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What Canada's shifting bond index composition tells us

By Warren Lovely

In today's volatile world, very few things appear static. And so it is with Canada's domestic bond market. The country's fixed income universe continues to evolve in meaningful ways, including major compositional shifts across the term structure and from one sector (or issuer) to another.

With July officially in the books, we reflect on the latest monthly and year-to-date developments, pinpointing what some of the most notable changes in the index mean for market participants. There are more than a few takeaways including…

Canada's domestic bond market is ever-expending, with net supply on a record-setting pace in 2026.

While other sectors are active, the GoC continues to account for the majority of net issuance in the CAD-denominated market. We stress that this is not new, so no one should be surprised that Canadian domestic bond indices appear increasingly govi-centric.

Abundant sovereign paper has arguably reduced the 'convenience yield' on GoC securities, which is a theme garnering attention globally. Put simply, a large-scale, capital-driven federal bond program means there's nothing particularly scarce about GoC bonds these days. All else equal, this elevated supply supports relatively tight G-spreads, a technical consideration likely to stay with us through 2027 (if not beyond).

With the GoC playing an outsized role, average issue size is growing. Average bond size is clearly an imperfect proxy for liquidity, but we generally view primary and secondary market developments as reflective of a well-functioning market.

Disproportionate GoC supply is driving a generalized improvement in the average credit quality of Canada's domestic bond market—which may strike some as counter-intuitive. Witness the growing share of index-eligible securities now rated 'AAA' (45%). For investors seeking safety/quality, Canada remains home to a relatively significant stock of top-rated bonds. The bulk of those securities may reside in the federal index (including crowns and SSAs), but investors can also access triple-A product in the provincial, municipal and corporate sectors too.

In contrast, average credit quality has deteriorated in the provincial sector. That captures downgrades to select issuers (following a 'credit negative' budget season) and/or the current skew of net supply to low(er)-rated provinces. Interestingly, the average credit quality of Canada's corporate bond universe has technically improved, aided by the addition of chunky AA-rated 'hyperscaler' bonds—a major storyline this year.

In credit markets, net bond supply has been far more significant for corporates than for provincials. Provinces have leaned on international debt markets hard, limiting the amount of net product steered to Canada. Notwithstanding relative rating developments, these net supply trends influence absolute and relative credit spreads. Relatively limited provincial issuance is spread supportive vs. the GoC, while the relative distribution of product across the curve helps to explain a relatively steeper provincial credit curve (vs. corporates).

Displacement by the GoC also means a shortening of the effective term of Canada's bond universe. Add in a significant sell-off in rates and modified duration has receded.

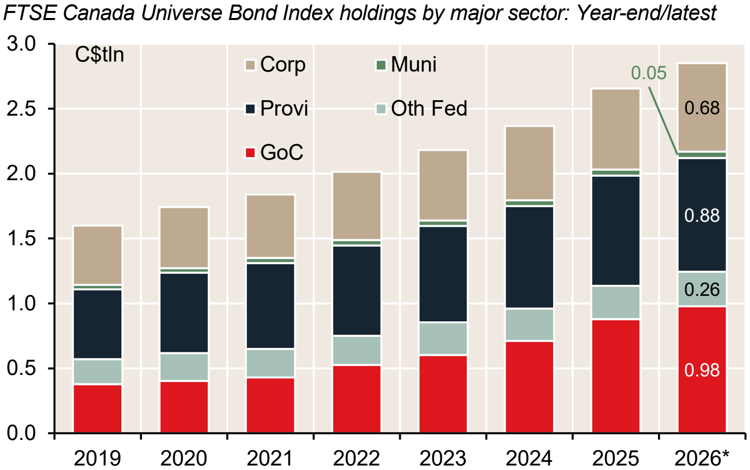
Be mindful of established seasonal tendencies, particularly in the 'Long' bucket. For seasonal devotees, the next significant index-related duration event arrives September 1st, although early December (1st/2nd) tends to be a more special period (given far chunkier rolls and index cashflows).

July's back-up in bond yields meant an ugly month for total returns, with longer-duration sectors particularly hard hit. As the longest-duration corner of the domestic market, the provincial segment of the domestic bond universe notched a negative return of 2.3% in July. That trimmed the year-to-date total return for provincials to 0.4%, perhaps setting up a sixth straight year of underperformance vs. domestic corporates.

For corporates, a shorter average duration has historically meant less volatility in monthly total returns vs. provincials. But the corporate sector has seen some notable developments in 2026, with the introduction of large, multi-tranche 'hyperscaler' issues leaving a noted impact on sub-sector spreads and total returns.

Chart 1: Canada's ever-expanding universe of bonds

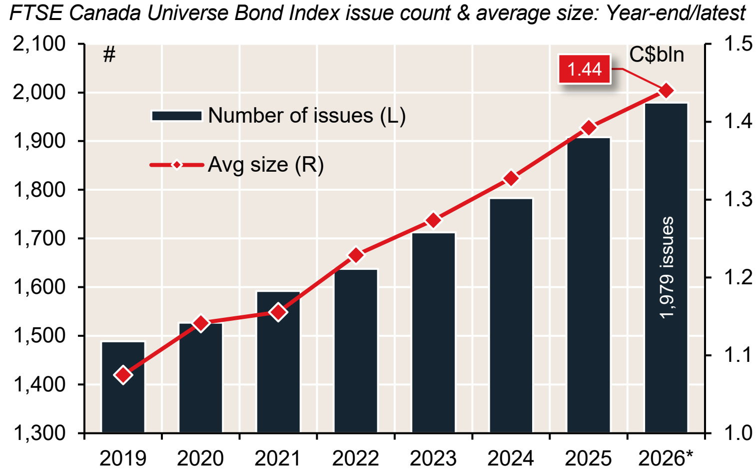
FTSE Canada Universe Bond Index holdings by major sector: Year-end/latest



