

Another fretful February? [For provis, the real test often comes later]

By Warren Lovely

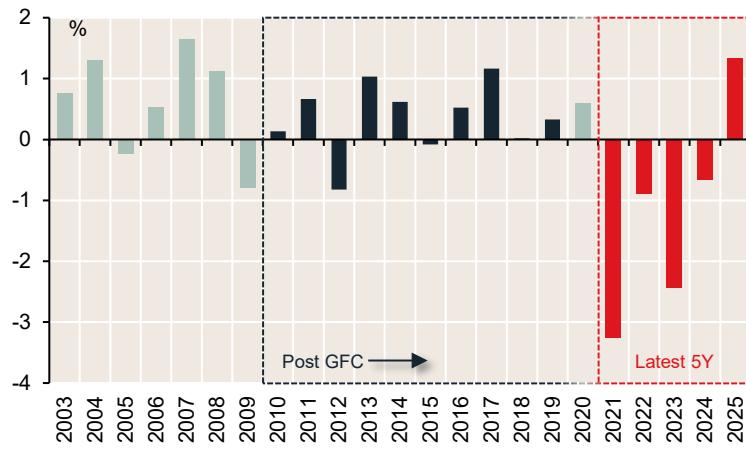
Stop me if you've heard this before: February tends to be a nasty, brutish and (obviously) short month for risk assets. Not surprisingly, this oft-spouted market-based narrative is fundamentally empirical in nature, reflective of how markets fared over the past number of years. The historical record is what it is, and when it comes to equity market returns (or broader financial conditions) February doesn't have a great track record. So it goes for many corners of global credit markets... or does it?

Looking at the monthly pattern of total returns for corporate bond indices (USD, EUR or CAD), February has traditionally been a tough(er) month. Over the past five years (i.e., the post-COVID period from 2021-25), no month has weaker average corporate bond total returns than February—and that's despite a positive performance in last year (Feb-25).

Given this broader credit overhang, it follows that February often isn't that great for Canada's provincial bond market. But training a focus on excess

Chart 1: February hasn't been that kind to provincial bonds...

Bloomberg Canada provincial bond index: Total return for month of February



Source: NBC, BBG | Note: Based on aggregate index; total return for month of February only

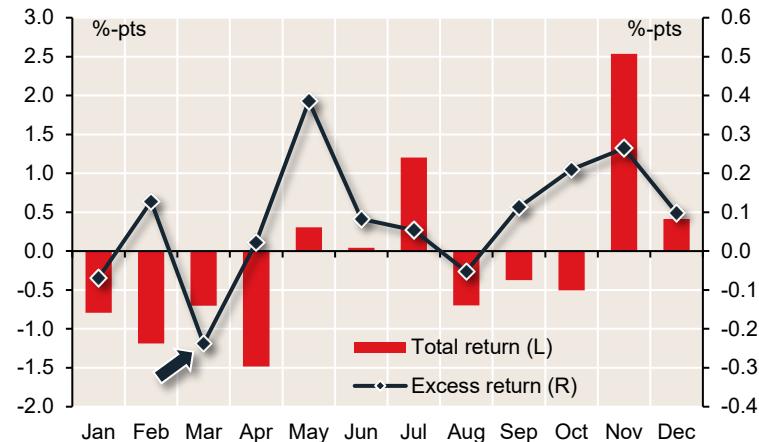
Despite a positive performance last year, the Bloomberg Canada aggregate provincial bond index has lost more than 1% on average during the past five Februarys. Not great. Still, controlling for underlying rates, the excess return profile for provincials looks more challenging in March, which is a seasonally important window for the sector (given concentrated budgets around fiscal year-end).

returns and/or relative performance vs. corporate indices, the more problematic seasonal window for provincials has typically been March-April. Despite the odd early mover, more provincial budgets are generally clustered in March, and material financial disclosures can be a catalyst for relative re-pricing. Meantime, the commencement of the new fiscal year on April 1st often triggers the single most unbalanced month of relative supply (with provincial new issues in abundance vs. corporates).

While reserving some judgement, still-intense trade-related uncertainty and related pressure on regional economies could make this a challenging budget season for certain provinces. Average provincial credit quality is already on the defensive. Notwithstanding a prudent move by some to pre-fund a portion of 2026-27's borrowing requirement, there should be no little of provincial debt to issue this spring. February may not feel great but for some provinces the bigger test very likely comes later.

