Core Fixed Income Team

AMERY MONTHLY UPDATE

Derek Amery

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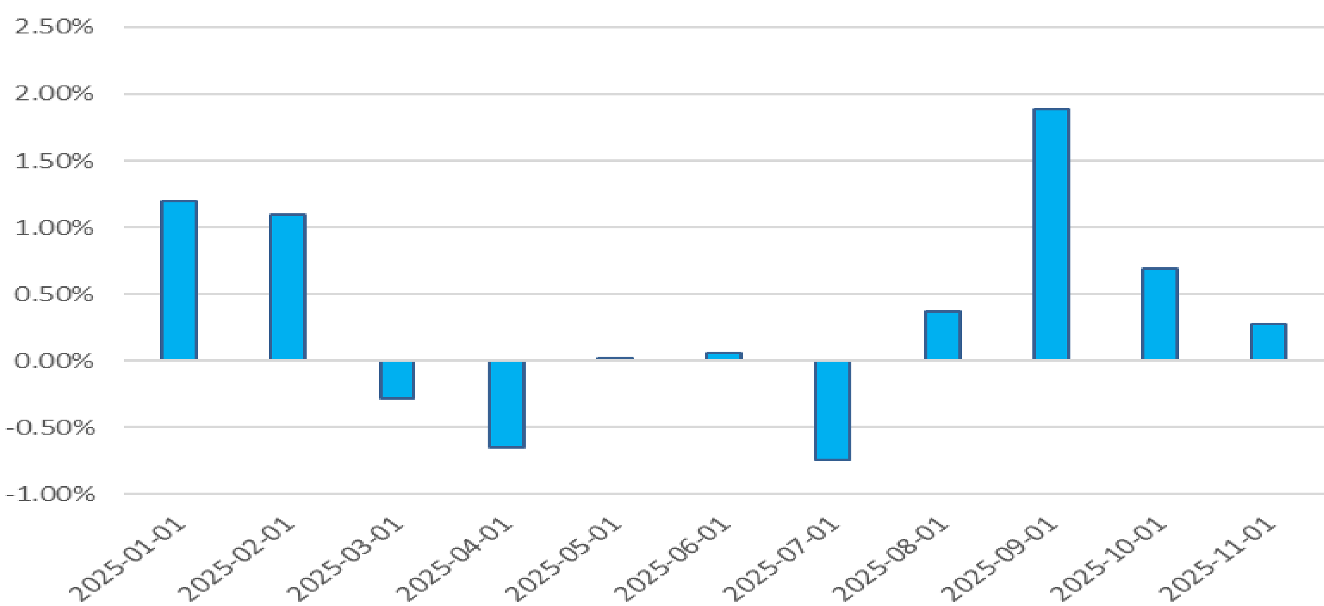
Fixed Income Market Update

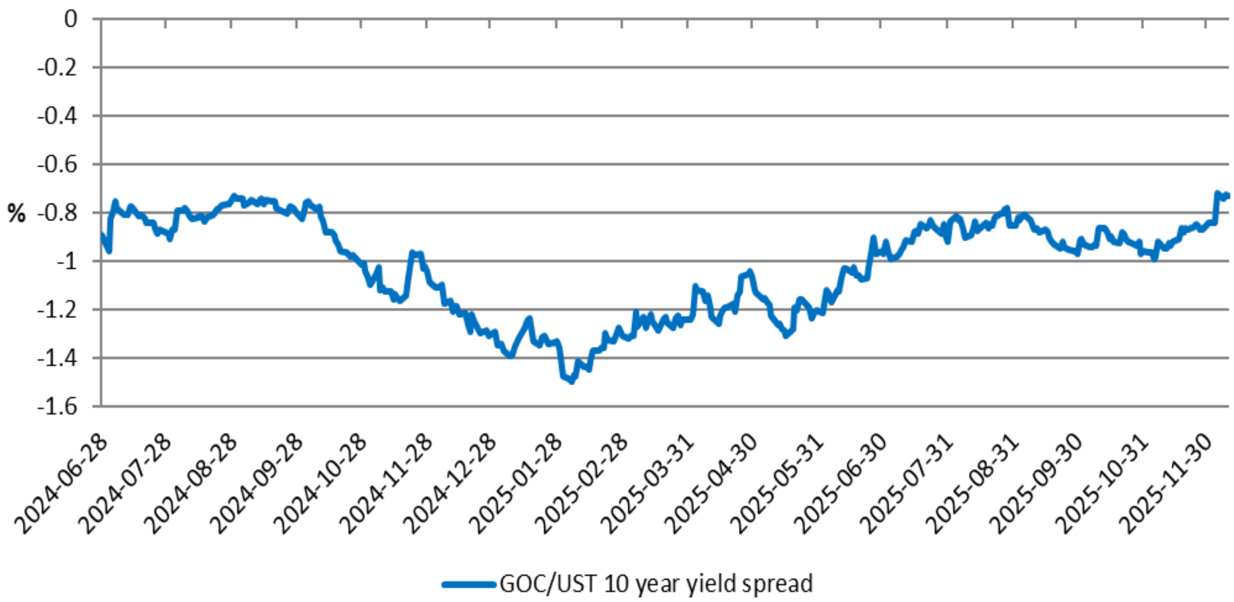
With year-end fast approaching, most investors are busy with holiday events, preparing for family festivities, and likely just plain exhausted from looking at their screens in what has been a particularly eventful year. So, to keep this a light read, we are simply going to show what we think are some of the more impactful charts from 2025.

