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Canadian provinces take the road less traveled [Part B: Spreads]

By Warren Lovely

Canadian provinces took the road less traveled in 2025, with gross bond issuance and credit spreads both setting records last year. Yesterday (in Part A, [link](#)) we tackled the former, gross bond supply, which shot to unprecedented heights in 2025. Here (in Part B) we key on the latter subject, provincial credit spreads, which dove to cyclical tightness vs. the underlying government curve and remain relatively snug today.

While not necessarily serving as a definitive roadmap, this domestic spread retrospective could provide useful context for what is apt to be another interesting year for credit markets. Though credit is by no means 'cheap', provincial bond markets continue to attract marginal investor demand (at home and abroad), testifying it seems to residual pools of investable cash in search of high quality, liquid, spread product.

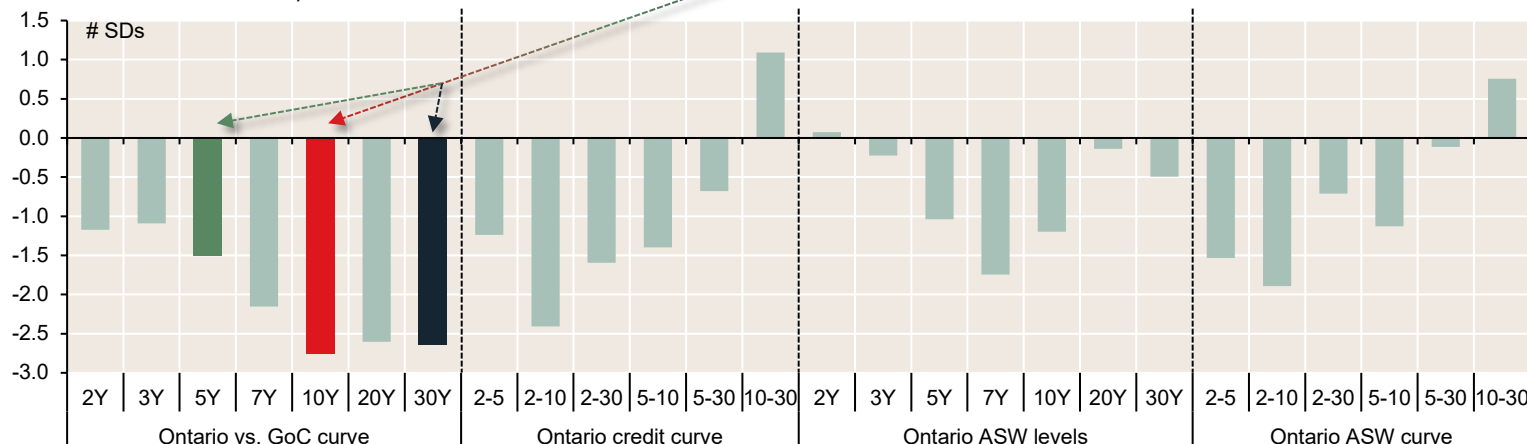
Chart 1a: Provincial G-spreads dove to cyclical tightness in 2025 and remained well supported early in the new year