Chart 2: ... but March tougher for excess returns (on average)...

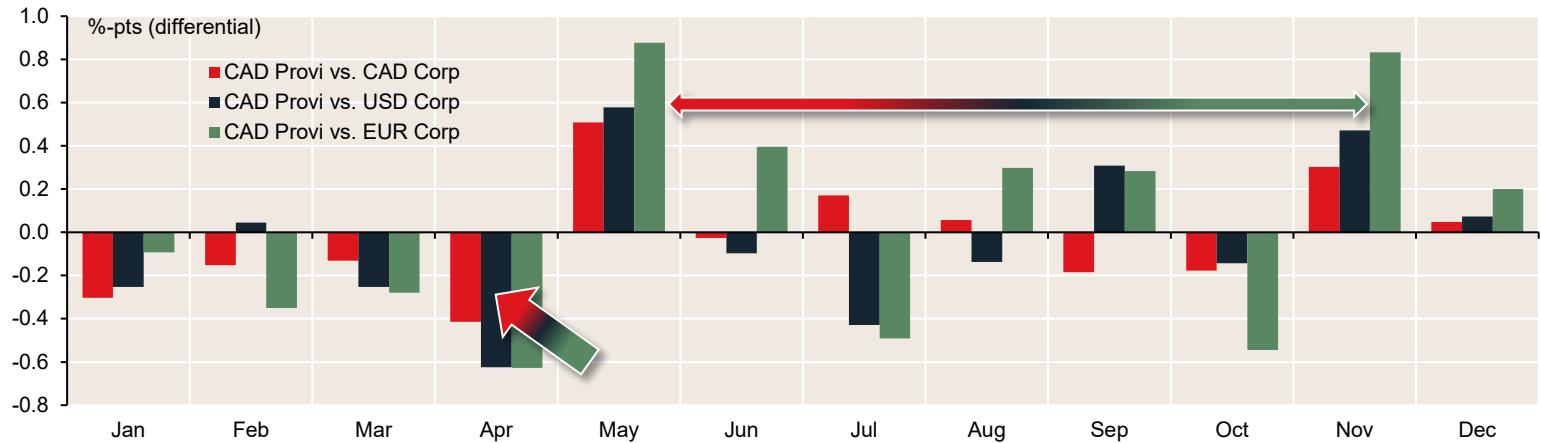
Bloomberg Canada provincial bond index: Average return by month (2021-25)



Source: NBC, BBG | Note: Based on aggregate index; 5Y averages from 2021-25

Chart 3: ... and relative to corporate bond indices (at home or abroad), provincials have tended to struggle in April

Bloomberg average relative bond index total returns by month: Provincial aggregate index vs. corporate aggregate indices (2010-25, excluding 2020)

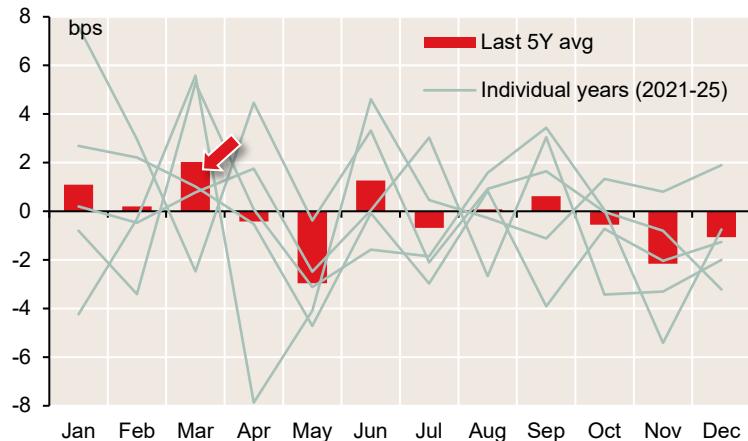


Source: NBC, BBG | Note: Based on aggregate indices; relative returns (provincial vs. corporate) for post-GFC period, excluding 2020 due to extreme movements at onset of pandemic

Meanwhile, based on longer-term total returns, the relative performance record of provincial bonds vs. corporate indices hints at a seasonal weakness spot in April. [On the flip side, the longer average duration of provincial bond indices could help explain relative outperformance vs. corps in the run up to Canada's outsized cash/duration extension events in early June and early December.]

