NATIONAL BANK OF CANADA
CAPITAL MARKETS

March 2, 2026 – (Vol. X, No. 26)

MLGA bond supply: Quantity *AND* quality

By Warren Lovely

Two bond deals in two months. That's where things stood in Canada's municipal and local government authority (MLGA) sector as the issuance books formally closed on the month of February.

It's not the most rapid start to the year. Consider: Last year, at the equivalent juncture, more MLGA issuers had brought more supply. Specifically, $1.65 billion was printed in the first two months of 2025 vs. the $650 million so far served up in 2026 from the two largest cities in the land: Toronto and Montreal. Aside: Both of the recent MLGA trades were 10-year re-openings; both attracted solid books; both priced at relatively tight spreads; both were broadly distributed (investor type, geography).

Despite the somewhat deliberate/tepid start to the year, this year's MLGA bond crop could well match (perhaps even surpass) last year's lofty (record) tally. We currently project $7.8-9.6 billion in total MLGA issuance for 2026. Note: We'll fine-tune our supply expectation as the year progresses, incorporating fresh guidance when/where it's offered.

Meantime, a challenging economic backdrop has not prevented municipal and regional governments from delivering balanced operating budgets (as is generally required by law). That stands in growing contrast to the provincial sector, where fresh budgets point to large(r) and long(er)-lasting deficits. The result? A noted credit rating edge for most MLGA bonds vs. the underlying province, a trend evident across the country.

Quantity and quality. For investors in Canada's MLGA sector, there's no need to settle for one over the other, you can have them both.

Chart 1: Muni-related supply to match (surpass?) 2025 tally

MLGA gross bond supply, incl. NBC working assumption/likely range for 2026

Source: NBC, BBG | Note: 2010-25 are actuals; 2026 is current NBC estimate/projection, with crosshatched segment denoting most likely range

Chart 2: Two of biggest issuers have kicked things off

Share of MLGA gross bond supply: Latest 5Y period (2021-25)

Source: NBC, BBG | Note: Chart shows 12 largest MLGA issuers in declining order of total issuance; arrows denote 2026:YTD deals

It's been a slow(ish) start to the year for MLGA bond supply, with just $650mln printed in the first two months of 2026 (vs. $1.65bln this time last year). We nonetheless expect full-year supply to largely mirror 2025's record-setting pace. Two YTD trades is a minor sample obviously, but 10Y re-openings from Montreal and Toronto were successes, attracting broad demand at tight spreads.

Chart 3: In some regions, elections could impact fall supply

Share of MLGA supply by month: Election years vs. non-election years

Source: NBC, BBG | Note: Election year average based on 2010, 2014, 2018, 2022 & coincides with muni elections in Ont/BC/Man; not all provinces conduct muni elections in same year

Chart 4: Bulk of MLGA supply to be 10Y or longer

Share of gross bond issuance by tenor: MLGA, provincial & federal sectors

Source: NBC, BBG | Note: Based on gross bond supply for latest 5-year period (2021-25); provi refers to CAD issues only; GoC based on nominals excl. Greens

There's often a seasonal skew to MLGA bond issuance, with spring and fall typically most active. Note that municipal elections will be held in British Columbia, Manitoba and Ontario this October. Since these provinces are home to some important MLGA issuers, fall issuance could be impacted (something the empirical record supports). The bonds we will get are apt to be relatively long(ish), the weighted term-to-maturity of MLGA issuance averaging ~14 years recently—not too different from what provinces average domestically but roughly double the average term of new GoC supply.

Chart 5: Coast to coast, ratings superiority for MLGA sector

Average credit rating snapshot: Select MLGAs vs. underlying province

Source: NBC, S&P, Moody's, DBRS, Fitch, BBG | Note: Select names west to east; avg of all ratings, controlling for outlooks; for each province, ordering based on bonds o/s as of Feb-26; for Ontario, MLGA average is based on 14 local-regional gov'ts (refer to Chart 6)

Chart 6: Non-trivial uplift across Ontario's muni sector

Average credit rating snapshot: Select Ontario local-regional gov'ts vs. Ontario

Source: S&P, Moody's, DBRS, Fitch, BBG | Note: Select MLGA names; avg of all available ratings, controlling for outlooks; ordering based on amount of bonds o/s as of Feb-26

As per page 1, we'll ultimately get a good QUANTITY of MLGA bonds. As for the QUALITY of these securities, it's looks good in absolute and relative terms. Across the country, most MLGAs offer ratings uplift vs. the underlying province. In Ontario, for instance, the average municipal-regional government rating stands more than two notches above the average rating assigned to the province.

Chart 7: MLGAs press ratings advantage vs. provi average

Average credit rating: Provincial vs. MLGA (sector aggregates & sample names)

Source: NBC, S&P, Moody's, DBRS, Fitch | Note: MLGA is simple avg of 26 municipal/local government authorities; prov'l avg weighted by working age population; controls for outlooks

Chart 8: Perspective on municipal gov't bond spreads

Representative Ontario municipal government spread vs. GoC curve

Source: NBC | Note: Daily indications to 2-Mar-26; percentile rank based on latest spread vs. historical record (>10 years); representative gov't, bullet structure

Ratings superiority for MLGAs vs. provinces is NOT a new phenomenon, but the gap in intrinsic credit quality has grown. Certain MLGA credits face challenges and some ratings have been adjusted. But the established legal framework limits debt accumulation. Provincial budgets, meanwhile, point to larger/longer-lasting deficits and greater debt accumulation, trends that are 'credit negative'.

Chart 9: Muni basis to provincial curve has tightened up

Indicative 30-year basis spread vs. Ontario

Source: NBC | Note: Daily indications to 2-Mar-26; 'muni' is representative gov't, bullet structure

Chart 10: Some evidence of directionality in muni basis

Ontario spread vs. GoC & representative municipal basis vs. Ontario: 30Y

Source: NBC | Note: Latest 1,000 days of indications; latest is 2-Mar-26

As recently **cautioned**, we've entered into an important (difficult?) seasonal period for provincial spreads. Any prospective re-pricing of provincial risk would be felt in the MLGA market, where bonds are priced off provi curves. Statistically, there's some evidence of directionality in the MLGA basis, with weaker provincial spreads generally consistent with a wider basis (all else equal). Saying all that, the growing gap between MLGA credit quality (generally resilient) and the average provincial rating (accumulating pressure) would, on its own, support a fundamentally tighter spread differential.

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