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Provincial credit: A seasonal soft spot for spreads?

By Warren Lovely

Credit spread exceptionalism: that's very much been a theme in 2026, with credit spreads vs. risk-free curves in many cases hovering at/near historic tights. In Canada, one of the most closely watched/influential credit bellwethers—Ontario's constant maturity 10-year spread vs. the GoC curve—currently resides at +40 bps (indicatively). You can scour more than 2,800 daily observations since 2015 and you won't find a tighter/'richer' level. For reference: This time last year, Ontario 10s sat at +57 bps, with the longer-term average north of +70 bps.

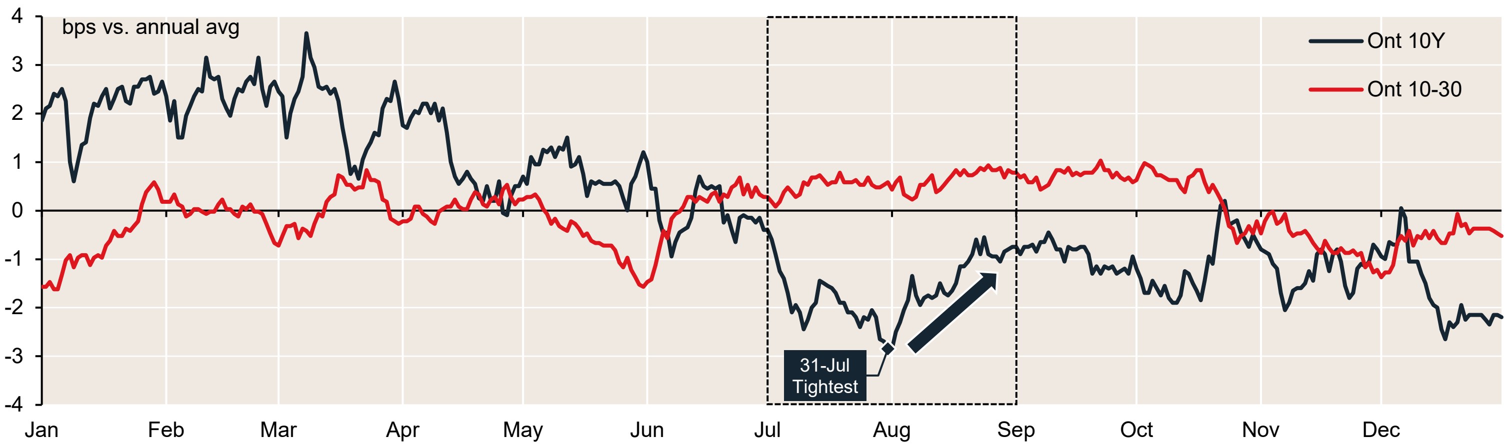
Despite a 'credit negative' budget season, provincial G-spreads have transitioned to progressively tighter levels vs. traditional risk proxies. Clearly, domestic spreads have benefited from a concerted effort (on the part of some) to divert large new issues towards international markets.

Notwithstanding an apparent recasting of cross-credit relationships and an extraordinary bond supply skew, the 'richness' now on display in Canada's provincial cash spreads is extreme (and perhaps overdone).

While a catalyst for a large-scale retracement may be lacking, seasonal tendencies could weigh in the near-term. Without invoking serious supply anxiety, August tends to bring more CAD-denominated public sector issuance. And as detailed here, the empirical record shows the relative 'tights' of the year typically put in towards the end of July, after which time spreads regularly take a breather. August has proven to be the single worst month of the year for net spread performance (on average). Being mindful of the traditional caveats attached to purely empirical analysis, a seasonal soft spot for spreads could soon be at hand.

