

Fixed Income Insights

QUARTERLY REPORT | OCTOBER 2026

NORTH AMERICA
US & CANADA EDITION

G7 govt yields reflect capex surge but value emerging?

A highly capital-intensive AI boom – the biggest capital raising exercise since the TMT boom – is beginning to weigh on IG credit spreads, as investors demand a risk premium, though higher govt yields dampened spread widening in Q3. Meanwhile, the AI capex boom plus the long inflation tail on the energy shock finally forced a tightening from the Fed as patience ran out on the inflation overshoot. Nominal govt yields stand above 40-yr means, led by JGBs and Treasuries, with JGBs and the yen both near undervaluation extremes.

Macro & policy backdrop – Fed turns hawkish as PCE deflator moves above 3%

The 2026 inflation shock may be more modest than 2022, but Fed patience nears exhaustion.

Spotlight on current G7 govt bond yield levels – how “high” are they versus history?

Current 10 yr yields are well above secular stagnation levels, and mostly above 40-yr means, suggesting attractive valuations, provided we have not entered higher inflation regimes.

FX – Yen weakened to 1986 levels versus USD but rallies on fx intervention

Yen remains near under-valuation extremes, but is G7 intervention possible game changer?

US Treasuries and credit – Nominal and corporate IG yields follow real yields higher

Fed pivot to tighten policy takes its toll on yields, as markets re-price policy rate outlook. Hyper-scaler spreads widen, due to large new issuance and Oracle downgrade.

Canadian govts, provis and munis – Yields continue to de-couple as BoC holds rates

De-coupling of Canadian yields from Treasuries is led by real return bonds.

Canadian IG & HY credit – Credit spreads less affected by energy shock than US

Canadian dollar hyper-scaler issuance becomes significant, even if USD issuance dominates.

Performance – G7 yields rise after monetary tightening, hyper-scaler spreads widen

JGB returns helped by modest yen rally in Q3, but govt bond yields rise across the board, as markets re-price tightening risks, with longs weakest, led by long Tips and Treasuries.

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Chart 1: Nominal yields played catch-up in Q3, and increases over the quarter exceeded the increases in real yields, as markets aggressively re-priced policy rate risk, most notably in the US, after the Sep FOMC.

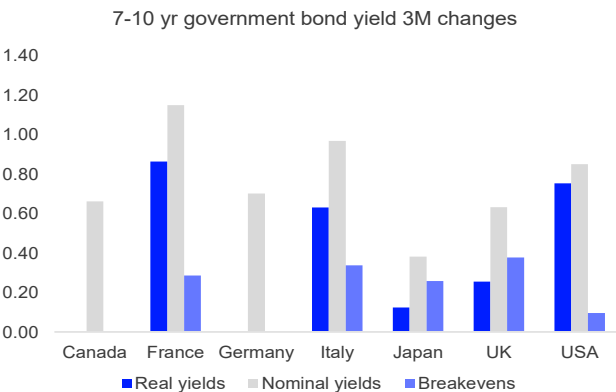
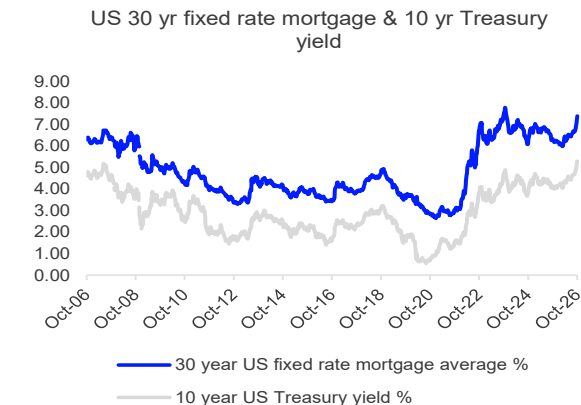


Chart 2: The impact of recent increases in 10 yr Treasury yields is seen in mortgage rates, which are now approaching the 2022 highs, near 7.5%. This is extending the housing freeze and may soon slow the economy?



Source: FTSE Russell & LSEG, US Fed. Yield data to Sep 30, 2026. Mortgage rates & 10 yr yields to Oct 8. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of report for important legal disclosures. Bond market data derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

US macroeconomic and policy conditions – PCE deflator moves centre stage

The Fed's hawkish stance at the September FOMC – with a unanimous 12-0 vote to raise rates, caused markets to discount at least one more 25 bp tightening move in Q4. New Fed Chairman Warsh stressed his intention to return inflation to target quickly, without being specific about the adjustment path. The removal of forward guidance on rates may mean increased volatility in short rate expectations, but US inflation is key, with wage inflation easing to 3% y/y. The PCE deflator, the Fed's 2% target, is a broader inflation measure and the core measure was 0.6% above CPI in August, at 3% y/y, due to weaker shelter in the CPI-42% weight vs 17% in the PCE, & stronger software & financial services inflation boosting the PCE (Charts 1, 2 & 3).

Much depends on whether the gap is closed by weaker PCE inflation, or a higher CPI growth, particularly as the Fed has said the PCE target of 2% y/y will not change. Weaker wage growth bodes well, particularly if AI delivers more productivity gains. The capex boom is led by computer software and AI, while residential housing investment is stagnant, constrained by higher mortgage rates (Charts 4 & 5). This is an important element in the transmission mechanism for monetary policy.

Chart 2: Central banks slowly unwind the expansion in balance sheets after Covid QE, by reducing govt bond and MBS holdings for the Fed. Equilibrium balance sheets are still likely to be much larger than pre-GFC levels.

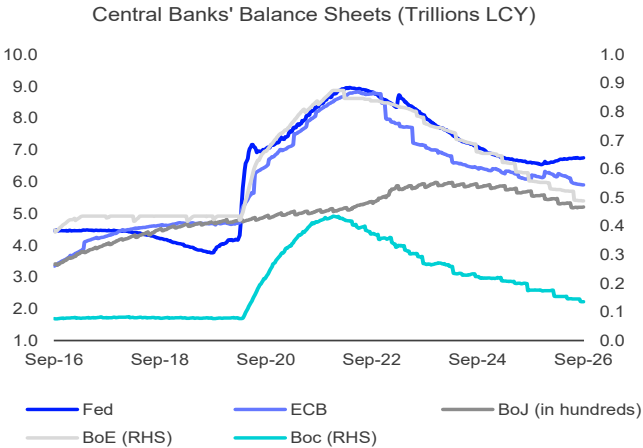


Chart 4: The unanimous vote for a September Fed rate increase – the first since 2023 – led markets to price in a further 100 bp of tightening by end-2027. Lower Canadian inflation means the BoC has remained on hold.

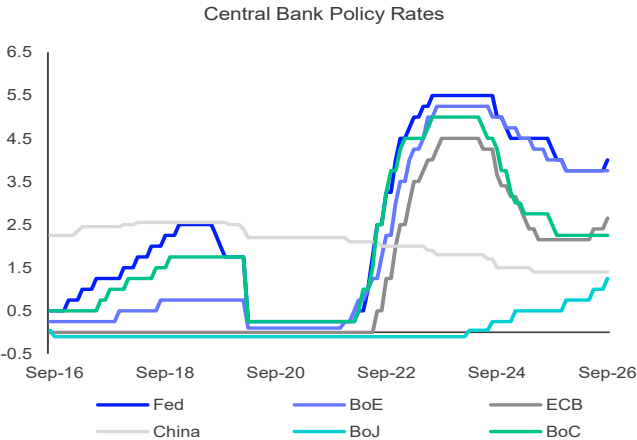


Chart 1: US wage inflation slowed steadily in 2025-26, and fell even after unemployment turned lower in Q4 2025. This is consistent with subdued inflation expectations despite persistent inflation above 2%.



Chart 3: The broader PCE deflator shows higher inflation than the CPI in 2026, after lower shelter inflation, faster software & financial services inflation. This is rare, and how it is resolved will be key to Fed policy.

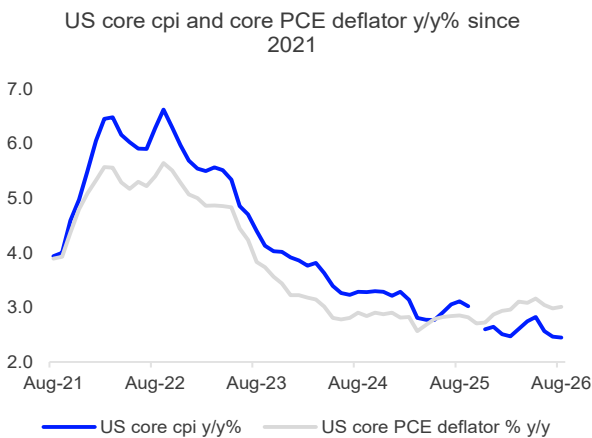
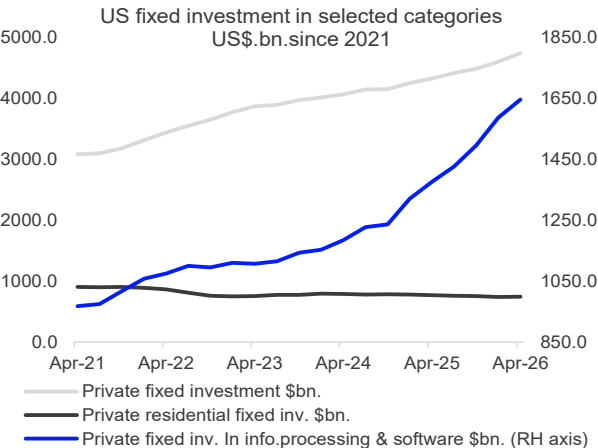


Chart 5: The AI capex boom is in stark contrast to the housing market, where higher mortgage rates have squeezed demand and residential fixed investment is below the levels of 2021, dampening GDP growth.



