

Pre-June 1st: Better to be lucky than smart?

By Warren Lovely, Ethan Currie & Taylor Schleich

Participants in Canada's domestic bond market recognize this as a most special time of year. For on June 1st... and on June 2nd... and on June 15th... outsized coupon cash flows, chunky bonds roll (out or over) and index duration rises (all else equal). Historically, seasonal tendencies have supported Canadian rates vs. USTs. And if you entered a long Canada, short U.S. trade at what we earlier identified as 'optimal entry'—May 6th to May 14th, depending on the tenor—you'd be sitting pretty (Chart 1). In some cases, pre-June cross-market outperformance looks entirely unprecedented (Chart 2). Chalk one up for the seasonals then? Yes and no.

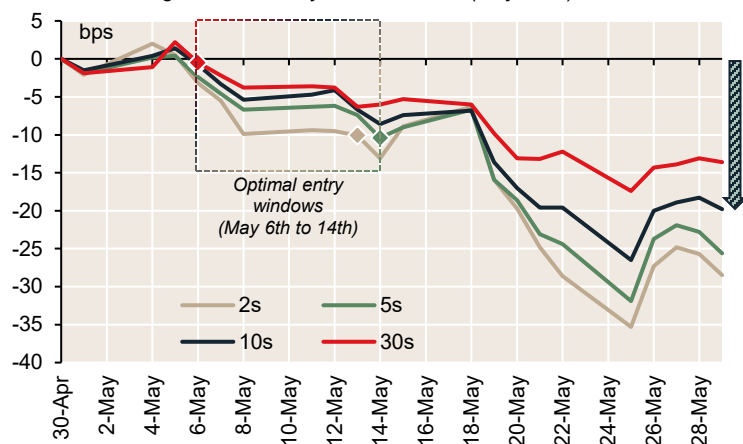
Beyond powerful seasonals, noted outperformance of Canada vs. the U.S. since optimal entry captures a none-too-subtle re-think on central bank policy expectations. In the U.S., solid growth and warm(er) inflation have market participants betting on a less-accommodating FOMC (Chart 3). Meanwhile, Canada's economy has suffered one disappointment after another (Chart 4), blunting the threat of BoC rate hikes.

So, when it comes to economic performance and related cross-market re-pricing, it's perhaps better to be lucky than smart. Put another way, a major U.S. rate re-think has been the primary driver of the GoC-UST outperformance during this seasonal sweet spot as Canada is not the only market making gains. (Chart 5). Still, the anticipated cash influx may have contributed at the margin as longer-end GoC performance has been more pronounced than most developed markets.

Now, with so much performance in hand, it might be appropriate to consider taking profit on a long Canada-short U.S. position. For what it's worth, the post-June 1st track record isn't great (Chart 6). As for Canada's seasonal curve 'flattener', results thus far have been underwhelming—both in isolation and when 'boxed' against the Treasury curve. Again, that looks to be down to revised BoC expectations. But we'd be inclined to stay in a 10s-30s flattener here, with the historic record and current location both somewhat soothing (Charts 7-8).

Chart 1: Long GoCs vs USTs has played out well this May...

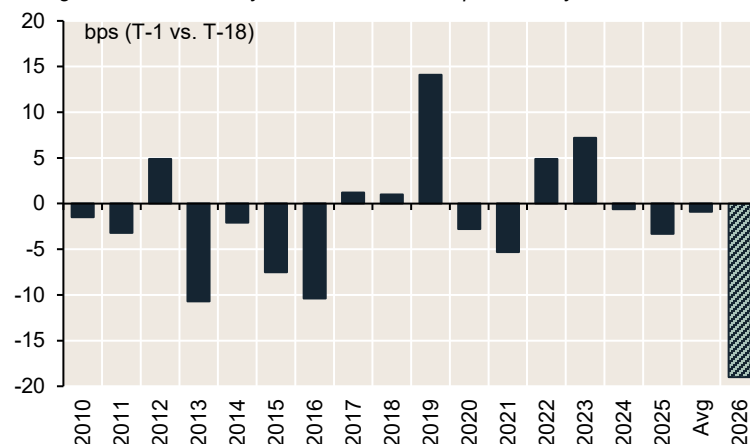
Cumulative change in GoC-UST yield differentials (May MTD)