Ontario domestic bond spreads vs. GoC curve



Chart 1b: Z-scores provide added valuation context

Z-scores for Ontario domestic spreads & credit curves: As of 7-Jan-26

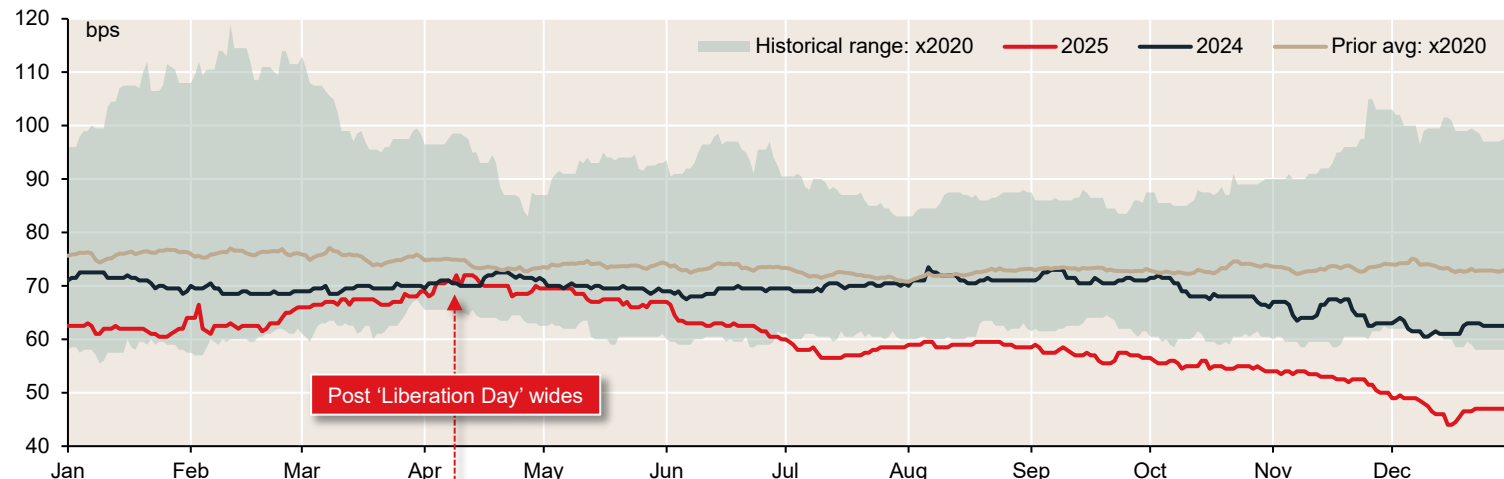


Source: NBC | Note: Percentiles & Z-scores as at 7-Jan-26 and based on daily constant maturity new issue indications from start of 2024 (~500 business days)

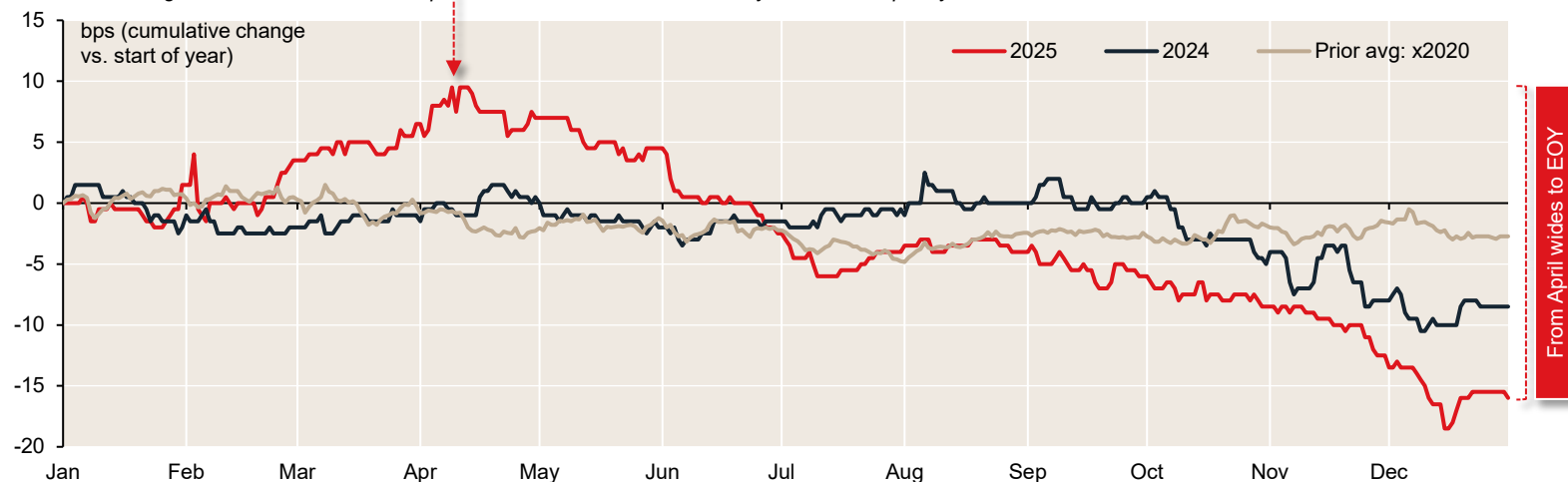
Despite starting the year on the back foot—peak anxiety coming in/around 'Liberation Day'—credit markets ultimately enjoyed a buoyant 2025. Provincial G-spreads dove to cyclical tightness. The 10-year sector led the charge; Ontario 10s currently sit at the ~1% 'percentile' level or >2.5 SDs inside the 2-year average. ASW levels have snuggled up too, albeit to a lesser relative degree.