Source: FTSE Russell and LSEG, IMF, US Federal Reserve. All data as of September 30, 2026. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Canadian macroeconomic & policy conditions – lower tightening risks from inflation

Financial conditions remain on the easy, or looser, side of the historical mean in Canada, helped by the fact bond yields did not increase as much as in other G7 economies in Q3, and the BoC held rates unchanged. The September inflation data is likely to show a spike, however, driven by higher fuel prices, taking inflation above the 1-3% target. The BoC warned of the upside risks to inflation at the September meeting, but more subdued core inflation measures make an October hike less likely. Low turnover in the Canadian labour market, and the higher labour force participation rate, relative to the US, suggest more fear of job losses, as well as demographic factors. There has also been no “great resignation” in the labour market since Covid, and labour force contraction, unlike the US (Charts 1, 2 & 3).

Current BoC policy of 2.25% rates are below neutral estimates, helping to explain easier financial conditions. AI’s impact on neutral rates depends on how far positive supply-side effects, in boosting growth, are offset by lower inflation, or higher unemployment, due to job displacement. So the BoC’s range of estimates is wide. Finally, global supply chain pressures increased since the energy shock, but remain modest versus 2021-22 (Charts 4 & 5).

Chart 2: Canadian CPI inflation dipped 0.1% in August, holding the y/y rate at 3%, but higher fuel prices in September suggest a higher y/y rate is likely. To date, 2nd round inflation effects from higher energy prices remain muted.

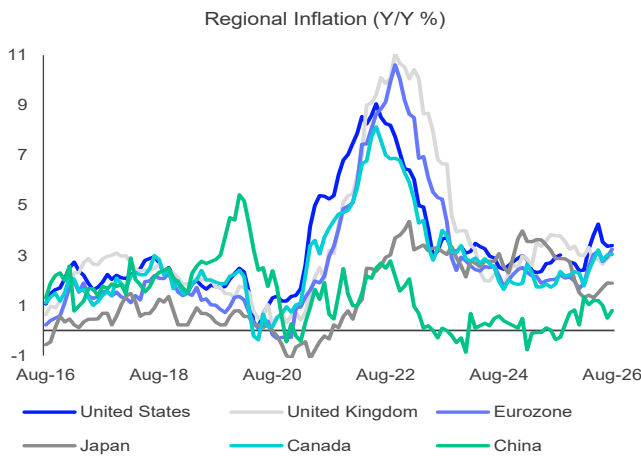


Chart 4: BoC estimates of the neutral rate in Canada centre around 2.75%, so the current policy rate of 2.25% is modestly stimulative. AI may exert a 2-way pull on neutral rates, boosting productivity whilst lowering inflation.

BoC estimates * of nominal neutral rate Annual rates %	2025 estimates	2026 estimates
Trend cycle model	2.5-3.5	2.5 - 3.5
Term structure model	2.75 – 3.25	2.75 - 3.5
Neoclassical growth model	2.5 – 3.0	2.5 - 3.0
Overlapping generations model	2.25-3.25	2.25 – 3.25
Overall assessment	2.25 – 3.25	2.25 – 3.25

* Estimates are rounded to nearest 25 bp.

Source: FTSE Russell, LSEG, Bank of Canada. All data as of Sep 30, 2026, except where shown. Past performance is no guarantee of future results. This report should not be considered ‘research’ for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Chart 1: FTSE Russell financial conditions indicators show modest tightening and the impact of higher govt yields in Q3. US FCs remain on the easy side of the mean. Japan’s conditions tightened the most in 2026.

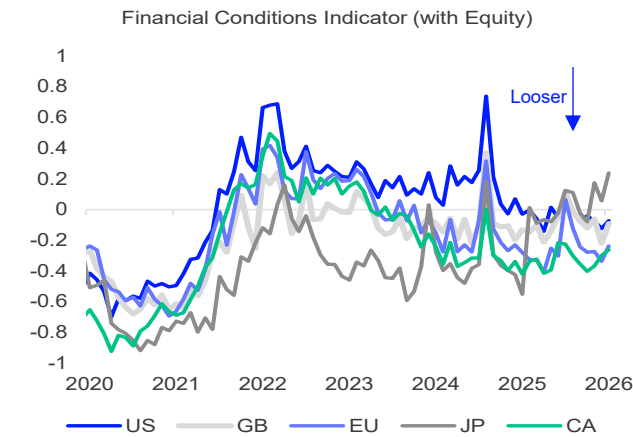


Chart 3: Canada’s labour market shows a quite different profile to the US, with much higher participation rates. Ageing US baby-boomers help explain this, but there was no “great resignation” in Canada, post-Covid.

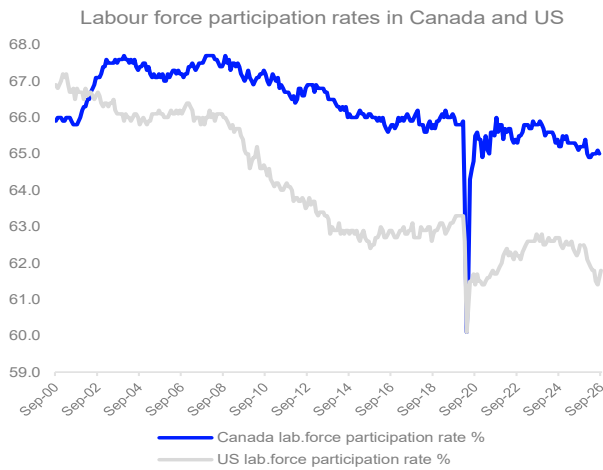


Chart 5: Global supply chain pressures have increased since the Q1 energy shock and are now about 1 standard deviation > historical mean (since 1998). But this compares with a 4 stand.devs during Covid.



Spotlight on G7 govt bond yields – current G7 yields & inflation in historical context

Framing expectations vs secular stagnation (2008-21), G7 yields look very high, but not benchmarked vs pre-GFC era. Research by Nobel laureate Kahnemann* suggests expectations are often framed, based on recent experience. US and G7 yield regimes have varied considerably since 1986, with yields from < 1% in Covid to 8-12% in longer maturities in the late-1980s. Current yield levels are at about the same levels as in the early 2000s, Goldilocks era, when inflation was similar. Mean reversion of yields is evident and a key driver of returns, since low yields tend to rise & high yields fall over time. But the key question is over how long a period yield means should be calculated. To avoid small-sample bias with secular stagnation, we calculated 40 yr means, on which basis, govt bonds are notably cheap in Japan, and to a lesser extent the US. (Charts 1, 2 & 3).

Current inflation rates are also above 40 yr means (though < 1 st.dev) which helps justify higher 10 yr yields than the 40 yr mean. Inflation volatility also spiked since 2021, after Covid & the energy shocks, which helps to explain higher term premia in 10 yr yields. In the US, UK and Germany, the st.dev of inflation is well above 40 yr mean levels, since 2021. More stable Canadian inflation may be a factor in yield de-coupling from the US.

Chart 2: A longer-term perspective shows how low govt bond yields became in the secular stagnation era and that yields are now near the levels in the Goldilocks regime, before the GFC, at similar inflation rates.

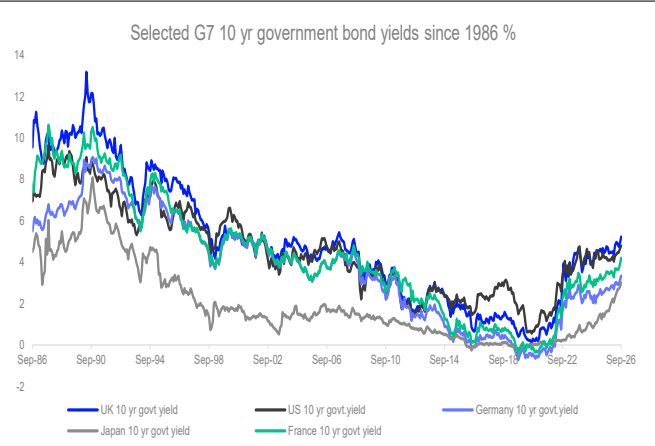
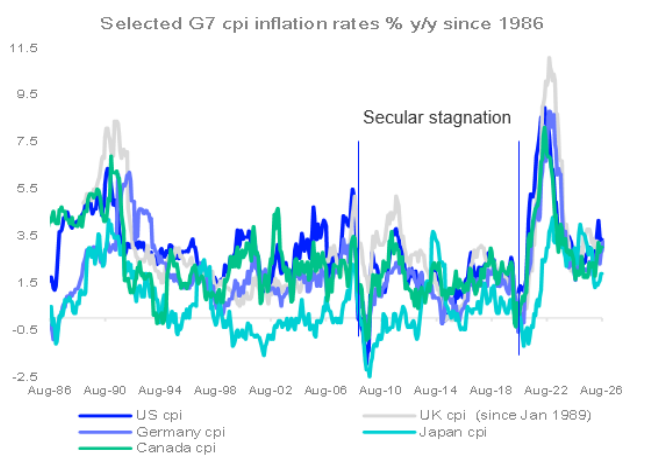


Chart 4: A long term G7 cpi inflation chart shows the scale of the shock in 2022, and inflation's mean reversion, but with high volatility. Inflation was lower & more stable in the secular stagnation era (see table opposite).



Source: FTSE Russell and LSEG, US Federal Reserve. All data as of Sep 30, 2026. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Chart 1: Benchmarked against the mean yield levels since 2000, current 2, 10 & 30yr yields show Z-scores (st.dev) of 1.41, 1.33, & 1.26, above the mean so bonds are definitely cheap, but not exceptionally.

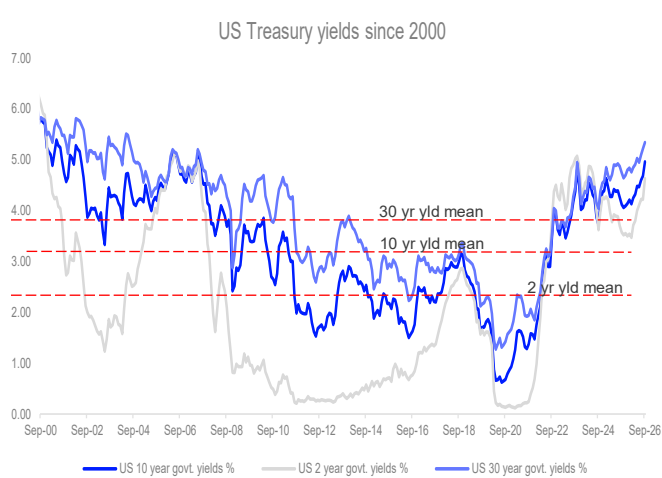


Chart 3: Judgements about whether yields are "high" need to be set in the context of historical means. Current G7 yields are close to, or above the mean since 1986 but JGBs are notably cheaper than other markets.