Chart 1: Canadian Fixed Income Market Returns: Strong start & finish to 2025



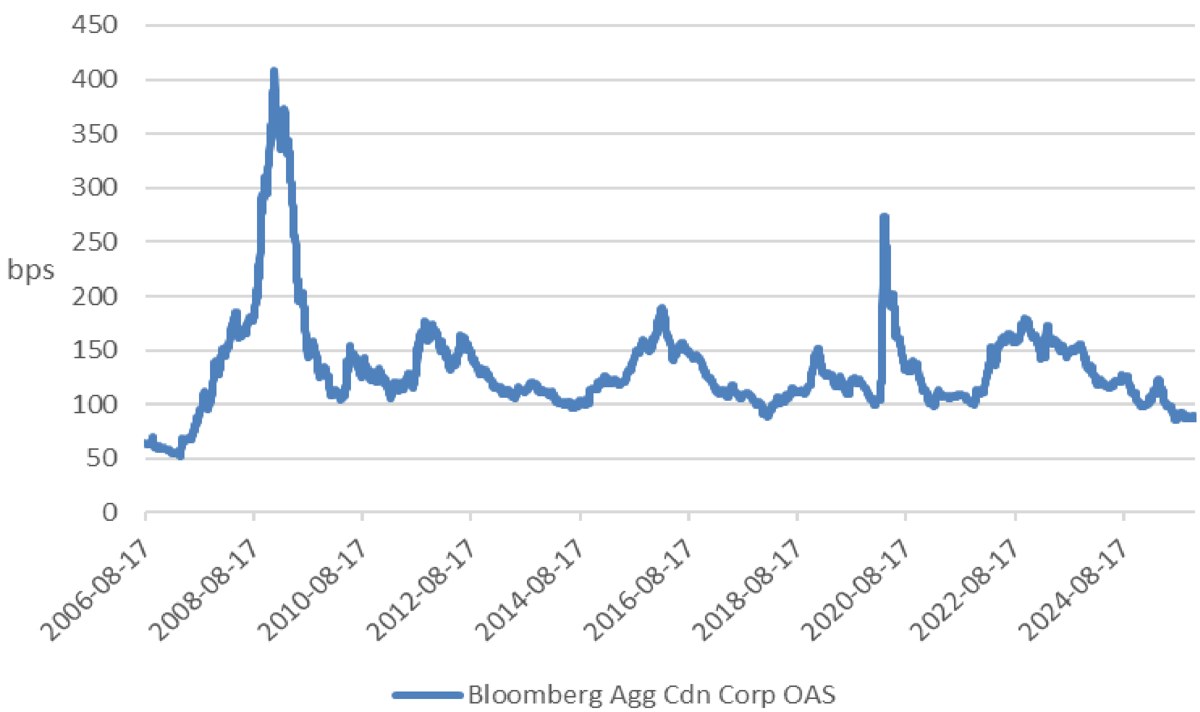
Source: FTSE/Russell; Bloomberg

Chart 2: CAN/US Yield Spreads: US underperformed in 2024, outperformed in 2025



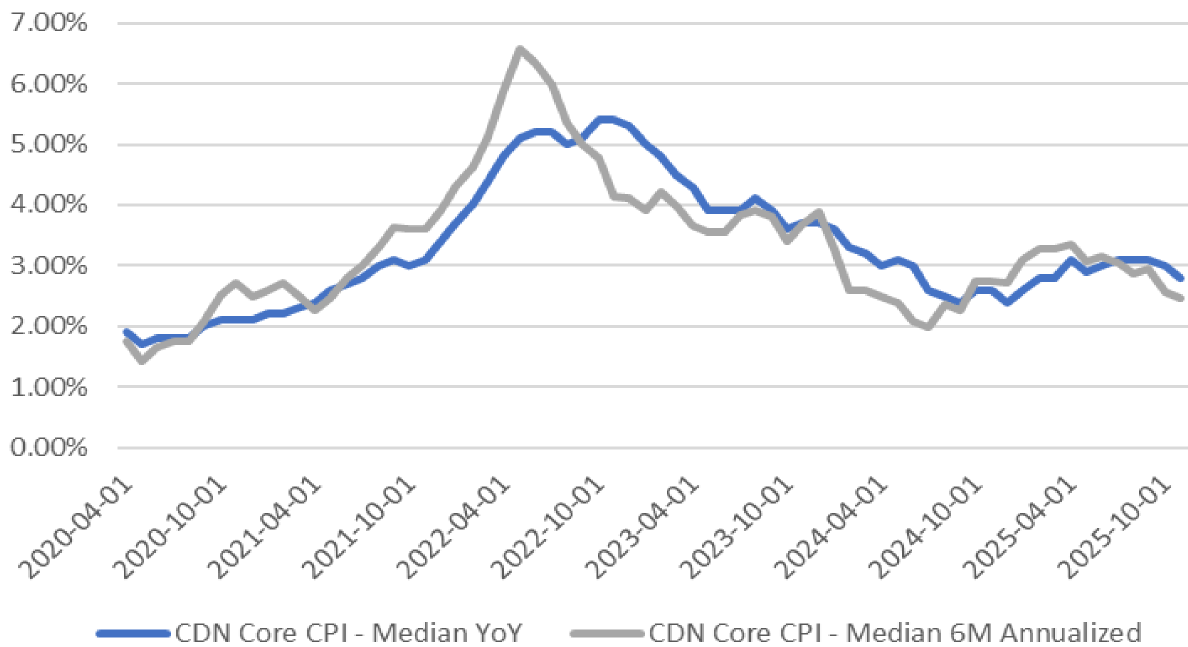
Source: Bloomberg