Source: NBC, FTSE Russell | Note: 2026 as of 31-Jul; par value

Chart 2: Total issue count & average size on the up

FTSE Canada Universe Bond Index issue count & average size: Year-end/latest

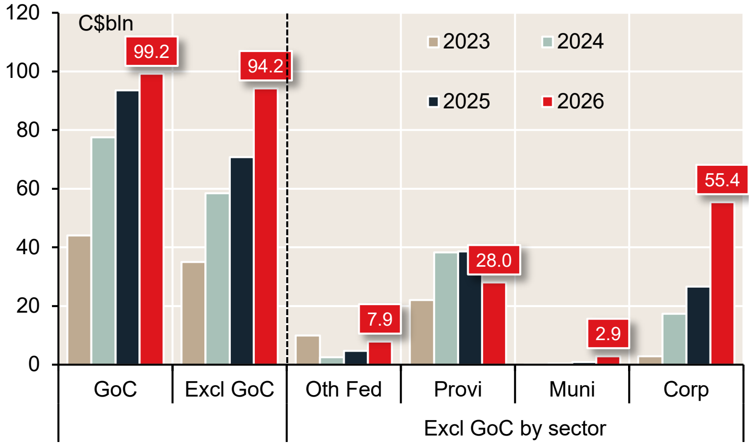


Source: NBC, FTSE Russell | Note: 2026 as of 31-Jul; avg based on par value

The FTSE Canada Universe Bond Index is now comprised of 1,979 individual issues with combined holdings (i.e., effective outstandings) of $2.85tln. The net issuance tempo has quickened. Canada's index-eligible bond stock grew by >$190 billion in the first seven months of 2026—a record-setting pace—with the equivalent YTD increase averaging ~$125bln in the prior three years.

Chart 3: GoC (still) accounts for majority of net issuance

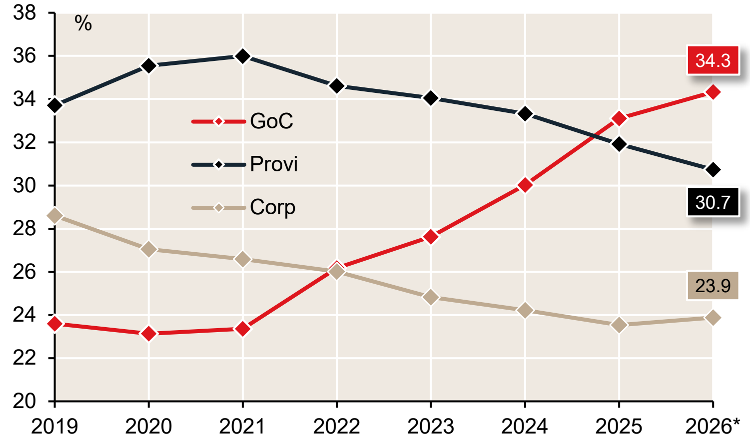
FTSE Canada Universe Bond Index change in holdings by sector: YTD



Source: NBC, FTSE Russell | Note: YTD net change as of 31-Jul each year; par value

Chart 4: Canada's bond market becomes more govi-centric

FTSE Canada Universe Bond Index share of holdings by sector: Year-end/latest

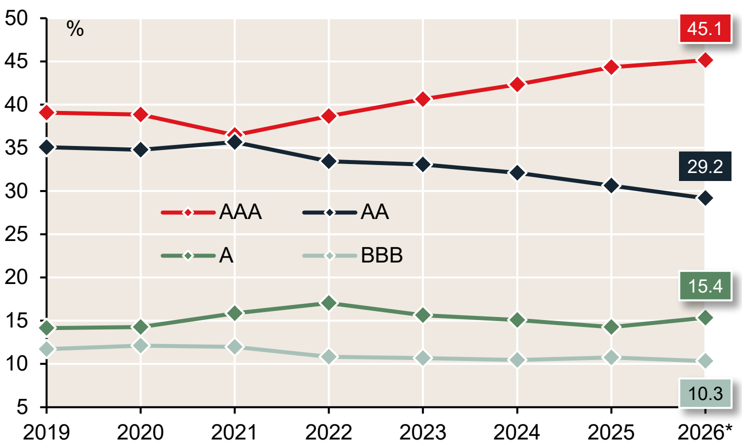


Source: NBC, FTSE Russell | Note: 2026 as of 31-Jul; based on par value

Canada's bond market has become increasingly govi-centric in recent years. Though the corporate sector has been much more active in 2026 (more on that later), the GoC continues to account for the majority of the growth in index-eligible paper. Canada's sovereign may be fiscally sustainable, but such abundant product seemingly reduces the 'convenience yield' on GoC bonds.