**Chart 4: Searching for seasonality in provincial spreads...**

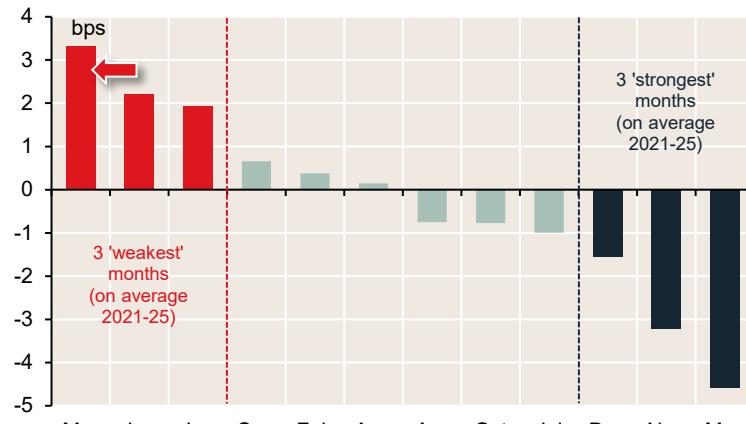
Bloomberg Canada provincial bond index: Average spread change by month



Source: NBC, BBG | Note: Based on aggregate index

Chart 5: ... with March relatively tougher (on average)

Bloomberg Canada provincial bond index: Deviation from avg spread by month

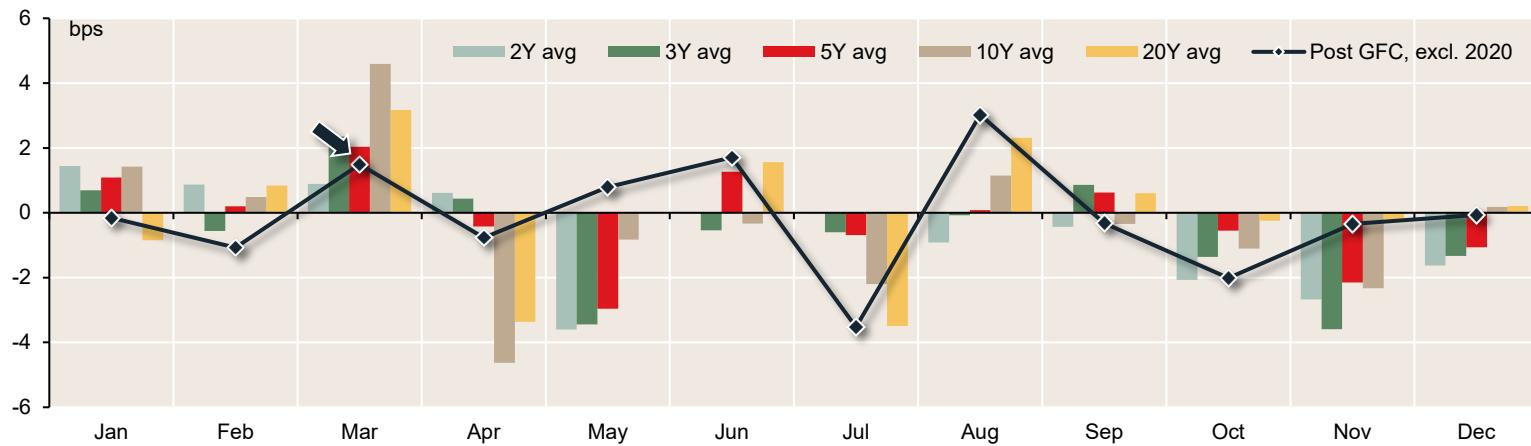


Source: NBC, BBG | Note: Based on aggregate index; 5Y avg from 2021-25

Whereas the charts and related commentary on page 1 related to total returns, here we assess seasonality in provincial bond index spreads. Looking at the Bloomberg Canada provincial bond index (in aggregate), there's some evidence of relative spread weakness in March. Indeed, in the 5-year, post-pandemic window, March has the weakest performance record (and May/Nov the best).