Chart 1: On average, provincial spreads tend to reach tights of year in late July, only to cheapen up (widen) in August

Evolution of average Ontario 10Y spread & Ontario 10Y-30Y credit curve (indexed to full-year average level)

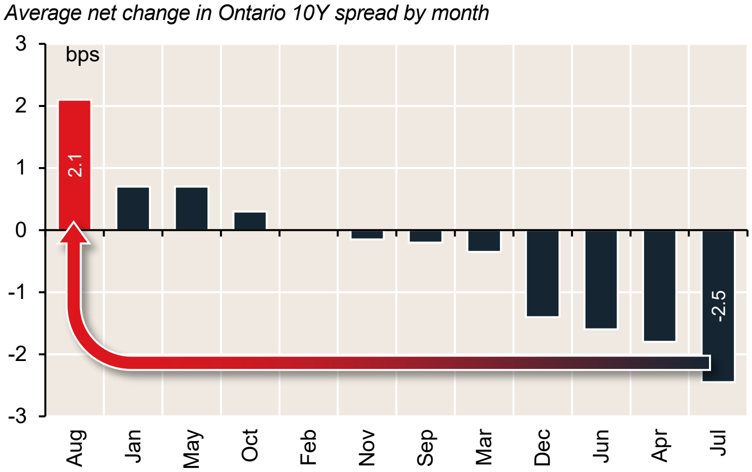


Source: NBC | Note: Based on average from 2015-25, excl. 2020 (due to historically extreme spread changes as pandemic hit and stimulus was rushed out)

While needing to treat seasonal analysis with a grain of salt, the historical record shows domestic provincial spreads regularly enjoy strong performance in July. Empirically speaking, July 31st registers as the tightest day of the year (based on the average spread pattern). July tightening is regularly followed by August widening, suggesting a seasonal soft spot for spreads is nearing.

Chart 2: July 'best', August 'worst' month for G-spreads

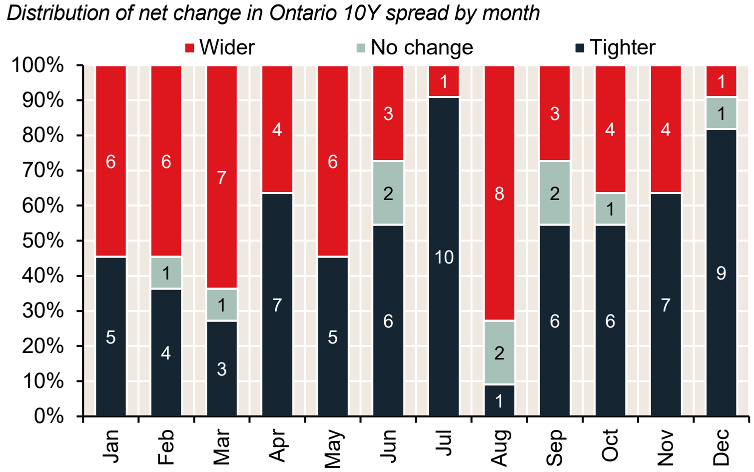
Average net change in Ontario 10Y spread by month



Source: NBC | Note: Based on chg in end-of-month levels; 2015-25 (excl. 2020)

Chart 3: Extremely rare for spreads to tighten in August

Distribution of net change in Ontario 10Y spread by month

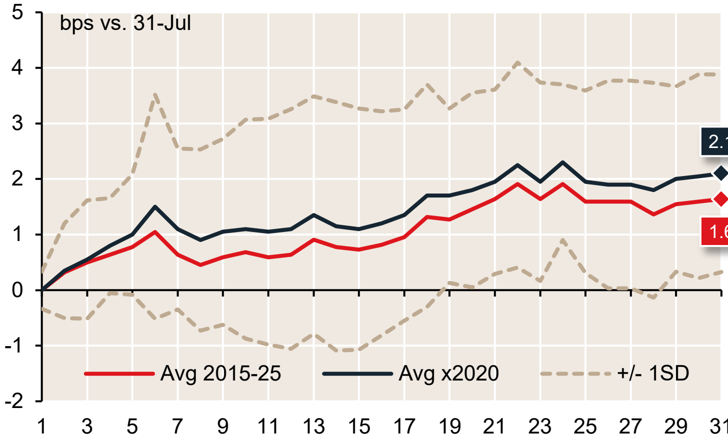


Source: NBC | Note: Based on chg in end-of-month levels; 2015-25 (incl. 2020)

No month exhibits a greater tendency towards weakness than August. That stands in stark contrast to July (the best month of the year on average). Only once since 2015 did Ontario 10s manage to tighten in August. That was in 2020, when historic COVID-related stimulus (monetary and fiscal) propelled risks assets higher. Over 70% of the time (8 of 11), Ontario 10s net widened in August.

