Real Recession Or Fake News | May 2026

"Wall Street indexes predicted nine out of the last five recessions."
Paul Samuelson

Canadian Q1 GDP posted another decline, dropping 0.1%, making it two consecutive quarters on the wrong side of zero. Cue the headlines featuring the dreaded 'R-word', as the Canadian economy is technically in a technical recession.

The question is whether we are in a real recession or if it is just a technicality and media hype. And how does this impact the BoC's interest rate policy?

The two-quarter rule.

For the record, the 'two consecutive quarters of negative GDP' definition is not an official standard but an informal rule of thumb. It is most commonly attributed to a 1974 *New York Times* article by Julius Shiskin, the former Commissioner of the Bureau of Labour Statistics, where he outlined several benchmarks for identifying a recession. Over time, this simple heuristic got singled out and became the pop definition everyone knows and cites.

In the United States, the official arbiter of recessions is the National Bureau of Economic Research's (NBER) Business Cycle Dating Committee. Their definition is considerably more nuanced: a significant decline in economic activity spread across the economy, lasting more than a few months.

So, does the current state of the Canadian economy qualify as a recession under these conditions?

Real recession?

Undoubtedly, the Canadian economy has been struggling since 'Liberation Day', with negative GDP growth in three of the past four quarters. Thus, in terms of duration, we seem to tick the box of 'lasting more than a few months.'

While the decline in growth has been protracted, it does not qualify as significant. The 0.1% annualized contraction is within the margin of error, such that a minor revision could put GDP back into positive territory. To put the current situation into context relative to previous recessions, the peak-to-trough declines in real GDP in 1982, 1991, and 2009 were 3.4% to 4.9%.

Furthermore, while the economic pie shrank, so did the number of Canadians. Factoring in the 2026 population decline, per capita growth in Q1 was +0.9% annualized. Also, the unemployment rate has been steady in the 6.5%-7.1% range since mid-2024. These data points do not reflect a significant decline, nor do they scream recession.

In terms of how widespread the weakness is, the growth or lack thereof has been uneven. Manufacturing, real estate, and trade are weak, while finance, resources, and health care are steadily growing. Oil-rich provinces are faring reasonably well, while Ontario, Quebec, and BC are suffering. As for whether the dispersion metric has been met, the answer remains unclear.

Split verdict.

Thus, on our recession scorecard, we have duration ✓ (three of four quarters negative), magnitude ✗ (within margin of error; nothing like 1982/1991/2009, and positive on a per capita basis), and the breadth a toss-up. With only one of the NBER's three criteria clearly met, we think it is premature to raise the white flag and declare a recession, but we concede that the economy is grinding to a halt. So how does this impact the BoC's thinking and ultimately monetary policy?

The BoC to the rescue?

The BoC's mandate is to maintain inflation in a 1%-3% band. As such, the Bank does not focus on GDP in and of itself but considers its impact on inflation. If the economy were contracting, the Bank would forecast a decline in inflation (perhaps even an unwelcome one) and lower rates to stimulate demand and return to growth. The question is, have they seen enough evidence of economic weakness to lower interest rates and boost growth?

We think calls for rate cuts are premature. The Bank lowered rates to the bottom of the neutral range because it anticipated weak growth in the first half of the year. Accordingly, we believe the central bankers will be reluctant to respond to a 'technical recession' and hold rates until there is greater clarity on trade.

The reality is that uncertainty around the trade agreement (CUSMA) is the most significant headwind, and lower rates do little to alleviate it. If the negotiations between Messrs. Carney and Trump result in an acceptable deal for Canadians, export activity ought to improve, and domestic companies could also benefit from the AI boom that is powering US growth.

If you add to this scenario the boost from the government's infrastructure and defence spending, rates at the bottom end of the neutral band (2.25%-3.25%) might be stimulative. As such, it could be reasonable for the Bank to consider a modest risk-management hiking cycle to bring the overnight rate closer to 3% than to 2%.