**Chart 2a: Provincial G-spreads blazed a new trail in 2025, spending latter half of year in uncommon/unique territory**

Evolution of Ontario 10Y domestic spread vs. GoC curve over calendar year: 2025 vs. prior year/trend

**Chart 2b: In all, last year saw a near-25bp compression in Ontario 10s (vs. GoC) from April widens to EOY level**

Cumulative change in Ontario 10Y domestic spread vs. GoC curve over calendar year: 2025 vs. prior year/trend

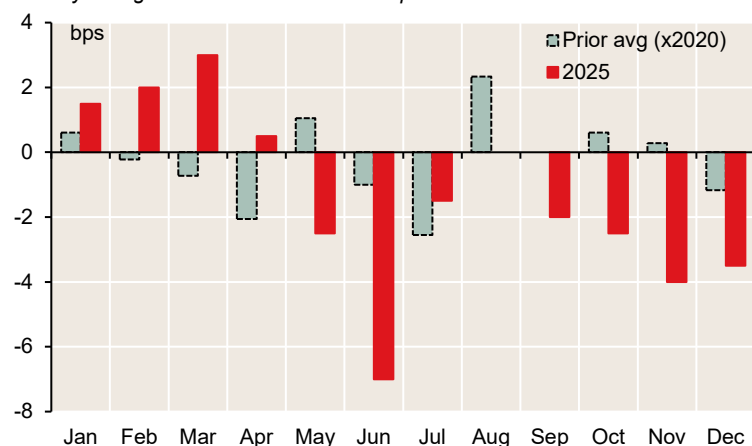


Source: NBC, BBG | Note: Based on daily constant maturity new issue indications vs. GoC curve; prior average based on 2015-24 (excl. 2020 due to extreme nature of spread moves)

Relative to post-'Liberation Day' widens, a significant and sustained rally ultimately placed provincial credit spreads on the road less traveled (i.e., tighter than the historical range all through the latter half of the year). While spread amplitude was relatively extreme/striking, the seasonal evolution of spreads throughout 2025 wasn't entirely dissimilar to 2024 (correlation or 'r' of +0.7).

Chart 3: Tariff de-escalation kicked off spread rally

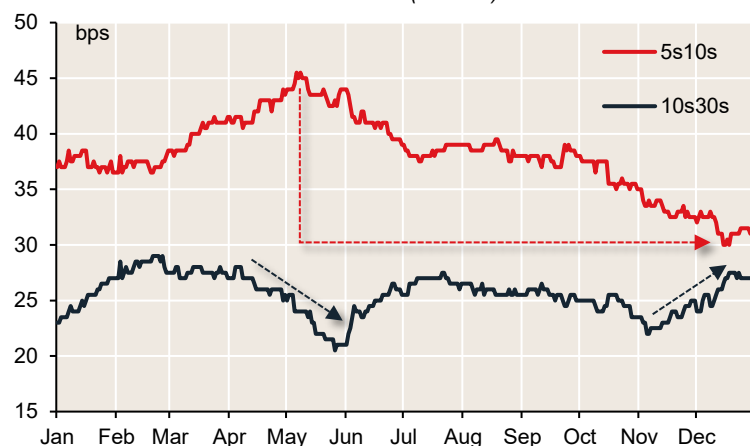
Monthly change in Ontario 10Y domestic spread vs. GoC curve: 2025 vs. trend



Source: NBC | Note: Based on daily indications; prior avg based on 2015-24 (excl. 2020)

