

The Law of Averages | October 2025

'The man who drowns in a river with an average depth of six inches is still dead.'

Proverb

In a world where data is gold, one of the most used and cited statistics is the average or mean. As a datum, it aggregates information into a single number or value. And on average, it produces a useful, shortcut representation of the underlying data.

But not all data sets are created equal, and in many instances, a simple arithmetic mean is useless, or even deceptive. For example, the average diaper wearer is estimated to be 25 years old. Or Elon Musk walks into a bar and turns the average patron into a billionaire. And then there are the three statisticians who went hunting and spotted a duck. The first shoots too high, the second too low, and the third yells, 'We got it!'

Now these examples are harmless and humorous (at least funny for us bond nerds). But there are countless instances where ambiguous averages are used, and the implications are more serious.

Average stock returns.

This year, one of the most topical averages for investors is stock market returns. Over the past twelve months, the S&P has returned 19.9%. Meanwhile, the average return of the 500 companies (equal-weighted) is 6.6%. Depending on one's allocation to big AI, performance can range from fantastic to ho-hum.

Taking a broader and more historical perspective also reveals divergent means. Since 1927, the average annual return of the S&P has been 8% (excluding dividends). But of those 99 years, the number in which the return fell between 6% and 10% is a grand total of six. Furthermore, the annual performance range is -47% to +47%.

Thus, while the average return offers some guidance to the long-term investor, it does not tell us anything about the next twelve months. From the investor's perspective, it is a bumpy, foggy road to the long-term average.

Bond market averages.

Turning to our world, one of the most frequently used statistics is the average credit spread. It is a helpful shortcut for a cursory rich/cheap analysis, but in isolation, it does not tell the whole story.

Over the past 25 years, Canadian investment-grade spreads have traded in a 10 bps range of the mean less than 6% of the time. Digging deeper into the data also reveals that the time spent below the average is almost twice that spent above it. Furthermore, the mean index spread does not reflect changes in constituent composition, corporate credit fundamentals, or the macro backdrop.

Turning to the other side of the fixed-income world, another datum that investors rely on is the probability of interest rate cuts or hikes. Most of the time, this provides an accurate indication of the consensus expectation amongst bond traders, but not always. Consider the situation in which one cut is priced in because market participants are split between zero and two, with no one expecting a single cut.

Averages in a K-economy.

These examples highlight the importance of looking beyond the headline averages, something we believe will become increasingly crucial for economists, governments, and investors. If, as many suspect, we are in a two-speed, 'K-economy', averages become significantly less informative. We have already witnessed a growing disparity in income, wealth, and corporate outlooks, which could be further exacerbated by AI.

Take, for example, the strong US consumer spending numbers despite inflation, high interest rates, and tariffs. Scratching below the surface reveals that half of the spending is coming from the top 10%. The unfettered spending from America's wealthiest citizens helps explain the economic resilience amidst a decline in hiring, rising debt delinquencies, and the strain on households from inflation.

In such a two-speed economy, it is critical to dig beneath the averages and consider the underlying distribution of data. In some cases, the tails and outliers could be more informative and instructive than the mean.

The situation reminds us of the quote often attributed to Charles Bukowski: "A man with his head in a hot oven and his feet in a freezer has statistically an average body temperature." Similarly, in a K-economy, averages might mask the fact that things are not OK.

The Month of October.

Credit.

The Canadian credit market remained active, with \$11 billion in new issuance during October, bringing YTD supply to \$128 billion—the third-highest annual total on record, with two months remaining. Demand for the new deals (and credit in general) remained strong, as fixed income continues to see strong inflows.

A lack of US economic data and heightened trade tensions with China led to choppiness in credit markets. In the end, Canadian investment-grade spreads were virtually unchanged, while US credit was modestly wider.

Investment-grade credit spreads:

- Canadian spreads narrowed 1 bps to 87 bps.
- US spreads widened 4 bps to 78 bps.

Interest Rates.

At the end of the month, both the Bank of Canada (BoC) and the Federal Reserve (Fed) delivered what we would characterize as 'hawkish' cuts.

After lowering the overnight rate to 2.25%, the BoC signalled that this might be the end of rate cuts (for now). As per their statement, 'the Governing Council sees the current policy rate at about the right level to keep inflation close to 2% while helping the economy through this period of structural adjustment.'

South of the border, the FOMC also cut its policy rate by 25 bps to 3.75% - 4% and announced that Quantitative Tightening will end on December 1st. The vote revealed two dissenters, with Miran in favour of a 50 bps cut (no surprise) and Schmid voting for a hold (a surprise). Perhaps the most critical development



came during Chairman Powell's press conference, where he emphasized that a December cut is 'not a foregone conclusion' and 'far from it'.

Yield spent most of the month drifting lower before reversing a portion of that move, after both central banks appeared to switch off autopilot and return to being data dependent.

- Canadian 2y finished at 2.40% (-7 bps) and the 10y at 3.12% (-6 bps)
- US 2y finished at 3.58% (-3 bps) and the 10y at 4.08% (-7 bps)

The Funds.

Algonquin Debt Strategies Fund.

With credit spreads flat over the month, the Fund's return was mainly comprised of the yield earned and profits generated through active trading.

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	0.47%	1.27%	3.73%	3.81%	5.44%	10.14%	6.28%	7.46%	8.17%
F Class	0.40%	1.07%	3.27%	3.16%	4.61%	9.11%	5.38%	NA	NA

* As of October 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

With little in terms of market movements, the Fund's performance was a combination of carry and active management of credit and rate positions.

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	0.49%	2.35%	3.79%	5.14%	6.94%	11.35%	9.36%	4.86%	5.21%

* As of October 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.

The Bank of Canada has passed the baton to provincial and federal governments to boost growth, as interest rates are ill-equipped to address trade policy and red tape. We think that after a highly entertaining run, the Canadian bond market is likely to be boring for a long stretch.

The same cannot be said for the US rate market. Chairman Powell did his best to temper expectations for a December cut, indicating that the Fed is data-dependent, despite there being no data. This could imply a volatile ride as investors adjust their expectations for cuts and the terminal rate based on whatever data is available. Thus, in line with national stereotypes, we expect the US bond market to be wilder and more exciting than Canada's.

As for credit, it continues to trade at the more expensive end of its historical range, supported by strong demand for corporate paper and solid credit fundamentals. As aforementioned, spreads can remain below their average for a long time. Thus, while a more conservative approach is warranted, it does not warrant hiding in the bunker. Our approach has been to run lighter overall exposures with a concentration in higher-quality issuers. Until risk premiums increase, our focus remains on grinding out returns through active trading and security selection.

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