10 yr Govt. bond	Yield mean 1986-2026	Yield mean 1986-2008	Yield mean 2008-2021	Yield mean 2021-2026	Current 10 yr yields
US	4.58	6.11	2.35	3.49	5.2
UK	4.96	7.02	2.02	3.33	4.8
Germany	3.75	5.66	1.22	1.82	3.4
Japan	1.98	3.08	0.53	0.89	3.0
France	4.30	6.28	1.67	2.40	4.2
Canada	6.58	6.78	2.09	2.89	3.7

Chart 5: Both average (CPI) inflation and the volatility of inflation have spiked higher in the 2021-26 regime, helping to explain recent increases in term premia. Current inflation is within 1 st.dev of the 40 yr means.

Country	Inflation mean % 1986-2026 (st.dev)	Inflation mean % 1986-2008 (st.dev)	Inflation mean % 2008-2021 (st.dev)	Inflation mean % 2021-2026 (st.dev)	Current inflation rate yy% (cpi) (Aug.)
US	2.81 (1.58)	3.10 (1.11)	1.56 (1.07)	4.46 (2.06)	3.4
UK	2.84 (2.13)	2.71 (1.93)	2.13 (1.26)	4.87 (2.96)	3.3
Germany	2.04 (1.6)	2.03 (1.25)	1.19 (0.71)	3.96 (2.23)	3.3
Japan	0.75 (1.37)	0.62 (1.25)	0.28 (1.12)	2.29 (1.32)	1.9
Canada	2.42 (1.52)	2.59 (1.48)	1.54 (0.82)	3.66 (1.78)	3.0

FX – Volatile dollar and yen moves in Q3

The dollar gained modestly by 0.3% in Q3, overall, after falling in July and August on weaker-than-expected labor market data and lower inflation. However, the September Fed move, due to the continuing inflation overshoot, drove USD strength (Chart 1).

Nonetheless, the JPY rose 3.4% against USD in Q3. The US-Japan joint currency intervention, in order to stabilise the yen weakness, brought USD/JPY from its 163-164 40-year highs to around 156. Rising expectations for further BoJ hikes drove USD/JPY briefly higher to around 153. However, JPY retraced due to uncertainty around the expansionary fiscal policy and monetary policy path, and still attractive carry trade (Chart 2).

Korean Won appreciated 14.5% vs USD, being one of the best performing currencies in Q3, despite foreign equity outflows driven by the July Tech-led sell-off. Korea's trade balance has been strong (Chart 3), while SK Hynix's US ADR IPO in July also helped drive capital inflows. In addition, the Bank of Korea hiked 25bp respectively at both the July and August meetings, bringing the policy rate to 3%. In contrast, the Mexican peso turned weaker in Q3. The peso lagged major currencies due to narrower US-Mexico rates differentials. The uncertainty around the 2026 USMCA review has also posed downward pressure to MXN.

Chart 2: USD/JPY FX carry trades offer close to 3% yields, making it still attractive to global investors to buy USD and sell JPY.

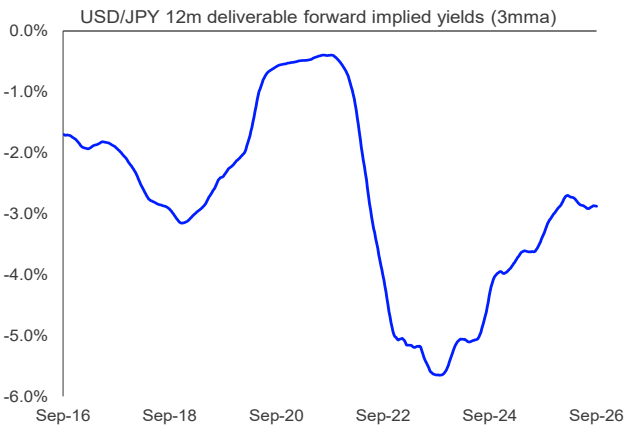


Chart 4: KRW and JPY were among the top performers in Q3. The BoJ hiked its interest rates to 1.25%, while the Bank of Korea delivered back-to-back hikes at the July and August meetings.

Chart 1: The DXY index fell in July and August, but recent hawkish Fed has driven a rebound in dollar. JPY jumped post the US-Japan FX intervention, but retraced some of the gains after the Fed raised rates.

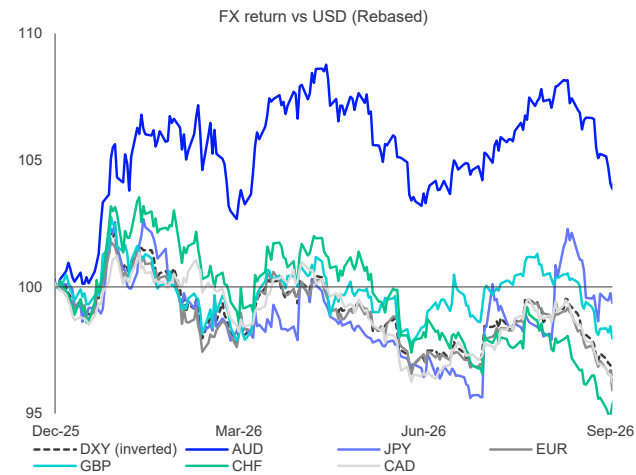


Chart 3: The strong Korea trade balance driven by semiconductor exports has contributed to KRW strength in Q3.

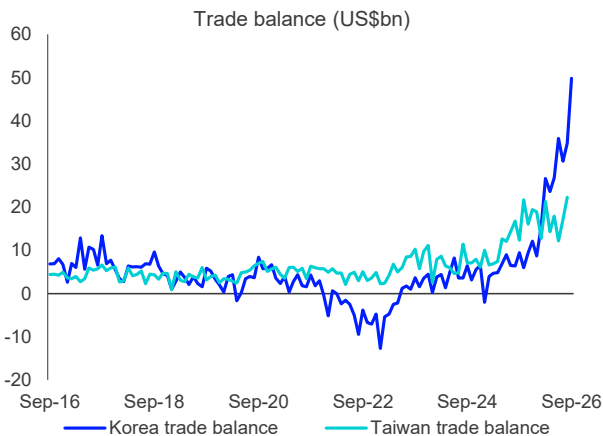
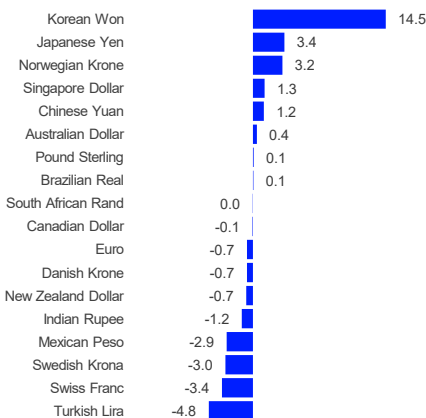
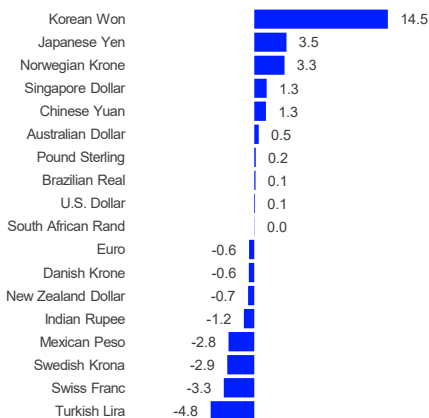


Chart 5: MXN lagged most major currencies due to narrower US-Mexico rates differentials. The uncertainty around the USMCA review has also contributed to the weakness.

FX Moves vs USD – 3M



FX Moves vs CAD – 3M



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US Treasury analysis – markets re-price for a longer US tightening cycle

The re-pricing of the Fed's policy outlook was the dominant feature of Q3, which drove a sharp increase in both nominal and real yields across the curve, but led by shorts. Longer inflation breakevens remained broadly stable, and short dated breakevens actually fell in Q3, as short nominal yields gapped higher on the Fed pivot to tighten. Recent increases in yields are a reminder yields can increase even without higher inflation expectations or higher term premia, if there is a major change in the policy outlook, and/or investors require an increased risk premium for uncertainty about increased debt issuance, or inflation volatility (see page 4). The bear flattening of the yield curve in Q3 is also of note, and quite typical when a central bank begins a tightening cycle, and markets rapidly discount a series of rate increases, as was seen in 2022-23 (Charts 1, 2 & 3).

Despite the sharp increase in Treasury yields YTD, the move in JGB yields to 3% and above means FX hedged US Treasury yields are still below JGB yields in the 10 year area. However, for yen carry trade participants, who generally do not hedge out FX risk, the unhedged yield differential in favour of Treasuries is still attractive (Charts 4 & 5, and see page 5).

Chart 2: Longer dated inflation breakevens remain stable, despite the inflation overshoot. Short breakevens spiked to levels above 3%, last seen in 2023, after the energy shock, but this has now unwound.

