

Myth busting? Examining Canada's foreign bond flows

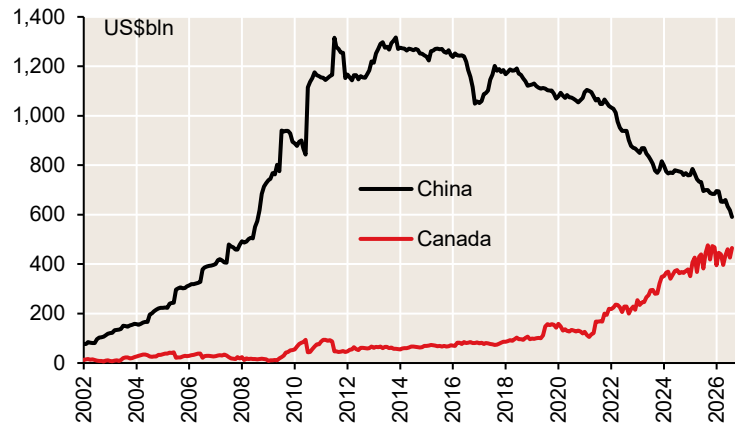
By Warren Lovely, Taylor Schleich & Ethan Currie

Who doesn't love a good conspiracy theory, especially one that arrives with a whiff of international intrigue and deals with an increasingly sensitive topic? So as far as financial market 'clickbait' goes, you could do worse than a story that hints at seemingly nefarious (or at least controversial and/or misreported) international bond flows, wherein China, the U.S. and (believe it or not) Canada are cast in starring roles. It's perhaps unsurprising that certain media outlets took up the story, which in turn sparked investor interest and questions on our desk. Unfortunately (or is it fortunately?) a collection of underappreciated facts risk getting in the way of what may have been intended as a juicy story.

What's this story all about?

At the root of this bond flow drama are the not-so-subtle shifts in the reported ownership of U.S. Treasury bonds (part of the monthly TIC reporting system that some readers may be familiar with). These official data show Chinese investors have significantly reduced their holdings of Treasuries. Meantime, Canada's exposure to U.S. Treasuries—the very bedrock of the world's largest/deepest debt capital market—has grown appreciably in the past half-decade (Chart 1). As things stand, Canada ranks as the fifth largest holder of U.S. Treasury securities.

Chart 1: China & Canada holdings of U.S. Treasury securities



Source: NBC, US Treasury (TIC), BBG | Note: Incl. bills, notes, bonds; monthly to Aug-26

Some have speculated that China may be covering its tracks, misrepresenting its true holdings by essentially co-opting Canadian registered entities. This would mask China's beneficial ownership and overall attachment to U.S. Treasuries. To what end? Presumably for political reasons. Gasp! It would similarly imply Canada's underlying or true interest in U.S. debt is overstated. Do we have your attention yet?

Going to the (data) source!

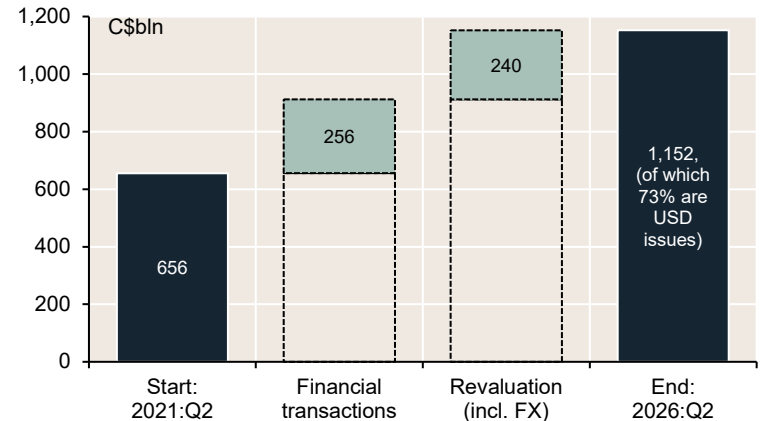
Now, if the ultimate focus is Canadian portfolio securities flows and international bond holdings, why limit yourself to the aforementioned TIC data? Rather, it might be appropriate to go to another primary source, in this case Statistics Canada (StatCan).

As it happens, StatCan offers a comprehensive set of integrated reports dealing with international securities. Some of these data are flow-based, some are stocks. Frequency wise, certain releases arrive monthly while others are quarterly. Now, it may be that these data are either unknown or underappreciated. Regardless, they go a long way towards illuminating and demystifying Canada's large and growing stake in foreign bonds.