Chart 3: Credit Spreads: Despite narrow spreads, IG corporate bonds continue to outperform



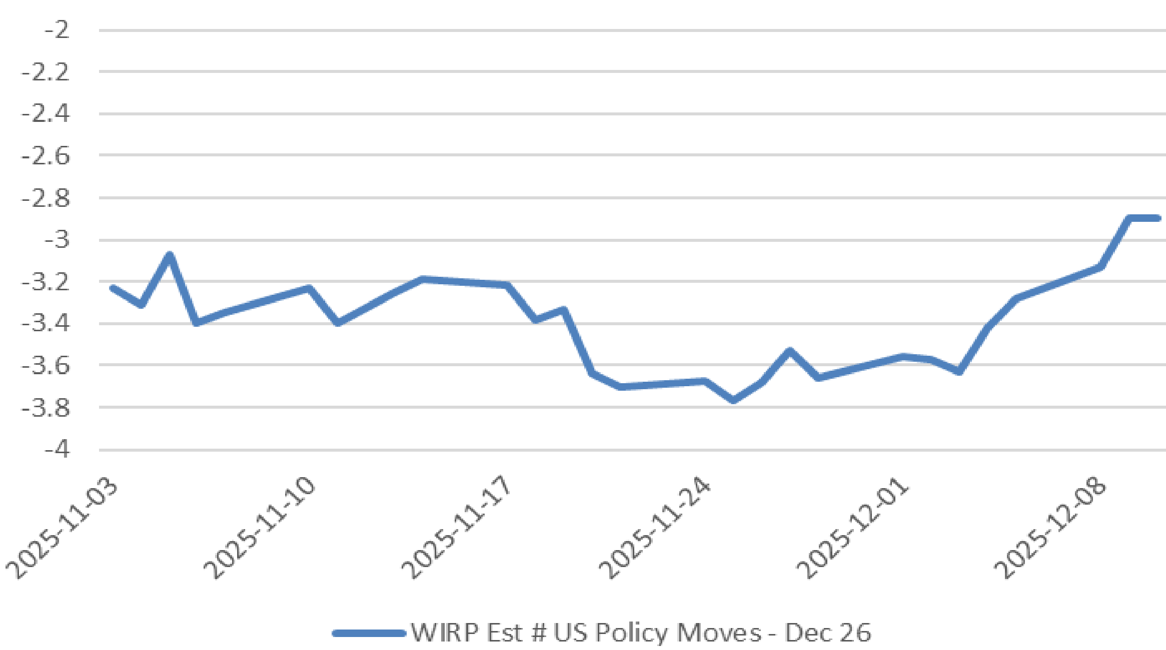
Source: Bloomberg

Chart 4: NA inflation remains stubbornly above target, likely limiting further rate cuts



Source: Bloomberg

Chart 5: The FED: Markets are expecting ~3 cuts in 2026 – Too optimistic?