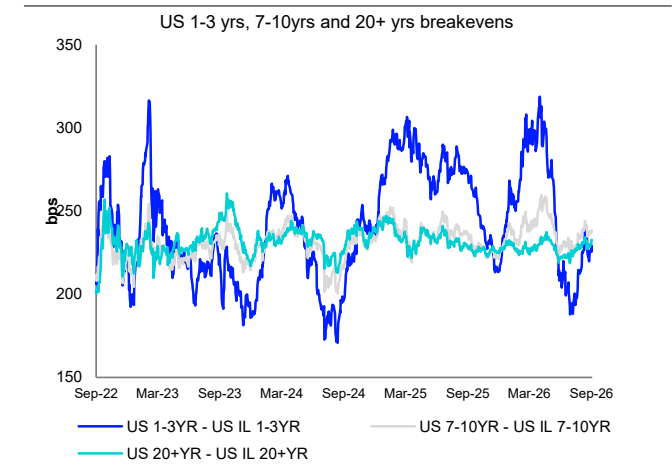
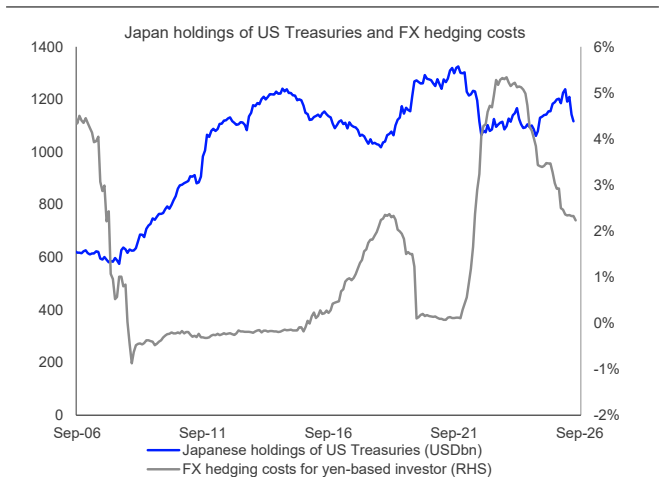


Chart 4: FX hedging costs – proxied by US/Japan 3-month rate differentials – have been a key driver of Japan's Treasury holdings. They have grown sharply when hedging costs were low & vice versa.



Source: FTSE Russell and LSEG, NY Fed. All data as of September 30, 2026. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Chart 1: Nominal yields followed real yields higher in Q3, as the Fed adopted a more hawkish tone at the September FOMC meeting, and markets re-priced rate risk. This may have caused breakevens to fall.

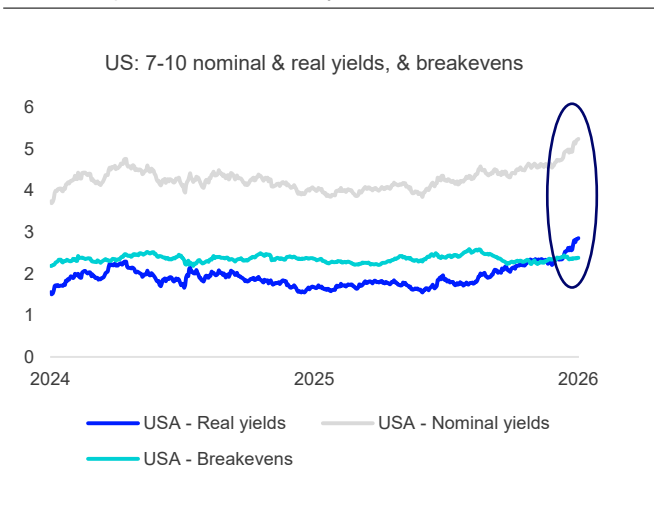


Chart 3: The yield curve bear flattened in Q3, as markets re-priced the Fed policy outlook, causing short yields to rise faster than medium and long dated yields. This is a typical bear flattening in a tightening cycle.

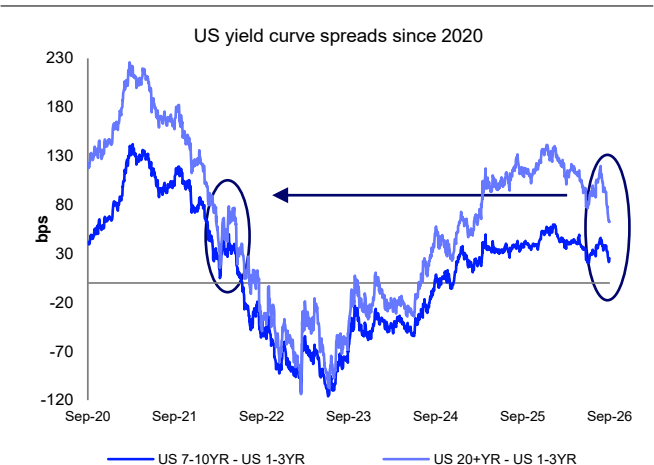
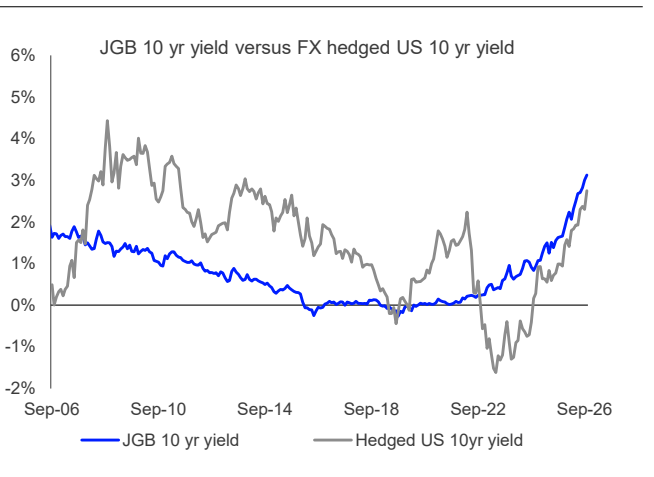


Chart 5: Although 10 yr US yields increased sharply in Q3, hedging costs for yen-based investors and the increase in JGB 10 yr yields mean hedged US 10 yr yields are still below the level of JGB yields.



US Credit analysis – Assessing a potential change in supply/demand dynamics

Broader US IG credit spreads remained relatively stable in Q3, though absolute yields were dragged higher by the increase in US Treasury yields. Planned capex from hyper-scalers remains substantial in 2027-28 (Chart 1), so there is an obvious risk spreads widen further in that sector. The share of new hyper-scaler and AI related issuance in the IG space is 12.9% YTD. This compares with only 1.7% in 2024. Hyper-scaler debt has longer duration and weighted average life than IG indices, because of the long duration assets these bonds are financing, and because issuers have taken advantage of the US Treasury's reduced issuance in longer maturities. Also note that hyper-scaler spreads were below market spreads until Q4, 2025, suggesting supply pressure has been a factor, and that 3 of the hyper-scalers still have spreads below market index levels (Charts 1, 2 & 3).

Increases in US 10 yr Treasury yields have pushed 30 yr fixed mortgage rates up to nearly 7.5%, causing refinances and prepayments to fall further, with several cohorts of fixed rate mortgages issued with coupons under 3%. Agency RMBS spreads are near IG credit levels, despite the agency guarantee. Fed divestment of MBS holdings and their negative convexity appear the main drivers.

Chart 2: The sheer weight of debt issuance from hyper-scalers in the IG space has caused hyper-scaler spreads to widen steadily through 2026. Oracle underperformed after recent credit downgrades.

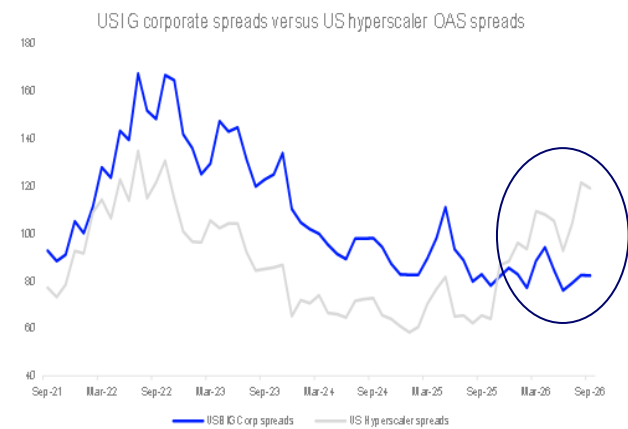


Chart 4: Mortgage repayments dipped sharply in Q3, as mortgage rates resumed their upward path, in response to higher 10 yr Treasury yields and Fed rates. As a result, the duration of 30 yr MBS increased further.

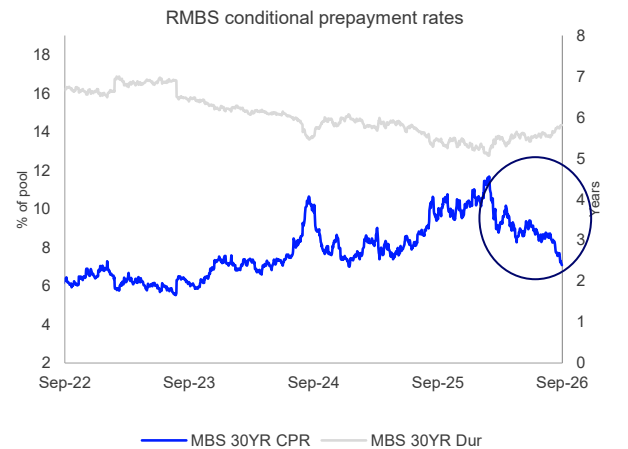


Chart 1: New issuance plans are substantial in 2027-28 and may raise the overall market value share of hyperscaler issuance from the current 4.8%. Banks are the largest sector in the US IG index with a 21% share.