Chart 5: Larger share of Canada's market rated 'triple-A'

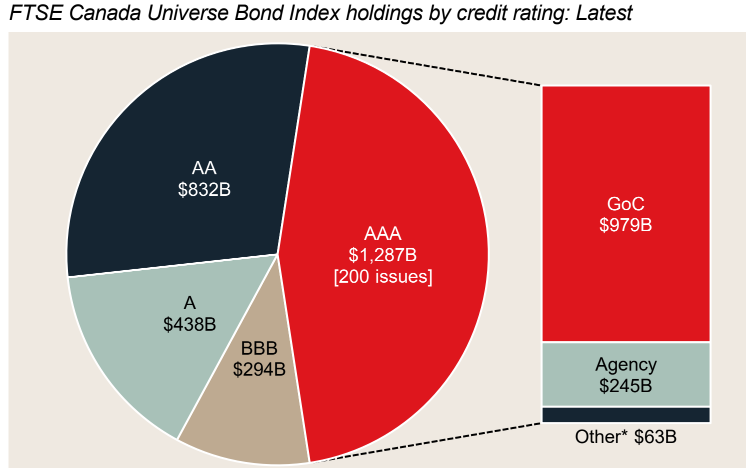
FTSE Canada Universe Bond Index share of holdings by rating: Year-end/latest



Source: NBC, FTSE Russell | Note: 2026 as of 31-Jul; based on par value

Chart 6: Snapshot of bond 'Universe' by credit rating

FTSE Canada Universe Bond Index holdings by credit rating: Latest

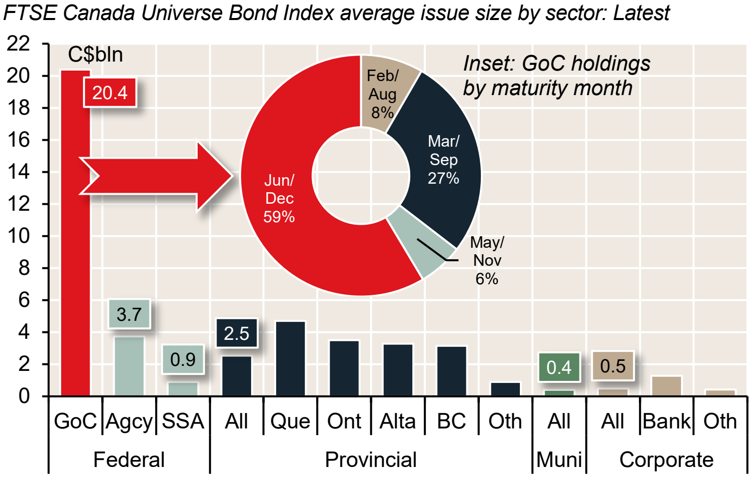


Source: NBC, FTSE Russell | Note: As of 31-Jul-26; par value; other incl SSA/provi/muni/corp

Adding so much top-rated GoC paper means the average credit quality of Canada's domestic bond market is improving—which may seem counter-intuitive to some. Fully 45% of the FTSE Canada Universe Bond Index is now rated triple-A. From an index perspective, there are 200 issues and nearly $1.3tln of 'AAA' product available (not counting any AAA-rated <1-year bonds and T-bills).

Chart 7: Average issue size as a liquidity proxy

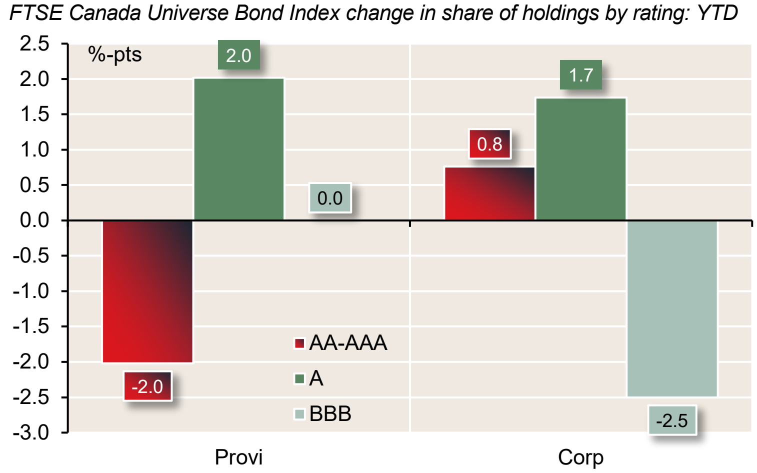
FTSE Canada Universe Bond Index average issue size by sector: Latest



