MONTHLY BOND LETTER

AlphaFixe Capital

NOVEMBER 2025

ECONOMIC EVENTS

- Canada's GDP grew at an annualized quarterly rate of 2.6% over the summer, allowing the country to avoid a recession after a difficult second quarter (-1.8%). At first glance, this result is encouraging, but the details paint a different picture. Household consumption spending declined over the summer, down 0.4%, while businesses reduced their investments (-4.5%), both in machinery and in fixed assets. In contrast, the residential real estate sector contributed to growth in the third quarter (+6.7%), mainly due to a rebound in property resales. Governments also increased their spending (+0.3%). A significant portion of GDP growth came from international trade, driven by a sharp drop in imports (-8.6%). International trade alone accounted for 3.1% of GDP growth over the summer.

Excluding international trade and changes in inventories, final domestic demand was flat, reflecting more challenging economic conditions for Canadians. It is still encouraging to see that households have enough confidence in the future to purchase a new property. Statistics Canada also revised GDP figures for the years 2022 to 2024, adding a combined total of 1.4% to GDP growth. This reduces output gap, which should reassure the Bank of Canada that its monetary policy is properly calibrated.

- After a 48-day wait, the statistics on the state of the labor market for September have finally been released. The economy added 119,000 workers in September, surpassing economists' forecasts. However, revisions to the previous two months' data removed a total of 33,000 jobs. The government increased its payroll by 22,000 employees in September, while the private sector hired an additional 97,000 workers. Most of these gains came from the health and social services sector (+57,100) and leisure and hospitality (+47,000). The construction industry (+19,000) and retail trade (+13,900) also contributed to employment growth.

This is the government's last employment report before the Federal Reserve's December 10 decision. The BLS will publish the combined statistics for October and November on December 16. To support their decision, Fed members will also be able to analyze the private-sector employment figures produced by ADP. The latest report shows a loss of 32,000 jobs in November, the fourth monthly decline in the past six months. This decrease is concentrated among small businesses, since they have fewer supply options and weaker purchasing power with suppliers.

- China's inflation rate returned in positive territory in October, after two consecutive months of deflation. The index posted a monthly increase of 0.2%, bringing the annual inflation rate to 0.2%, its highest pace since January 2025. This rebound is explained by recent measures aimed at curbing excessive competition and by stronger domestic demand during the Mid-Autumn Festival. On the producer price side, deflation persists (-2.1% year over year), but this is the smallest decline since August 2024.

These data show that the Chinese economy is still suffering from excess production capacity relative to demand, even though the situation is gradually improving. In its most recent five-year plan, the government set a goal of increasing the share of household consumption in GDP, notably by strengthening the social safety net and overall living conditions.

RATE TRENDS

- Only one monetary policy meeting remains this year for all major central banks. For some, such as the Bank of Canada and the European Central Bank, it should be a non-event. These two banks have clearly indicated that their monetary policy is now appropriate and that it would take a significant deviation of the economy from their forecasts to trigger a rate change. For the U.S. Federal Reserve, the decision is likely to be split. Some members have spoken in favor of maintaining the status quo, while others have clearly indicated their preference for further easing. The recent slowdown in employment provides evidence supporting a cut in the policy rate. In Japan, the situation is the opposite. The likelihood of a rate hike is increasing due to persistent inflation and the new expansionary budget plan (US$137 billion).

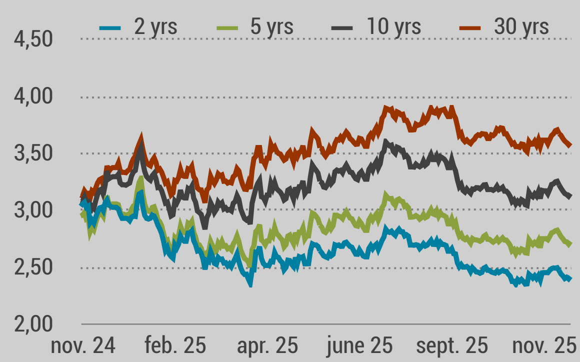
The combination of a policy rate cut in the United States and monetary tightening in Japan is reviving fears of a reversal of carry trades between the two countries. These strategies involved borrowing cheaply in Japan to invest in the U.S. bond market, where yields to maturity were more attractive.
An unwinding of these positions could put upward pressure on long-term interest rates, as investors reduce their U.S. holdings to repatriate capital back to Japan. The stimulative effect of U.S. monetary easing would therefore be weakened if these carry trades were to reverse.