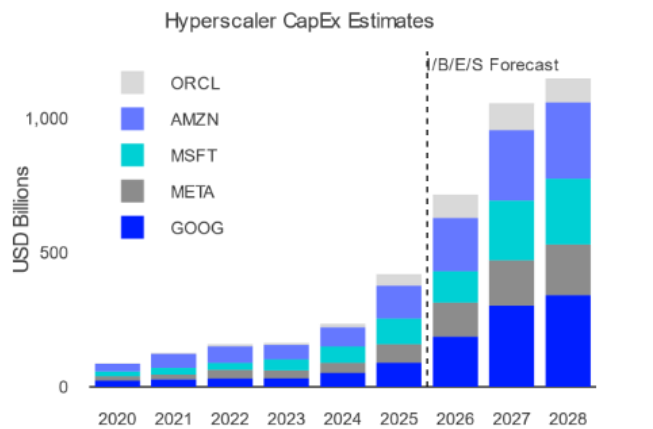
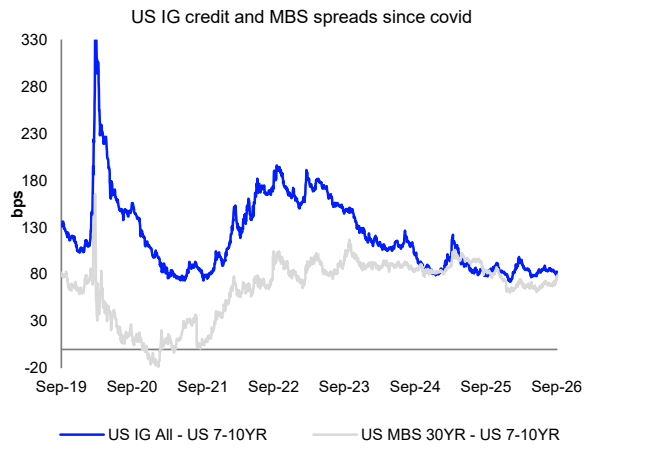


Chart 3: Hyperscaler issuance is longer duration, and average life than IG indexes, and trades on wider spreads. Reduced longer dated Treasury issuance has created space for more corporate issuance.

Index	Count	Par Amt (USD bn)	Mkt Val (USD bn)	Wgtd Ave Life	Yield To Worst	Eff. Dur.	OAS (bps)	Quality
USBIG Corp	9,271	8,233.00	7,690.54	11	5.5	6.6	82	A-
USBIG Corp ex Hyperscalers	9,099	7,809.98	7,320.01	10.7	5.5	6.5	80	A-
Hyperscalers	172	423.02	370.52	17.4	6	8.7	119	A+
Microsoft Corp	23	33.81	23.41	22.8	5.7	13	59	AAA
Meta Platforms Inc	25	81.22	74.13	19.3	6.2	9.1	128	AA-
Alphabet Inc	30	73.75	68.08	17.5	5.6	8.9	79	AA+
Amazon.com Inc	42	117	106.32	15.9	5.6	8.1	76	AA
BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-	BBB-

Chart 5: MBS spreads remain below US IG credit spreads, but only just. The Fed's desire to divest MBS holdings and the recent increase in policy rates are not helpful for MBS spreads, given their negative convexity.



Source: FTSE Russell and LSEG. All data as of Sep 30, 2026, apart from Chart 3, to Aug.31. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see end of report for important legal disclosures. Bond market data derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Canadian Govts, Provis & Munis – Spreads continue to tighten versus G7

Canadian sovereign spreads tightened further in Q3, particularly against Europe, helped by unchanged BoC policy as rates rose in the US, Eurozone and Japan. The high share of foreign ownership of Canadian gov't bonds (43%, Statistics Canada data) may be some evidence that Canada has acquired some safe haven status amongst investors. The increased de-coupling of Canadian gov't yields from US Treasuries also gives some portfolio diversification benefits to holding Canadian bonds. This de-coupling has been particularly marked in long Canadian real return bonds since 2023, as US real yields have risen sharply during the AI boom (Charts 1, 2 & 3). We also note the same feature in Canadian credit spreads versus the US (see page 9).

Provincial spreads remain more volatile than Municipalities, reflecting macro exposures to trade tariffs (Alberta notably) and relative value trades. British Columbia spreads stabilised after the blow-out in Q2 but still remain widest, reflecting the higher growth in debt issuance since Covid. The resource provinces, like Alberta, and Saskatchewan continue to show more cyclical in debt levels, with US trade tariffs a new factor since 2025, driving more volatility as well.

Chart 2: The Canadian curve flattened in Q3, as markets reacted to the BoC's acknowledgement of upside risks on inflation, and headline inflation remained at 3% y/y, the top end of the BoC's 1-3% target range.

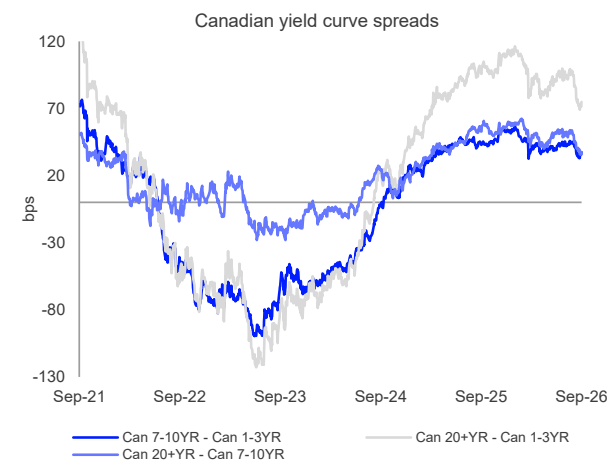
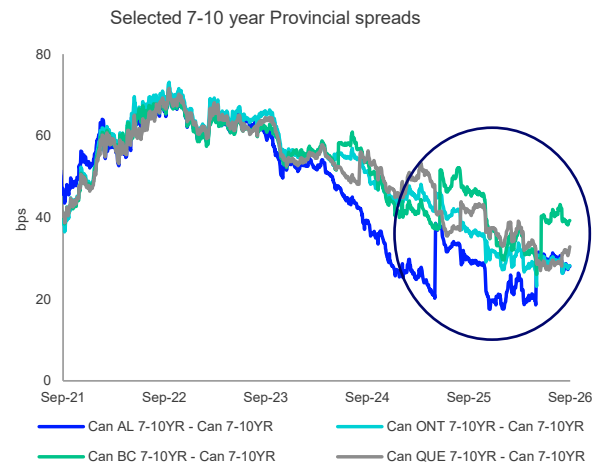


Chart 4: British Columbia spreads stabilised in Q3, after the blow-out in Q2 on issuance fears. Alberta spreads did not tighten on higher energy prices, as trade tariff fears revived, given Alberta's high US export share.



Source: FTSE Russell and LSEG. All data as of September 30, 2026. Past performance is no guarantee of future results. This report should not be considered 'research' for the purposes of MIFID II. Please see the end of the report for important legal disclosures. Bond market data is derived from FTSE Fixed Income Indices. See Appendix for list of indices used for each market.

Chart 1: Canadian spreads have fallen significantly since briefly widening in the 2022-23 tightening cycle. This may be evidence of Canadian gov'ts getting some safe haven status, given a high share of foreign ownership.

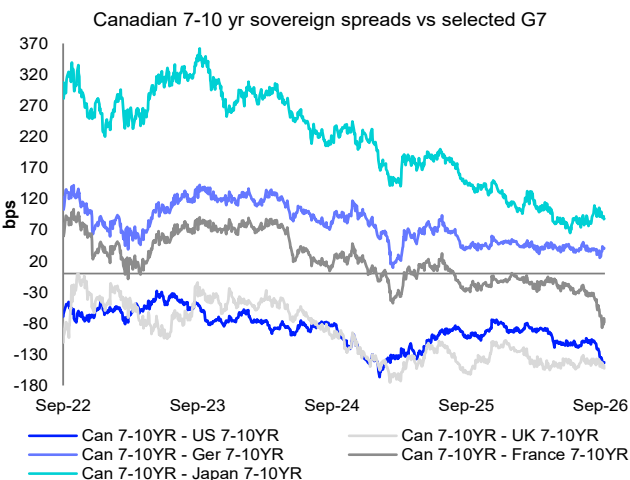


Chart 3: De-coupling of Canadian real yields from US extended in Q3, as US real yields moved to new highs, while Canadian real yields quickly unwound the initial spike on the breakdown of trade talks with the US.

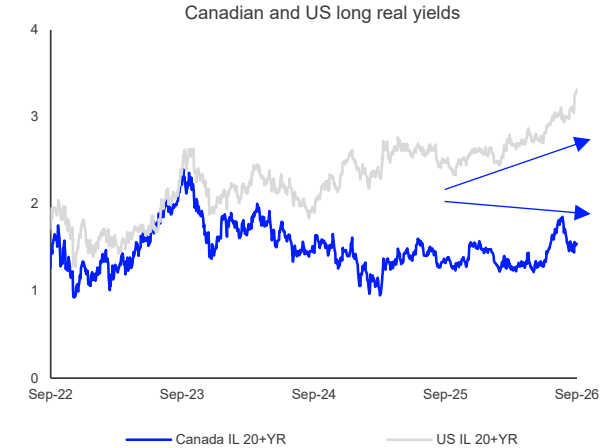
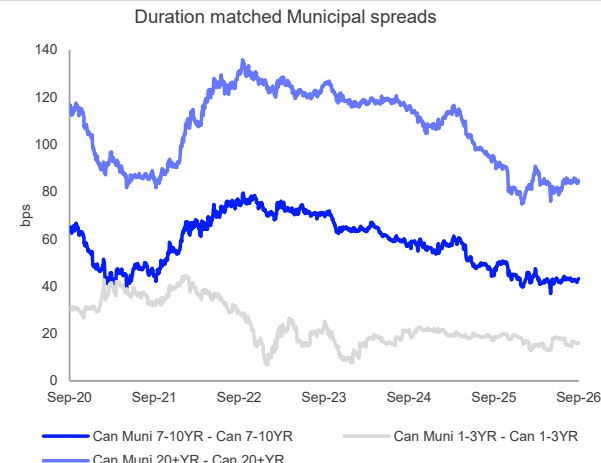


Chart 5: Muni spreads remained stable in Q3, helped by unchanged BoC policy, and solid demand for infrastructure linked bonds, with stable revenue streams. Spreads are generally near post-Covid lows.



Canada: Credit analysis – Hyperscaler issuance impact grows

Unchanged Canadian monetary policy in Q3 helped credit spreads stabilise, after the initial spike in Q1, though higher govt bond yields still drove IG yields higher overall. Financials outperformed other sectors again in Q3 (also see page 11), helping overall IG credit index performance, given the weight of 40%, including insurance. The correlation of Canadian and US spreads continues to fall, particularly since BoC rates de-coupled from Fed rates, so hedging Canadian credit spread risk using a Canadian credit spread index seems more logical*.