Source: Bloomberg

Market Review

Here is summary of market movements within both Rates and Credit so far in 2025:

Total Return Performance	1-month	3-month	YTD	YoY
Canadian Broad Bond market	0.27%	2.87%	3.97%	3.25%
US Broad Bond Market	0.61%	2.35%	7.46%	5.71%
Government of Canada	0.12%	2.27%	2.84%	2.47%
US Government	0.61%	2.18%	6.73%	4.93%
Canadian Universe IG Corporate	0.23%	2.57%	5.10%	4.95%
US Universe IG Corporate	0.64%	2.52%	8.12%	6.20%
US Universe HY Corporate	0.50%	1.46%	7.80%	7.34%

Government Bond Yields	31-Dec	31-Mar	30-Jun	30-Sep	30-Nov	MoM	QoQ	YTD
Government of Canada 2-year	2.93%	2.46%	2.59%	2.47%	2.42%	0.01%	-0.23%	-0.51%
Government of Canada 10-year	3.23%	2.97%	3.27%	3.18%	3.15%	0.03%	-0.23%	-0.08%
UST 2-year	4.24%	3.89%	3.72%	3.61%	3.49%	-0.08%	-0.13%	-0.75%
UST 10-year	4.57%	4.21%	4.23%	4.15%	4.02%	-0.06%	-0.22%	-0.56%
Government Bond Yield Curve	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**30-Nov**	**MoM**	**QoQ**	**YTD**
Government of Canada 10-year minus 2-year	0.30%	0.51%	0.68%	0.71%	0.73%	0.02%	0.00%	0.43%
UST 10-year minus 2-year	0.33%	0.32%	0.51%	0.54%	0.52%	0.02%	-0.09%	0.20%
Government Bond Yield Spreads	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**30-Nov**	**MoM**	**QoQ**	**YTD**
Government of Canada 2-year minus UST 2-year	-1.31%	-1.43%	-1.13%	-1.14%	-1.07%	0.10%	-0.10%	0.24%
Government of Canada 10-year minus UST 10-year	-1.35%	-1.24%	-0.96%	-0.97%	-0.87%	0.09%	-0.01%	0.48%
Monetary Policy Expectations	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**30-Nov**	**MoM**	**QoQ**	**YTD**
Canadian Policy Rate Expectations - 1yr Forward	2.63%	2.33%	2.41%	2.28%	2.27%	0.08%	-0.15%	-0.36%
US Policy Rate Expectations - 1yr Forward	3.90%	3.32%	3.19%	3.11%	3.03%	-0.05%	-0.11%	-0.87%
Corporate Bond Yield Spreads	**31-Dec**	**31-Mar**	**30-Jun**	**30-Sep**	**30-Nov**	**MoM**	**QoQ**	**YTD**
Canadian Universe IG Corporate	99	113	97	88	89	2	-2	-10
US Universe IG Corporate	80	94	83	74	80	2	1	0
Canadian Universe IG Corporate - US IG Corporate	19	19	14	14	9	0	-3	-10
US Universe HY Corporate	287	347	290	267	269	-12	-12	-18
US Universe HY minus US IG Corporate	207	253	207	193	189	-14	-13	-18
CDX IG	49.8	61.5	51.1	52	51	-1	0	1.32
Canadian IG Excess Return	0.18%	-0.15%	0.34%	0.24%	0.12%	0.12%	0.48%	1.89%
US IG Excess Return	0.21%	-0.44%	0.45%	0.46%	-0.03%	-0.03%	0.22%	1.06%

Source: FTSE/Russell, ICE, Bloomberg

Positioning

Given the lack of data and resulting policy uncertainty, we have been taking muted duration positions – currently we are slightly long the benchmark, but this is quite tactical. We have added slightly to our credit exposures over the past month, given favourable seasonals in December. We are currently overweight the US market and underweight Canada given historically rich relative yields here in Canada but have reduced the US overweight after strong outperformance.

Rates positioning: (i) Slightly long duration; (ii) yield curve flattener; (iii) overweight Cdn prime residential mortgages; (iv) overweight RRBs; (v) overweight USTs.

Credit positioning: (i) modest overweight in credit; (ii) maintain a quality bias in favour of IG over HY, and more defensive credits within IG; (iii) overweight Cdn corporates, underweight US.