Source: NBC, Bloomberg

Chart 2: ...with 10Y outperformance particularly strong

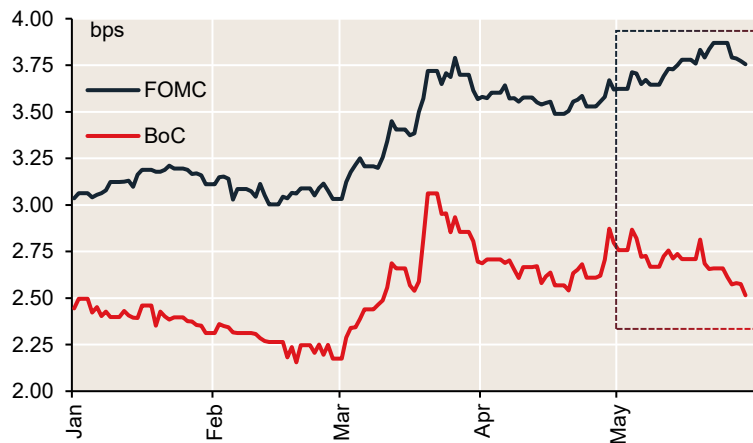
Change in GoC-UST 10Y yield differential from 'optimal' entry date



Source: NBC, Bloomberg

Chart 3: Policy rate pricing has diverged in May...

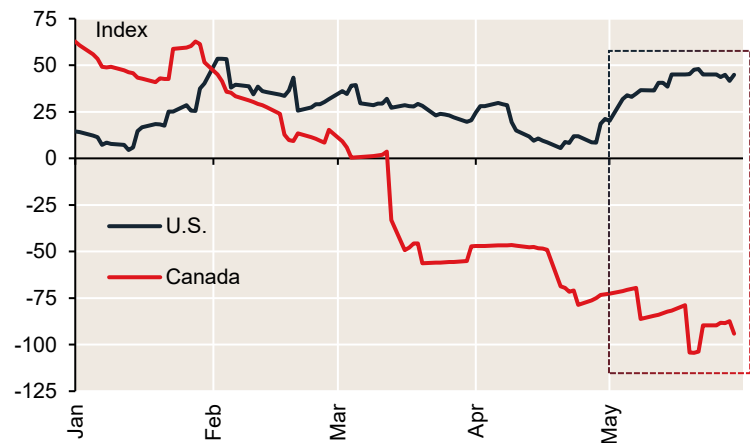
OIS-implied effective policy rate for Dec-26 meeting: BoC vs. FOMC (2026: YTD)



Source: NBC, Bloomberg

Chart 4: ...as data surprises in opposite directions

Citi Economic Surprise Index: Canada vs. U.S. (2026: YTD)