A three-part StatCan data tour

We'll start with StatsCan's quarterly *International Investment Position (IIP)* report, where Q2 data dropped over a month ago. As might be guessed at, given TIC reporting, stat Can's *IIP* release has for some time revealed significant growth in Canadian ownership of foreign debt (not just U.S. Treasury bonds mind you, but all foreign issues). We're talking about a near-C\$500 billion market value increase in the past five years, with roughly half of that coming via net acquisitions and the other half due to revaluation effects (Chart 2). Half a trillion dollars over a half-decade sounds like a big increase for a country the size of Canada and it is. But it's not as unusual as you might think.

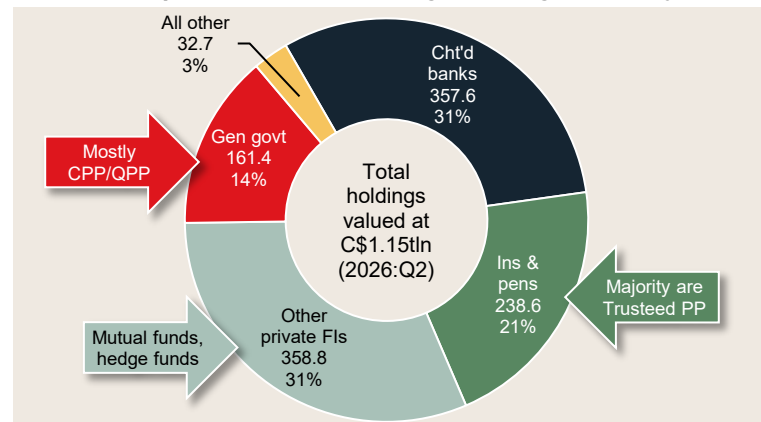
Chart 2: 5Y change in Canada holdings of foreign debt securities



Source: NBC, StatCan (IIP) | Note: Market value (converted to CAD)

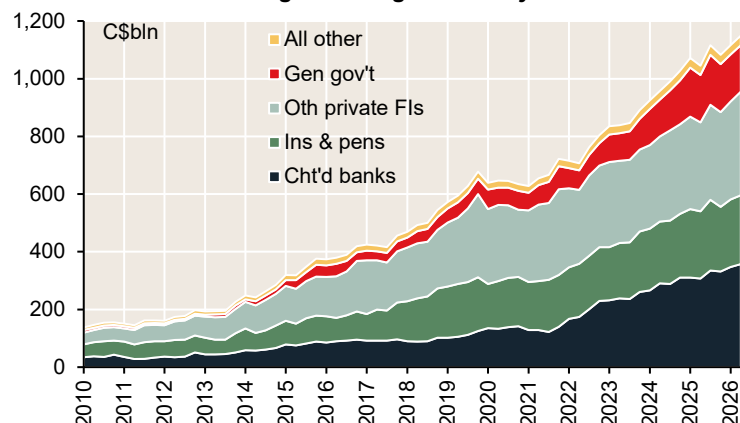
The next required stop on the StatCan data tour is the quarterly *National Balance Sheet Accounts (NBSA)*, which we've always ranked as an underutilized release. It's here, for instance, where you can see which of 42 domestic 'sectors' are responsible for holding a foreign bond portfolio most recently valued in excess of C\$1.1 trillion. To very little surprise, the vast majority of Canada's foreign bond investments can be traced back to four major investor groups or sectors: (i) chartered banks, (ii) insurance funds/trusteed pension plans, (iii) mutual funds/other private FIs and (iv) the country's social security system (Chart 3a, 3b).

Chart 3a: Snapshot of Canada holdings of foreign bonds by sector



Source: NBC, StatCan (NBSA) | Note: Figures in chart refer to C\$bn (market value)

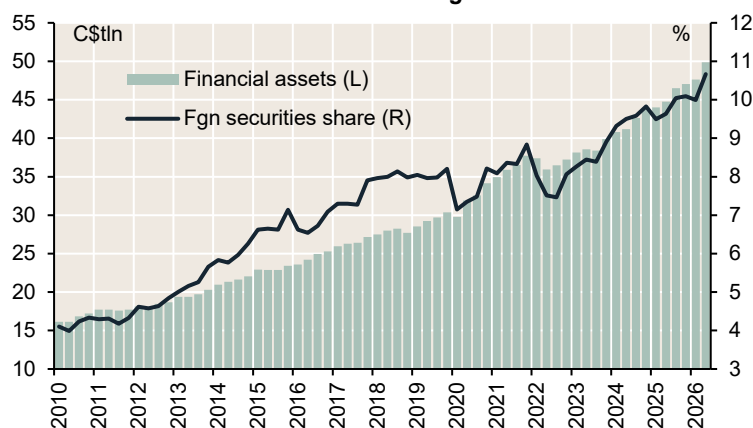
Chart 3b: Canada holdings of foreign bonds by sector



Source: NBC, StatCan (NBSA) | Note: Quarterly market value to 2026:Q2

It's not difficult to conceive of very legitimate reasons as to why each of these broad investor groups might wish to hold U.S. Treasuries, the simplest being underlying balance sheet growth and a long-standing desire for geographic diversification (something that is regularly re-examined) (Chart 4).