Chart 4: 10s enjoy outperformance flourish in late(r) stages

Evolution of Ontario domestic credit curves (vs. GoC): 2025

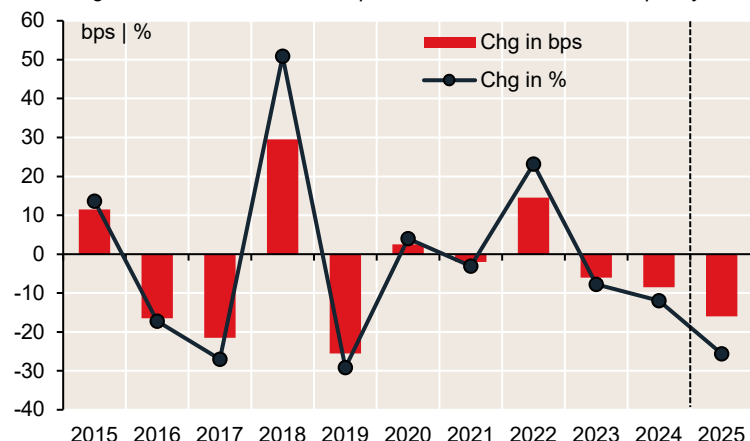


Source: NBC | Note: Based on daily indications

More than making up for early year gitters, Ontario 10s tightened (or held their own) in each of the final eight months of 2025, sidestepping a traditional fall soft-spot. While the 10s30s credit box flattened into June 1st, the corresponding cash deluge/index extension on December 1st failed to elicit a flatter 10s30s credit curve. If anything, 10s led the way in later stages of 2025.

Chart 5: Putting 2025's rally in perspective

Net change in Ontario 10Y domestic spread vs. GoC curve: 2025 vs. prior years

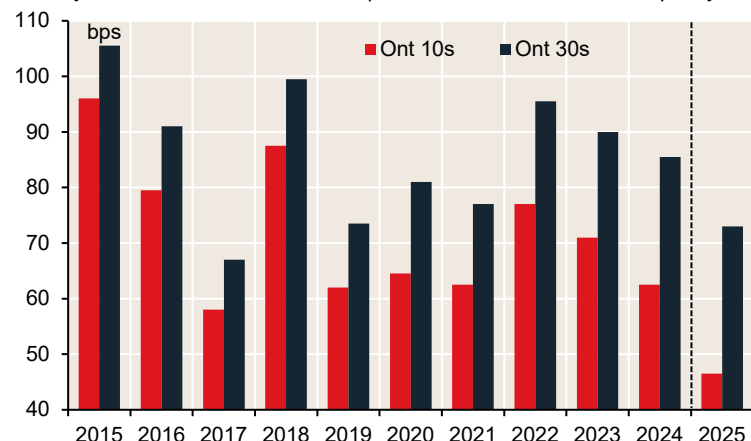


Source: NBC | Note: Based on daily indications

While impressive, the net change in spreads during 2025 was not entirely unprecedented (in outright basis points or percentage terms). But with 2025 tightening building on earlier year gains (from 2023-24), spreads ended the year in rather extraordinary territory, with 10-year valuations again most striking. Encouragingly, provincial spreads have remained well supported early in 2026.

Chart 6: On G basis, 10s historically 'tight' to end year

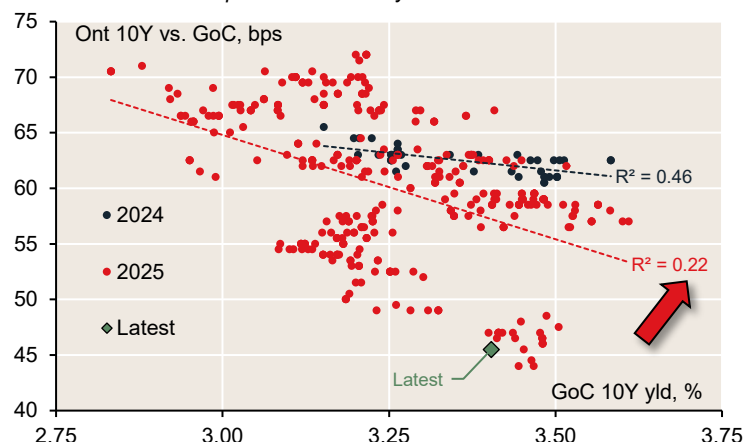
End of year level for Ontario domestic spreads vs. GoC curve: 2025 vs. prior years



Source: NBC | Note: Based on daily indication from final business day of calendar year

Chart 7: Traditional drivers less useful, be it govt yields...