Source: NBC, FTSE Russell | Note: As of 31-Jul-26; based on par value

Chart 8: Provi credit quality wanes, while avg corp rating up

FTSE Canada Universe Bond Index change in share of holdings by rating: YTD

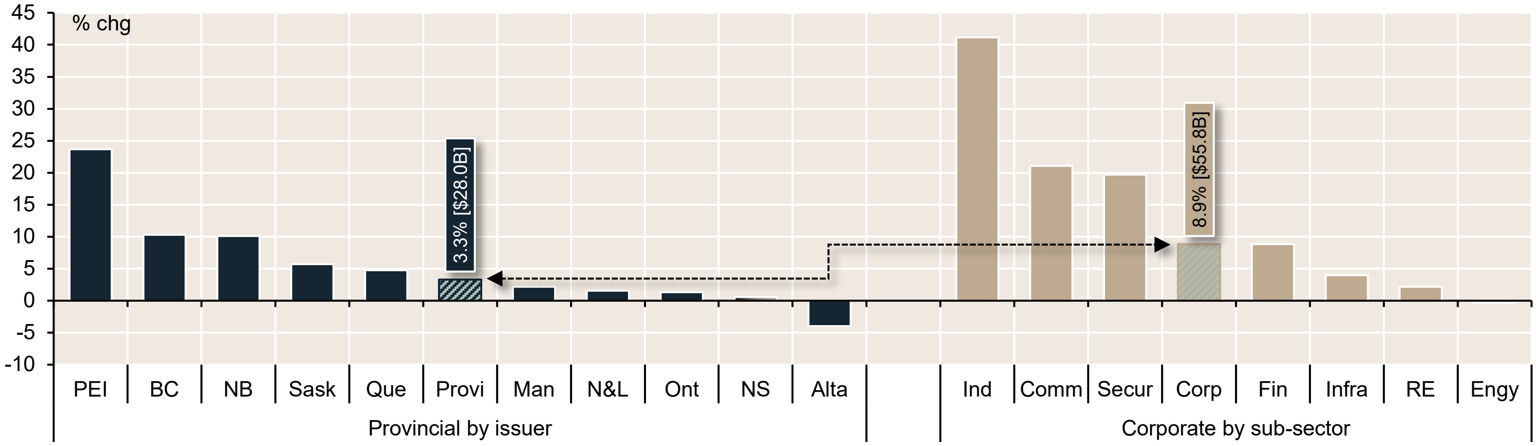


Source: NBC, FTSE Russell | Note: 2026:YTD as of 31-Jul; based on par value

The sovereign's growing weight/influence also helps explain the steady increase in average issue size—one proxy for liquidity. GoC bond maturities remain heavily concentrated, contributing to noted seasonality in/around June 1st/December 1st—a topic we've addressed at length. The average provincial security has grown in size and at $2.5bln is ~5X larger than the average corporate bond. While net supply impacts valuation, note the average credit quality of the provincial bond stock has deteriorated, whereas compositional shifts have seen the average corporate rating enhanced.

Chart 9: Plentiful net supply from corporate sector, whereas provincial net issuance relatively more constrained

FTSE Canada Universe Bond Index relative change in total holdings by sector/region/industry: YTD

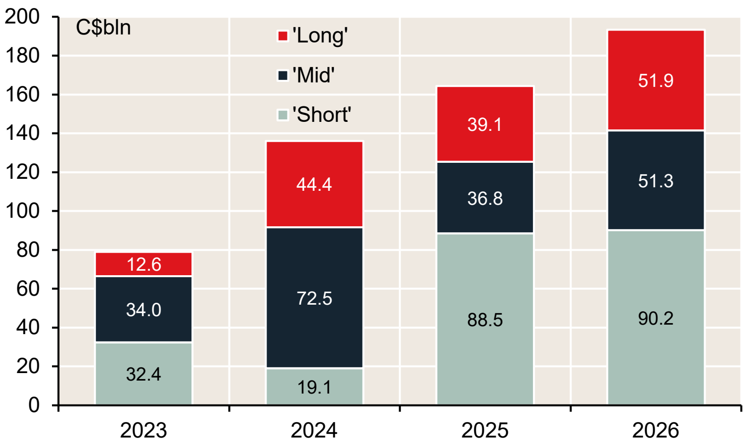


Source: NBC, FTSE Russell | Note: 2026:YTD net change as of 31-Jul; based on par value of total holdings by sector/region/industry

The corporate bond stock has expanded at a much faster rate than for provincials this year. Total corporate holdings have shot up ~9% on a YTD basis, the near-$56bln increase effectively double what was registered in provincials. Relatively contained supply has been supportive for provincial spreads. Of note, only one region/industry has seen the stock of bonds recede: Alberta/Energy.

Chart 10: Allocation of marginal bonds by bucket/tenor

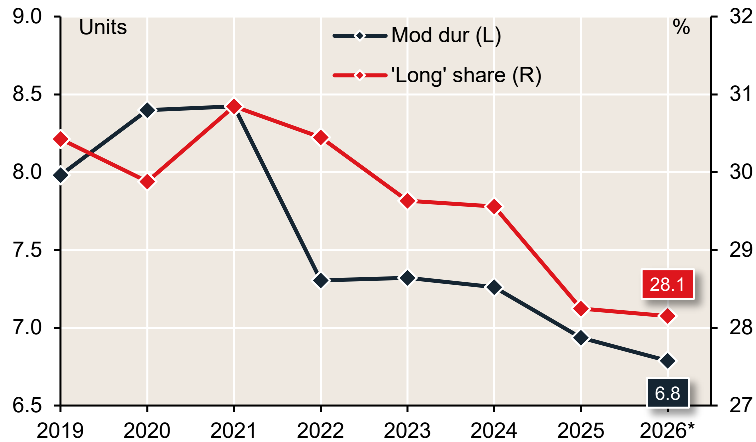
FTSE Canada Universe Bond Index change in holdings by maturity bucket: YTD



Source: NBC, FTSE Russell | Note: YTD net change as of 31-Jul each year; par value