Chart 4: Canada financial assets & foreign securities share



Source: NBC, StatCan (NBSA) | Note: Quarterly market value to 2026:Q2; all domestic sectors; foreign securities share based on foreign m-mkt, foreign bond & foreign equity/IF holdings

Valuation wise, we should not lose sight of the non-trivial yield advantage on offer south of the border. The U.S. government may be on an unsustainable fiscal path, but default-risk is negligible and investor compensation has grown. And what's that old saying? Supply creates demand, which in a bond market context means significant net issuance must be met with equally robust net buying. Trade irritants notwithstanding, deep bilateral ties (financial and otherwise) have historically made Canada a natural buyer of all types of U.S. assets.

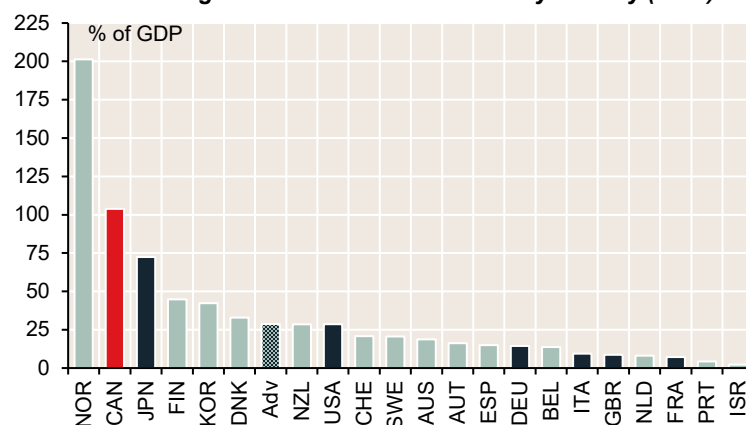
Back to the StatCan data... Canadian chartered banks account for the largest increase in foreign bond holdings in recent years. Isolating for foreign bond ownership, Canada's banks jointly surpassed the nation's pension/insurance sector back in mid-2022 and have drawn even with Canadian mutual funds/other private FIs. These foreign bond holdings are partly the flip side of a growing pool of liabilities, as Canada's well capitalized banking sector continues to expand its reach and attract deposits. Yes, foreign currency deposits have risen, but it would seem a stretch to suggest that Canada's heavily regulated banks are somehow complicit in masking the true nature of China's U.S. Treasury holdings.

For their part, the nature of liabilities at trustee pension plans and insurance funds make them the most natural buyers of global fixed-income product. That strategy hasn't changed, and here again total investable assets are on the up. Ditto for Canadian mutual funds and

other private financial institutions (including hedge funds). For leveraged players, the superior liquidity afforded by Treasuries can enhance the efficiency of relative-value trading strategies. (Note: This deep-liquidity argument helps explain the growing involvement of foreign hedge funds in Canada's own sovereign bond market.)

As for the social security system (i.e., CPP/QPP), positive cashflows and healthy returns are driving net assets higher. This is fully expected to continue ([link](#)). We've long considered the actuarially sound social security system a vital component of Canada's much-heralded fiscal advantage vis-à-vis international peers. Save for Norway, no major developed nation has a proportionately larger stockpile of financial assets in its general government sector than Canada (Chart 5). And yes, that would include holdings of U.S. Treasuries and other foreign bonds.

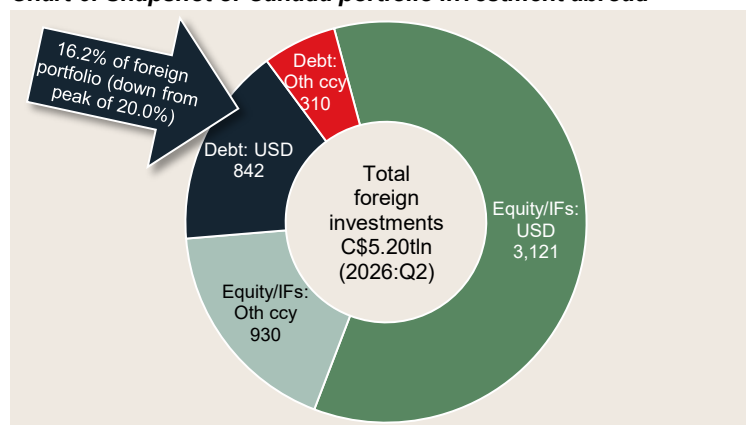
Chart 5: General government financial assets by country (2027)



