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Hiking Trails | October 2026

"A journey of a thousand miles begins with a single step."
Lao Tzu

At last month's IMF and World Bank meetings, Bank of Canada (BoC) Governor Tiff Macklem struck a decidedly hawkish tone. At the media roundtable, he indicated that it was becoming harder for the BoC to look through the energy shock and that the Bank would raise its inflation forecast 'quite a bit higher'.

The market took this as a signal that the October meeting was live and swiftly repriced the odds of a hike from ~30% to over 80%. The Governing Council followed through by hiking the overnight rate 25 bps to 2.5% and raising its inflation forecast by ~1%, with CPI expected to run at 3% through most of 2027.

The rationale for the hike was 'to reduce the risk that elevated energy prices could spill over and become generalized inflation.' Whether or not you agree with their logic or move, the past is (as they say) history. And investors are much more concerned with the mystery: where does this hiking cycle end?

The consensus non-consensus.

The consensus view among economists is that the BoC will hike once more. The non-consensus is how many more will follow, with forecasts for the terminal rate ranging from 2.75% to 3.25%. This would put the overnight rate at either the midpoint or the top end of the estimated neutral-rate range of 2.25% to 3.25%.

Hawk talk.

The hawkish camp argues that the Bank's own forecast demands more hikes. The October Monetary Policy Report (MPR) has inflation above 3% through most of 2027. If the forecast is right, the BoC can't risk staying on the stimulative side of neutral.

The hawks also point to Ottawa, where Budget 2026 adds roughly $15 bn of net new stimulus this year and $34 bn next, much of it designed to kick-start a wave of capital projects that will all be bidding for the same tradespeople and steel. With fiscal policy stepping on the gas while monetary policy taps the brakes, it is reasonable to suspect the Bank will need to press a little harder.

Dove tales.

The doves counter that inflation has yet to spread beyond the gas pump. CPI excluding gasoline sits at 2.2%, and the Bank's preferred core measures averaged just 1.85% in September, the slowest pace in six years. This camp argues that, with retail and wholesale margins starting well above pre-pandemic norms, businesses are more likely to absorb higher costs than pass them on, much as they did during the 2011 oil spike, when the Bank held steady all year.

The doves also point to an economy that is already losing steam. GDP has contracted over the past three months, October brought a third straight monthly job loss, and unemployment has climbed to 6.7%. Add in oil easing to around $90 and fresh U.S. tariff threats for January, and it seems reasonable to suspect the Bank can stop at the midpoint of neutral and let the data do the talking

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Pricing the path.

Since the hike, the market has swung between pricing an overnight rate of 3% and 3.5% over the next 12 months.

We can see a path to 3.25%, but it requires several things to fall into place at once. Energy prices would need to stay high, the job market would need to turn, and growth would need to pick up, whether through fiscal stimulus, progress on trade with the U.S., or both. Much of that hinges on decisions made in Washington, not Ottawa.

Barring that alignment of the stars, we suspect the bond market is priced too aggressively for the data in hand and see value in duration. Even if the economy does clear a path to 3.25%, the journey is likely to be slower than markets expect, and the yield an investor earns along the way should cushion them against moderately higher rates.

The Month of October

Credit.

Canadian new issuance hit $18.1 bn in October, a record for the month and more than double the 10-year average of ~$8.5 bn. That brings the year-to-date total to $182.4 bn, up 42% from last year. Banks led the way with $7.0 bn of new issuance, while auto finance companies also tapped the market. The headline deal was Walmart's $5 bn multi-tranche debut in the Maple market, which pushed Maple supply to $5.8 bn for the month.

The backdrop was less than ideal. A spike in oil, angst over the U.S. midterms and a tech sell-off combined to push investors toward safety and away from risk. Spreads widened broadly, led by REITs and telecoms. The more interesting story was in high-grade tech. Google and Amazon still boast some of the strongest balance sheets in the market, yet their bonds traded with tech-stock volatility as investors began to weigh free-cash-flow pressure, rising financing needs, and uncertain returns on AI investment. In the U.S., the same theme saw tech (+24 bps) and communications (+26 bps) lead investment-grade underperformance.

Investment-grade credit spreads:

- Canadian investment-grade spreads widened 8 bps to 94 bps.
- US investment-grade spreads widened 10 bps to 90 bps.

Interest Rates.

As discussed above, the BoC delivered its first hike in more than three years last month. Bond markets took it in stride, having largely priced the move in after Macklem's comments at the IMF. Remarkably, the 2y finished the month lower despite the hike, as the Bank's "proceed carefully" guidance tempered expectations for a rapid follow-up. Longer yields fell further, tracking the global rate rally and flattening the curve.

South of the border, the Fed held at 3.75%–4.00% on October 28, though two members, Lisa Cook and Beth Hammack, dissented in favour of a hike. The statement upgraded the economy to "strong", and with core PCE at 3.1% and Q3 GDP growing 3.4%, markets continue to price in a December hike. Yet Treasuries rallied hard. After touching a 24-year high early in the month, the 10y fell more than 40 bps as the sell-off in mega-cap tech, spike in oil, and midterm jitters had investors seeking shelter in government bonds.

- Canadian 2y finished at 3.30% (-7 bps) and the 10y at 3.80% (-19 bps).
- US 2y finished at 4.59% (-30 bps) and the 10y at 4.93% (-36 bps).

The Funds.

Algonquin Debt Strategies Fund.

The Fund's conservative credit positioning and active management helped contain the impact of wider spreads in October. Even so, the magnitude of the widening was enough to tip returns into negative territory, with the Fund finishing the month at −0.18%.

Portfolio Metrics:

- 6.0-6.5% yield
- Average credit rating: A-
- Average maturity: 1.3y
- IR Duration: 1.7y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y	SI
X Class	-0.15%	0.47%	1.28%	1.95%	2.51%	7.61%	5.37%	5.61%	7.68%
F Class	-0.18%	0.32%	0.96%	1.44%	1.88%	6.62%	4.54%	4.77%	NA

* As of October 31st, 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

After adding duration as yields climbed through the third quarter, the Fund was well positioned when rates reversed course in October. Gains from that active duration positioning, along with the yield earned, more than offset the drag from wider credit spreads, and the Fund finished the month up +0.91%.

Portfolio Metrics:

- 5.0% -5.5% yield
- Average credit rating: A-
- Average maturity: 2.4y
- IR Duration: 4.1y

	1M	3M	6M	YTD	1Y	2y	3y	5y	SI
F Class	0.91%	0.07%	0.60%	0.74%	0.83%	3.84%	7.73%	3.76%	4.55%

* As of October 31st, 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.

Elections have consequences, and the U.S. midterms may prove consequential for Canada. American voters signalled loud and clear that they are tired of the war in the Middle East and tariffs on their northern neighbour. Republicans in the House and Senate, who until now have largely let the White House run the show, will soon be plotting strategy for 2028. Some may decide it pays to distance themselves from the President, which could open a path to bipartisan settlements on both Iran and trade.

That would leave the Bank facing lower oil prices and potentially stronger growth, a combination that could pull the terminal rate in either direction. As a result, we expect the rate market to remain volatile, albeit within a narrow range, as investors toy with a terminal rate between 2.75% and 3.25%. Our bias, as outlined above, is to add duration into sell-offs.

In credit, we expect a busy November as issuers rush to market in the window between the midterms and the holidays. Demand for high-quality fixed income remains strong, and barring a deterioration in the macro picture, we expect to add exposure through the month. Front-end domestic investment-grade corporates continue to offer excellent carry, stability and liquidity, and they remain the anchor of our portfolios. As always, we intend to stay quick and nimble.

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