

Canada's bond market taking geopolitical volatility in stride?

By Warren Lovely & Ethan Currie

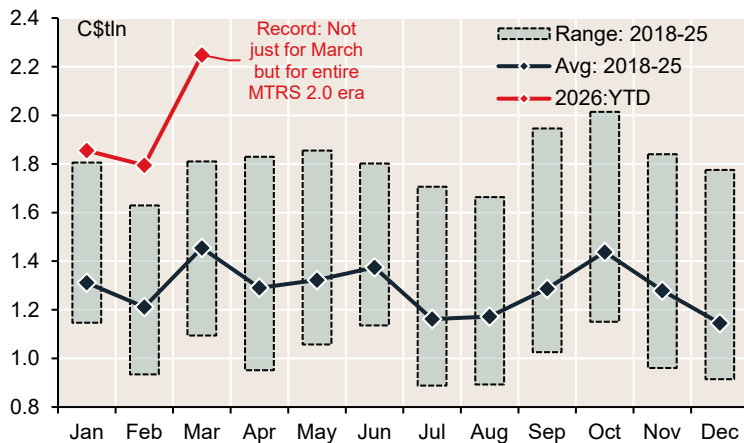
The conflict in the Middle East (and often conflicting signals on such) has injected uncertainty/volatility into debt capital markets. The spectre of oil-induced inflation saw rates markets wilt in March, including in Canada, where GoC yields shot anywhere from 27 to 43 bps higher month-on-month. That ranks as one of the more volatile months in recent memory, and with outsized yield changes implying predominantly one-way trade, we look to CIRO's secondary bond trading data for hints on market functioning. All things considered, Canada's bond market looks to be coping with geopolitical uncertainty (and non-trivial net bond supply).

Some \$2.25 trillion of Canadian bonds changed hands in March, far and away a new monthly record. (The prior high-water mark was \$2.01 trillion set in Oct-24.) With budget deficits and large-scale capital needs driving the stock of domestic bonds higher, secondary volumes should be biased higher. All the same, March's volume surge was striking, a 9% monthly increase in seasonally adjusted terms and 24% higher year-on-year.

In the GoC market—where over 80% of trade happens—market-makers no doubt felt pressure for stretches, as headline noise presumably had clients moving in the same direction. But credit the dealer community for

Chart 1: Domestic bond volumes set new record in March

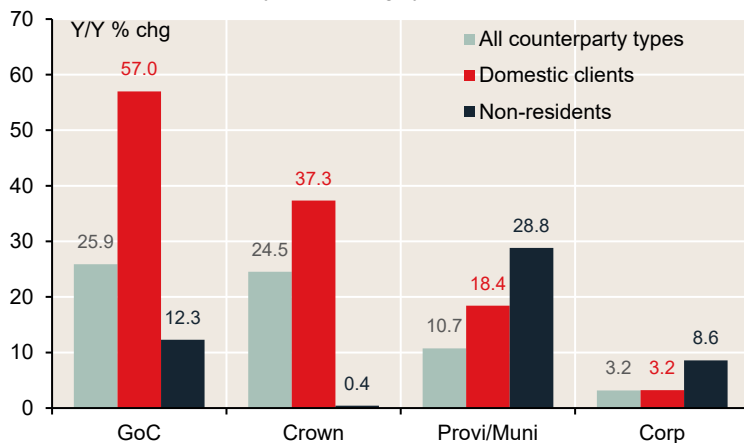
Canada secondary bond trading by month: 2026:YTD vs. prior range/trend



Source: NBC, CIRO | Note: All dealer total; MTRS 2.0 monthly data available from Jan-18

Chart 3: Less volume growth in high(er) beta sectors

Growth in Canada secondary bond trading by sector: Mar-26 vs. Mar-25



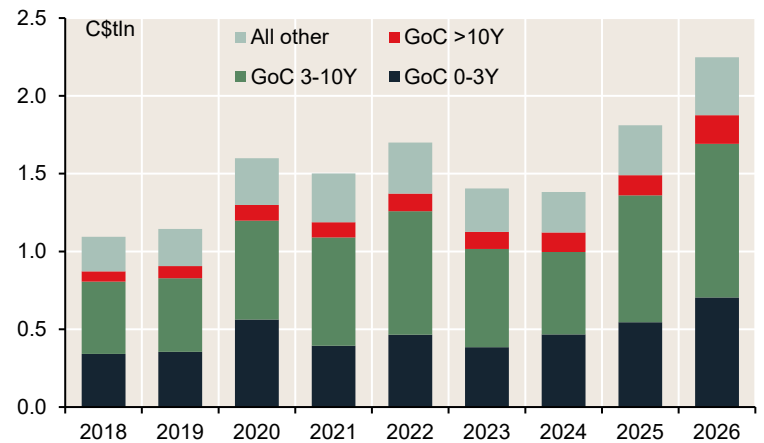
Source: NBC, CIRO | Note: All dealer total

providing ample liquidity, as evidenced by the near-60% year-over-year increase in GoC bond volumes with domestic clients. With foreign hedge funds increasingly active in Canada, non-resident attitudes bear close scrutiny. But non-resident flows appeared relatively orderly (and hardly unidirectional) from our vantage point. A bit of a test passed then.

Surely conditions in Canada's credit markets soured? Not significantly (or at least not yet). Excluding GoCs, executed bond volume rose 6% month-on-month in March to stand ~15% higher year-on-year. That's a slower advance than for the sovereign but the feds are growing their debt stock faster after all. As with Canada, dealers facilitated incremental volume with all major client types (be they domestic or foreign). Now, one aspect consistent with elevated volatility is the apparent moderation in secondary volumes as you move out the credit spectrum. In other words, lower risk (or lower beta) government spread product saw relatively healthier turnover in March, while corporate bond volumes were more sedate. But all things considered, we'd dub this a relatively well-functioning (and reasonably liquid) domestic bond market... which is a comfort given that political risk could continue to flare here from here.

Chart 2: Bond volumes up across most sectors/tenors

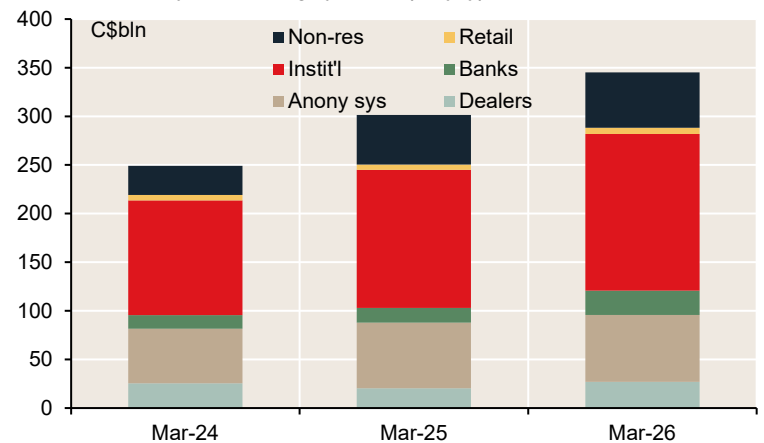
Canada secondary bond volume by sector/tenor: March



Source: NBC, CIRO | Note: All dealer total; month of March only

Chart 4: Excluding GoC, client volumes were up nicely

Canada secondary bond trading by counterparty type: Non-GoC sectors*



Source: NBC, CIRO | Note: All dealer total; non-GoC sums crown, provi, muni, corp



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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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