Chart 4: The ‘average’ path traveled in August

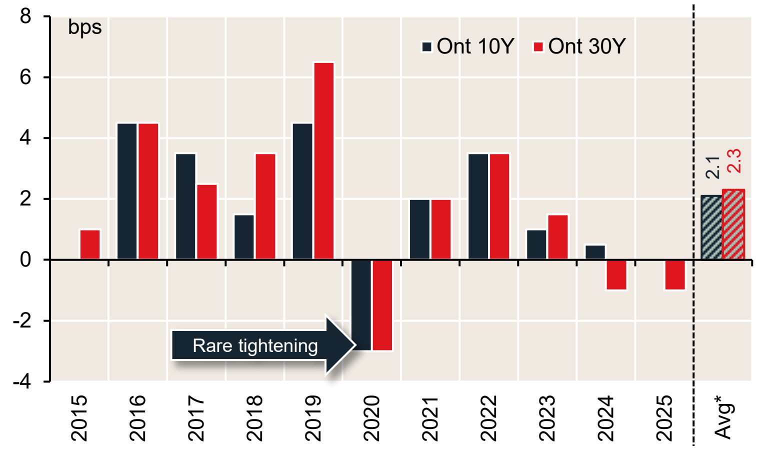
Average cumulative change in Ontario 10Y spread: Month of August



Source: NBC | Note: Chg vs. 31-Jul; standard deviation based on 2015-25 (excl. 2020)

Chart 5: Looking back at prior August results

Net change in Ontario 10Y & 30Y spreads: Month of August

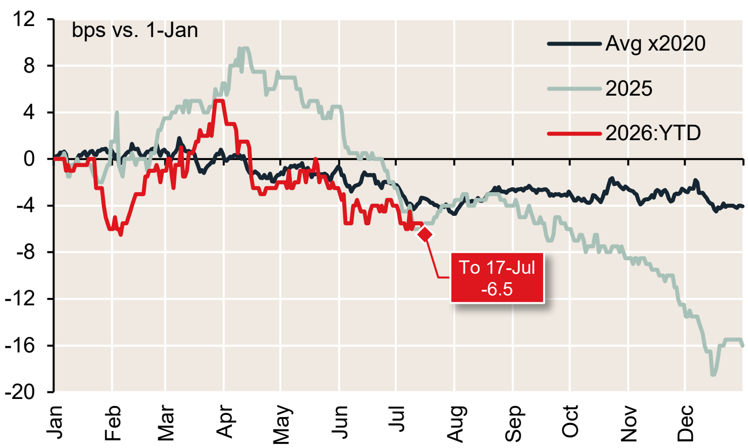


Source: NBC | Note: Based on net chg from 31-Jul to 31-Aug; average excl. 2020

Looking at the average path/tendency, August’s spread weakness has often come on early in the month. By the end of August, Ontario 10s were 2.1 bps wider than the prior monthly close (excluding the rare/exceptional tightening registered in 2020). While focusing on Ontario 10s, August’s seasonal tendency to spread softness has been observed out the credit curve too. More on that later.

Chart 6: The 2025 experience & current YTD performance

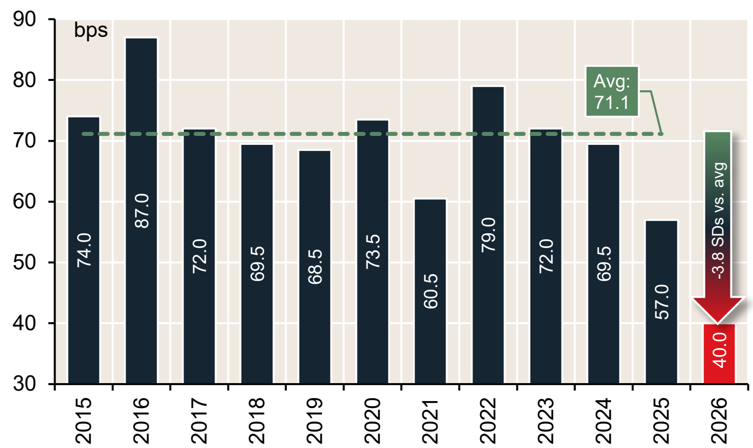
Evolution of Ontario 10Y spread: 2026:YTD, prior year & longer-term trend