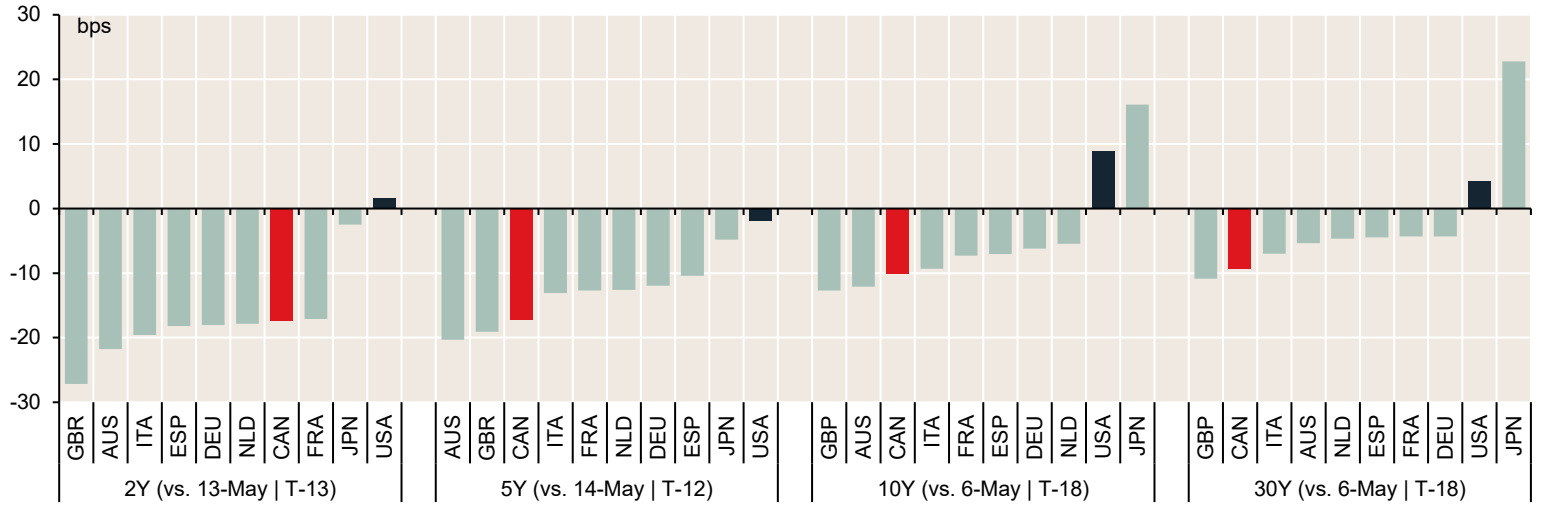


Source: NBC, Bloomberg



Chart 5: GoC outperformance is admittedly more UST underperformance (at least down the curve)

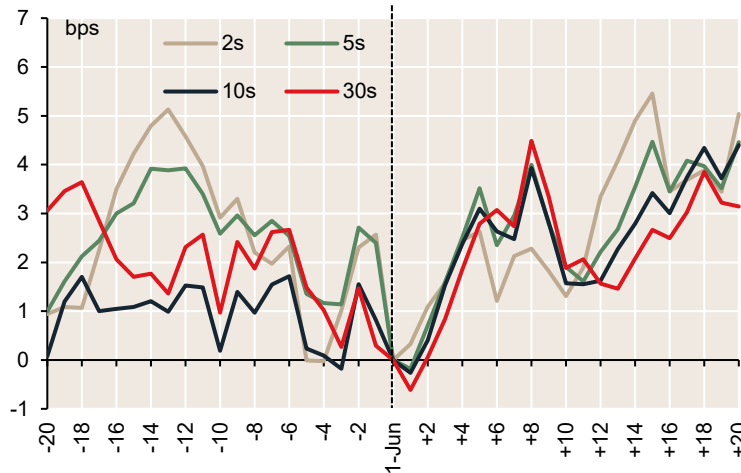
Cumulative change in sovereign yields from GoC-UST trade 'optimal' entry date by tenor (2026)



Source: NBC, Bloomberg | Note: Aligned change based on different empirical optimal entry dates (i.e., 10Y from

Chart 6: GoC outperformance shorter-lasting post 1-Jun...

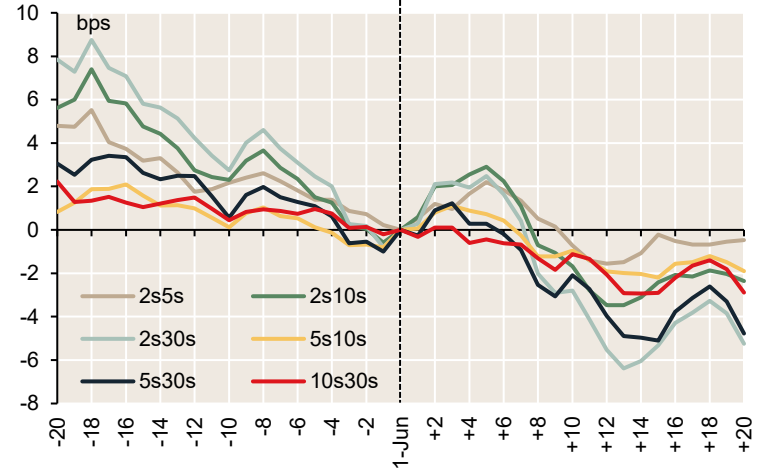
Change in GoC-UST yield differentials prior to/after 1-Jun (or next business day)



