MONTHLY BOND LETTER

FEBRUARY 2026

ECONOMIC EVENTS

- The Canadian economy contracted by 0.6% at an annualized rate during the final three months of the year, following growth of 2.4% in the third quarter. Consumer spending rose by 1.7% after declining over the summer. Business investment increased by 2%, supported by spending on equipment, particularly computers. Governments also increased their spending and investment during the quarter (+5.7%). Finally, international trade contributed positively to growth, the increase in exports (+6.1%) exceeded that of imports (+1.0%). The contraction in GDP is largely explained by a decline in business inventories, which alone subtracted more than 4 percentage points from GDP growth.

For the full year 2025, GDP increased by 1.7%, its slowest pace since 2020. Overall, 2025 was a volatile year due to the trade conflict with the United States, and these uncertainties are expected to continue in 2026 with the CUSMA renegotiation. Final domestic demand strengthened and households continued to spend, but the underlying foundations are becoming increasingly fragile. Households are drawing more heavily on their savings to finance consumption: the saving rate declined from 5.2% in the third quarter to 4.4% by the end of 2025. Employment will need to strengthen more firmly to support economic growth.

- The pace of growth in the U.S. economy slowed markedly in the final quarter of 2025, with an annualized increase of 1.4%, compared with 4.4% in the third quarter. This deceleration is largely attributable to the longest federal government shutdown in history, as public spending fell by 5.1% during the quarter. Since some federal employees did not receive their salaries, the shutdown also weighed on household consumption, which increased by 2.4% in the fourth quarter compared with 3.5% in the previous quarter. Businesses, however, continue to invest, with investment rising by 3.7%, supported by spending on equipment and information processing software related to AI.

Overall, the GDP data portray an economy that appears weaker than it actually is. Government spending is expected to rebound, which should support growth in the first quarter of 2026. However, employment will need to improve soon, as households cannot continue to spend by relying on their savings and the rise in equity markets. The saving rate as a share of disposable income now stands at 3.6%, its lowest level since 2008, excluding the pandemic period.

- Australia's annual inflation rate reached 3.8% in January, well above the central bank's target range of 2% to 3%. Excluding food and energy prices, core inflation accelerated from 3.3% in December to 3.4% in January. Recent data show that price increases were more widespread than expected at the end of 2025, with pressures in categories such as housing, services, electricity, and certain essential expenditures. This resurgence in inflation forced the Reserve Bank od Australia to raise its policy rate by 0.25% at the beginning of the month, bringing it to 3.85%.

The increase in the policy rate was surprising, as it came shortly after three rate cuts in 2025. A debate has emerged within the central bank to determine whether structural changes are explaining the persistence of inflation, thereby implying a higher neutral interest rate in the economy. This discussion could also extend to other advanced economies facing similar disruptions.

RATE TRENDS

- No monetary policy meeting was scheduled in February, but bond yields nevertheless reacted to economic and financial conditions. Some investors became concerned about the disruptions caused by AI in specific industries, prompting them to seek the safety of government bonds. For the Bank of Canada, the adoption of AI represents a structural change, much like trade conflicts and demographic trends. These factors have been identified by the Bank as potential sources of disruption for the economy. In a speech delivered in February, the Bank's governor sought to raise awareness among Canadians that monetary policy cannot serve as a remedy for the structural challenges that will affect the economy in the future.

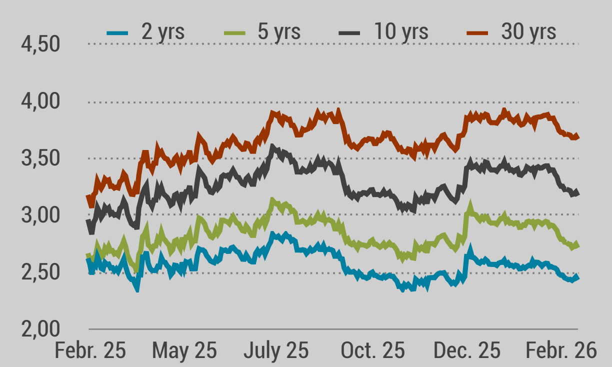
Monetary policy is an effective tool for stimulating demand when weakness is cyclical in nature. However, the current decline in employment is affecting sectors that are particularly sensitive to international trade, suggesting that structural transformations are underway and that intervention by the Bank of Canada would be less effective in this context. The governor's remarks suggest that the Bank of Canada's pause could be prolonged and that a more broad-based slowdown in the economy would be required to prompt additional monetary support. The Bank's threshold for intervention is now higher.

