Market View
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Visual supplement to Ontario's FES

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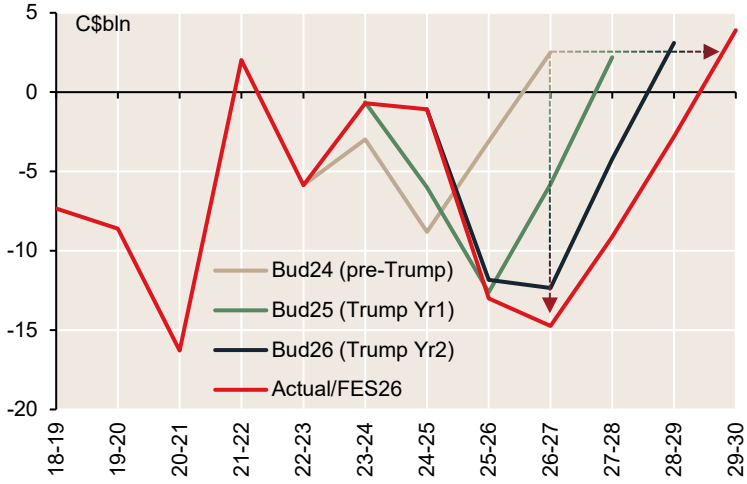
Canada's largest province, Ontario, presented a *Fall Economic Statement (FES)* on October 29th. As is customary, Ontario's *FES* included a comprehensive update to the multi-year economic and fiscal/financial outlook. As we highlighted in our earlier detailed write-up (available **here**), there are some non-trivial changes vs. the plan Ontario set down in a March 2026 budget.

This *Market View* is meant to serve as a (mostly) visual supplement to our earlier detailed comment, illustrating what's changed since budget and likewise putting Ontario's revised fiscal situation in perspective.

Note: A comprehensive set of investor relations documents can also be accessed directly from the Ontario Financing Authority (**link**)

Chart 1: Delaying the return to balance

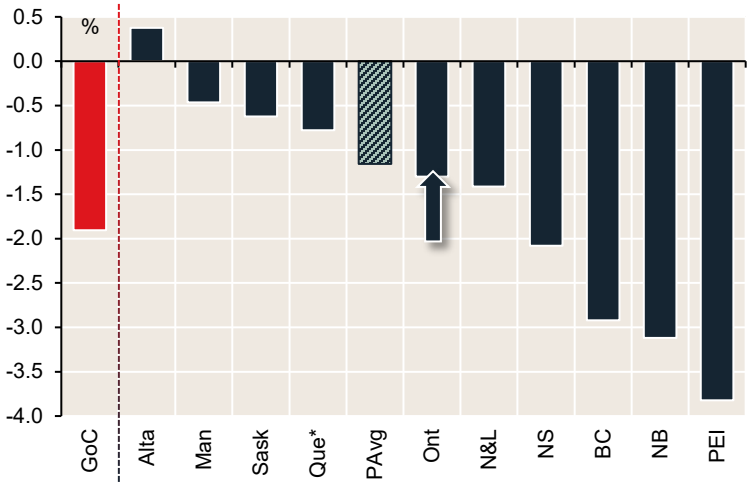
Ontario pre-reserve budget balance: FES26 vs. prior budget plans



Source: NBC, Ont | Note: Figures refer to Ontario surplus/(deficit) before reserve

Chart 2: Putting Ontario's budget deficit in perspective

Federal-provincial budget balance vs. GDP ratio: 2026-27 (latest projections)

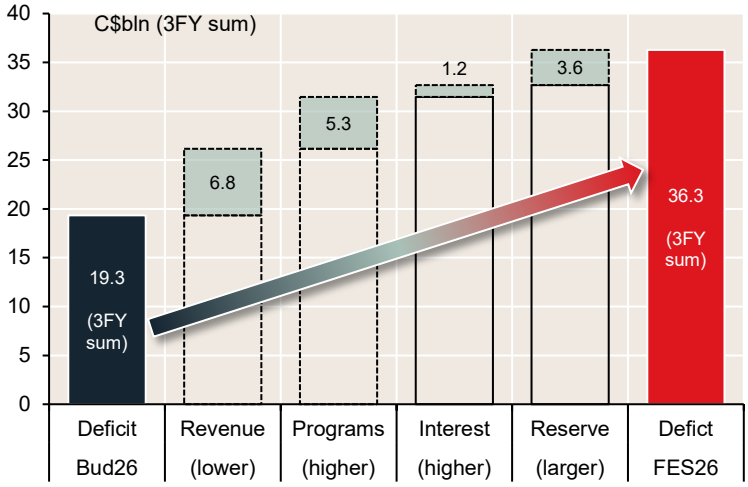


Source: NBC, fed-prov gov'ts | Note: Que balance before GF; uses NBC GDP estimates