Hyperscaler IG debt issuance is now a factor in the Canadian credit markets, with \$15.8bn of debt issued in 2026 – the 3rd largest currency of issuance, after USD and euros, even if USD issues dwarf other currencies. This tends to be longer paper, which will increase the duration of IG indexes and weighted average life, and spreads now reflect a risk premium for execution risks for hyperscalers (Charts 1-4, and see page 7). Financial spreads remain highly correlated with the government yield curve, with increased risk of widening should the BoC pivot towards tightening, driving a bear flattening (Chart 5).

* See [After the great de-coupling - a Canadian credit index allowing independent hedging | LSEG](#)

Chart 2: Canadian spreads have remained below US since the energy shock, despite a larger increase in US govt. yields. The high Canadian energy weight may be a factor but correlation of spreads is now lower.

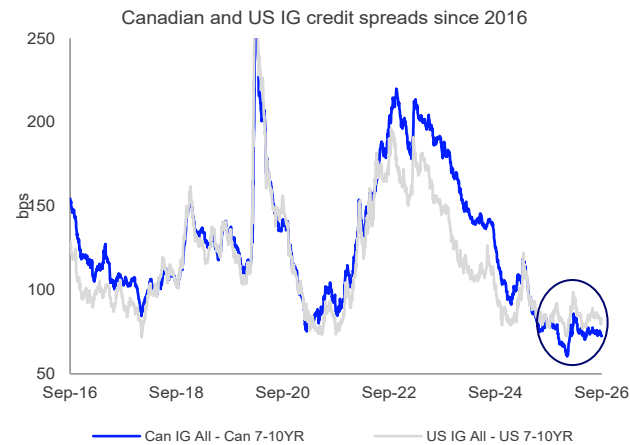


Chart 4: Canadian IG sector weights show bank issues carry the largest weight in the index, followed by energy. Overall financial issues carry a near 40% weight and have tended to widen first after macro shocks.

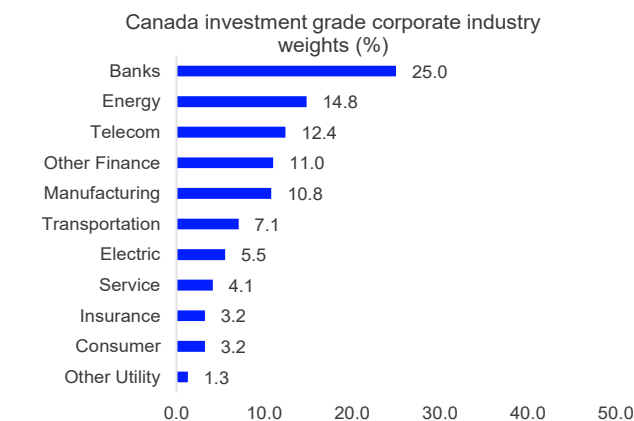


Chart 1: Canadian credit spreads spiked briefly after the energy shock in Q1, but soon stabilised, as the BoC held rates, helping real estate. Predictably, energy spreads were affected least by the energy shock.

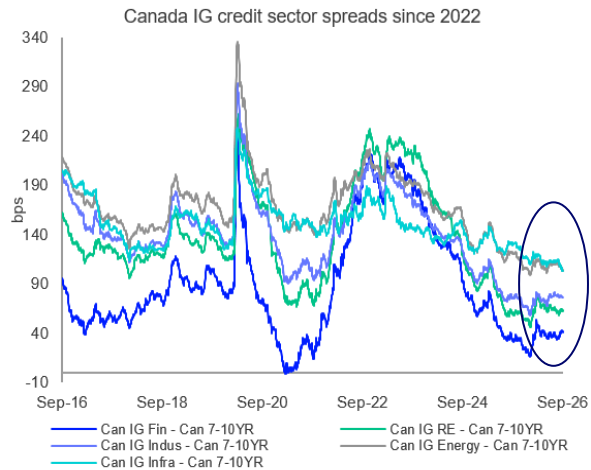


Chart 3: US dollar issuance dominates hyperscaler issuance, although issuers have turned to other currencies in 2026, beyond dollars and Euros, including Canadian dollars, the 3rd largest issuance currency.

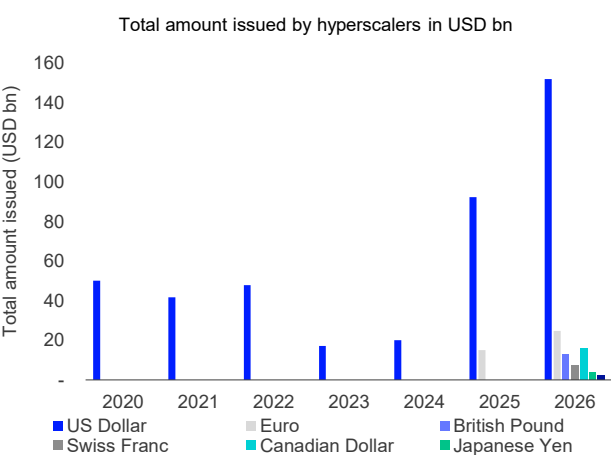
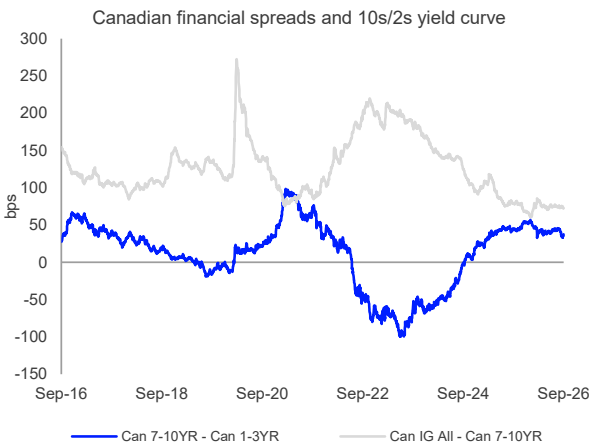


Chart 5: The inverted curve in 2022-23 caused sizeable financial spread widening, due to financial risks from recession and higher defaults. Curve flattening, or inversion, is an important guide to financial spreads.

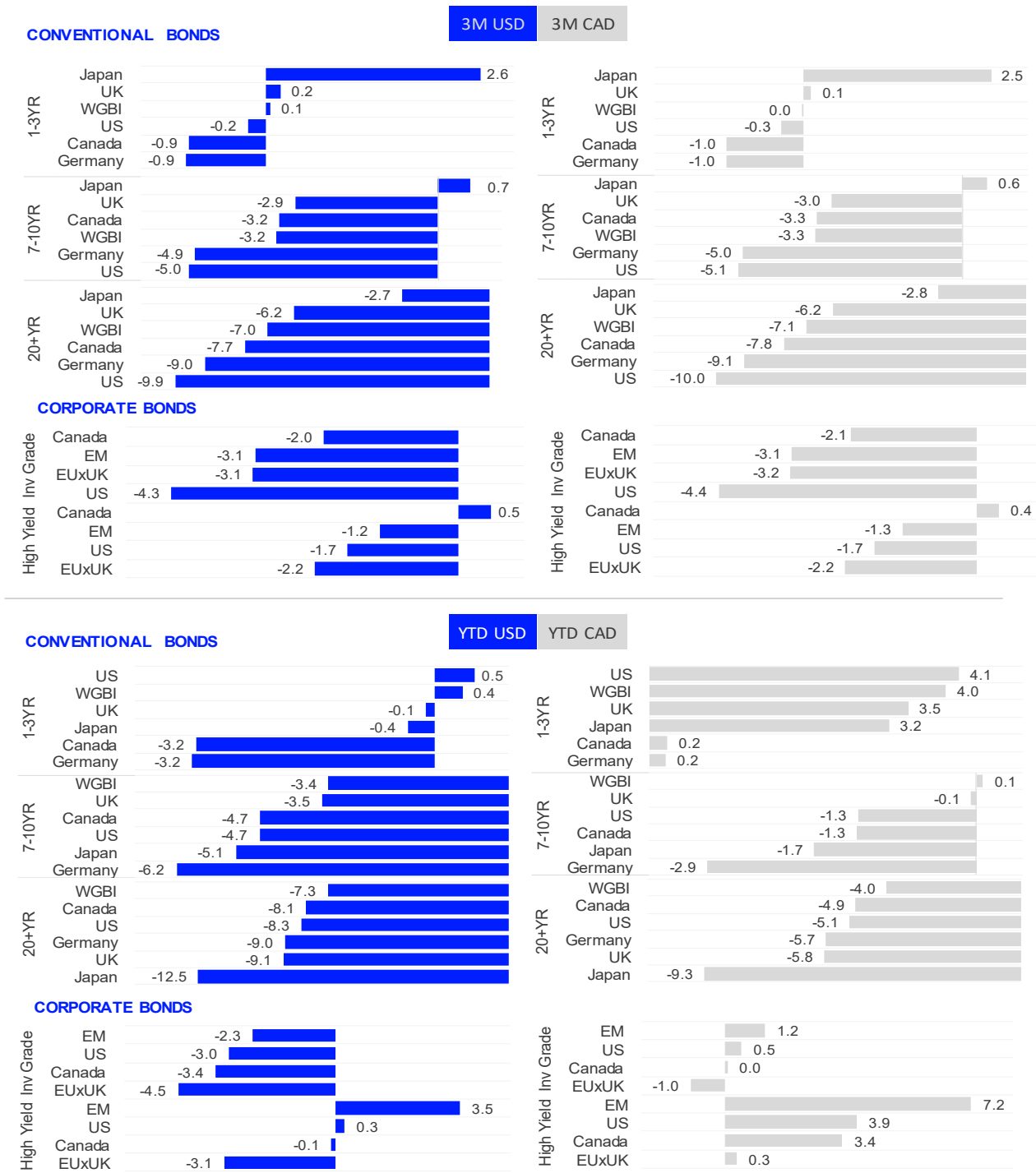


Conventional Government Bond Returns – 3M & YTD % (USD, CAD, TR)

Most conventionals fell in Q3, except for short-dated JGBs which gained around 2.5% in both USD and CAD terms, boosted by the yen's rally. Elsewhere, returns were broadly flat in the front end, while longs remained under pressure. Long Treasuries particularly underperformed as the market priced in more tightening. IG sold off across regions in Q3.

