AlphaFixe Capital

MONTHLY BOND LETTER



October 31, 2026

BOND MARKET TRENDS

The Bank of Canada has finally decided to join the monetary tightening cycle. In line with investor expectations, it announced a 25-basis-point increase in its policy rate in October, bringing it to 2.5%. This marks the first rate hike since July 2023. To justify this shift in monetary policy, the Bank cited concerns that rising energy prices, industrial input costs and imported electronic components could be passed on to consumers. So far, businesses have absorbed these higher costs, but the Business Outlook Survey suggests that they intend to pass a greater share of them on to their customers over the coming year. Household inflation expectations have also risen recently in response to higher prices at the pump. As a result, the Bank of Canada raised its inflation forecast for 2027 to 3%, one percentage point higher than its July projection.

The Bank has also adopted a more optimistic outlook for economic growth, particularly in light of government spending on infrastructure projects, the mega deduction of investments and opportunities for expansion in the energy sector, supported by elevated oil prices. As a result, its assessment of the balance of risks now leans more toward inflationary pressures than toward the risk of an economic slowdown.

With this rate hike, the Bank aims to limit the pass-through of production costs to consumers. However, current inflation is not being driven by excessive demand in the economy, but rather by an energy supply shock beyond the control of monetary authorities. This rate increase will not bring down fuel prices, which fluctuate with developments in the conflict in the Middle East. High gasoline prices act more like a consumption tax, reducing the share of household budgets available for discretionary spending. Neither the Canadian economy nor the labour market is strong enough to allow workers to secure wage increases that would preserve their purchasing power, or businesses to raise consumer prices. Still mindful of the 2022–2023 inflation episode, the Bank has chosen to act prematurely, at the risk of further slowing the economy.

In the United States, economic conditions remain favourable. Business investment in the development of artificial intelligence remains robust, and the unemployment rate is close to its full-employment level. These factors are contributing to inflationary pressures that remain elevated and persistent. All the conditions were therefore in place to justify a rate hike in October, but the Fed was reluctant to make a politically sensitive decision just days before the midterm elections. Instead, it opted to gather more data before making the best possible decision to bring inflation back to its 2% target. Barring a significant change in economic conditions, another round of monetary tightening is therefore expected on December 9.

FTSE CANADA INDEX PERFORMANCE

Sectors	Weight	Oct-26	2026
Universe	**100%**	**1,48 %**	**0,69 %**
Short Term	43,7%	0,70 %	1,23 %
Mid Term	30,4%	1,55 %	0,81 %
Long Term	25,9%	2,78 %	-0,43 %
Federal	44,2%	1,39 %	0,56 %
Provincial	29,4%	1,98 %	0,53 %
Corporate	24,7%	1,04 %	1,08 %
RRB	-	1,49 %	4,49 %

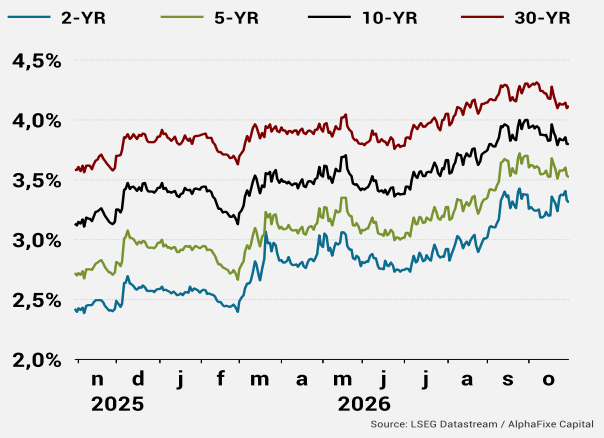
Source : FTSE Canada

BOND YIELD

Canada	Oct 31	Monthly Change	Change 2026
Policy Rate	2,50 %	0,25 %	0,25 %
3-Mth	2,56 %	0,16 %	0,36 %
2-Year	3,31 %	-0,07 %	0,72 %
5-Year	3,52 %	-0,18 %	0,55 %
10-Year	3,80 %	-0,20 %	0,36 %
30-Year	4,12 %	-0,19 %	0,26 %
30-Year RRB	1,88 %	-0,10 %	0,00 %
US	**Oct 31**	**Monthly Change**	**Change 2026**
Policy Rate	4,00 %	0,00 %	0,25 %
3-Mth	4,08 %	-0,04 %	0,44 %
2-Year	4,57 %	-0,30 %	1,10 %
5-Year	4,70 %	-0,38 %	0,98 %
10-Year	4,91 %	-0,38 %	0,75 %
30-Year	5,29 %	-0,34 %	0,45 %

