

Go Jays Go | September 2025

‘Canada is a country whose main exports are hockey players and cold fronts.
Our main imports are baseball players and acid rain.’

Pierre Trudeau

At the start of Trump 2.0, Canadians were on edge and outraged. The ‘51st State’ rhetoric and threats to our economy had Canadians feeling nervous and uncharacteristically patriotic. This patriotism and bad blood spilled into the Four Nations Hockey Tournament, adding some extra spice to the Canada v USA final (which we won).

In the months that followed, the temperature was dialled down. The annexation chatter faded, and there was hope that our new Prime Minister could negotiate a favourable trade deal. As such, Canadian businesses and the Bank of Canada (BoC) went into wait-and-see mode, with the central bankers holding rates steady through the spring and summer.

But over the past few months, it became apparent that negotiations (if we can call them that) were proceeding very slowly or going in reverse. The lack of progress on the trade front, coupled with slower growth and rising unemployment, led the BoC to cut in September, and Canadians to once again worry about the country’s economic outlook.

[The CUSMA umbrella.](#)

For now, aside from targeted products (i.e., aluminum, lumber, steel, copper, furniture, trucks), Canadian exports have been protected from tariffs under CUSMA. But next year, this agreement is up for renegotiation with an administration that is enamoured with tariffs. Thus, while Canadian exporters currently enjoy an advantage over global competitors, the future state is unclear.

[The art of the deal.](#)

Based on the deal struck with the UK, which enjoys a ‘special relationship’ with the US (a term coined by Churchill in 1946), perhaps we can conclude that 10% is the new zero. The deal was seen as a victory for PM Starmer, and maybe it is the best that Carney and his team of negotiators can hope for.

On the surface, this is worrying. Moving from no tariffs to 10% (or any tariffs) appears highly detrimental to the Canadian economy. But is it?

[It’s all relative.](#)

That depends on how our tariff rates compare to those of other countries. There is a conceivable path where Canadian (and Mexican) businesses retain a competitive advantage against the rest of the world and only need to compete against US producers.

Now, outside of hockey, Canadians usually shy away from direct competition with the US. But we do have lower labour costs, and given Trump’s immigration policies, the differential could grow larger. Furthermore, US tariffs on lumber, steel, and aluminum could give Canada a competitive edge in building new manufacturing facilities. There is also the possibility of attracting investment from foreign companies that find it more economical to manufacture in Canada than in their own country.

In the meantime.

But all of this takes time, as companies will need to adapt to the new playing field. In the meantime, Canadian businesses are left operating in a fog of uncertainty. With no ability to forecast US demand, it is difficult to determine headcount requirements and invest in plants and equipment.

In the short run, this could have a chilling effect on domestic growth. And with the BoC indicating the balance of risk has shifted from inflation to economic growth, we suspect the Bank will deliver another cut or two to prevent us from sliding into a deep recession.

And as a final note, Go Jays Go.

The Month of September.

Credit.

School was officially back in session, with over \$20 bn of new supply hitting the domestic market. That marked back-to-back record-breaking months, and the largest quarterly volume ever seen in the Canadian corporate bond market. On a YTD basis, the \$117 bn of new deals is just \$20 bn shy of setting a new high for annual issuance.

The only thing larger than the volume of new deals last month was the demand for corporate credit. The continuation of strong inflows into fixed income meant that not only were new issues oversubscribed, but secondary markets also performed well, with the Canadian investment-grade spread index tightening by 3 bps.

Investment-grade credit spreads:

- Canadian spreads narrowed 3 bps to 88 bps.
- US spreads narrowed 5 bps to 74 bps.

Interest Rates.

Both the Federal Reserve and the Bank of Canada delivered 25 bps rate cuts in September. With the US market having already priced in nearly three cuts this year, treasury yields were only modestly lower. As the domestic market anticipated only one cut for the remainder of the year, yields moved lower to price in the possibility of another BoC move by year-end.

- Canadian 2y finished at 2.47% (-17 bps) and the 10y at 3.18% (-19 bps)
- US 2y finished at 3.61% (-1 bps) and the 10y at 4.15% (-8 bps)

The Funds.

Algonquin Debt Strategies Fund.

The Fund's return of 0.47% in September was comprised of the yield earned, the active management of credit positions, and tactical interest rate exposures. While we still maintain a more conservative risk posture, we



expect lighter supply ahead and tactically increased exposures to credits that appear attractive on a fundamental and relative value basis.

Portfolio Metrics:

- 4-6% yield
- Average credit rating: BBB+
- Average maturity: 2.2y
- IR Duration: 1.4y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y	SI
X Class	0.54%	1.60%	3.04%	3.32%	6.02%	9.84%	6.27%	7.59%	8.19%
F Class	0.47%	1.39%	2.61%	2.75%	5.15%	8.81%	5.37%	NA	NA

* As of September 30th, 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 Fund's monthly return of 1.08% was driven by a concentration of interest rate exposure in the short end of the Canadian yield curve. The performance was further enhanced through credit positioning and the portfolio yield.

Portfolio Metrics:

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

	1M	3M	6M	YTD	1Y	2y	3y	5y	SI
F Class	1.08%	2.08%	3.40%	4.62%	6.55%	11.05%	8.90%	4.79%	5.19%

* As of September 30th, 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.

The demand for corporate debt remains strong, as deals are well-subscribed despite negligible concessions. Even marginal borrowers are finding it easy to bring new issues to market. We suspect that, because central banks are expected to continue lowering rates, investors are clamouring to lock in higher coupons. At some point, the sentiment will likely change; however, it does not appear to be happening anytime soon.



The US government shutdown is preventing the release of some of the economic data that the Fed uses to formulate its monetary policy decisions. Although Chairman Powell claims to be data-dependent, it is widely believed that a 25 bps cut is in the bag for this month. Perhaps one could even argue that the dearth of data makes it easier to deliver the cut, as a single strong number cannot muddy the case.

The BoC, on the other hand, does have data to aid in its decision-making. With Governor Macklem having brushed aside concerns about inflation, the focus is squarely on tomorrow's labour market survey. Unless the job market shows signs of life, we expect the BoC to join the Fed in lowering rates later this month.

Our risk exposure remains at the low end of the scale. In a puzzling market, we prefer to be like Jack, quick and nimble.

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