Chart 11: Average duration of index on the decline

FTSE Canada Universe Bond Index 'Long' share & avg duration: Year-end/latest

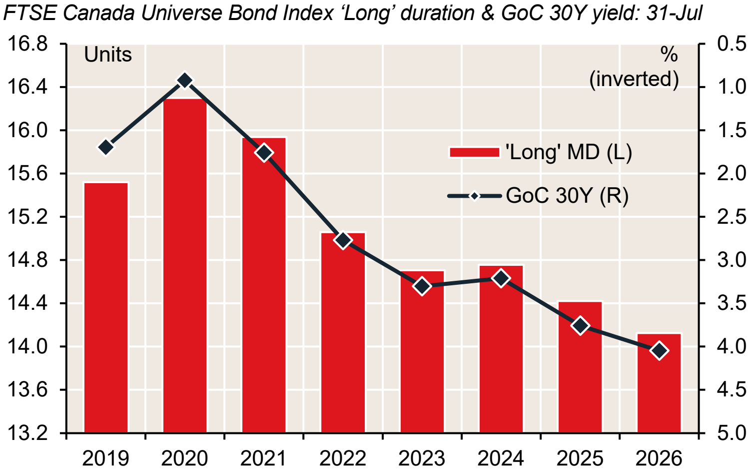


Source: NBC, FTSE Russell | Note: 2026 as of 31-Jul; MD based on mkt value

While bonds are more abundant across the term structure, the 'Short' bucket—comprised of bonds maturing in 1-to-5 years—now accounts for a larger share of outstandings. That's another byproduct of heavy GoC supply, which tends to be shorter duration than many other sectors. 'Long' product is still getting done but this bucket's relative weight has been in decline for five years now.

Chart 12: Duration of 'Long' bucket steps down (again)

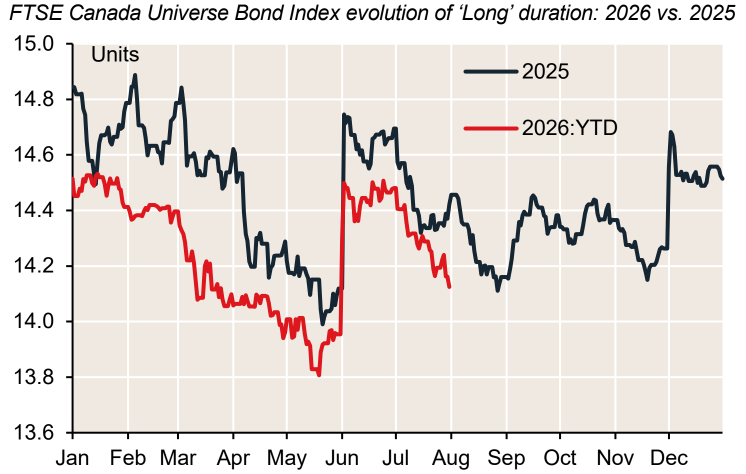
FTSE Canada Universe Bond Index 'Long' duration & GoC 30Y yield: 31-Jul



Source: NBC, FTSE Russell, BBG | Note: As of 31-Jul each year; MD based on mkt value

Chart 13: Index duration subject to notable seasonality

FTSE Canada Universe Bond Index evolution of 'Long' duration: 2026 vs. 2025

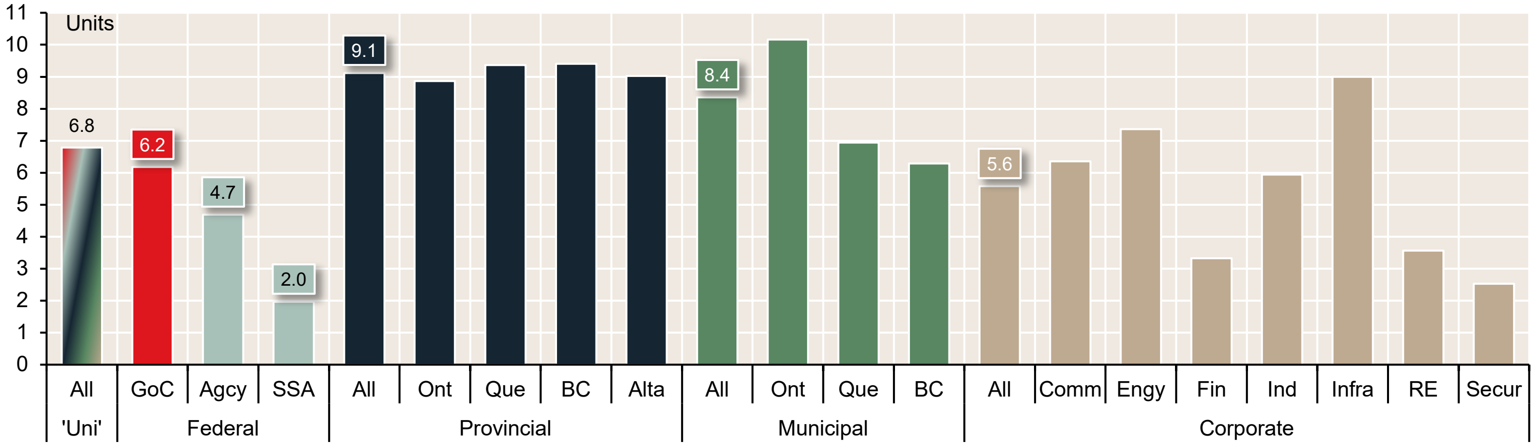


Source: NBC, FTSE Russell, BBG | Note: 2026 as of 31-Jul; based on mkt value

Beyond the 'Long' bucket's diminished share of the index, a global rates selloff (which Canada has not been immune to) has bled duration from the 'Long' bucket. Note that the daily evolution of 'Long' duration has largely respected seasonal tendencies in 2026. Without minimizing September 1st, 'Long' duration impacts tend to much more significant around December 1st/2nd (all else equal).