Source: NBC, IMF (WEO) | Note: Refer to our related report ([link](#))

Again, we keep coming back to the fundamental point: With the country's pool of financial assets growing rapidly and with diversification having some merit, we should expect Canadian holdings of foreign assets to expand significantly/quickly. Here again, a little perspective goes a long way. After all, foreign bonds aren't the only type of international assets Canadian investors have gobbled up (Chart 6). Were it not for a reduction in the fixed-income share of the all-sector foreign securities portfolio, Canadian ownership of international bonds might be even higher.

Chart 6: Snapshot of Canada portfolio investment abroad



Source: NBC, StatCan (IIP) | Note: Total portfolio investment abroad (converted to CAD)

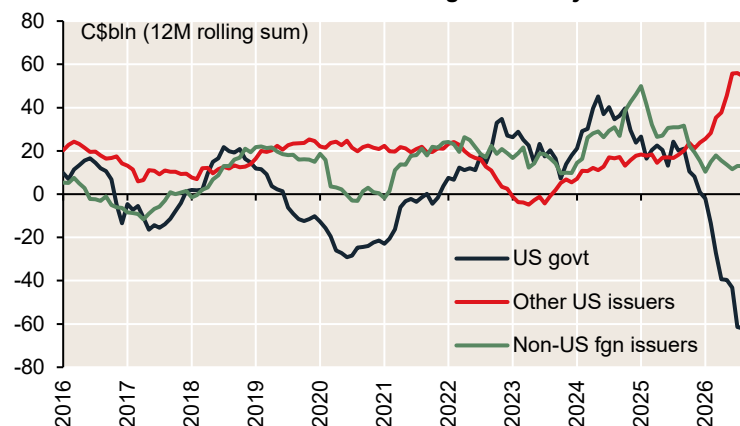
Canada's international transactions in securities (CITS) release is the final stop on our tour. These data are available monthly courtesy of, you guessed it, StatCan. Conveniently, August data arrived just last week.

Make no mistake, Canada's international securities transactions are quite striking, but not in the manner that might satisfy a conspiracy theorist. For while Canadian investors are still accumulating 'foreign' bonds, StatCan



tallies suggest they've (collectively) begun to pivot away from U.S. Treasuries in favour of other foreign issues (Chart 7).

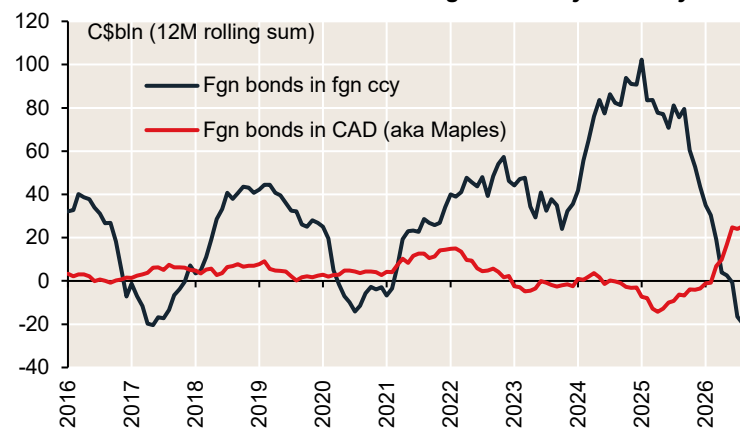
Chart 7: Canada net investment in foreign bonds by issuer



Source: NBC, StatCan (CITS) | Note: Monthly net flows (smoothed) to Aug-26

For maximum clarification, a Canadian investment in a so-called foreign bond doesn't necessarily mean the issue is denominated in a foreign currency (in the same way that non-residents hold plenty of 'Canadian' bonds denominated in non-CAD currencies). Indeed, as we've been reminded quite recently, Canadian investors continue to welcome foreign issuers into the domestic bond market, scooping up CAD-denominated issues from various foreign entities (i.e., Maple bonds) (Chart 8).