Source: NBC | Note: Relative to start-of-year level; average based on 2015-25 (excl. 2020)

Chart 7: Today’s spreads are extreme (historically speaking)

Ontario 10Y spread as of July 16th: 2026 vs. prior years

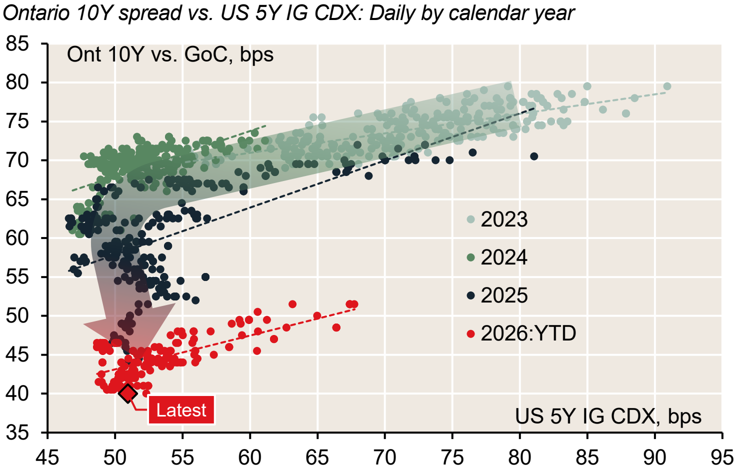


Source: NBC

Strictly speaking, Ontario 10s escaped August 2025 without widening, but that’s only because spreads started to leak wider in the latter half of July. As with other seasonal narratives, it may pay to get ahead of the trend, particularly given how extreme today’s valuations appear. At +40 bps, Ontario 10s are far tighter than this time last year (+57 bps) and miles below the longer-term average.

Chart 8: Relationship vs. key risk proxy has been shifting…

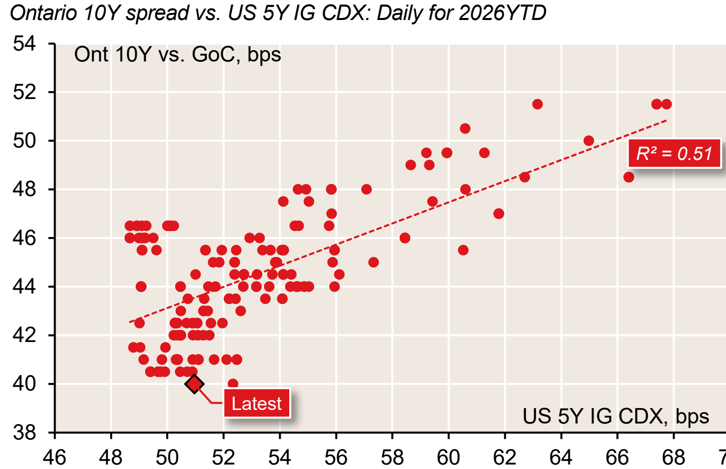
Ontario 10Y spread vs. US 5Y IG CDX: Daily by calendar year



Source: NBC, BBG | Note: Latest refers to 17-Jul-26

Chart 9: … but even still, provis currently flag ‘rich’