Fed rate hike expectations initially cooled in Q3, after weaker-than-expected labor market data and inflation. However, the oil price rebound in September reversed rate hike expectations, and a hawkish Fed move drove US yields higher. Higher oil prices also drove Canadian government bonds lower across the curve in September, while the ECB rate hike led to higher Bund yields.

Credit was dragged lower by government bonds in Q3, with IG returns declining 2-4% across major regions. High yield was more resilient, posting only modest losses and small gains in Canada. YTD performance remains strongest in EM and US high yield, which continue to deliver positive returns despite persistent weakness in duration-sensitive assets.

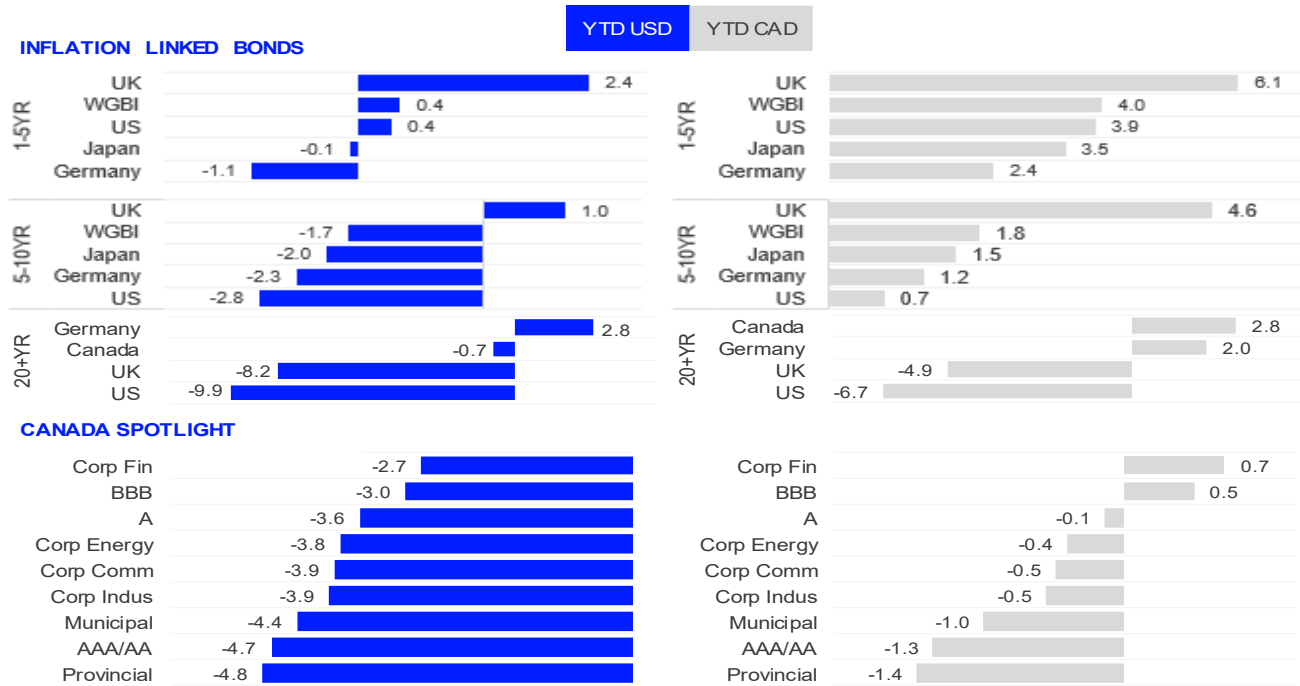
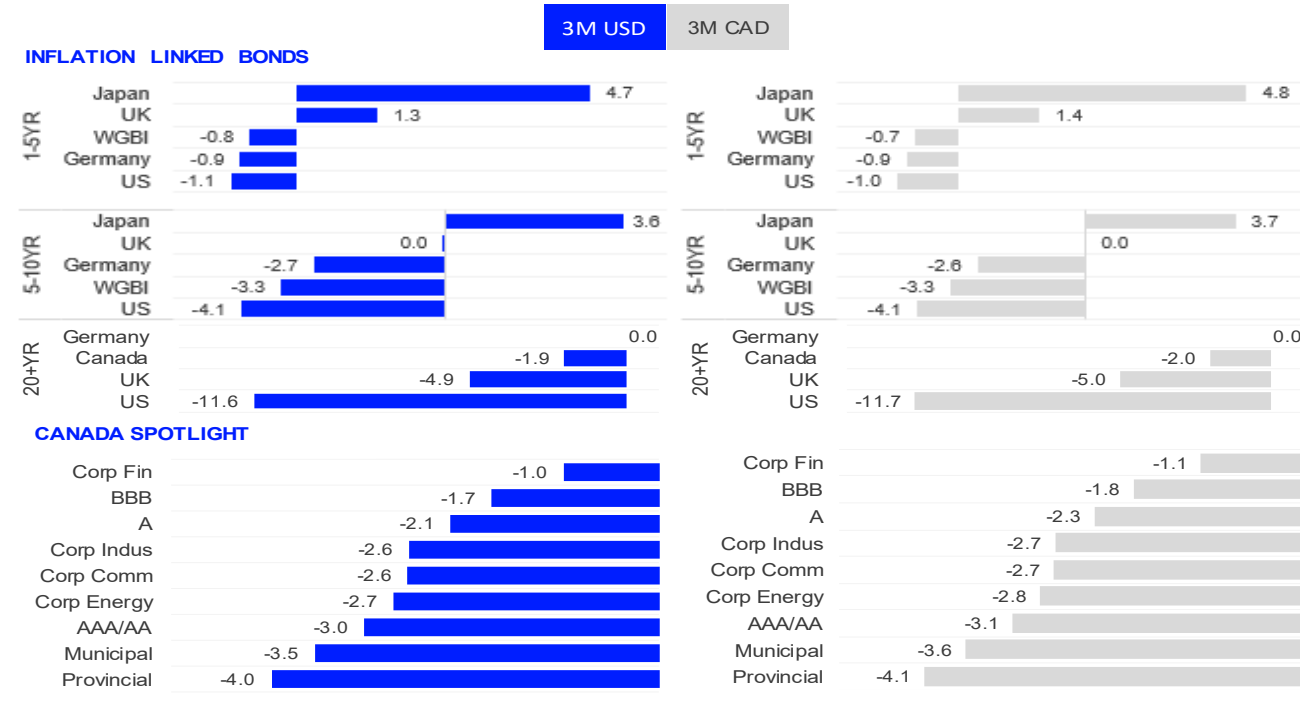


Real return bonds and Canada spotlight – 3M & YTD % (USD, CAD, TR)

Real return, or inflation-linked bonds were hit by higher rate expectations in Q3, proving again their exposure to interest rate risk, even with the inflation accruals. Japanese inflation-linked gained from the yen’s rally in both USD and CAD terms, after US FX intervention, returning 4-5%. Canadian real return bonds held up quite well YTD, helped by unchanged BoC policy, as rates rose elsewhere. Provis and Munis were dragged lower by Canadian govt. bonds.

Long US Tips led Q3 losses, falling almost 12% in both CAD and USD terms. It was a similar story YTD, with losses of 7-10%, as the US AI capex boom drove real yields higher, and the Fed tightened policy. Long UK linkers lost 5-8%, hit by long duration.

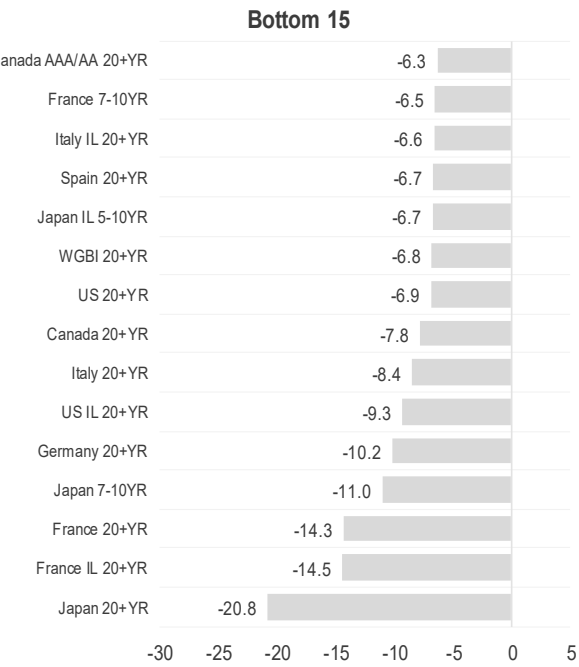
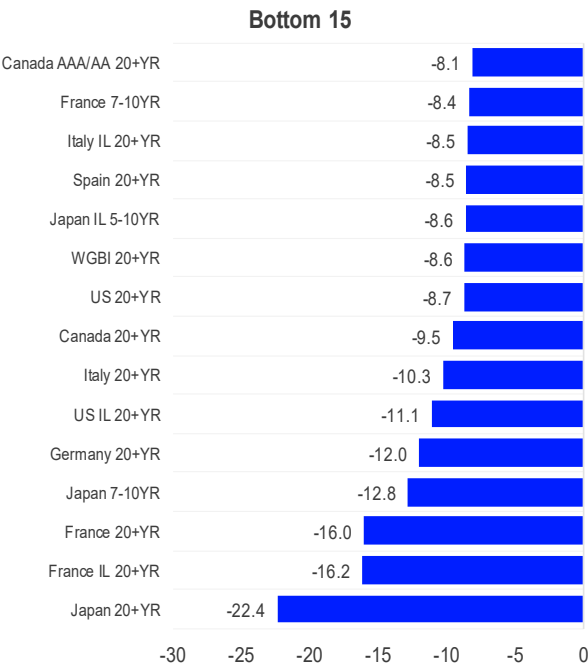
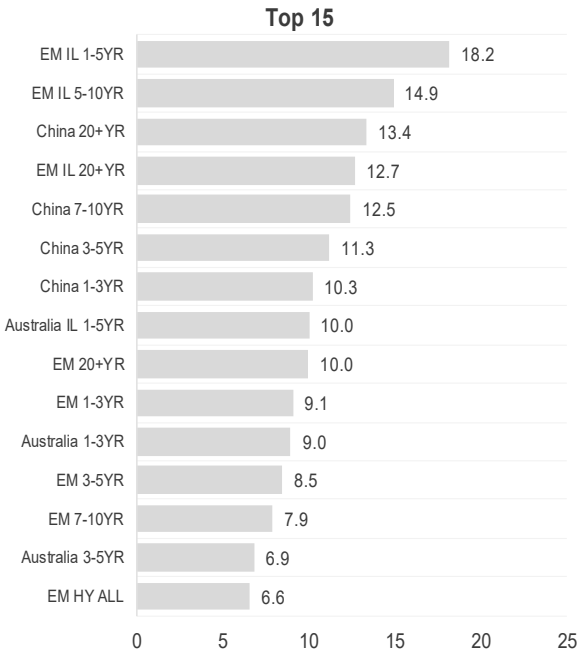
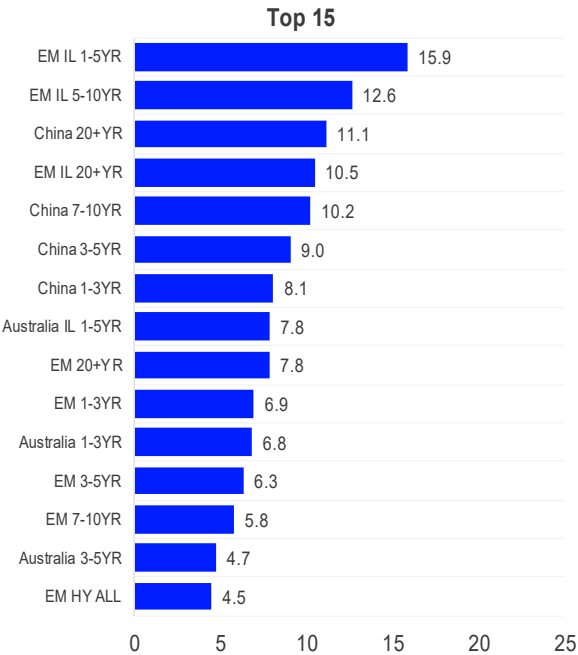
Canada has de-coupled from the increase in US real yields in 2026, with long real return bonds gaining 3% YTD in local currency terms. In credit, financials and BBBs led returns in both Q3 and YTD, though returns were negative 1-2% in Q3, and negative in USD terms by 2-3%, due to CAD losses vs the USD. Munis, provis and AAAs also lost 4-5% in USD terms YTD.



