AlphaFixe Capital

MONTHLY

BOND LETTER

July 31, 2026

BOND MARKET TRENDS

After recording two consecutive quarters of contraction, Canada's GDP rebounded in the spring. The economy grew by 0.3% in May, following an upwardly revised 0.6% increase in April. Growth was also well distributed across the economy, with 13 of the 20 industrial sectors posting an increase in May. Goods-producing industries saw activity rise by 0.6%, supported notably by the energy sector (+1.0%), which continues to benefit from the repercussions of the conflict in the Middle East. However, the economy's strength is not limited to that sector. The construction (+0.8%) and manufacturing (+0.7%) sectors also grew for a second consecutive month. Growth in service industries was more modest, however, at +0.2%. Statistics Canada is also projecting a third consecutive monthly increase in GDP for June (+0.2%), which would bring annualized growth to 3.2% in the second quarter.

We already know that international trade contributed positively to this growth, both through strong energy exports and through the acceleration of Canadian exports to the United States ahead of the July 1 deadline set for the renegotiation of CUSMA. The picture could be less favorable in the third quarter, however, as the Trump administration has threatened to impose 50% tariffs on nearly $28 billion of Canadian exports, equivalent to 0.8% of GDP. Despite this recovery, it is unlikely that the Bank of Canada will tighten monetary policy in 2026. Given that the Trump administration's threats also target products that are nonetheless protected under CUSMA, trade uncertainty remains too significant to justify a monetary tightening that could further slow the economy.

While international trade propelled our economy, it instead acted as a drag in the United States. U.S. GDP grew by 1.5% in the second quarter, supported by household consumption spending (+3.2%), boosted by the generous tax refunds granted this year under the One Big Beautiful Bill. Business investment in artificial intelligence-related infrastructure also continues to be an important growth driver. Excluding international trade and changes in business inventories, final domestic demand shows strong growth (+3.9%), a sign of the economy's resilience despite rising gas prices and geopolitical uncertainty. This sustained demand continues to fuel inflation, which has remained above the Federal Reserve's target for more than five years.

The persistence of inflation notably led three members of the Federal Reserve committee to vote in favor of a 0.25% increase in the policy rate at the July meeting. Despite these dissents, the Fed kept its policy rate unchanged but appears to have shifted its approach. Rather than seeking to guide markets through forward guidance, the Fed, under the chairmanship of Kevin Warsh, now seems to want to rely more heavily on the signals it receives from the markets. This new approach could lead to greater volatility in the bond market, especially in this new global order that is prone to supply shocks.

FTSE CANADA INDEX PERFORMANCE

Sectors	Weight	Jul-26	2026
Universe	**100%**	**-1,55 %**	**0,66 %**
Short Term	43,4%	-0,35 %	1,09 %
Mid Term	43,4%	-0,35 %	1,09 %
Long Term	25,3%	-3,69 %	-0,41 %
Federal	43,8%	-1,23 %	0,60 %
Provincial	29,8%	-2,28 %	0,44 %
Corporate	24,7%	-1,20 %	1,01 %
RRB	-	-1,83 %	3,10 %

Source : FTSE Canada

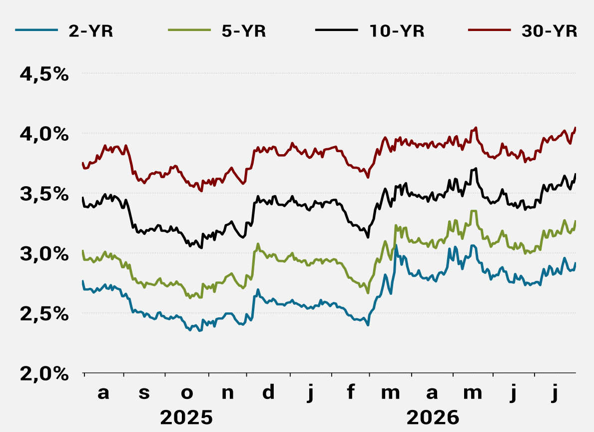
BOND YIELD

Canada	Jul 31	Monthly Change	Change 2026
Policy Rate	2,25 %	0,00 %	0,00 %
3-Mth	2,29 %	0,01 %	0,09 %
2-Year	2,92 %	0,18 %	0,33 %
5-Year	3,28 %	0,26 %	0,30 %
10-Year	3,67 %	0,28 %	0,23 %
30-Year	4,05 %	0,27 %	0,19 %
30-Year RRB	1,97 %	0,24 %	0,09 %

