

AlphaFixe

MONTHLY Capital

BOND LETTER

May 31, 2026

BOND MARKET TRENDS

A "technical" recession is defined as two consecutive quarters of economic contraction. This is exactly what just happened in Canada, as our GDP fell by 0.1% on an annualized basis in the first quarter, following a 1% decline in the previous quarter. Over the past year, the economy also posted a contraction of 0.1%.

The first-quarter result contrasts sharply with market expectations (+1.5%) and with Statistics Canada's preliminary estimate (+1.6%). This gap is mainly explained by the high volatility of international trade statistics. Exports fell by 0.5% in the first quarter, while imports jumped by 12%, driven primarily by gold imports. Consequently, international trade shaved 3.8% off GDP growth during the first three months of the year. However, this decline is not solely attributable to international trade. Business investment also slipped by 3.2% on an annualized basis, while residential investment plunged by 7.9%. Surprisingly, government spending and investment also declined in the first quarter (-2.4%), despite larger deficits.

This report on the Canadian economy does not contain only negative elements. Household consumption expenditures rose by 1.5% on an annualized basis, supported by retail sales volume prior to the outbreak of the war in Iran. Unfortunately, some households drew on their savings to maintain their spending, as the savings rate (3.5%) reached its lowest level since the beginning of 2024. Businesses also rebuilt their inventories. Excluding changes in inventories and international trade, the economy remains weak and fragile. Final domestic demand contracted by 0.4% in the first quarter and is up only 1.3% over 12 months.

With these results in mind, can we assert that the Canadian economy is in a recession? It is still too early to tell. First, Statistics Canada expects the Canadian economy to regain momentum in April, with GDP projected to grow by 0.4% month-over-month. Second, household consumption remains in expansionary territory, and finally, part of the GDP decline is attributable to gold imports linked to global central bank reserves. Although it is premature to call a recession, the weakness of the Canadian economy is undeniable.

Despite this fragile economic backdrop and job losses in Canada in 2026, investors continue to expect a hike in the policy rate by the Bank of Canada by the end of the year. The Bank would be making a mistake by tightening its monetary policy. Meanwhile, the US economy continues to show surprising resilience despite the headwinds encountered. Final domestic demand accelerated in the first quarter (2.4%) compared to the previous quarter (1.8%), supported in part by business investments to build out AI infrastructure. The economy is still operating above its potential growth rate, and inflationary pressures are stronger. Monetary tightening seems more appropriate, but investors don't buy it. Go figure!

FTSE CANADA INDEX PERFORMANCE

Sectors	Weight	May-26	2026
Universe	100%	1,36 %	1,72 %
Short Term	42,0%	0,74 %	1,07 %
Mid Term	30,8%	1,26 %	1,58 %
Long Term	27,2%	2,49 %	2,91 %
Federal	43,0%	1,13 %	1,30 %
Provincial	30,9%	1,75 %	2,22 %
Corporate	24,2%	1,26 %	1,82 %
RRB	-	0,39 %	1,67 %

Source : FTSE Canada

BOND YIELD

Canada	May 31	Monthly Change	Change 2026
Policy Rate	2,25 %	0,00 %	0,00 %
3-Mth	2,31 %	0,02 %	0,11 %
2-Year	2,78 %	-0,18 %	0,19 %
5-Year	3,05 %	-0,14 %	0,08 %
10-Year	3,41 %	-0,13 %	-0,02 %
30-Year	3,80 %	-0,13 %	-0,06 %
30-Year RRB	1,75 %	-0,11 %	-0,13 %
US	May 31	Monthly Change	Change 2026
Policy Rate	3,75 %	0,00 %	0,00 %
3-Mth	3,67 %	0,00 %	0,04 %
2-Year	4,00 %	0,11 %	0,52 %
5-Year	4,14 %	0,12 %	0,42 %
10-Year	4,44 %	0,04 %	0,27 %
30-Year	4,98 %	-0,01 %	0,14 %

