MONTHLY BOND LETTER

DECEMBER 2025

ECONOMIC EVENTS

- Employment growth in Canada was strong in November. After adding 66,600 jobs in October, the Canadian economy created 53,600 jobs in November, bringing the number of new workers over the past three months to 181,000. All of the new jobs in November were part-time (+63,000), a trend observed over the past three months, with 57% of new positions being part-time. Goods-producing industries added 11,100 workers, notably in natural resource extraction (+11,400). Service-producing industries also added 42,800 jobs, concentrated in health care (+45,500). By contrast, wholesale and retail trade shed 34,100 workers. The number of unemployed people fell by 79,500, causing the unemployment rate to drop by 0.4% to 6.5% in November, its lowest level in 16 months.

Job gains over the past three months have been spectacular, but they do not quite deserve an A+ on an exam. The new positions created are mainly part-time and concentrated in sectors that are less sensitive to the economic cycle. Nevertheless, this still demonstrates the resilience of the economy, which has led investors to price in a policy rate increase starting in October 2026. A monetary tightening may be premature, but it minimizes the likelihood of a rate cut in the near term.

- U.S. GDP posted quarter-over-quarter growth of 4.3% at an annualized rate, which is 0.5% higher than the second quarter growth. The components are as robust as the headline figure suggests. Household consumer spending rose by 3.5%, accelerating from the previous quarter (+2.5%). Business investment grew by 2.8%, driven by investment in machinery. By contrast, residential investment declined (-5.1%) for a third consecutive quarter. International trade added 1.6 percentage points to third-quarter growth, as exports surged by 8.8% while imports fell by 4.7%.

Excluding international trade and changes in business inventories, final domestic demand in the U.S. economy posted robust growth of 3.0% in the third quarter, compared with 2.9% in the second. This indicator points to a resilient economy despite the many shocks experienced this year. There could be a deceleration in the final quarter due to the government shutdown, but for the year as a whole, the economy is still likely to grow above its long-term potential.

- The Bank of Japan raised its policy interest rate by 0.25% to 0.75%, a level not seen since 1995. According to the Bank's outlook, there is a strong likelihood that the mechanism by which wages and inflation rise simultaneously will continue in 2026. Given an annual inflation rate of 3%, the real policy rate remains negative and therefore expansionary. The Bank said it is prepared to raise the policy rate again in the future, but decisions will be made on a meeting-by-meeting basis.

Japan's policy rate is thus following an upward trajectory, while that of the United States is expected to continue to decline in 2026. We are therefore moving toward an environment in which financing rates tend to converge among major economies. The era in which Japan exerted structural downward pressure on global interest rates appears to be coming to an end.

RATE TRENDS

- In line with investors' expectations, the Federal Reserve announced a 0.25% cut to its policy rate, bringing it down to 3.75%. The statement from the previous meeting had suggested that the Fed might pause in December. However, the latest data show a slowdown in the labor market, shifting the balance of risks in the Fed's view more toward unemployment rather than inflation. The committee also revised its economic forecasts for next year. Economic growth is expected to accelerate to 2.3%, compared with 1.8% projected in September, while core inflation is expected to be slightly lower, at 2.5% versus 2.6% previously. Members did not change their projections for the policy rate at the end of 2026, anticipating only one additional rate cut over the 12-month horizon.

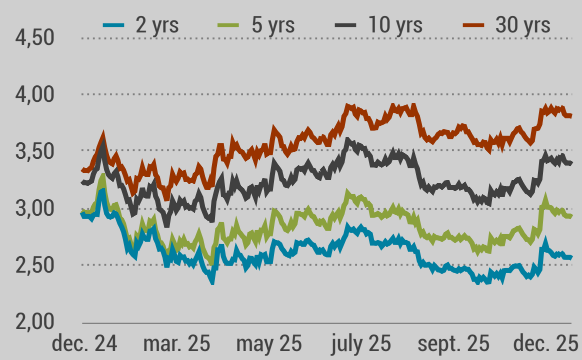
It is unlikely that the next rate cut will occur as early as January. If the Fed were to ease monetary policy again at that time, it would most likely be in response to a marked deterioration in economic conditions, which would then require a more forceful approach in 2026. Despite trade conflicts, the tightening of immigration policy, the U.S. government shutdown, and mass layoffs related to DOGE, the economy continues to grow above its potential rate. Such momentum is generally associated with overheating risks and argues in favor of a cautious monetary policy approach rather than aggressive rate cuts.

