

Dead Reckoning | April 2026

“I am not lost, for I know where I am.
But however, where I am may be lost.”
Winnie-the-Pooh

Before GPS, before the blinking blue dot, sailors and explorers navigated the open sea using a method called dead reckoning. The technique is elegantly simple. You begin with a known position (the fix) and use your speed, direction, and time elapsed to chart your current location.

The methodology works beautifully in calm, predictable waters, but performs considerably less so in more difficult conditions. Dead reckoning does not account for currents, wind, or unexpected forces that may put you somewhere quite different from where your chart suggests. Furthermore, being a cumulative process, each miscalculation and error compounds, causing significant drift on long voyages.

In these instances, it is not that the navigator is incompetent, nor is the model wrong. It is that the ocean did not consult or cooperate with the model. We have a sneaky suspicion that the Bank of Canada can empathize with this predicament.

The last known fix.

In October 2025, the BoC cut its overnight rate to 2.25% and moved to the sidelines. The logic was sound: inflation near target, growth modest but positive, and nine rate cuts since mid-2024 expected to work through the economy like a slow tide. Governor Macklem’s message was essentially navigational: we know where we are, we know where we are going, and we are letting the ship find its speed.

That was the fix. But the ocean had other plans.

Uncharted currents.

On February 28th, conflict broke out in the Middle East, sending crude oil surging higher. For a central bank targeting 2% inflation, this was an unwelcome development. CPI sat at 1.8% in February; by March, it had climbed to 2.4%, and for April, the BoC’s forecast has it approaching 3%.

Governor Macklem has been clear that the Bank is prepared to “look through” the energy shock, with the BoC assuming US\$75 oil by mid-2027. But he also made it clear that if oil prices remain higher for longer and inflation becomes persistent, rate hikes return to the agenda.

Furthermore, the BoC is assuming that the positive impact of higher oil prices on exports will be offset by the squeeze on consumers and businesses. Based on this assumption, they forecast 1.2% GDP in 2026, rising to 1.6%–1.7% in 2027–28. But how these crosscurrents play out remains to be seen.

Compounding matters, the federal government has arrived with fiscal policy in full sail; \$115bn in infrastructure, a defence buildout targeting 5% of GDP, and a Spring Economic Update tabling a sovereign wealth fund. Fiscal stimulus of this magnitude is the economic equivalent of an unexpected tailwind: welcome in some respects, but capable of pushing the ship well past its intended destination.

[Sleeping with an elephant.](#)

And then there is CUSMA. The agreement's mandatory July 1st review is approaching, and by all accounts, the negotiations have been going poorly. Washington is already demanding pre-emptive concessions before substantive talks even begin.

In this regard, Prime Minister Carney has been refreshingly firm in refusing to negotiate against himself, while simultaneously logging 20 new trade deals in his first year. While this is admirable, Canada still directs roughly three-quarters of its exports south of the border, and no number of trade missions to Tokyo and Brussels changes that arithmetic before July.

For the BoC, CUSMA is the dense fog on the waters. Every forecast and model carries a silent asterisk: the outlook assumes that current trade arrangements remain broadly intact. If July brings a materially worse outcome, the Bank would be navigating in genuinely uncharted territory.

[Dead in the water.](#)

One corner of the Canadian economy that is already causing some concern is housing. Since June 2024, the BoC has cut rates by 2.75%, a meaningful easing intended to unlock the housing market and restore affordability.

Unfortunately, the data tells a different story. The national benchmark home price is 5% below year-ago levels, and the average home still costs approximately nine times the median annual income. Rate cuts can help at the margin, but they cannot fix the structural current of incomes failing to keep pace with decades of credit-fuelled price appreciation.

In navigational terms, the housing market is the landmark that the BoC expected to spot by now. Yet, it has not appeared.

[The reinitialization.](#)

At its April 29th meeting, the BoC held the overnight rate at 2.25% for the fourth consecutive time. The prudent move of a navigator who has spotted new currents and paused to recalculate before adjusting course.

In dead reckoning, when a navigator confirms a known position, a lighthouse, a clear celestial fix, or a restored GPS signal, they do not average it with their accumulated estimates. They throw out the drift and restart from the confirmed position. This process is called reinitialization.

For central bankers, each new economic data point offers a new landmark or fix. As it navigates today's choppy waters, the BoC will be looking at the trajectory of oil prices, CUSMA negotiations, employment reports, inflation prints, and economic growth. All of this will feed into whether the BoC holds its heading or reaches for the wheel.

We suspect the Bank would rather be a careful navigator than a reactive one. Holding steady while competing currents pull in opposite directions is sound seamanship. As Governor Macklem put it, "As the outlook evolves, we stand ready to respond as needed."

Dead reckoning, when done well, looks exactly like that. You hold your heading. You watch for landmarks. And you do not make a course correction that you will regret when the fog finally clears.

The Month of April.

Credit.

Markets shrugged off the Middle East conflict and higher energy prices, with strong Q1 earnings propelling equities to new highs and tightening credit spreads. The Canadian IG index finished the month at 86 bps, comfortably at the midpoint of this year's range.

Higher-beta sectors led spread performance. REITs were in 14 bps, led by the Choice acquisition of First Capital. Autos were close behind, tightening 12 bps on solid Q1 results from Ford, and Energy-Mining spreads rallied 11 bps on higher oil prices.

The positive tone spilled into the domestic primary market, which set an all-time April record at ~\$20.1 bn. It was the second-highest monthly total in Canadian history (behind March 2022) and left YTD supply at \$69.2 bn, running 69% ahead of last year. Banks comprised over 50% of the new deals, with REITs accounting for ~16%.

Investment-grade credit spreads:

- Canadian spreads narrowed 8 bps to 86 bps.
- U.S. spreads narrowed 11 bps to 78 bps.

