AlphaFixe Capital
MONTHLY BOND LETTER

August 31, 2026

BOND MARKET TRENDS

While Donald Trump's tariff threats are clouding the growth outlook and fueling uncertainty, they have paradoxically helped propel the Canadian economy in the spring. After narrowly avoiding a technical recession, Canada posted annualized growth of 3.4% in the second quarter, largely supported by a 15.1% surge in exports. Canadian companies notably accelerated shipments of vehicles, oil and metal products to the United States to hedge against the imposition of new tariffs.

Growth, however, was not limited to foreign trade. Household consumption (+3.2%), residential investment (+10.4%) and business investment (+12.3%) also contributed to the economy's strength. Investment in machinery and equipment surged 22.6%, partly driven by spending related to artificial intelligence. This strength, however, may prove short-lived. The acceleration in exports largely reflects a race against the clock ahead of the implementation of U.S. tariffs. Trump has since imposed 50% tariffs on the equivalent of $28 billion in Canadian exports, which should weigh on growth over the coming quarters. Uncertainty surrounding the relationship with the United States could also prompt businesses to delay investment and hiring decisions. The Canadian government's retaliation adds an inflationary dimension to the problem, but given the weakness of underlying inflation, which remains close to 2%, the Bank of Canada could favor an expansionary approach if the economy were to slow further.

In the United States, the rise in long-term yields to levels not seen since 2007 has drawn attention, prompting the U.S. Treasury to double the amount of its purchases of 10- and 30-year Treasuries to US$4 billion per operation. This intervention temporarily slowed the rise in yields, but investors remain concerned about deteriorating public finances, escalating geopolitical tensions and the rapid increase in federal debt, which reached US$40 trillion in August.

Kevin Warsh's decidedly hawkish stance, as Chair of the Federal Reserve, could also amplify borrowing costs and debt-servicing expenses in the United States. Relatively quiet since the beginning of his tenure, the Fed Chair has emphasized the persistence of underlying inflation, which has remained above the 2% target for 65 consecutive months. In his view, inflation has now become the main risk to achieving the Fed's dual mandate, while the labor market remains stable, growth is resilient and financial conditions do not appear restrictive enough to slow the economy. Unlike in Canada, where trade tensions are expected to weigh primarily on growth, they could intensify inflationary pressures in the United States and force the Fed to raise its policy rate.

FTSE CANADA INDEX PERFORMANCE

Sectors	Weight	Aug-26	2026
Universe	**100%**	**-0,21 %**	**0,44 %**
Short Term	42,8%	0,12 %	1,21 %
Mid Term	31,6%	-0,13 %	0,72 %
Long Term	25,6%	-0,85 %	-1,25 %
Federal	43,5%	-0,19 %	0,41 %
Provincial	29,9%	-0,30 %	0,13 %
Corporate	24,9%	-0,14 %	0,86 %
RRB	-	0,19 %	3,30 %

Source : FTSE Canada

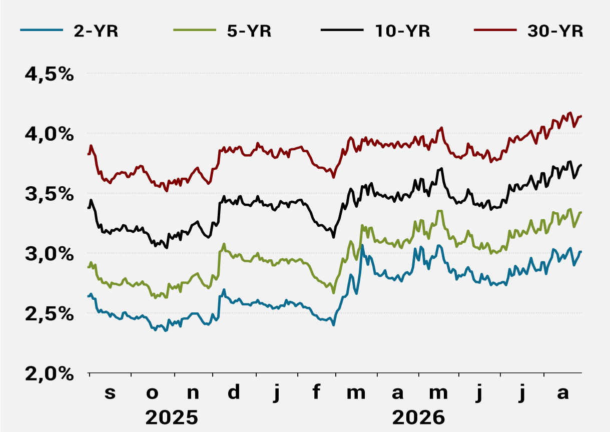
BOND YIELD

Canada	Aug 31	Monthly Change	Change 2026
Policy Rate	2,25 %	0,00 %	0,00 %
3-Mth	2,28 %	0,00 %	0,08 %
2-Year	3,01 %	0,09 %	0,42 %
5-Year	3,34 %	0,06 %	0,36 %
10-Year	3,74 %	0,07 %	0,30 %
30-Year	4,15 %	0,09 %	0,28 %
30-Year RRB	1,91 %	-0,06 %	0,03 %