BOND RATES

Dec. 31 2025	Canada	Monthly Change	Change 2025	United States	Monthly Change	Change 2025
Key Interest Rate	2,25 %	0,00 %	-1,00 %	3,75 %	-0,25 %	-0,75 %
3 months	2,20 %	0,01 %	-0,94 %	3,63 %	-0,17 %	-0,69 %
2 years	2,59 %	0,17 %	-0,34 %	3,47 %	-0,02 %	-0,77 %
5 years	2,97 %	0,24 %	0,01 %	3,73 %	0,13 %	-0,66 %
10 years	3,43 %	0,28 %	0,21 %	4,17 %	0,16 %	-0,40 %
30 years	3,86 %	0,27 %	0,53 %	4,84 %	0,18 %	0,06 %
RRB 30 years	1,85 %	0,26 %	0,40 %			

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	65	90	115	-5	-15	-5	-15	-5	-25
Royal Bank, NVCC	A	100	130	160	-10	-25	-10	-30	-10	-45
Sun Life, subordinated debt	A	90	120	150	-5	-5	-5	-15	-5	-25
Hydro One	A high	55	80	100	-5	-5	-5	-10	-10	-20
Enbridge Inc	A low	80	115	140	-10	-10	-10	-10	-10	-35
Altalink LP	A	55	80	100	-5	-5	-5	-10	-10	-20
GTAA	A high	50	75	95	-5	-5	-5	-10	-10	-20
Bell Canada	BBB	85	120	145	-10	-15	-5	-25	-10	-45
Rogers Communications	BBBL	90	125	150	-10	-15	-5	-25	-10	-40
Loblaw	BBB high	65	100	125	-10	-10	-5	-15	-10	-35
Canadian Tire	BBB	85	120	150	-10	-20	-5	-25	-10	-45
Province Québec	AA low	19	52	80	1	-5	0	-13	3	-10
Province Ontario	AA low	17	46	73	-1	-7	-4	-16	-1	-13
CMHC	AAA	9	22	-	0	-4	-2	-14		

Source: National Bank Financial

CREDIT MARKET

- Canadian corporate new bonds totaled $10.4 billion in December, down $1.6 billion from the previous month and $1.2 billion from December 2024. For the year 2025, total bond financing reached a new annual record of $142.5 billion, 11.6% higher than the previous record set last year. It was also the fourth most active quarter ever in the Canadian primary market, with $33.1 billion in new corporate bond issuance. Investors also benefited from a more diversified market, as only 28% of new issuance came from the banking sector—the lowest proportion on record.
- Among the 20 new corporate bond issues completed in December, four issuers with below investment grade credit ratings raised a total of $990 million. The year 2025 was particularly favorable for the Canadian high-yield bond market, with 26 issues totaling $6.9 billion, or $1.2 billion more than in 2024. This represents a new annual high for this category of issuers. The year was also marked by a record number of 12 new issuers in this segment, including KEG Restaurants, rated B (High), which borrowed $225 million in December by offering investors a 6.625% coupon with a seven-year maturity.
- The Province of Alberta released an economic update on its public finances. The Minister of Finance now expects the deficit for fiscal year 2025–2026 to reach $6.4 billion, or 1.3% of GDP. This represents a deterioration of $1.2 billion compared with the budget tabled at the beginning of 2025, attributable to an equivalent decline in revenues, mainly from oil royalty income. The Minister now forecasts the average WTI oil price at $61.50, compared with $68 in the spring. The spread between light crude (WTI) and heavy crude (WCS) is now expected to be $11.30, rather than the $17.10 anticipated in the budget. Nevertheless, economic growth is expected to strengthen to 2.1%, compared with 1.8% projected at the time of the budget.

FTSE TMX INDEX PERFORMANCE

Sector	Weight	dec. 2025	2025
Universe	100 %	-1,28 %	2,64 %
Short Term	43,1 %	-0,25 %	3,88 %
Mid Term	31,3 %	-1,08 %	4,03 %
Long Term	25,6 %	-3,11 %	-0,75 %
Federal	42,8 %	-1,15 %	2,19 %
Provincial	31,0 %	-1,97 %	1,85 %
Corporates	24,5 %	-0,59 %	4,48 %
RRB		-2,51 %	0,88 %

Source: ftse.com

Investors' appetite for these securities at historically low yield spreads points to a certain complacency prevailing in the markets. By contrast, the proceeds from these new bond issues are often used to repay bank loans. Could this be seen as an attempt by Canadian banks to strengthen their balance sheets in anticipation of an economic slowdown?

The province's finances are highly dependent on oil price movements and, indirectly, on geopolitical developments. In this regard, U.S. intervention in Venezuela represents a medium-term risk factor for Alberta. The country holds vast reserves of heavy crude oil comparable to Alberta's, making it an alternative source of supply for the United States.

STRATEGIC POSITIONNING

The U.S. economy ended 2024 on a strong note, and the outlook for 2025 was favorable, although still dependent on the decisions of an unpredictable new president. That said, despite massive federal employee layoffs, the imposition of tariffs on multiple trading partners, tighter immigration policies, and a record federal government shutdown, the economy continued to defy expectations and maintain a high growth rate, demonstrating its resilience. The labor market raises some concerns, but the "R" word (recession) is still far from being uttered by economists. However, intervention in Venezuela represents a new destabilizing factor that investors will need to incorporate into their scenarios for 2026. Beyond geopolitical factors, the U.S. economy could follow several possible trajectories next year. For example, economic activity is likely to reaccelerate under the influence of fiscal stimulus in the United States and elsewhere in the world, leading to a rebound in hiring at a time when labor supply from immigration is already constrained. This recovery should encourage the Federal Reserve to adopt a cautious approach to rate cuts. However, the next Fed chair might be tempted to appease the Trump administration and push for more aggressive monetary easing, thereby fueling growth but also inflationary pressures.