Chart 14: A duration snapshot across sectors

FTEE Canada Universe Bond Index modified duration by sector/issue/region/industry: Latest

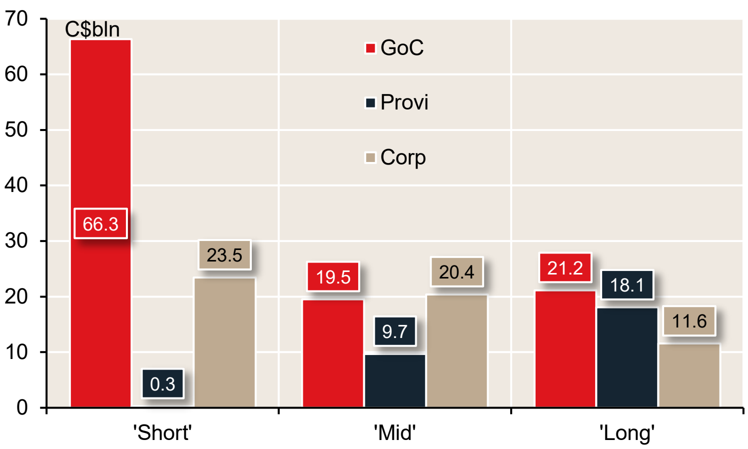


Source: NBC, FTSE Russell | Note: As of 31-Jul-26; based on mkt value; for provincial/municipal, only select regions shown

Consistent with varied issuance strategies, there remain material differences in modified duration across individual sectors. While declining this year, the weighted average duration of the provincial bond sector, at 9.1, is still the longest of any major category. That relatively greater exposure to higher yields has had a material impact on provincial bond returns as we explore on page 5.

Chart 15: Debt distribution strategies hardly consistent

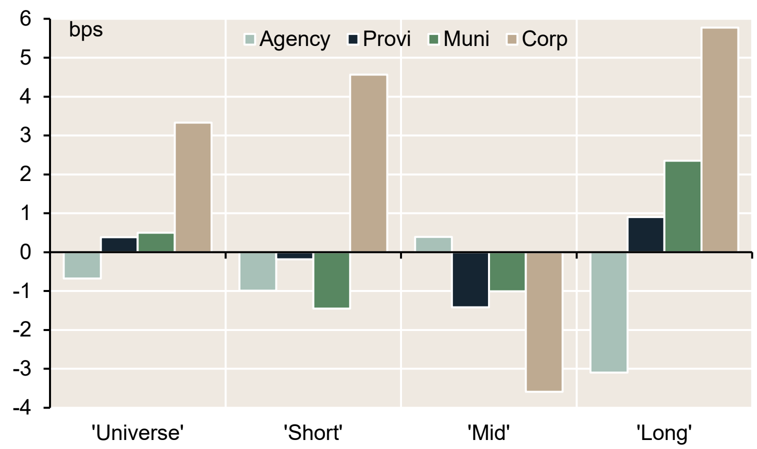
FTSE Canada Universe Bond Index change in holdings by bucket & sector: YTD



Source: NBC, FTSE Russell | Note: 2026:YTD net change as of 31-Jul; par value

Chart 16: Shifting composition impacts effective spreads

FTSE Canada Universe Bond Index change in average OAS spread: YTD

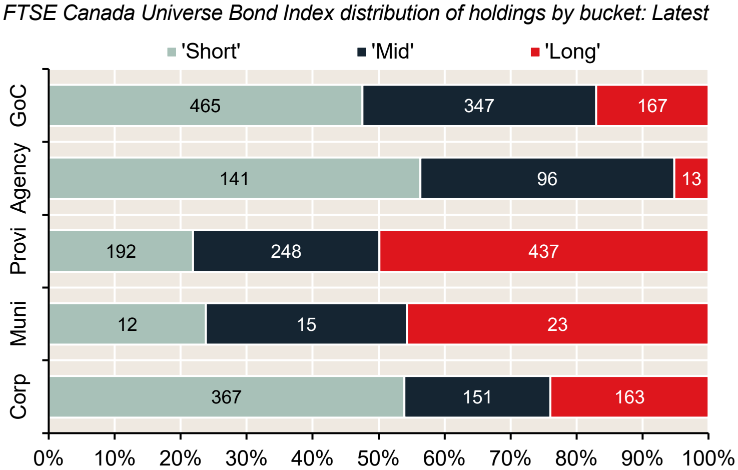


Source: NBC, FTSE Russell | Note: 2026:YTD change as of 31-Jul; based on weighted avg

Abundant GoC bond supply has made a compelling technical argument for tight(er) G-spreads—a theme that should continue. 'Short' provincials remain relatively scarce, contributing to a steep provincial credit curve, with demonstrated access to foreign markets supporting provincials generally. The nature of corporate supply has shifted dramatically in 2026, distorting average spreads.