Ontario 10Y spread vs. US 5Y IG CDX: Daily for 2026YTD

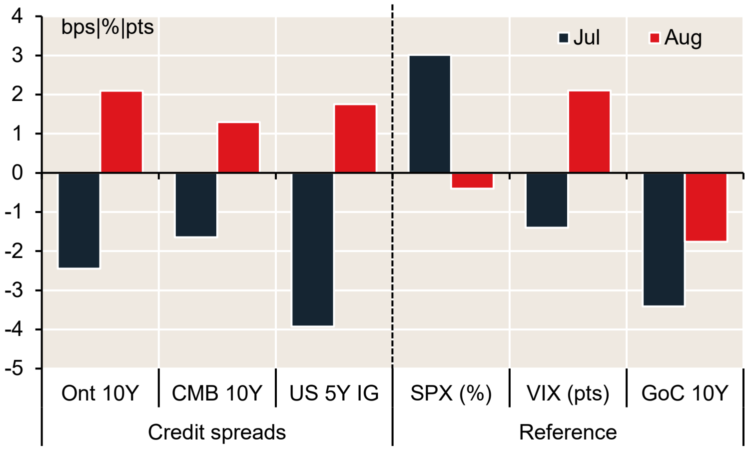


Source: NBC, BBG | Note: Latest refers to 17-Jul-26

Let’s acknowledge that the relationship between provincial spreads and key risk proxies has been transformed. Provincials have been able to sustain tighter and tighter levels vs. U.S. investment-grade credit indices, signaling regime shift. Even allowing for this cross-credit repricing, Ontario 10s look to reside in relatively ‘rich’ territory (~3 bps tight to predicted based on 2026:YTD tallies).

Chart 10: Broader perspective on Jul-Aug sentiment swing

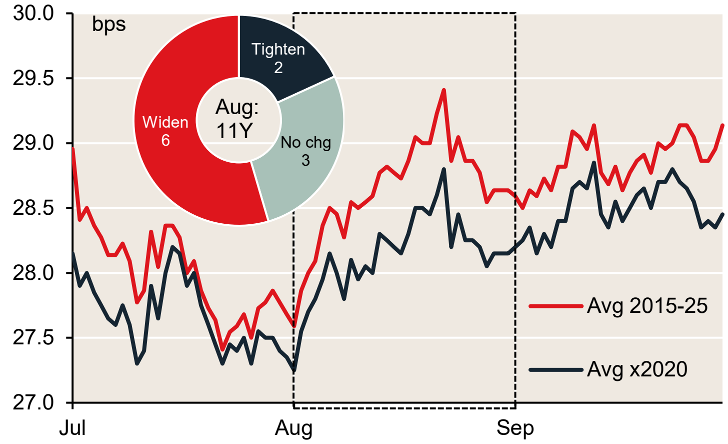
Net change in Ontario 10Y spread & select indicators: July vs. August



Source: NBC, BBG | Note: Avg based on 2015-25 (incl. 2020); bps unless noted

Chart 11: Provis typically underperform CMBs in August

Evolution of average Ontario-CMB 10Y basis | Inset: Count of August changes

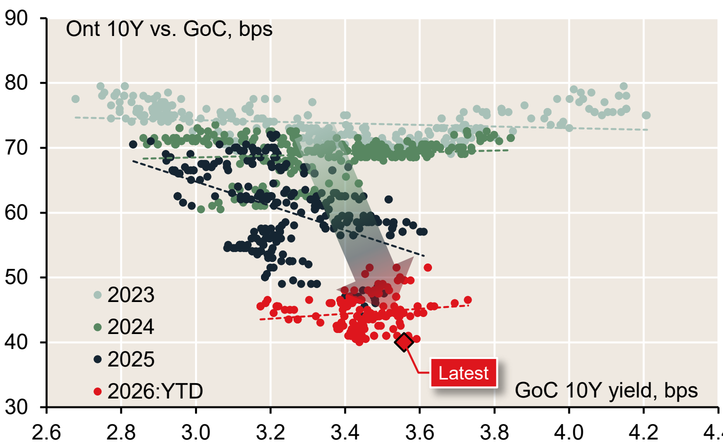


Source: NBC | Note: Inset chart refers frequency of change in Ont-CMB 10Y basis (2015-25)

We're mindful of the broader backdrop and underlying risk tone during the 'average' summer, which has (typically) seen sunny conditions in July cloud over in August. Thinner liquidity conditions during the peak summer vacation window can exacerbate changes. As the ultimate 'low beta' credit spread, CMBs have tended to fair a bit better in August than provincials. That's not surprising.

Chart 12: Perspective on current 'richness' (vs. GoC yld)