Chart 6: A caution... seasonal findings can be sensitive to chosen sample (i.e., testing horizon)

Bloomberg Canada provincial bond index: Average spread change by month for various samples/time horizons

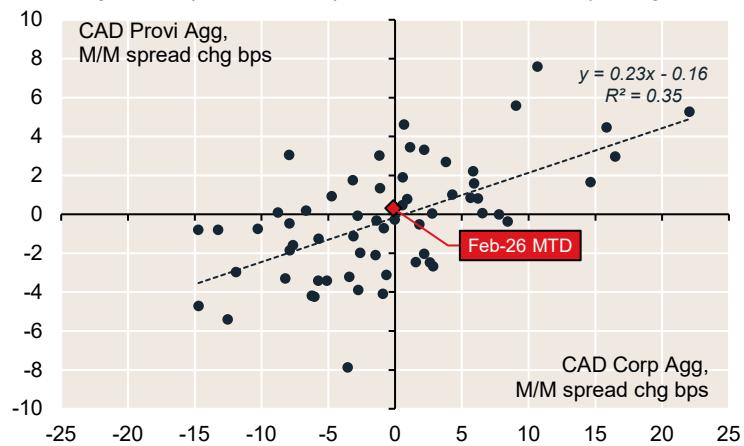


Source: NBC, BBG

We never place blind faith in seasonal tendencies, since all else is rarely equal. Moreover, seasonal findings (in provincial bond returns/spreads and elsewhere) can be sensitive to your statistical testing period (i.e., the size of your sample goes and how extreme periods are controlled for). Nevertheless, the tendency towards wider provincial spreads in March appears a more durable finding.

Chart 7: Visualizing the beta coefficient on provincial bonds

Bloomberg Canada provincial & corporate bond indices: Monthly change

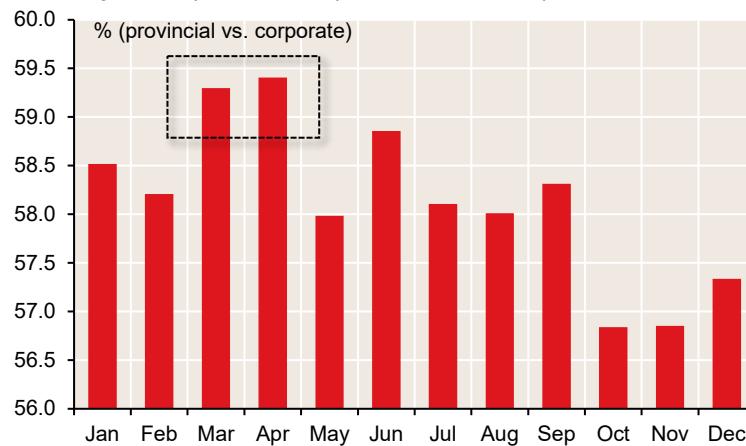


Source: NBC, BBG | Note: Based on aggregate indices; Jan-21 to Feb-26 (thru 6-Feb)

In sheer basis points, the compression in provincial bond spreads (in recent months if not years) can't touch what the corporate sector has enjoyed. After all, provinces are distinctly low(er) beta, the relative change in provincial spreads historically a minor fraction of domestic corporates (all else equal). In addition to weighing relative returns and counting basis points, one could look to the ratio of spreads (provincial vs. corporate) to gauge underlying seasonality in Canadian credit markets. Here again, the empirical record would point to March-April as a relative weak spot for provincials.

Chart 8: Provi-corp bond spread ratio juiciest in Mar-Apr?