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	65	85	110	-5	0	-10	-5	-10	-5
Royale Bank NVCC	A	100	130	160	-5	0	-5	0	-5	0
Sun Life, sub debt	A	85	115	140	-10	-5	-10	-5	-10	-10
Hydro One	A high	50	75	100	-5	-5	-5	-5	0	0
Enbridge Inc.	A low	80	110	145	-5	0	-5	-5	0	5
Altalink LP	A	50	75	100	-5	-5	-5	-5	0	0
GTAA	A high	40	65	90	-5	-10	-5	-10	0	-5
Bell Canada	BBB	85	115	150	-5	0	-5	-5	0	5
Rogers Communications	BBBL	85	115	150	-10	-5	-10	-10	-5	0
Loblaw	A low	70	95	120	0	5	0	-5	0	-5
Canadian Tire	BBB	85	115	145	-5	0	-5	-5	-5	-5
Quebec Province	AA low	22	50	77	-1	3	-1	-2	-1	-3
Ontario Province	AA	16	42	70	-1	-1	-2	-4	-1	-3
CMHC	AAA	9	18	-	1	0	1	-4		

CREDIT MARKET TRENDS

- New bond issuances by Canadian corporations totaled \$14.1 billion in May, down \$4.5 billion from the previous month and a slight decline of \$175 million compared to May 2025. This marks the second most active month of May in history, behind only the record set last year. As a reminder, the primary market was revitalized in May 2025 as soon as Trump announced a suspension of the "Liberation Day" tariffs. Since the beginning of the year, total bond financing has reached \$81.2 billion, a 74% increase compared to the first five months of 2025. In just five months of activity, the volume recorded in 2026 already surpasses the total issuances carried out for the entire year of 2018. At this pace, 2026 will set another record year, following the peak shattered last year.
- For the first time in its history, Google's parent company, Alphabet, borrowed on the Canadian market. The company announced a bond issuance totaling \$8.5 billion, split into four distinct tranches of 5, 7, 10, and 30 years. This represents the largest borrowing ever conducted on the Canadian market. The previous record was held by Coastal GasLink, which had borrowed \$7.15 billion in 2024. Rated AA by US rating agencies, Alphabet received a favorable reception from investors. This issuance offers high-quality sector diversification, which allowed the company to slightly tighten the yield spreads initially offered. Earlier in the month, Alphabet had also issued €9 billion in bonds on the European market, split into six distinct tranches.

📌 *Big tech companies are increasingly turning to debt markets to finance their massive investments in artificial intelligence, marking a shift from their traditional reliance on internal liquidity. Tech giants are thus expected to dedicate more than \$700 billion to AI infrastructure in 2026, a sharp increase from \$410 billion in 2025. These investments are expected to contribute to GDP growth in 2026, but will they deliver the expected profitability for businesses?*

- With only two months done in the new 2026–2027 fiscal year, all Canadian provinces combined have already completed 35% of their financing requirements for this fiscal year. However, the pace of new issuances differs from one province to another. On one hand, the province of Quebec has always been known for getting ahead on its financing, and the current fiscal year is no exception. Quebec has already borrowed 50% of the amount projected for this year. In contrast, the province of Alberta has completed only 11% of its borrowing requirements. The limited size of new borrowings in Alberta, combined with rising energy prices, partly explains the tightening of yield spreads over the past six months.

📌 *Alberta projects a budget deficit of \$9.4 billion for the current fiscal year (2026–2027), which is \$5.2 billion more than the previous fiscal year. This shortfall is notably driven by a decrease in the share of revenues from natural resources within the province's tax base, which is expected to drop from 21.6% of total revenues to 17.7%. This budget also forecasts an oil price (WTI) of \$60.50 for the fiscal year. However, recent events in the Middle East are allowing the province to replenish its coffers at a faster pace, which could explain the delay in its financing program.*