Interest Rates.

The Bank of Canada held its policy rate at 2.25% for the fifth consecutive meeting. The April Monetary Policy Report (MPR) was the first to incorporate the Middle East conflict alongside the ongoing tariff/CUSMA overhang.

Based on the assumptions that tariffs remain unchanged and oil is US\$75 by mid-2027, the Bank forecasts CPI to peak around 3% in April, then ease back to the 2% target by early 2027. The GDP forecast was little changed from January: 1.2% in 2026, rising to 1.6%–1.7% in 2027–28, with the positive impact of higher oil prices on exports expected to be offset by the squeeze on consumers and businesses.

Of note were the two reaction functions that Macklem laid out with unusual candour: consecutive hikes if energy prices spark persistent inflation; cuts if CUSMA talks go sideways.

South of the border, the FOMC held the fed funds rate at 3.5%–3.75%. The vote had four dissents: Miran wanted a cut; Hammack, Kashkari, and Logan wanted the easing bias out of the statement. The other surprise was Powell announcing he will remain as a governor after his term as chair ends. A decision he attributed to the unprecedented legal attacks on the Fed.

His final press conference as chair had a hawkish tilt, with Powell saying they “want to see the backside of energy and tariffs before even thinking of reducing rates.”

- Canadian 2y finished at 2.95% (+13 bps) and the 10y at 3.54% (+7 bps)
- U.S. 2y finished at 3.87% (+7 bps) and the 10y at 4.37% (+5 bps)

The Funds.

Algonquin Debt Strategies Fund.

The gains from carry, credit, and active trading were partially offset by the move higher in short-end rates, with the Fund finishing the month + 45 bps. We took advantage of the yield spike in the second half of the month to add short-dated bonds with attractive all-in yields, thereby increasing portfolio carry while adding minimal risk.

Portfolio Metrics:

- 4.75-5.0% yield
- Average credit rating: BBB+
- Average maturity: 1.9
- IR Duration: 1.2y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y	SI
X Class	0.52%	-0.19%	1.22%	0.67%	4.99%	8.49%	5.44%	6.25%	7.91%
F Class	0.45%	-0.29%	0.91%	0.47%	4.21%	7.44%	4.60%	NA	NA

* As of April 30th, 2026

The Algonquin Debt Strategies Fund LP was launched on February 2nd, 2015. Returns are shown on 'Series 1 X Founder's Class' since inception and for 'Series 1 F Class' since May 1st, 2016, and are based on NAVs in Canadian dollars as calculated by SGGG Fund Services Inc. net of all fees and expenses. For periods greater than one year, returns are annualized.

Algonquin Fixed Income 2.0

Despite the move higher in rates, the Fund generated a positive return, as profits from credit, yield, and active trading more than offset the losses from duration exposure. With the Canadian market pricing in over 2 hikes for 2026, we added duration exposure towards month-end.

Portfolio Metrics:

- 4.0-4.5% yield
- Average credit rating: BBB+
- Average maturity: 2.5y
- IR Duration: 4.8y

	1M	3M	6M	YTD	1Y	2y	3y	5y	SI
F Class	0.24%	-0.59%	0.22%	0.14%	4.02%	7.23%	6.82%	3.99%	4.82%

* As of April 30th, 2026

Algonquin Fixed Income 2.0 Fund is an Alternative Mutual Fund and was launched on December 9th, 2019. Returns are shown for Class F since inception and are based on NAVs in Canadian dollars as calculated by SGGG Fund Services Inc., net of all fees and expenses. Investors should read the Simplified Prospectus, Annual Information Form, and Fund Facts Documents and consult their registered investment dealer before making an investment decision. Commissions, trailing commissions, management fees, and operating expenses all may be associated with mutual fund investments. An Alternative Mutual Fund is not guaranteed, its value changes frequently and its past performance is not indicative of future performance and may not be repeated. Payment of quarterly distributions is not guaranteed and paid at the discretion of the manager; therefore, it may vary from period to period and does not infer fund performance or rate of return.

Looking Ahead.

At month-end, the bond market's expectations for 2026 were for the Fed to do nothing and the BoC to hike twice. With a new Fed Chair in the navigator's seat, there is greater uncertainty on top of an already foggy macro backdrop. With inflation running hot on two fronts, tariffs and oil, it seems reasonable for the market to be pushing out the possibility of rate cuts and to see some traders flirting with the idea of a hike.

As for the Canadian rate market, in the short term, we see value in 5-year and shorter durations. With CUSMA yet to be resolved, we think it's premature to start pricing in hikes this year. Furthermore, on a 12-month break-even basis, short-dated government bonds look attractive. For example, the yield on the 2y bond is ~3%. To lose money, the 2y rate would have to go above 4.5%, implying the BoC hikes 2% or more. Furthermore, this position offers upside should the U.S. and Iran reach a negotiated settlement.

The caveat is that maintaining rate exposure could lead to seasickness. Central bankers are not the only ones looking for landmarks. Each new economic data point will be scrutinized by bond traders to reevaluate the path of monetary policy, likely leading to sharp shifts in yield curves.

On the corporate side of the market, if the war is indeed drawing to an end, investors will be able to shift their attention back to credit fundamentals. In general, most issuers are in good shape, though some sectors/issuers are facing challenges (e.g., software). The dispersion allows for some interesting idiosyncratic stories and opportunities.

The conflict also overshadowed private credit concerns, but that story is far from over. We expect defaults to be higher than usual this year, but there is no reason to believe the headache will spread to public market issuers.

With only a couple of months left before the summer doldrums, issuance should be robust, providing tactical trading opportunities. We expect to maintain a generally defensive exposure and focus on idiosyncratic and trading opportunities.

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