BOND RATES

Feb 2026		Monthly Change	Change 2026		Monthly Change	Change 2026
Key Interest Rate	2,25 %	0,00 %	0,00 %	3,75 %	0,00 %	0,00 %
3 months	2,20 %	-0,00 %	-0,00 %	3,66 %	0,00 %	0,03 %
2 years	2,39 %	-0,16 %	-0,20 %	3,37 %	-0,15 %	-0,10 %
5 years	2,66 %	-0,26 %	-0,31 %	3,50 %	-0,29 %	-0,22 %
10 years	3,13 %	-0,29 %	-0,31 %	3,94 %	-0,30 %	-0,23 %
30 years	3,63 %	-0,24 %	-0,24 %	4,61 %	-0,26 %	-0,23 %
RRB 30 years	1,56 %	-0,25 %	-0,29 %			

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 2026	Change 10 yrs month	Change 10 yrs 2026	Change 30 yrs month	Change 30 yrs 2026
Royal Bank, Bail-in-debt	AA	80	105	125	20	15	20	15	15	10
Royal Bank, NVCC	A	110	140	165	20	10	20	10	15	5
Sun Life, subordinated debt	A	95	125	150	15	5	15	5	10	0
Hydro One	A high	65	85	110	20	10	15	5	20	10
Enbridge Inc	A low	90	120	150	15	10	15	5	20	10
Altalink LP	A	65	85	110	20	10	15	5	20	10
GTAA	A high	55	80	100	15	5	15	5	15	5
Bell Canada	BBB	90	120	150	15	5	15	0	20	5
Rogers Communications	BBBL	95	125	155	15	5	15	0	20	5
Loblaw	BBB high	75	105	130	15	10	15	5	15	5
Canadian Tire	BBB	95	125	155	15	10	15	5	15	5
Province Québec	AA low	21,5	52,5	85,5	4,5	2,5	6,5	0,5	10,5	5,5
Province Ontario	AA low	18,5	44,5	75,5	4,5	1,5	5,5	-1,5	8,5	2,5
CMHC	AAA	13,5	22,5	-	4,5	4,5	5,5	0,5		

Source: National Bank Financial

CREDIT MARKET

- The total new issuance of Canadian corporate bonds reached $17.5 billion in February, up $1.2 billion from the previous month and $7 billion from February 2025. This marks the most active February on record, surpassing the previous record set in 2015 by $6.1 billion. Year-to-date, total bond financing has reached $33.7 billion, 52% higher than at the same point last year. The primary market was also well diversified, with 32 different issues from 23 issuers. The automotive financing sector was notably active, with four issues from three automakers: GM Financial Canada, Toyota Credit Canada, and Honda Canada Finance.
- The significant increase in new corporate bond issuance in the Canadian market is part of an accelerating primary market dynamic in the United States. Total new investment-grade issuance reached US$276.5 billion, bringing the year-to-date total to US$484.9 billion, up 12.4% from last year. The average for the month of February since 2020 has been approximately US$170 billion. This active calendar is driven in part by major AI-related capital expenditure programs, including a record US$27 billion data center-backed issuance from Meta (Facebook). Morgan Stanley estimated that AI-related bond financing could more than double this year to reach $400 billion. This surge in new issuance has therefore put upward pressure on credit spreads in both Canada and the United States.
- Provincial budget season is underway and deficits are mounting. In tabling its budget for fiscal year 2026–2027, British Columbia's Minister of Finance projects a deficit of $13.3 billion, $3.7 billion more than for the current fiscal year, equivalent to 2.9% of GDP. Revenues are expected to grow by 0.5%, while spending will increase by 4.4%. Alberta's deficit is also expected to widen in 2026–2027. The province projects a deficit of $9.4 billion for the coming fiscal year, $5.3 billion more than in 2025–2026, or approximately 2% of GDP. To guard against surprises, Alberta has included a $2 billion contingency fund in its budget and is planning its finances based on a WTI oil price of US$60.50 per barrel.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Feb. 2026	2026
Universe	100 %	1,66 %	2,25 %
Short Term	41,6 %	0,70 %	1,15 %
Mid Term	31,9 %	1,87 %	2,48 %
Long Term	26,5 %	2,92 %	3,74 %
Federal	43,0 %	1,74 %	2,09 %
Provincial	31,0 %	1,98 %	2,73 %
Corporates	24,2 %	1,07 %	1,88 %
RRB		3,01 %	3,55 %

Source: ftse.com

The dynamic of the U.S. market is influencing the Canadian market. Given the scale of issuance in the United States, some companies, such as Goldman Sachs, have preferred to raise funds in Canada. The investment plans of American technology companies are also contributing to this dynamic, as they transition from being investors with significant liquidity to becoming borrowers.

The latest federal budget projects a fiscal stimulus from Ottawa for the current year and subsequent fiscal years. Provinces are also expected to contribute to economic support in 2026 through higher deficits and spending. Furthermore, Alberta's conservative oil price forecast could provide the province with additional room to support its economy.

STRATEGIC POSITIONNING

The labor market inertia observed in the final months of 2025 is concerning for investors. Historically, every time the U.S. labor market stagnates for at least six months, the economy tips into recession. Employment dynamics are therefore crucial for anticipating the evolution of economic conditions, interest rates, and financial markets. Although statistics published in recent weeks point to a moderate recovery, it remains concentrated in specific sectors such as construction, education, and healthcare. Additionally, the acceleration of investment amortization should stimulate certain projects, particularly the construction of AI-related data centers. Furthermore, households will also benefit from significant tax refunds when they file their returns in April, which will support consumption. However, areas of uncertainty remain. The conflict in Iran adds another layer of uncertainty. It is still too early to determine the duration of this conflict and its impact on oil prices. Under normal circumstances, central banks tend to look past temporary energy price increases and focus on core inflation. However, if tensions persist, rising costs could have a lasting impact on production chains and all goods. The conflict is also disrupting maritime traffic and corporate supply chains. This supply shock heightens inflationary risks if demand remains strong, forcing central banks to reassess their position.