Chart 8: Canada net investment in foreign bonds by currency



Source: NBC, StatCan (CITS) | Note: Monthly net flows (smoothed) to Aug-26

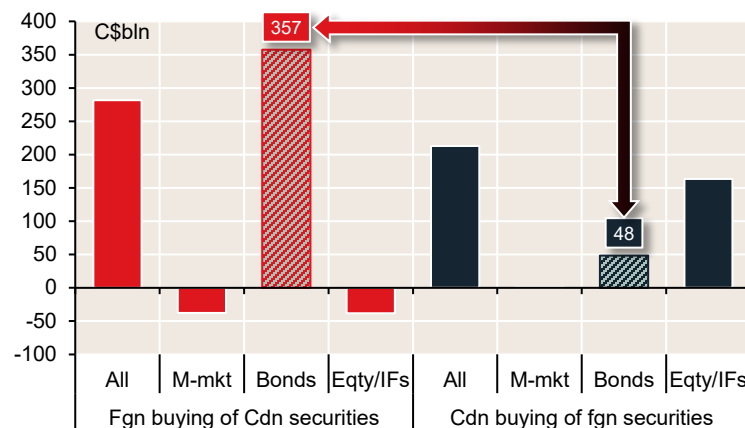
All that to say, there have been plenty of good reasons to justify/explain the increase in Canadian holdings of foreign bonds over the years, including U.S. Treasuries. And just wait for it. All else equal, anticipated

growth in the national balance sheet would hint at additional scope for a range of Canadian investors to increase their investments in foreign securities. To the extent current or prospective Canadian investment abroad coincides with a reduction in international debt holdings by some other nations, that needn't imply dastardly actions are afoot.

A real bond flow story worth following

To us, the most striking international bond flows involving Canada are not the *outflows* (i.e., Canadian buying of foreign bonds). It's really the other side of the portfolio capital ledger, the *inflows*, that deserve attention. We're talking about big-time non-resident purchases of Canadian bonds. Consider: Since President Trump returned to the White House, foreign investors have hoovered up the equivalent of C\$357 billion of Canadian bonds (while net divesting out of Canadian short-term paper and equities). That absolutely dwarfs the net buying of foreign bonds by Canadian investors during that period (Chart 9).

Chart 9: Canada international securities transactions since Jan-25



Source: NBC, StatCan (CITS) | Note: Cumulative net flows, Jan-25 to Aug-26 (20M sum)

Notably, in the same way Canadian investors have remained attached to U.S. assets as tariffs flared, American investors haven't shied away from Canada. U.S.-based entities account for more than two-thirds of the large-scale foreign buying of Canadian bonds registered since the start of 2025. Again, this is a bilateral (financial) relationship that runs deep.

And before you ask, there's no conspiracy when it comes to the today's meaningful foreign engagement in Canadian bonds. Rather, there's a whole separate set of fundamental, technical and valuation-related reasons that have drawn foreign investors to this country's growing debt stock. We've been covering this outsized foreign participation in Canadian debt extensively and will keep coming back to it. After all, the country has never been as exposed to international investors as it is now. Respectfully, this is a real story worth following.

Table: Canada holdings of foreign bonds by select sectors (Latest, including net change over 1Y/2Y/5Y period)

	Level (C\$bln)	Change in level (C\$bln)			Share (%)	Change in share (%-pts)		
	2026:Q2	1Y	2Y	5Y		1Y	2Y	5Y
Domestically held	1,149.1	104.6	191.6	494.0	100.0	0.0	0.0	0.0
Households & non-profit institutions	27.2	1.2	3.2	7.2	2.4	-0.1	-0.1	-0.7
Corporations	960.5	106.3	154.6	393.2	83.6	1.8	-0.6	-3.0
Non-financial corporations	5.3	0.2	-0.2	1.6	0.5	0.0	-0.1	-0.1
Financial corporations	955.2	106.1	154.8	391.6	83.1	1.8	-0.5	-2.9
Chartered banks & quasi-banks	357.6	50.8	67.1	228.4	31.1	1.7	0.8	11.4
Insurance & pension funds	238.6	4.6	24.8	68.8	20.8	-1.6	-1.6	-5.2
Total other private financial institutions	358.8	50.8	63.1	94.4	31.2	1.7	0.3	-9.1
Financial govt business enterprises	0.2	-0.1	-0.2	0.0	0.0	0.0	0.0	0.0
General governments	161.4	-2.9	33.8	93.6	14.0	-1.7	0.7	3.7
Federal general government	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other levels of general government	12.3	0.8	1.5	2.0	1.1	0.0	-0.1	-0.5
Social security funds	149.0	-3.7	32.3	91.7	13.0	-1.7	0.8	4.2

Source: NBC, StatCan (NBSA) | Note: 2026:Q2 is latest available quarter; net change is relative to Q2 level from 1Y/2Y/5Y prior; market value; more detailed sectoral breakdown available



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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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