US	Aug 31	Monthly Change	Change 2026
Policy Rate	0,00 %	-3,75 %	-3,75 %
3-Mth	3,83 %	0,07 %	0,19 %
2-Year	4,34 %	0,07 %	0,86 %
5-Year	4,50 %	0,07 %	0,78 %
10-Year	4,75 %	0,04 %	0,58 %
30-Year	5,24 %	-0,01 %	0,40 %

Source : Datastream

CANADIAN RATE TRENDS



CREDIT MARKET

CREDIT BOND SPREADS

Issuers	Rating DBRS	Spread 5-Yr	Spread 10-Yr	Spread 30-Yr	Changes 5-Yr Mth	Changes 5-Yr 2026	Changes 10-Yr Mth	Changes 10-Yr 2026	Changes 30-Yr Mth	Changes 30-Yr 2026
Royal Bank Bail-in debt	AA	70	95	120	0	5	5	5	5	5
Royale Bank NVCC	A	105	135	170	0	5	0	5	5	10
Sun Life, sub debt	A	95	125	155	0	5	0	5	5	5
Hydro One	A high	60	85	115	5	5	5	5	0	15
Enbridge Inc.	A low	85	120	160	5	5	5	5	5	20
Altalink LP	A	60	85	115	5	5	5	5	0	15
GTAA	A high	40	65	90	0	-10	0	-10	-5	-5
Bell Canada	BBB	90	130	170	0	5	5	10	5	25
Rogers Communications	BBBL	90	130	170	0	0	5	5	5	20
Loblaw	A low	70	105	135	0	5	5	5	0	10
Canadian Tire	BBB	85	120	155	0	0	0	0	-5	5
Quebec Province	AA low	20	48	84	-1	1	-3	-4	3	4
Ontario Province	AA	15	41	75	-1	-2	-3	-5	0	2
CMHC	AAA	9	20	-	-2	0	0	-2		

CREDIT MARKET TRENDS

- The value of new Canadian corporate bond issues reached $15.8 billion in August, up $6.2 billion from the previous month and $4.1 billion from the same period last year. After a lull in July, the primary market came back strongly, posting its best August on record. Year to date, total bond financing has reached $140.9 billion, up 58% compared with the first eight months of 2025. Of the 20 companies that issued bonds in August, three issued green bonds, bringing the number of new green bond issues this year to 10, for a total of $7.7 billion. During the first eight months of 2025, green bond financing totaled $1.9 billion.

- In July, Alimentation Couche-Tard announced the acquisition of Żabka, Poland's leading convenience store network, for approximately US$8.6 billion, its largest transaction to date. The franchise-based, fuel-free network, diversifies Couche-Tard's operations outside North America. Financed with new debt, the transaction is expected to increase its debt-to-EBITDA ratio from approximately 1.8x currently to nearly 3.0x at closing, according to S&P, which is the upper limit tolerated for its BBB+ rating. S&P and Moody's maintained their credit ratings and stable outlooks, banking on a return to 2.5x within two years of closing, which is expected in December 2026.

  The first-quarter results support this scenario, with EBITDA up 10% and share buybacks suspended, although the growth was driven primarily by higher gasoline margins. The financing terms remain to be determined. We anticipate a modest widening of Couche-Tard's credit spreads as the financing approaches, without calling into question the issuer's credit quality.

- Alberta's public finances have taken a sharp turn in just a few months. After only one quarter of activity in its 2026–2027 fiscal year, the projected $9.4 billion deficit has given way to a $2 billion surplus, according to the latest economic update. This 180-degree turnaround comes in the wake of the war in the Middle East, which has driven oil prices higher and increased resource revenues from the $9.7 billion projected in the budget to a total of $23 billion. The forecast for the price of WTI crude oil now stands at US$73.50 per barrel, up US$13 from the price assumed when the budget was tabled.

  The improvement in the fiscal position of some provinces relative to their budget projections partly explains the stability of provincial spreads in 2026. Access to foreign funding, which reduces the burden of new issuance in Canada, has also provided support, but it is also indicative of strong demand from foreign investors. During the first half of the year, foreign investors added a record $175.0 billion in debt securities to their holdings, including $37.2 billion in provincial bonds.