



FIXED INCOME

First Quarter 2026

Your Fixed Income Portfolio: Events in Q1 2026 and their Effect on You

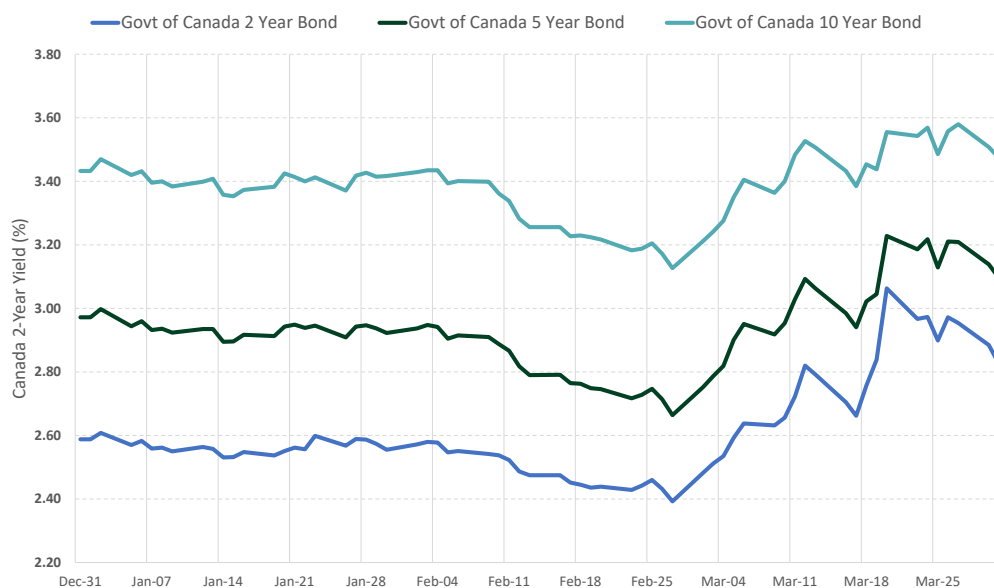
- Your fixed income investments delivered modest but positive results in the first quarter.
- Government bonds outperformed in the quarter. Corporate bonds lagged but generated positive performance.
- We outline the drivers of these results and how we are positioning your portfolio going forward.

What Happened This Quarter:

Interest Rates: Higher

During the quarter, interest rates initially drifted lower through mid to late February, as domestic economic growth could be described as tepid / lukewarm. This changed in late February with the uncertainty and volatility created by the military actions in and around Iran and the effect of attacks on Mideast energy infrastructure. Yields of Canadian benchmark bonds rose 50+ basis points (please refer to **Figure 1** below), and the shorter tenors experienced sharper increases. They've since stabilized and come off their peaks. But they remain volatile on a day-to-day basis.

1. Canadian Interest Rates



Source: Bloomberg



Here's why this matters to you:

When bond yields rise, bond prices fall. However the recent spike in yields was offset to a significant degree by the drift to lower yields experienced in January and February.

Some additional considerations and observations:

The 2-year bond yield serves as a useful guide to gauge the bond market's view of future rate moves by the Bank of Canada. The 2-year bond yield currently measures ~2.85%-2.90%, in comparison to the Bank of Canada's overnight rate of 2.25%. The bond market believes that the Bank of Canada is likely to hike interest rates in the near-term (next 12 months).

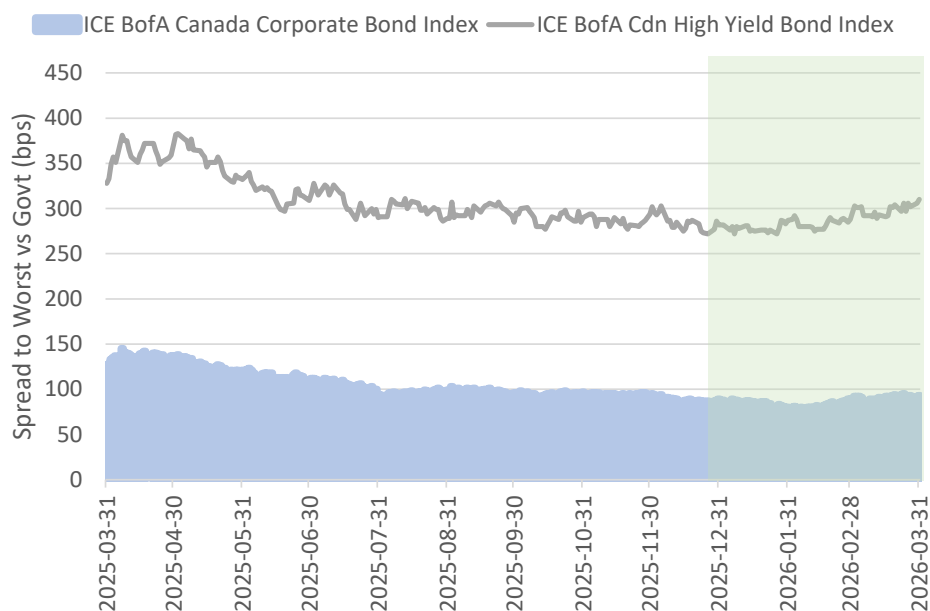
The 5-year bond yield wields heavy influence on longer-term mortgage rates. The recent increase in rates might throw cold water on the domestic housing market that is seeking stability.