BOND RATES

Nov. 30, 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	2,25 %	0,00 %	-1,50 %	4,00 %	0,00 %	-0,75 %
3 months	2,19 %	-0,06 %	-0,96 %	3,80 %	-0,00 %	-0,52 %
2 years	2,42 %	0,01 %	-0,51 %	3,49 %	-0,08 %	-0,75 %
5 years	2,73 %	0,03 %	-0,24 %	3,60 %	-0,09 %	-0,79 %
10 years	3,15 %	0,03 %	-0,08 %	4,01 %	-0,07 %	-0,56 %
30 years	3,60 %	0,02 %	0,26 %	4,66 %	0,01 %	-0,12 %
RRB 30 years	1,59 %	-0,01 %	0,14 %			

Source: Bloomberg

CANADIAN RATE TRENDS



1800 Ave. McGill College | Suite 2420 | Montréal (PQ) | H3A 3J6
514-861-3493
www.alphafixe.com
info@alphafixe.com

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	120	0	-10	0	-10	-5	-20
Royal Bank, NVCC	A	110	140	170	0	-15	0	-20	-5	-35
Sun Life, subordinated debt	A	95	125	155	5	0	5	-10	0	-20
Hydro One	A high	60	85	110	5	0	0	-5	5	-10
Enbridge Inc	A low	90	125	150	0	0	5	0	5	-25
Altalink LP	A	60	85	110	5	0	0	-5	5	-10
GTAA	A high	55	80	105	5	0	0	-5	5	-10
Bell Canada	BBB	95	125	155	5	-5	5	-20	5	-35
Rogers Communications	BBBL	100	130	160	10	-5	10	-20	10	-30
Loblaw	BBB high	75	105	135	5	0	5	-10	5	-25
Canadian Tire	BBB	95	125	160	5	-10	5	-20	5	-35
Province Québec	AA low	18	52	77	2	-6	-2	-13	-2	-13
Province Ontario	AA low	18	50	74	0	-6	-2	-12	-2	-12
CMHC	AAA	9	24	-	-2	-4	-2	-12		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate bond new issuance reached $12 billion in November, an increase of $1.4 billion from the previous month and $8.8 billion more compared with November 2024. Year to date, bond financing totals $132 billion, which is 13.7% more than at the same time last year. This marks a record year for issuance, with still one month left to count. The previous record was $127.7 billion last year. The diversification of the new-issue calendar has also been notable, as 20 different companies issued 29 bonds, almost one issuer per business day.
- The uncertainty surrounding the future of Laurentian Bank has faded. Fairstone Bank of Canada has submitted a purchase offer for Laurentian's commercial real estate lending business, inventory and equipment financing, intermediary services, and capital markets operations. Meanwhile, National Bank will acquire Laurentian's personal banking and SME banking portfolios. Employees working in Laurentian's personal banking services will not be integrated into National Bank's staff, and all Laurentian branches will be closed. However, Laurentian's brand will be maintained for the activities transferred to Fairstone. In the long term, Laurentian's common shares will be delisted, but the preferred shares, subordinated debt, and limited recourse capital notes (LRCNs) will remain attached to Laurentian Bank under Fairstone's capital structure.
- Quebec's Finance Minister announced that the province's deficit will be smaller than expected when the budget was tabled. Instead of a deficit of $11.4 billion, the minister now forecasts a shortfall of $9.9 billion for the 2025–2026 fiscal year. This slight improvement stems from a $2.4 billion increase in revenues, attributable to higher tax receipts. Budget forecasts for subsequent years remain unchanged. However, the trade dispute with the United States continues to affect the province's finances. “The Ministry of Finance estimates that the average effective tariff rate should remain below 10%. However, some tariff measures are likely to be persistent, or even permanent,” the update stated.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	Nov. 2025	2025
Universe	100 %	0,27 %	3,97 %
Short Term	41,5 %	0,18 %	4,14 %
Mid Term	30,6 %	0,17 %	5,17 %
Long Term	27,9 %	0,52 %	2,44 %
Federal	42,4 %	0,15 %	3,37 %
Provincial	31,5 %	0,47 %	3,90 %
Corporates	24,4 %	0,23 %	5,10 %
RRB		0,28 %	3,48 %

Source: ftse.com

Fairstone is rated BBB by only one rating agency, DBRS, which has not yet changed its outlook. Recall that Fairstone took out a $250 million loan with a three-year maturity last September without disclosing its financial statements to investors. Will investors remember this when the company seeks to finance part of this acquisition in 2026?

As in Ontario, the deficit was revised downward, since the impact of tariffs on economic activity turned out to be less significant than anticipated when the budget was announced. This modest revision may be strategic. Why announce good news a year before the election? Better to wait until March 2026 to show a larger fiscal margin and introduce new expansionary measures.

STRATEGIC POSITIONNING

The U.S. economy is going through a turbulent period. Overall, aggregate indicators depict a resilient economy, considering the obstacles faced this year (trade conflicts and government shutdowns). However, a deeper analysis reveals a two-speed economy and a marked increase in income disparities. The top 20% of households, those with annual incomes exceeding $175,000, account for more than 85% of the growth in consumer spending since 2023. They benefit from the wealth effect generated by rising stock markets in recent years. In contrast, lower-income households struggle to make ends meet, and the high cost of living continues to constrain their spending. Wage growth for the bottom quartile has slowed significantly, as has the labor market in recent months. Small businesses are also struggling, leading them to reduce staff, while large companies continue hiring, supported by increases in their market capitalization. This dichotomy complicates economic forecasts. Which reality will dominate? If wealthy households start to slow their spending, a recession could emerge. Conversely, the Trump administration is considering redistributing some tariff revenues to middle-class households, a measure that could stimulate the economy but risks intensifying inflationary pressures.