Chart 17: Relative distribution of outstanding bonds…

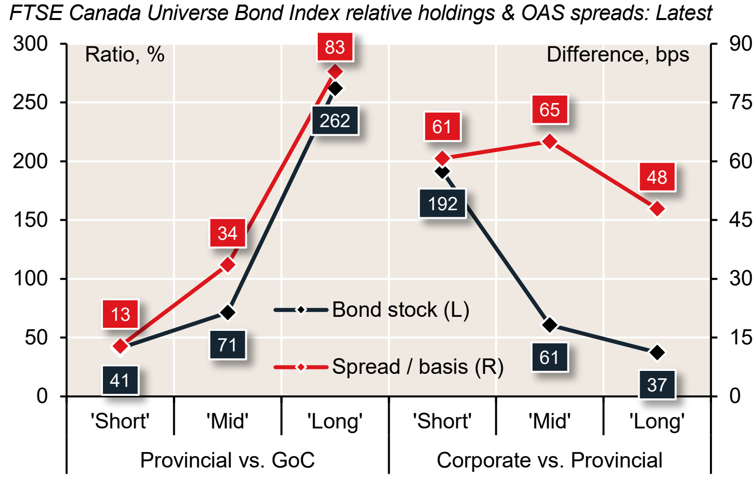
FTSE Canada Universe Bond Index distribution of holdings by bucket: Latest



Source: NBC, FTSE Russell | Note: As of 31-Jul-26; par value (in C$bln); SSA not shown

Chart 18: … can inform sector spreads & credit curves

FTSE Canada Universe Bond Index relative holdings & OAS spreads: Latest

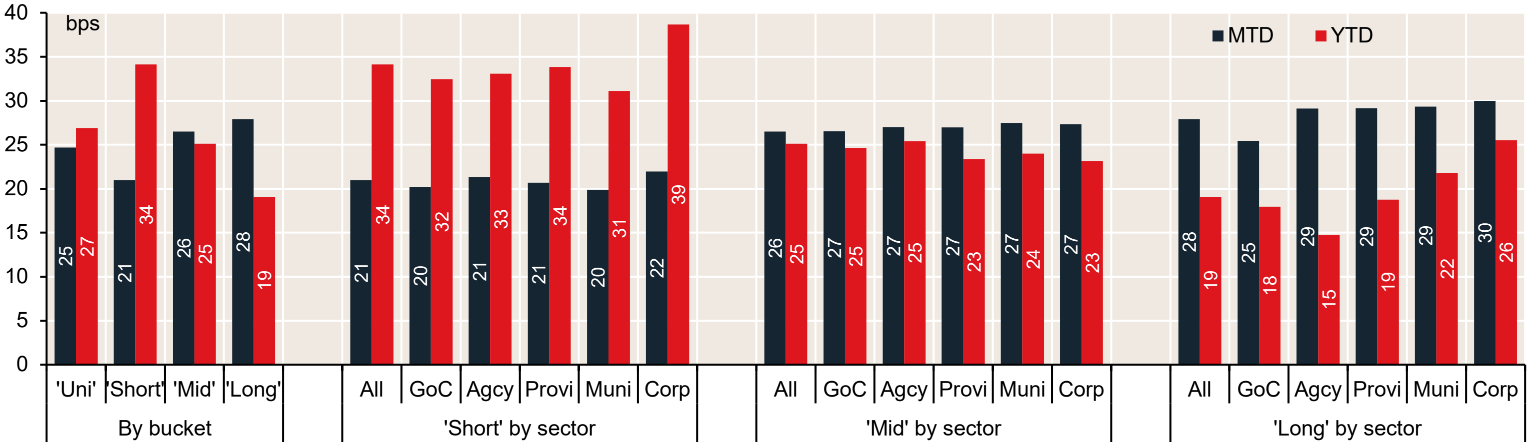


Source: NBC, FTSE Russell | Note: As of 31-Jul-26

Appreciating that net provincial supply has eased in 2026, the longer-term skew of outstandings supports a relatively steep credit curve (particularly vis-à-vis the GoC). In the same vein, the greater availability of 'Short' corporates (vs. less frequently issued 'Short' provincials) informs the wider corporate-provincial basis seen down the curve, the relative provi premium diminishing out the curve.

Chart 19: Putting this year’s bond market sell-off in perspective

FTSE Canada Universe Bond Index change in average yield by bucket/sector: MTD & YTD

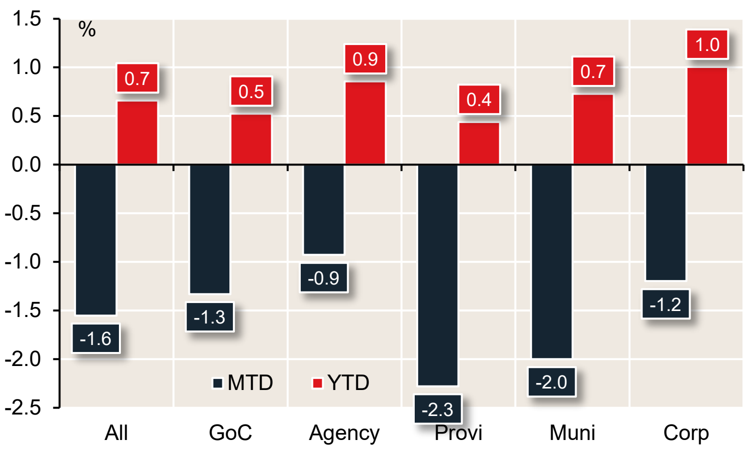


Source: NBC, FTSE Russell | Note: MTD refers to Jul-26; YTD as of 31-Jul-26; average yield change based on par value

We’ll close with a brief update on returns. It follows that a noted sell-off in Canadian rates has hindered fixed income returns in 2026. The average yield of the FTSE Canada Universe Bond Index sold off by 25 bps in July alone, with the re-pricing in the ‘Long’ end relatively more pronounced. From a total return perspective, July’s ‘bear steepening’ was bad news for longer duration sectors.