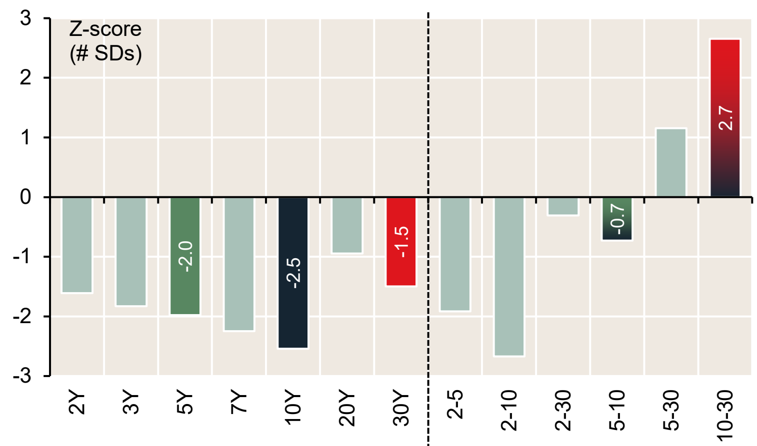
Ontario 10Y spread vs. GoC 10Y yield



Source: NBC | Note: Latest refers to 17-Jul-26

Chart 13: Long-term valuation perspective (on credit curve)

Current Ontario spreads & curves vs. long-term average: Daily since 2015

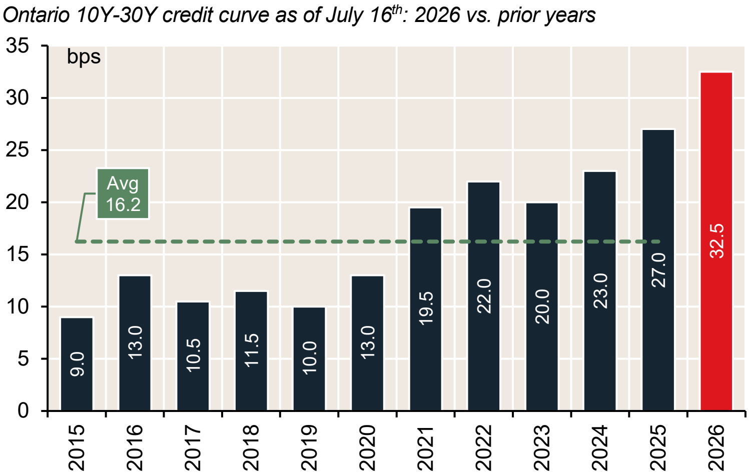


Source: NBC | Note: Based on >2,800 daily observations since 2015; as of 17-Jul-26

For purely yield-driven buyers, provincials still have plenty to offer. (Ontario's indicative 10-year yield is a snick shy of 4%.) Meantime, the underlying relationship between GoC yields and provincial spreads remains imperfect. Saying that, provincial spreads flag 'rich' vs. underlying Canada levels. On the credit curve, valuations are most extreme in 10s, the 10s-30s credit box historically steep…

Chart 14: Provincial credit curve steeper than ever

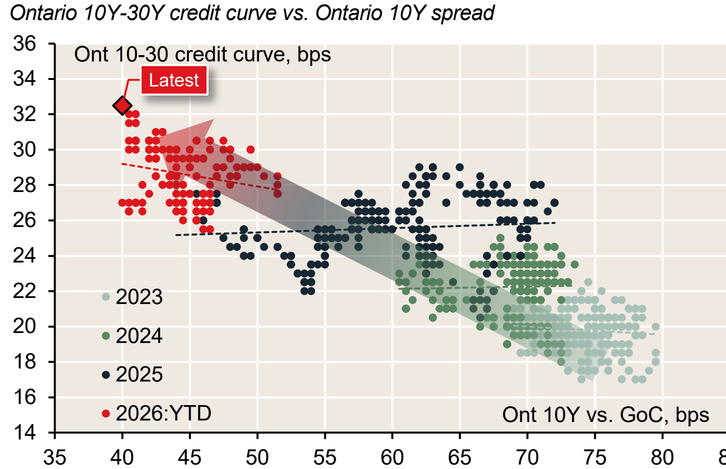
Ontario 10Y-30Y credit curve as of July 16th: 2026 vs. prior years



Source: NBC

Chart 15: Spread weakness could flatten credit curve?

Ontario 10Y-30Y credit curve vs. Ontario 10Y spread



Source: NBC | Note: Latest refers to 17-Jul-26

At 32-33 bps, Ontario's 10s-30s constant maturity credit box is steeper than ever. As per Chart 15, progressively tighter 10-year spreads have tended to go hand-in-hand with a steeper credit curve. So for those inclined to position for a seasonal soft spot in spreads, there could be a statistical/locational argument for first expressing a defensive view in the 10-year sector.

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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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