

AlphaFixe

MONTHLY Capital

BOND LETTER

September 30, 2026

BOND MARKET TRENDS

After seven months of war in Iran, the inflationary effects of the Strait of Hormuz blockade are becoming increasingly evident, but central banks in developed economies are responding differently depending on their respective economic conditions. The European Central Bank and the Bank of Japan continued their monetary tightening in September, but this time they were joined by the Federal Reserve, which raised its policy rate for the first time since July 2023. By contrast, the Bank of Canada and the Bank of England are facing weaker economic conditions, forcing them to remain on hold.

In Canada, the strength of the economy in the spring proved to be somewhat misleading. Annualized growth of 3.4% in the second quarter was largely driven by a 15.1% surge in exports, as companies accelerated shipments ahead of the implementation of new U.S. tariffs. Domestic demand nevertheless contributed to growth, but the 50% tariffs imposed on approximately C\$28 billion of Canadian exports are expected to weigh on economic activity in the second half of the year. The labour market is already showing signs of weakness, with 41,700 workers losing their jobs in August, bringing the average number of jobs created per month in 2026 to just 3,400. Wages are now rising at a 2.0% rate, their slowest pace since 2017, helping to keep core inflation close to 2.0%.

The picture is different in the United States. Revised national accounts show growth of 2.5% in the winter and 2.2% in the spring, while the Atlanta Fed's forecasting model projects growth of 3.7% in the summer. Growth is being driven by robust household spending and a boom in business investment, particularly in artificial intelligence. Employment also rebounded in August (+162,000) after a soft patch since May. Core inflation has remained above target for 65 months, driven by excess demand and tariffs. Against this backdrop, the Fed unanimously decided to raise its policy rate by 0.25%, bringing it to 4%. The Fed's hawkish stance on inflation, combined with concerns over the federal debt, which has surpassed the US\$40 trillion mark, has pushed 10-year and 30-year Treasury yields to their highest levels since 2002.

It is therefore justified for the Fed to act to contain inflation, but for the Bank of Canada, patience remains the preferred course of action. The trade conflict is weighing on economic activity and easing price pressures, while elevated oil prices threaten to spill over into the broader consumer basket. Faced with these opposing forces, Governor Macklem has indicated that he is now placing greater weight on inflation risks. In a speech, he outlined a scenario involving monetary tightening without mentioning the possibility of easing if the trade conflict worsens. Markets are now pricing in four rate hikes in Canada by September 2027, the same number as in the United States, but in an economy that is significantly more vulnerable. Such tightening would risk exacerbating the threat of a recession that the Bank is seeking to avoid at all costs.

FTSE CANADA INDEX PERFORMANCE

Sectors	Weight	Sep-26	2026
Universe	100%	-1,22 %	-0,78 %
Short Term	44,3%	-0,68 %	0,52 %
Mid Term	30,4%	-1,44 %	-0,73 %
Long Term	25,3%	-1,89 %	-3,12 %
Federal	43,8%	-1,22 %	-0,82 %
Provincial	29,5%	-1,56 %	-1,43 %
Corporate	24,9%	-0,81 %	0,05 %
RRB	-	-0,33 %	2,95 %

Source : FTSE Canada

BOND YIELD

Canada	Sep 30	Monthly Change	Change 2026
Policy Rate	2,25 %	0,00 %	0,00 %
3-Mth	2,40 %	0,12 %	0,20 %
2-Year	3,37 %	0,36 %	0,78 %
5-Year	3,70 %	0,36 %	0,73 %
10-Year	4,00 %	0,26 %	0,56 %
30-Year	4,30 %	0,16 %	0,44 %
30-Year RRB	1,98 %	0,07 %	0,10 %
US	Sep 30	Monthly Change	Change 2026
Policy Rate	4,00 %	0,25 %	0,25 %
3-Mth	4,12 %	0,30 %	0,49 %
2-Year	4,88 %	0,54 %	1,40 %
5-Year	5,08 %	0,58 %	1,36 %
10-Year	5,29 %	0,54 %	1,12 %
30-Year	5,63 %	0,40 %	0,79 %

Source : Datastream

CANADIAN RATE TRENDS



Source: LSEG Datastream / AlphaFixe Capital



CREDIT BOND SPREADS

Issuers	Rating DBRS	Spread			Changes					
		5-Yr	10-Yr	30-Yr	5-Yr		10-Yr		30-Yr	
					Mth	2026	Mth	2026	Mth	2026
Royal Bank Bail-in debt	AA	75	100	125	5	10	5	10	5	10
Royale Bank NVCC	A	105	140	170	0	5	5	10	0	10
Sun Life, sub debt	A	95	125	155	0	5	0	5	0	5
Hydro One	A high	55	80	110	-5	0	-5	0	-5	10
Enbridge Inc.	A low	80	110	150	-5	0	-10	-5	-10	10
Altalink LP	A	55	80	110	-5	0	-5	0	-5	10
GTAA	A high	35	60	85	-5	-15	-5	-15	-5	-10
Bell Canada	BBB	85	120	160	-5	0	-10	0	-10	15
Rogers Communications	BBBL	85	120	160	-5	-5	-10	-5	-10	10
Loblaw	A low	70	100	130	0	5	-5	0	-5	5
Canadian Tire	BBB	80	115	150	-5	-5	-5	-5	-5	0
Quebec Province	AA low	21	48	83	1	2	0	-4	-1	3
Ontario Province	AA	15	41	73	0	-2	0	-5	-2	0
CMHC	AAA	11	22	-	2	2	2	0		

CREDIT MARKET TRENDS

- The value of new Canadian corporate bond issues reached \$16.9 billion in September, up \$1.1 billion from the previous month, but down \$3.6 billion from the same period last year. Year to date, total bond financing has reached \$157.7 billion, up 44% compared with the first three quarters of 2025. With three months remaining in the year, total financing has already surpassed the previous annual record set in 2025 (\$144 billion). The primary market also welcomed several new issuers in 2026. Over the first three quarters, 17 issuers entered the Canadian market, including 10 BBB-rated companies, for a total of \$4.8 billion.
- At the Toronto Investment Summit in September, the Carney government announced plans to grant private concessions to operate the country's four major airports (Toronto, Montreal, Calgary and Vancouver) for several decades, while retaining public ownership of the land and assets. Based on the model of airports such as Heathrow in London, Carney is seeking to generate several billion dollars that would be reinvested in other infrastructure projects. Since the announcement, airport bond credit spreads have tightened, on the premise that a change in corporate control would trigger an early redemption of the bonds.

 *These airports carry relatively strong credit ratings, as the agencies base their assessments on the airports' legal ability to adjust user fees to recover their costs, as well as their regional quasi-monopoly positions. If the structure were to shift toward a private operator, the agencies' assessments would need to factor in debt financing for the payment to the federal government, as well as the return required by shareholders. Ratings could therefore be downgraded.*

- Quebec's economy grew at an annualized rate of 0.8% in the second quarter, following a 1.4% gain in the previous quarter. The slowdown was partly attributable to businesses drawing down inventories to meet demand rather than increasing production. Excluding changes in inventories and international trade, final domestic demand in Quebec increased by 2.2% in the spring, supported by household consumption (+2.8%), business investment in machinery and equipment (+13.7%), as well as government spending (+2.9%). International trade also contributed to growth, with exports surging 12.3%, while imports rose 4.8%.

 *However, the contribution of international trade to growth could fade over the summer, as new tariffs imposed by the Trump administration have raised the average effective tariff rate on Quebec goods from 6.8% to 11.0%, the highest rate among all Canadian provinces.*