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Appendix – Top and Bottom Bond Returns – 12M % (USD, CAD, TR)

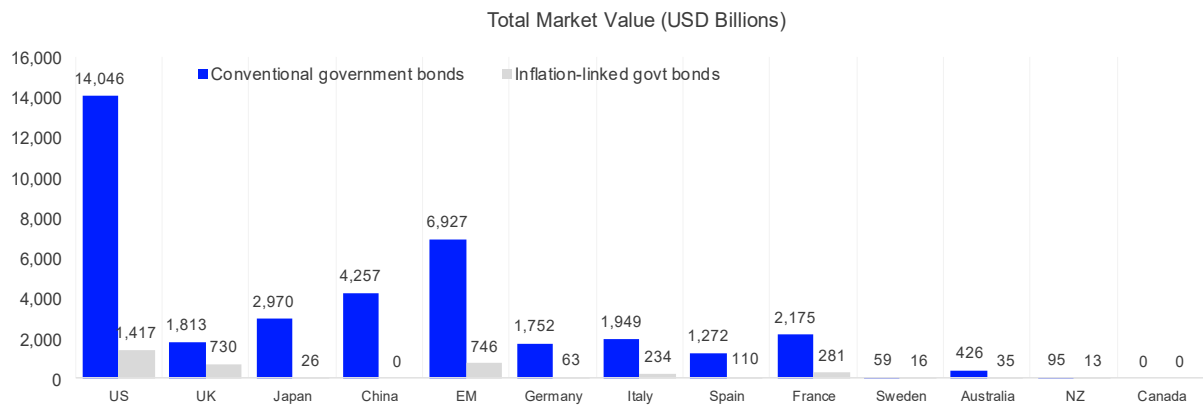
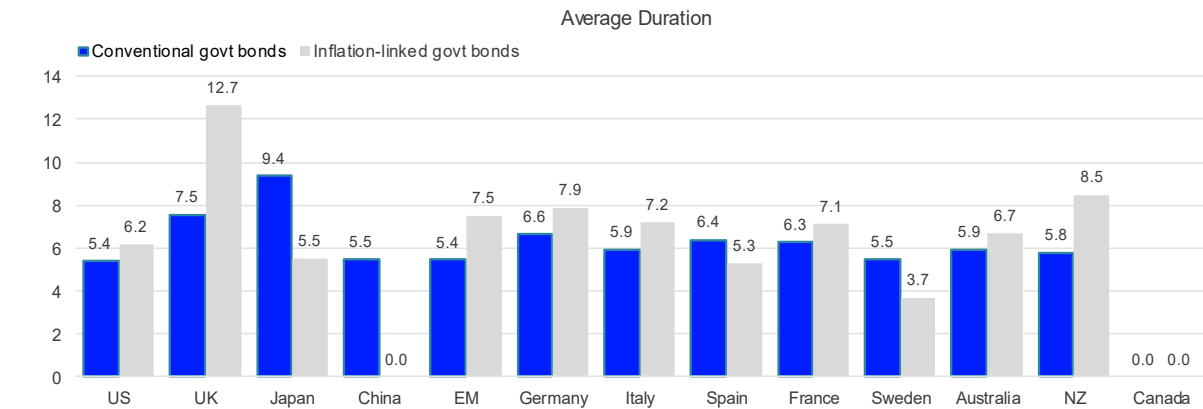
12M USD 12M CAD



Appendix – Duration and Market Value (USD, Bn) as of September 30, 2026

Conventional government bonds									Inflation-linked government bonds					
Duration					Market Value				Duration			Market Value		
	3-5YR	7-10YR	20+YR	Overall	3-5YR	7-10YR	20+YR	Total	5-10YR	20+YR	Overall	5-10YR	20+YR	Total
US	3.6	6.8	14.9	5.4	3,120.6	1,287.0	1,519.2	14,046.2	6.8	20.0	6.2	478.7	106.1	1417.3
UK	3.7	7.0	16.1	7.5	226.9	311.2	300.4	1,812.9	7.0	25.1	12.7	149.7	189.7	729.6
Japan	3.8	7.8	20.2	9.4	457.4	576.0	461.9	2,970.3	7.4		5.5	17.2		26.4
China	3.7	7.8	17.7	5.5	950.4	747.0	410.2	4,257.1						
EM	3.6	7.1	15.1	5.4	1548.88	1261.98	660.14	6,927.1	5.8	13.1	7.5	200.6	191.6	745.5
Germany	3.7	7.5	19.4	6.6	381.93	296.75	179.29	1,752.1	6.3		7.9	14.2		63.4
Italy	3.6	7.0	15.4	5.9	447.98	304.48	155.22	1,949.5	7.1	21.7	7.2	89.5	9.8	234.0
Spain	3.7	7.0	16.6	6.4	217.99	200.13	112.73	1,272.0	6.7		5.3	30.4		110.4
France	3.6	7.1	16.7	6.3	426.80	402.79	205.95	2,174.6	6.9	21.7	7.1	90.9	19.8	281.4
Sweden	3.7	7.1		5.5	16.39	14.31		59.4	5.6		3.7	3.3		16.1
Australia	3.7	7.0	14.9	5.9	75.88	116.84	21.21	425.5	7.1	19.6	6.7	12.7	2.5	35.3
NZ	3.8	7.0	14.6	5.8	21.33	24.13	5.30	94.6	7.9	16.3	8.5	5.3	1.2	13.4
Canada														

Investment grade bonds										High Yield		
Duration						Market Value				Duration	MktVal	
	AAA	AA	A	BBB	Overall	AAA	AA	A	BBB	Overall		
US	9.9	7.8	6.3	6.1	6.4	61.6	644.4	3,105.8	3,625.8	7,437.7	3.6	1,348.4
Euro	6.2	5.0	4.3	4.1	4.3	20.3	275.8	1,428.1	1,688.5	3,412.7	3.2	400.4
EM		5.4	5.5	4.9	5.2		73.50	150.55	247.0	471.0	3.6	201.7



Data as of 2026-09-30

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Appendix – Glossary

Bond markets are based on the following indices:

FTSE World Government Bond Index (WGBI) for all global government bond markets

FTSE World Inflation-Linked Securities Index (WorldILSI) for all global inflation-linked bond markets

FTSE US Broad Investment-Grade Bond Index (USBIG®) for the US corporate bond market

FTSE US High-Yield Market Index for the US high yield bond market

FTSE Euro Broad Investment-Grade Bond Index (EuroBIG®) for the Euro-denominated corporate bond market

FTSE European High-Yield Market Index for the European high yield market

FTSE Chinese Government and Policy Bank Bond Index (CNGPBI) for the Chinese government bond market

FTSE Emerging Markets Inflation-Linked Securities Index (EMILSI) for the emerging markets inflation-linked bond market

FTSE Emerging Markets Government Bond Index (EMGBI) for the emerging markets government bond market. Please note that over 50% of this index is invested in China

FTSE Emerging Markets Broad Bond Index (EMUSDBBI) for the emerging markets corporate bond market

FTSE ESG World Government Bond Index for the global government bond markets with an ESG tilt

FTSE Climate Risk-Adjusted World Government Bond Index (Climate WGBI) and FTSE Advanced Climate Risk-Adjusted World Government Bond Index (Advanced Climate WGBI) for each country's relative exposure to climate risk, with respect to resilience and preparedness to the risks of climate change

List of Abbreviations used in charts:

IL = Inflation-linked bonds

IG = Investment-grade bonds

HY = High-yield bonds

BPS = Basis points

EM = Emerging market

LC = Local currency

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