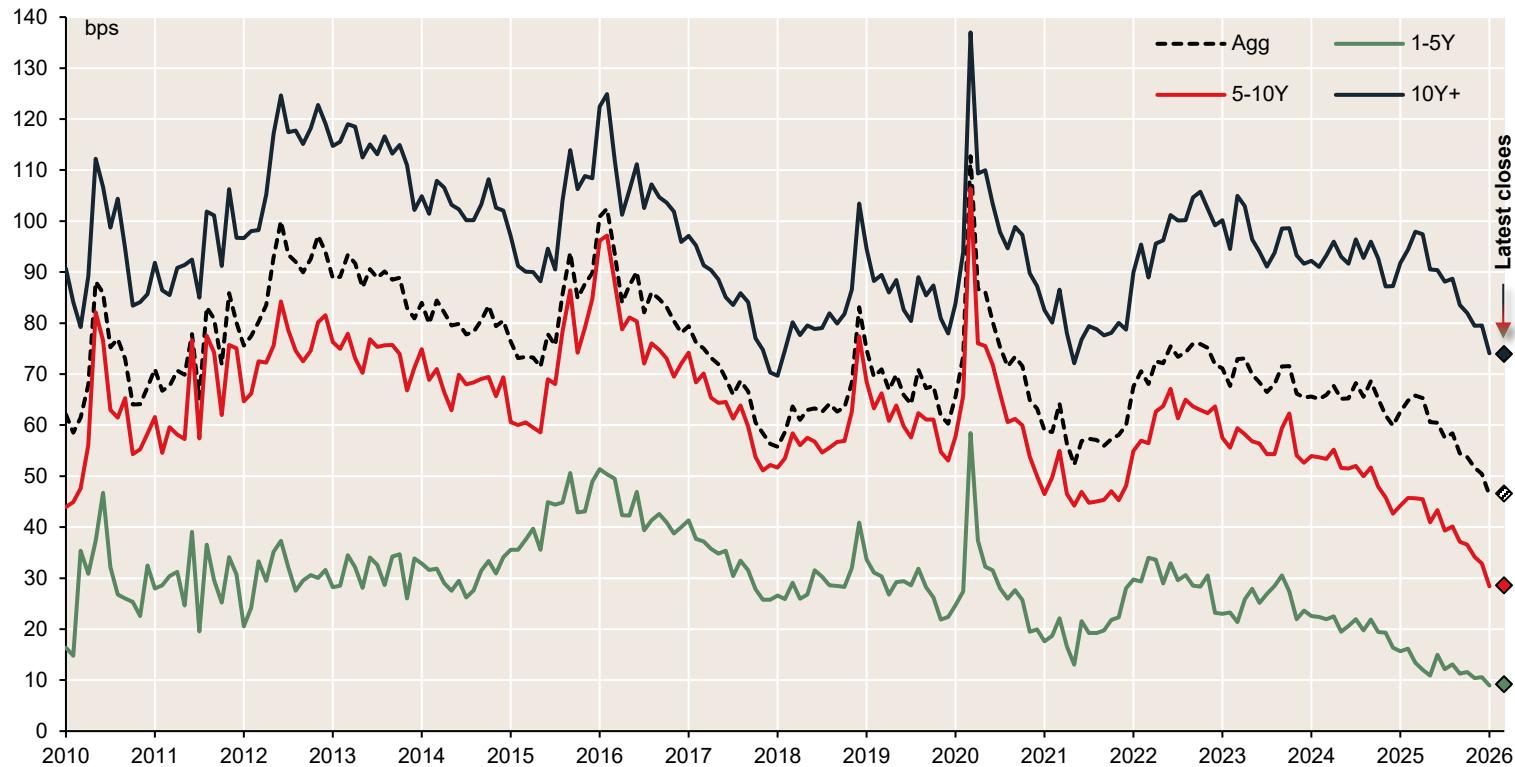
Bloomberg Canada provincial & corporate bond indices: Spread ratio