Thus, while media outlets might be crying recession, a decent outcome from the trade negotiations could prompt the BoC to hike rather than cut rates. The bond market expects the hiking cycle to begin later this year. From our perspective, that seems aggressive. While we may not be in a recession, the economy remains sluggish, and we suspect the BoC will want to see growth improve before raising rates.

The Month of May.

Credit.

Amidst the backdrop of geopolitical tensions and volatile oil prices, credit markets displayed continued resilience, supported by a strong earnings season and healthy demand for corporate bonds. The Canadian primary market saw $14.5 bn in supply, the lowest monthly tally of the year but above the historical May average. The supply number was inflated by Alphabet's $8.5 bn four-tranche deal, as the domestic market finally saw a hyperscaler come to town. Despite virtually no new issuance concessions (NIC), the new deals were met with strong demand and performed on the break and into month-end.

Investment-grade credit spreads:

- Canadian spreads narrowed 3 bps to 83 bps.
- U.S. spreads narrowed 6 bps to 72 bps.

Interest Rates.

Interest rate markets saw a cross-border divergence. The weak GDP number saw Canadian rates rally, as the market shifted from expecting two BoC hikes this year to just one.

Meanwhile, south of the border, inflation fears from higher energy costs, combined with solid growth (~2%) and a resilient labour market, pushed rates higher. Over the month, the bond market went from expecting no moves from the Fed to pricing in a hike in the spring of 2027.

- Canadian 2y finished at 2.78% (-17 bps) and the 10y at 3.41% (-13 bps)
- U.S. 2y finished at 4.01% (+14 bps) and the 10y at 4.44% (+7 bps)

The Funds.

Algonquin Debt Strategies Fund.

The modest tightening of credit spreads was a tailwind for the Fund, with returns further enhanced through active trading.

Portfolio Metrics:

- 4.0-5.0% yield
- Average credit rating: BBB+
- Average maturity: 1.75y
- IR Duration: 1.2y

	1M	3M	6M	YTD	1Y	3Y	5Y	10y	SI
X Class	0.56%	0.34%	1.65%	1.23%	4.46%	8.50%	5.46%	6.25%	7.90%
F Class	0.49%	0.20%	1.31%	0.96%	3.69%	7.45%	4.62%	NA	NA

* As of May 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

The Fund benefited from having duration exposure concentrated (80%+) in Canada. The losses from the sell-off in US yields were more than offset by credit performance, with the yield earned adding to the monthly gain.

Portfolio Metrics:

- 4.0-4.5% yield
- Average credit rating: BBB+
- Average maturity: 2.5y
- IR Duration: 4.3y

	1M	3M	6M	YTD	1Y	2y	3y	5y	SI
F Class	0.90%	-0.48%	0.89%	1.04%	4.38%	6.98%	7.38%	4.02%	4.91%

* As of May 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.

Both the Federal Reserve (Fed) and the Bank of Canada (BoC) have meetings this month. Nobody expects a rate move; however, bond traders will be on 'pins and needles' waiting to see whether Messrs. Warsh or Macklem give hints on possible near-term moves.

This will be Chairman Warsh's first meeting. It will be interesting to see whether he chooses to start making his mark on how the Fed communicates. Other areas to watch include how he stick-handles the members who are becoming increasingly uncomfortable with the inflation outlook, especially as the labour market appears to be stabilizing. For now, the US market is pricing in a December hike and a 75% chance of another in the spring of 2027.

Following the strong May employment report, the domestic market is pricing in more than one BoC rate hike this year. Governor Macklem's remarks will be parsed by traders seeking clues to validate or refute that expectation.

Outside these meetings, bond yields will likely continue to wax and wane within the recent trading range in response to oil price moves.

On the credit front, June is usually a busy month as people rush to cram in deals before the summer holidays. We think this will be the case again this year. On top of the usual activity, the corporate market is excited about the potential for more domestic 'Mag 7' issuance. So far, deals have been going well, and secondary market liquidity remains strong. We plan to use the busy issuance period to seek and trade opportunities in both the primary and secondary markets.

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