represents an increase of $41.2 billion from the previous fiscal year (2024–2025), mainly due to the tariff conflict. Even during the pandemic period (2020–2021), combined deficits ($47.9 billion) did not reach the level anticipated for this year. For 2025–2026, a total of $11 billion has been set aside in contingency funds, reflecting the current uncertainty. Despite this more fragile fiscal context, long-term provincial bond spreads have narrowed by about 10 basis points in 2025.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	oct. 2025	2025
Universe	100 %	0,69 %	3,69 %
Short Term	42,3 %	0,40 %	3,96 %
Mid Term	30,3 %	0,57 %	4,99 %
Long Term	27,4 %	1,27 %	1,91 %
Federal	42,2 %	0,50 %	3,22 %
Provincial	31,4 %	0,92 %	3,41 %
Corporates	24,6 %	0,70 %	4,86 %
RRB		0,39 %	3,19 %

Source: ftse.com

Despite the uncertain economic environment, investors remain active, as corporate profitability remains strong. This insatiable appetite allows Canadian banks, which maintain business relationships with these companies, to reduce the risk on their balance sheets by transferring it to investors.

Admittedly, the ministers adopted a cautious approach in their forecasts, as they were uncertain how economic conditions would evolve this year. The situation in Ontario appears to be the most precarious, due to Trump's attacks on the auto industry. The announcement by Stellantis to move production of the Jeep plant from Brampton, Ontario, to Illinois will deal a serious blow to both the sector and the Ontario economy.

STRATEGIC POSITIONNING

And that makes two. The Federal Reserve has indeed announced a second 0.25% reduction in its policy rate within two months, bringing it down to 4.0%. At this level, the policy rate is near the upper bound of the neutral rate range, estimated at 3.875% by Fed members. They are currently navigating in a fog, relying on a limited set of economic indicators to assess the state of the economy. Private-sector statistics confirm that the labor market, like the government, is paralyzed. Hiring plans are at a standstill, and companies prefer to retain their employees and reorganizing their workforces to meet demand. Corporate leaders are waiting for greater visibility on the economy before making major adjustments. Uncertainty remains high, particularly regarding international trade, immigration, and the integration of artificial intelligence in production processes. Due to the lack of clarity about the economy and the fact that the policy rate is near neutral, the Fed's tone has shifted. It may adopt a more cautious approach at its next meeting, preferring to wait for more comprehensive data before deciding on the future direction. Investors anticipate a roughly 1% decrease in the policy rate over the next year. However, they could be disappointed if inflation proves more persistent than expected or if the labor market strengthens.