Chart 20: Index returns took a hit in July…

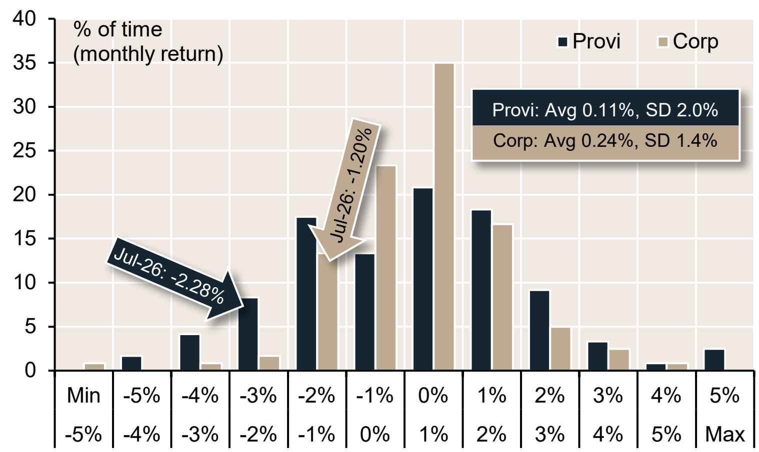
FTSE Canada Universe Bond Index total return: MTD & YTD



Source: NBC, FTSE Russell, BBG | Note: MTD refers to Jul-26; YTD as of 31-Jul-26

Chart 21: … with provincial sector particularly hard hit

FTSE Canada Universe Bond Index distribution of monthly total returns: 120M

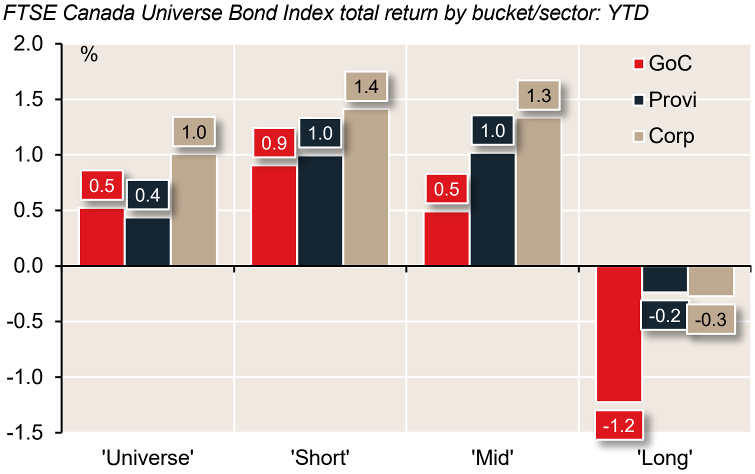


Source: NBC, FTSE Russell, BBG | Note: Total returns for latest 10Y/120M period to Jul-26

With the longest average duration of any major sector, it follows that provincials underperformed in July. The provincial sector shed 2.3% last month, cutting the year-to-date return to 0.4%. While the scale/pace of relative bond supply lends technical support to provincial spreads, the stage is set for sixth straight year of underperformance vs. corporates—a total return trend starting in 2021.

Chart 22: Isolating for performance across the curve

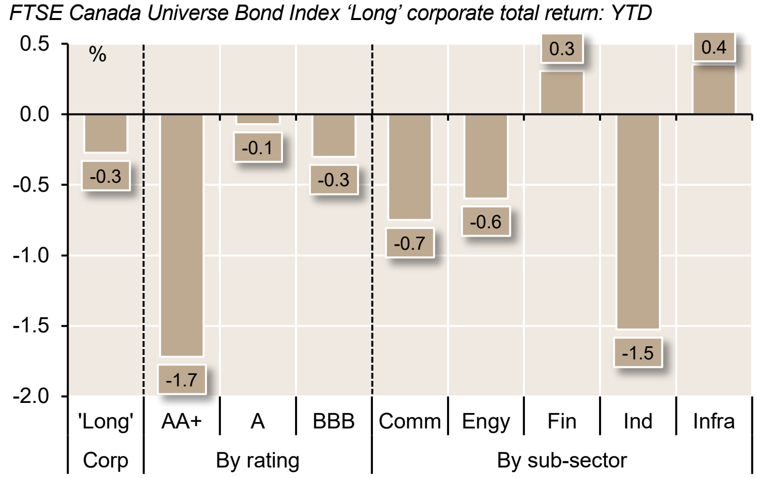
FTSE Canada Universe Bond Index total return by bucket/sector: YTD



Source: NBC, FTSE Canada, BBG | Note: 2026:YTD total return as of 31-Jul

Chart 23: ‘Hyperscaler’ impact evident in corporate sector

FTSE Canada Universe Bond Index ‘Long’ corporate total return: YTD



Source: NBC, FTSE Canada, BBG | Note: 2026:YTD total return as of 31-Jul

While the longer duration of the provincial bond basket has hurt, note that the sector’s YTD performance in the ‘Long’ bucket is no worse than for corporates (in fact, it’s a snick better). Meanwhile, broader corporate sector results mask significant shifts in relative performance across sub-sectors/industries, where a widening of chunky AA-rated ‘hyperscalers’ has left an outsized impact.

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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