Corporate Bonds: Spreads Widen

Corporate bond spreads, which are the additional interest rate companies pay over the benchmark government rates, widened somewhat during the quarter. However, they remain tight vis-à-vis historical norms. They widened because of the heightened volatility and uncertainty felt across capital markets, as investors believe overall market risks have increased.

2. Canada Bond Indices Spread over Government Bonds

Corporate Spreads - Canadian Bonds



Source: Bloomberg



Higher interest rates and wider corporate bond spreads generally serve as headwinds to fixed income returns. However, both investment-grade and high yield corporate bonds delivered positive returns, as both the increase to yields and to spreads were modest enough that the bonds’ coupon payments more than offset them.

3. Returns for Fixed Income Asset Classes								
Asset Class Returns	Q1 2026	Q4 2025	Q3 2025	Q2 2025	Q1 2025	2025	2024	2023
Morningstar Canada Core Bond Index	0.29%	-0.39%	1.39%	-0.72%	2.01%	2.29%	3.92%	6.32%
Morningstar Canada Corporate Bond GR CAD	0.16%	0.31%	1.66%	0.33%	1.80%	4.17%	6.60%	8.52%
Morningstar Canada High -Yield Bond GR CAD	0.25%	1.19%	2.66%	1.61%	1.52%	7.16%	11.53%	8.45%

Source: Bloomberg

On Our Radar in 2026

Interest Rates: Likely on Hold in Our View

Right now, inflation is sitting right at the Bank of Canada’s 2% target, although consensus forecasts believe CPI could near 3% given the recent rise in energy prices. As mentioned above, the market currently expects that the Bank of Canada will hike rates by 25 to 50 bps before year-end, with the first increase coming in the September meeting.

In our view, while the 2-year bond yield seems to signal interest rate hikes on the horizon, higher mortgage rates (if the current 5-year yield persists) only weakens the case for Bank of Canada hikes given the struggles the most interest-rate sensitive portion of the economy is experiencing. We also think that:

1. the calm core CPI (which is not affected by volatile energy prices) will persist,
2. domestic job growth remains weak,
3. financial conditions are tightening,
4. the higher oil prices rise, the greater the feedback into activity and employment, and
5. the looming CUSMA trade negotiations will continue to add uncertainty;

Taken together these serve as persuasive arguments for policymakers to stay on hold.

Finally, in his remarks, Governor Macklem noted that the Bank of Canada intends to remain patient in order to allow sufficient time for evaluation, as it is premature to determine the long-term impact of rising energy costs on the economic outlook. Further, he said they would likely have considered cutting rates if not for the oil shock. Lastly, he also mentioned that the Bank considers the length of the shock matters as much as the extent of the shock. This does not sound like he is raising rates in the short term, in our view.

Corporate Credit: Still Attractive

While corporate bond spreads are below historical averages, we continue to find attractive corporate bonds to invest in, and do not believe these spreads will widen to a significant degree. The Canadian economy continues to grow modestly, and should avoid recession in our view, which should continue to support corporate borrowers. Nor do we see glaring warning signs of general credit quality concerns.



How We're Positioning Your Portfolio

Given this environment, we're maintaining our strategic investment approach conveyed in prior quarters:

Focused on Corporate Bonds: We're emphasizing high-quality investment grade corporate bonds to capture attractive yields, with select opportunities in carefully chosen high-yield bonds where we have strong conviction.

Staying Flexible on Duration: We're not extending into longer-term bonds yet, particularly given the recent rate volatility. However, if long-term rates become significantly more attractive on a relative basis to short-term rates, we will consider investing in longer term bonds.

Cautious but Optimistic: The remainder of 2026 will bring both challenges and opportunities. But we believe the current environment supports our credit-focused investment strategy.

What This Means for You

Your fixed income portfolio is positioned to generate steady income while managing risk. We continue to believe that companies remain on solid footing, reinforcing our view that our corporate bond focused strategy is prudent. In addition, our flexibility allows us to adapt as conditions change.

As always, we're monitoring markets closely and will adjust your portfolio as attractive investing opportunities emerge.

Warm regards,
Owen Morgan
Portfolio Manager, Cumberland Income Fund
April 8, 2026

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