US	Jul 31	Monthly Change	Change 2026
Policy Rate	3,75 %	0,00 %	0,00 %
3-Mth	3,76 %	-0,07 %	0,12 %
2-Year	4,27 %	0,12 %	0,79 %
5-Year	4,43 %	0,22 %	0,70 %
10-Year	4,71 %	0,27 %	0,55 %
30-Year	5,25 %	0,32 %	0,41 %

Source : Datastream

CANADIAN RATE TRENDS



CREDIT MARKET

CREDIT BOND SPREADS

Issuers	Rating DBRS	Spread 5-Yr	Spread 10-Yr	Spread 30-Yr	Changes 5-Yr Mth	Changes 5-Yr 2026	Changes 10-Yr Mth	Changes 10-Yr 2026	Changes 30-Yr Mth	Changes 30-Yr 2026
Royal Bank Bail-in debt	AA	70	90	115	5	5	5	0	5	0
Royale Bank NVCC	A	105	135	165	5	5	5	5	5	5
Sun Life, sub debt	A	95	125	150	10	5	10	5	10	0
Hydro One	A high	55	80	115	0	0	0	0	10	15
Enbridge Inc.	A low	80	115	155	0	0	5	0	10	15
Altalink LP	A	55	80	115	0	0	0	0	10	15
GTAA	A high	40	65	95	-5	-10	-5	-10	0	0
Bell Canada	BBB	90	125	165	5	5	5	5	10	20
Rogers Communications	BBBL	90	125	165	5	0	5	0	10	15
Loblaw	A low	70	100	135	0	5	0	0	10	10
Canadian Tire	BBB	85	120	160	0	0	0	0	10	10
Quebec Province	AA low	21	51	81	0	2	3	-1	3	1
Ontario Province	AA	16	44	75	0	-1	3	-2	4	2
CMHC	AAA	11	20	-	0	2	2	-2		

CREDIT MARKET TRENDS

- The value of new Canadian corporate bond issuances reached $9.6 billion in July, down $24.6 billion from the previous month and $300 million compared to the same period last year. After an absolute record in June, the primary market returned to a more normal pace in the first month of summer. Since the start of the year, total bond financing volume stands at $125 billion, up 62% compared to the first seven months of 2025. Among the 17 companies that carried out financings in July, two foreign companies borrowed in the Canadian market for a total of $2 billion. Since the beginning of 2026, the total of new Maple bonds stands at $35.1 billion, or 28% of all new issuances. Last year, the proportion of Maple bonds in the primary market was 11%.
- Telus unveiled quarterly results well below expectations, in addition to announcing a 55% reduction in its dividend. The company's revenue and earnings before interest, taxes, and amortization (EBITDA) were both down (-3% and -2% respectively) compared to last year. During the second quarter of 2026, the company added only 17,000 new mobile devices, a significant decline (-66%) compared to last year. The company also revised downward its financial guidance for this year, indicating that service revenue will be flat or down 2% instead of growing 2% to 4%. Telus estimates that the dividend reduction alone should generate approximately $2.7 billion in cumulative cash savings by 2028, which will be allocated to debt reduction.

  Despite the savings related to the dividend cut, the company also eliminated the discount on its dividend reinvestment plan, which reduces the benefits. Combined with the underwhelming new guidance, the net effect is not positive for credit. The company's leverage ratio remains high, although the risk of a downgrade remains low for now.

- After four months of activity in the 2026-2027 fiscal year, Canadian provinces have already completed nearly 50% of their financing program, which totals $160 billion according to the budgets tabled at the beginning of the year. Aside from Saskatchewan (68%), Quebec is one of the most advanced provinces in its program, with 66% of it already completed. To date, finance departments have borrowed about 50% of the amounts in the Canadian market, while the remainder has been financed by foreign investors. According to budget forecasts, foreign financing is expected to account for 40% of total financing, up from last year (39%) and the highest proportion observed in recent years.

  Historically, Quebec has always prefunded its debt management program, and this year is no exception. Given the electoral context expected in Quebec this fall and investor concerns about the possibility of a third referendum should the Parti Québécois win, the Ministry of Finance could accelerate the pace of its borrowing if market conditions remain favourable.