Ontario 10Y domestic spread & GoC 10Y yield: 2025 vs. 2024

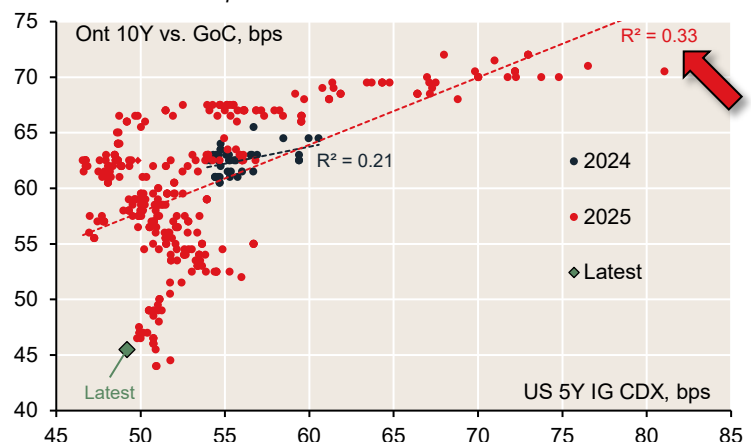


Source: NBC | Note: Based on daily indications; latest refers to 7-Jan-26

Historically, one might look to govt yields or risk proxies to gauge RV in provi land. But traditional variables failed to explain much of the spread movement in 2025. Coefficients were signed properly, but OLS R^2 values left much to be desired. Call it regime shift, perhaps, with a noted shift in relative federal-provincial leverage arguing for structurally tighter G-spreads (all else equal).

Chart 8: ... or key risk sentiment proxies like US IG CDX

Ontario 10Y domestic spread & US 5Y IG CDX: 2025 vs. 2024



Source: NBC, BBG | Note: Based on daily indications/generic levels; latest refers to 7-Jan-26

Chart 9: How 'rich' are provincial spreads here? Use caution!

Actual Ontario 10Y domestic spread vs. OLS fitted value (using US IG CDX): 2025

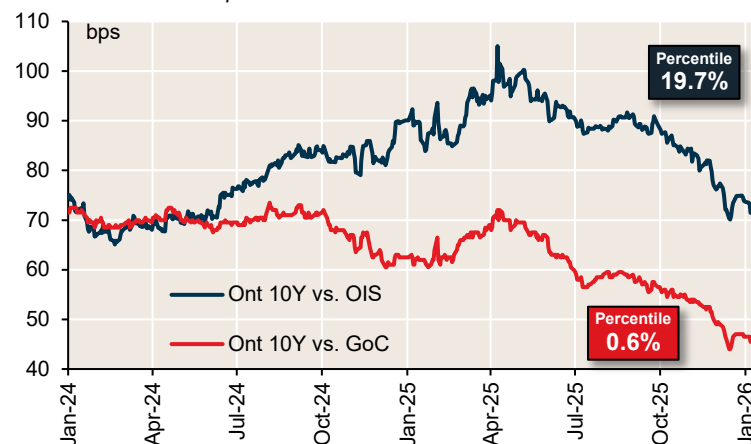


Source: NBC, BBG | Note: Simple OLS regression vs. US 5Y IG CDX; daily levels for 2025

Notwithstanding notionally 'tight' valuations (on a G basis vs. traditional drivers), investors haven't shied away from new issues early in 2026. Rather, evidently deep wells of investable cash have happily gone to work in provincial bond markets (in both CAD and USD). ASW levels may have firmed, but as per NBC's RV models, provincial bonds still offer investors respectable carry/returns.

Chart 10: Tighter valuations all around but demand evident

Ontario 10Y domestic spreads: Cash & ASW



Source: NBC | Note: Based on daily indications; percentiles based on latest level (7-Jan-26)



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NBC.EconomicsStrategy@nbc.ca

To contact us:

514-879-2529

Stéfane Marion

Chief Economist and Strategist

stefane.marion@nbc.ca

Matthieu Arseneau

Deputy Chief Economist

matthieu.arseneau@nbc.ca

Jocelyn Paquet

Senior Economist

jocelyn.paquet@nbc.ca

Kyle Dahms

Senior Economist

kyle.dahms@nbc.ca

Alexandra Ducharme

Senior Economist

alexandra.ducharme@nbc.ca

Daren King, CFA

Senior Economist

daren.king@nbc.ca

Warren Lovely

Chief Rates and Public Sector Strategist

warren.lovely@nbc.ca

Taylor Schleich

Rates Strategist

taylor.schleich@nbc.ca

Ethan Currie

Strategist

ethan.currie@nbc.ca

Angelo Katsoras

Geopolitical Analyst

angelo.katsoras@nbc.ca

Nathalie Girard

Senior Coordinator

n.girard@nbc.ca

Giuseppe Saltarelli

Desktop Publisher

giuseppe.saltarelli@nbc.ca

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