Source : Datastream

CANADIAN RATE TRENDS





CREDIT BOND SPREADS

					Changes					
	Rating	Spread			5-Yr		10-Yr		30-Yr	
Issuers	DBRS	5-Yr	10-Yr	30-Yr	Mth	2026	Mth	2026	Mth	2026
Royal Bank Bail-in debt	AA	80	105	130	5	15	5	15	5	15
Royale Bank NVCC	A	115	150	180	10	15	10	20	10	20
Sun Life, sub debt	A	100	130	160	5	10	5	10	5	10
Hydro One	A high	60	85	110	5	5	5	5	0	10
Enbridge Inc.	A low	85	120	155	5	5	10	5	5	15
Altalink LP	A	60	85	110	5	5	5	5	0	10
GTAA	A high	40	65	85	5	-10	5	-10	0	-10
Bell Canada	BBB	100	135	170	15	15	15	15	10	25
Rogers Communications	BBBL	100	135	170	15	10	15	10	10	20
Loblaw	A low	80	110	140	10	15	10	10	10	15
Canadian Tire	BBB	90	125	160	10	5	10	5	10	10
Quebec Province	AA low	22	48	82	1	3	0	-4	-1	2
Ontario Province	AA	16	43	75	1	-1	2	-3	2	2
CMHC	AAA	13	23	-	2	4	1	1		

CREDIT MARKET TRENDS

- The value of new corporate bond issuance in the Canadian market reached $16.6 billion in October, down $600 million from the previous month but up $6 billion compared with the same period last year. Since the beginning of the year, total bond financing has reached $174.6 billion, an increase of 43% compared with the first ten months of 2025. The wave of Maple bond issuance continued in October, as U.S. retail giant Walmart completed a $5 billion offering across four maturities: 4, 7, 12 and 30 years. These new bonds bring Maple issuance to 27% of total new issuance in the Canadian bond market in 2026.
- In October, SpaceX agreed to acquire 800 MHz of spectrum from Grain Management, offering greater coverage and better indoor penetration. Musk's company's objective is to combine its Starlink satellite constellation with a terrestrial cellular network to compete directly with major telecom operators. In Canada, SpaceX currently plans to partner with mobile network operators rather than compete with them directly. The announcement weighed on credit spreads in the telecommunications sector in both the United States and Canada. Spreads on bonds issued by Canada's three major telecom operators widened by 10 to 15 basis points, depending on maturity.

For now, the threat of direct competition from SpaceX appears less imminent in Canada, given the scarcity of available spectrum, strict foreign ownership rules and the country's vast geography, with its population concentrated in a handful of major urban centres. Nevertheless, this new player, known for its numerous technological advances, could still disrupt a well-established industry in Canada.

- Ontario's Finance Minister released an update to the 2026–2027 budget, raising the projected deficit to $16.9 billion (1.3% of GDP), an increase of $3.1 billion from the spring budget. Stronger nominal growth helped boost revenues by $2 billion, but expenditures also increased by an equivalent amount. The main factor behind the deterioration in the budget balance was therefore an additional $3.8 billion allocation to the contingency fund, providing the province with greater flexibility to manage risks associated with U.S. tariffs. The trade war and the federal mega deduction of investments are also expected to weigh on public finances next year. As a result, the projected deficit for fiscal 2027–2028 has been revised upward from $6.1 billion to $12.7 billion.

To achieve the balanced budget projected for fiscal 2029–2030, revenues will need to grow by 3.5% annually over the next three years. This target appears optimistic given the risks currently facing the province. Ontario also presented a downside scenario that assumes a U.S. withdrawal from CUSMA and significantly higher projected deficits. However, in light of the midterm election results, this possibility now appears to have been ruled out.