Source: NBC, Bloomberg | Note: Based on average from 16Y post-GFC sample (2010-25)

Chart 7: ...but curve flattening tendency can linger

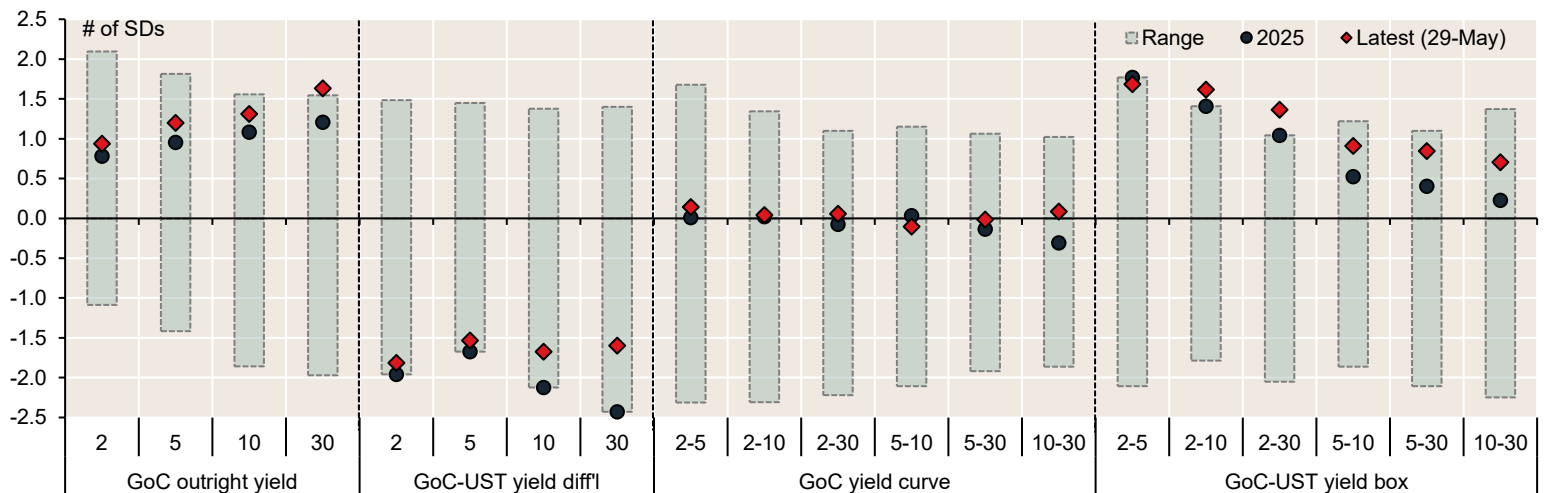
Change in GoC yield curves prior to/after 1-Jun (or next business day)



Source: NBC, Bloomberg | Note: Based on average from 16Y post-GFC sample (2010-25)

Chart 8: Cross-market levels quite tight pre-June 1st while Canada curves remain relatively steeper than usual

Relative deviation of GoC yields, differentials, curves, boxes from historical average observed 1 weekday prior to 1-Jun: Current vs. prior year/trend



Source: NBC, Bloomberg | Note: Latest refers to 29-May; shaded range is max/min recorded T-1 weekday prior to 1-Jun; 16Y post-GFC sample (2010-25); 2025 included for reference



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Subscribe to our publications:
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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