Source: NBC, BBG

**Chart 9a: A word on relative location, in light of significant tightening in provincial bond spreads**

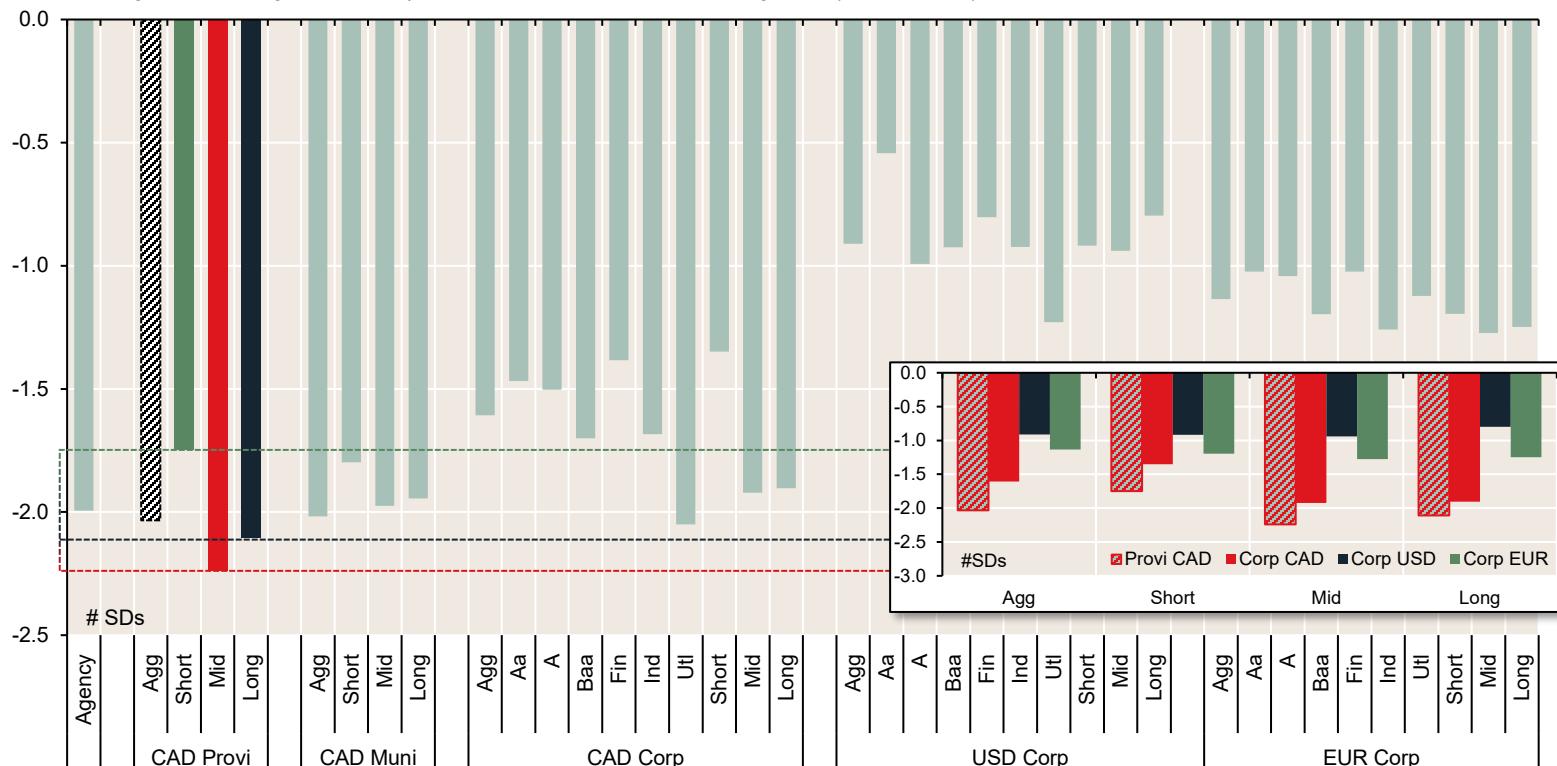
Bloomberg Canada provincial bond index spreads: Aggregate plus major maturity buckets



Source: NBC, BBG | Note: End-of-month levels through Jan-26, with bullets referring to latest available close from 6-Feb-26

Chart 9b: Relatively speaking, how much have spreads compressed since President Trump's second term commenced?

Relative change in Bloomberg bond index spreads: Z-score based on latest closing levels (from 6-Feb-26) vs. mean & standard deviation since 20-Jan-25



Source: NBC, BBG | Note: Z-score expresses current deviation from mean in number of standard deviations; latest closes from 6-Feb-26; mean/SDs since start of Trump 2.0 term (20-Jan-25)

Whether or not you fully subscribe to a seasonal narrative whereby provincials exhibit a degree of relative underperformance as spring fully comes on, spare a thought for current valuations. Provincial bonds are hardly alone in staging a remarkable run vs. underlying risk-free curves. Credit is generally tight wherever you look. While bond supply technicals are apt to remain reasonably supportive for provincial G-spreads, note that the intrinsic credit quality of the average basket of provincial bonds has deteriorated (and faces residual downside risk). Moreover, relative to corporates (in Canada, the U.S. or Europe) provincial spreads might today flag a touch 'rich' if your frame of reference is anything longer than one month. Consider this a caution as provincial budget season nears.



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