

Plays Of The Year | December 2025

“An optimist stays up until midnight to see the new year in.
A pessimist stays up to make sure the old year leaves.”
Bill Vaughn

With the passing of another year, so begin the annual new year traditions and rituals.

For many, flipping the calendar marks a fresh start and a time to set goals and resolutions. According to surveys, this year, the ever-popular goal of weight loss has been surpassed by the desire to reduce screen/social-media time.

The new year also marks the season of predictions and prognostications, with forecasts on everything from geopolitics and markets to sports and culture. For 2026, the consensus amongst financial pundits is for a fourth consecutive year of solid gains, fuelled by AI, lower interest rates, and fiscal stimulus.

January is also a time to reminisce about the year that was. A look back at the events and trends that shaped the past twelve months, the best movies, songs, books, and shows, and for sports fans, the plays and misplays of the year.

Given that less than 10% of resolutions stick, and our reluctance to engage in crystal balling, we prefer to go ‘the plays of the year’ route. After all, the future might be unpredictable, and we might not know where we are going, but as investors, it is critical to know where we have been and where we are at.

So, with that, we present the bond land quarterly highlights of the year that was.

[The first quarter.](#)

The first months of 2025 were characterized by heightened uncertainty and volatility as markets grappled with the flood of new policies and developments from the US administration. Fears of a recession (on both sides of the border) led to a drop in yields and a sell-off in credit.

The BoC began the year by delivering two 25 bps cuts in January & March, bringing the overnight rate to 2.75%. The Bank acknowledged that the economic data did not warrant a second cut (March), but with ‘pervasive uncertainty’ around tariffs, they felt further easing was prudent.

With inflation continuing to run hot south of the border, the Fed held rates steady, opting for a ‘wait and see’ approach. But the bond markets' focus shifted from inflation to the potential for lower growth and higher unemployment. As such, the anticipation for rate cuts grew, sending Canadian and US 2y yields lower by 47 bps and 35 bps, respectively.

In terms of credit, spreads came under pressure as investors considered the impact of tariffs on corporate profits and economic growth. Investment-grade spreads were broadly 10-30 bps wider, with the auto industry underperforming. Despite the weak tone, new supply was robust, with issuers racing to get ahead of ‘liberation day’. The US market set a Q1 record with \$550bn in new deals, while Canada saw \$36bn in corporate supply.

The second quarter.

The second quarter began with the unveiling of ‘liberation day’ tariffs and the ensuing sell-off. But once tariffs were paused, fear gave way to hope, fueling a remarkable market recovery. The bond markets were not immune to the volatility, with US 10y rates trading between 3.86% and 4.59% before settling into a narrower range.

Over the quarter, both the BoC and Fed remained on the sidelines and held policy rates steady. But markets remained active, with the US bond market shifting from pricing four cuts by the end of 2026 to five, which led short-end rates to continue their rally. In Canada, yields moved in the opposite direction. Optimism around trade negotiations and fiscal stimulus shifted expectations from two more cuts to one-and-done.

Credit markets got swept up in the post-liberation day sell-off, with investment-grade spreads widening by 20-30 bps, with some sectors (i.e., autos) getting hit harder. Thereafter, credit participated in the broad market rally. Even the record-breaking amount of supply in May and June couldn’t stop the positive momentum, with IG spreads finishing the quarter 10-15 bps lower and HY over 50 bps tighter.

The third quarter.

Both the Fed and BoC moved off the sidelines in the third quarter. For the first time since March, the BoC cut the overnight rate in September. The decision was based on the balance of risk shifting from inflation to the labour market and economy.

South of the border, there was a similar pivot in central bank attention. In July, the Fed kept its policy rate steady, citing that inflation was a greater concern than employment. But with the labour market showing signs of weakness in August, the FOMC pivoted its stance and delivered a ‘risk management’ cut in September.

Bond markets followed the central banks’ pivots, with rates rising ~20 bps in July, only to reverse course and finish the quarter ~10 bps lower. At quarter-end, the markets priced in one more cut from the BoC and two more from the Fed.

In credit markets, the risk-on rally from Q2 continued in July, paused in August, and resumed in September, with investment-grade credit spreads tightening ~10 bps over the quarter. Supply continued to be robust, but strong inflows into fixed income, combined with light dealer inventories, created a technical bid, leading to performance in both new and existing bonds.

The fourth quarter.

In October, the Bank of Canada (BoC) lowered the overnight rate by 25 bps to 2.25% and signalled that it would be moving to the sidelines. Sticking with the script, the BoC held rates steady in December, framing the current level as ‘about right’.

With BoC’s moves aligning with market expectations, Canadian interest rates traded in a narrow band through October and November. But in December, a much stronger-than-expected employment report led to a spike in yields, as bond markets priced in an 80% chance of a 2026 hike.

South of the border, the Fed also cut its policy rate by 25 bps in October and indicated that a December cut was ‘not a foregone conclusion’ and ‘far from it’. But through November, there was a noticeable shift in ‘Fed speak’, with the governors tilting toward another cut. In the end, they followed through and cut rates 25 bps

in December to 3.5-3.75%. While Q4 saw a divided Fed, with dissenters at the past two meetings, the US bond market has settled on the expectation for two more 25 bps cuts in 2026.

In the corporate bond markets, the 2025 trend of robust issuance continued in Q4, with Canada setting a new annual record of \$154 bn in new issues. The US primary market set a Q4 record with \$310 bn in supply, bringing the 2025 total to \$1.66 tn, second only to 2020 in both total issuance and the number of deals. The heavy supply pressured spreads before a Santa Claus rally, leaving Canadian credit modestly tighter at quarter-end, while US spreads widened by a few bps.

Q4 also saw credit markets becoming increasingly concerned about the funding requirements for the AI buildout (i.e., data centres). Oracle's CDS, the poster child for hedging this exposure, widened from 45 bps to 144 bps over the quarter.

The new year.

We hope that this quarterly summary of 2025 was informative and valuable, but we recognize that most people are preoccupied with the year ahead. Rest assured, in the 'looking ahead' section, we explore the market expectations for 2026 and our thoughts on the potential paths in bond land.

The Month of December

Credit.

The Canadian new issue machine broke another monthly record, with \$13.7 bn of supply in December. This took the 2025 total to \$154 bn, setting an annual record for primary market activity, with historic highs in Maple issuance, corporate hybrids, and overall supply. The US market was also busier than anticipated, with US\$37.7 bn of new deals.

The heavy supply led to concerns that the Santa Claus rally wouldn't be coming to town, and spreads leaked wider at the start of the month. But Jolly Old Saint Nick did not disappoint, and the ensuing rally led to spreads finishing modestly tighter.

Investment-grade credit spreads:

- Canadian spreads narrowed 5 bps to 84 bps.
- US spreads narrowed 2 bps to 78 bps.

Interest Rates.

With stronger-than-expected job creation and the BoC sitting on the sidelines, investors concluded that the next move would be a hike. As a result, bond yields rose across the curve.

Barring a negative economic shock, we think the market is correct in believing that the cutting cycle has ended, and that a mild hiking cycle could follow. The timing of the first hike will be debated, but for now, the market is pricing in lift-off for late this year.

The Fed delivered the expected 25 bps rate cut; however, Chairman Powell was vague about whether more cuts were coming and stuck to the ‘data-dependent’ script. The US yield curve steepened slightly in the month as the market moved to price in just two cuts in 2026.

- Canadian 2y finished at 2.59% (+17 bps) and the 10y at 3.43% (+29 bps)
- US 2y finished at 3.48% (-1 bps) and the 10y at 4.17% (+15 bps)

The Funds.

Algonquin Debt Strategies Fund.

The returns generated from active trading, credit performance, and portfolio yield were partially offset by the spike in short-end Canadian rates. The move in rates made the yield on short-dated corporate bonds attractive relative to cash, and we capitalized on the opportunity to add low-risk carry to the portfolio.

Portfolio Metrics:

- 4-6% yield
- Average credit rating: BBB+
- Average maturity: 2.2y
- IR Duration: 1.2y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y	SI
X Class	0.41%	1.02%	2.64%	4.38%	4.38%	9.24%	5.67%	7.28%	8.10%
F Class	0.34%	0.84%	2.24%	3.61%	3.61%	8.21%	4.82%	NA	NA

* As of December 31st, 2025

The Algonquin Debt Strategies Fund LP was launched on February 2, 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

The portfolio yield and profits from credit positions were insufficient to offset the losses from the rate move, resulting in a 14 bps loss for the month. With Canadian rates ~30 bps higher at the start of the month, we took the opportunity to add duration exposure.

Portfolio Metrics:

- 3.5-4.5% yield
- Average credit rating: BBB+
- Average maturity: 2.7y
- IR Duration: 4.9y

	1M	3M	6M	YTD	1Y	2y	3y	5y	SI
F Class	-0.14%	0.58%	2.68%	5.23%	5.23%	7.51%	8.25%	4.04%	5.07%

* As of December 31st, 2025



Algonquin Fixed Income 2.0 Fund is an Alternative Mutual Fund and was launched on December 9, 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.

It looks like 2026 will set a new issuance record in the US, as tariff adjustments recede into the rearview mirror and corporate titans pursue ambitious investment and acquisition activity. Whether a new record is set in Canada hinges on the degree to which foreign issuers tap the domestic market. We suspect that there is currently a strong appetite for corporate debt and expect deals to go well.

Absent an exogenous shock, the base case for spreads is that they trade within a narrow range. There will likely be periods when supply temporarily overwhelms demand and spreads widen by 5 to 10 bps. We view such events as an opportunity to increase exposure, with the benefit accruing when the recovery occurs.

We expect the Bank of Canada to be on hold for the first half of the year, as they let previous cuts, fiscal stimulus, and, hopefully, a decent outcome from the CUSMA negotiations take effect. Bond traders expect the BoC to hike once in 2026. We think such a move would mark the commencement of a shallow rate-hike cycle (50-75 bps) that would carry on into 2027. Until given a reason to alter this rate path, trading in Canadian bonds will be a low-volatility affair.

Central bank watchers will get much more excitement from the Federal Reserve. The bond market has settled on pricing two cuts this year, but there is also the potential for divergent paths on either side of this expectation.

Overall, the US economy is in reasonable shape and could strengthen in the coming months as lower rates and significant tax refunds support spending. While inflation is gradually easing, it remains elevated, and the job market is in a 'low hiring, low firing' mode. As such, one could argue for keeping rates at their current level and waiting to see the economic data unfold.

But as we were reminded this weekend, with the DoJ launching a criminal probe into Jerome Powell, the economic data is not the only consideration. On top of the investigations into Powell and Cook, predicting the Fed's actions will be further complicated by the announcement of a new Chairman in the coming weeks.

Undoubtedly, Trump's appointee will be a 'dove' determined to lower rates further. While the Chairman is only one of twelve votes, their influence exceeds that. Furthermore, depending on the outcome of the criminal investigations, the administration might have more vacant seats to fill. With both data and 'politics' determining the path of monetary policy, we would not be surprised to see a volatile treasury market this year.

In terms of the outlook for fixed-income portfolios, we expect bond returns to come from coupon income. With the big directional moves behind us, the best estimate for most fixed-income products is the yield. While this is not the most attractive proposition, the silver lining is that active managers should have several opportunities this year to augment returns by capitalizing on volatility.



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