With the October *FES*, Ontario delayed its plan to return to balance to fortify a trade-intensive economy threatened by geopolitical instability (including U.S. protectionist policies). The province now projects larger and longer-lasting deficits vs. Budget 2026, with the return to budgetary balance pushed back one year (from 2028-29 to 2029-30). While marking a deterioration relative to budget, Ontario's 2026-27 deficit-to-GDP ratio (1.3%) is largely in-line with the weighted provincial average (based on current projections). Despite tariff-related pressure, Ontario's economy has proven relatively resilient. Moreover, the *FES* is based on sub-consensus real GDP growth forecasts, with additional prudence in the form of contingencies and reserves. Note that Ontario was the first to offer a fall update, with other important federal-provincial fiscal disclosures due in the coming days and weeks. Of note, the Government of Canada will table its annual budget on November 5th.

Chart 3: Attributing the increase in the cumulative deficit

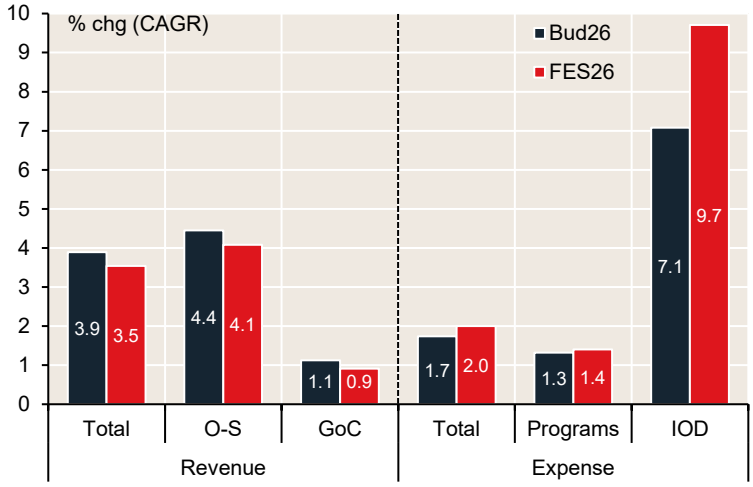
Change in Ontario aggregate deficit (2026-27 - 2028-29): FES26 vs. Bud26



Source: NBC, Ont | Note: All figures are cumulative change over 3FY period ending 2028-29

Chart 4: Interest on debt growing fast(er)

Projected growth in Ontario revenue & spending components: 2025-26 to 2028-29

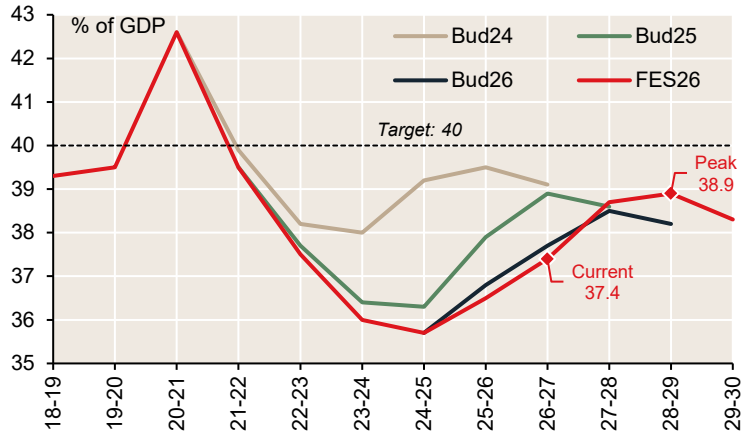


Source: NBC, Ont | Note: Compound average annual growth rates over 3FY period

In all, $17 billion in incremental red ink was added over the three-year period inclusive of 2026-27 through 2028-29. High-level attribution analysis would put ~40% of that erosion down to lower revenue profile, with program outlays and interest charges also stepping up vs. budget. Ontario has also set aside larger reserves, reflecting both an uncertain economic environment and the impact of proposed federal tax measures. Looking at the updated fiscal framework, interest on debt (IOD) is expected to grow at a relatively fast(er) clip. Interest is already the fourth largest expense item and the near-10% compound average annual growth rate over the coming three-year period would be nearly 3X faster than top-line revenue growth, implying a larger 'interest bite' (see Chart 9).

Chart 5: Debt burden peaking a year later than budget

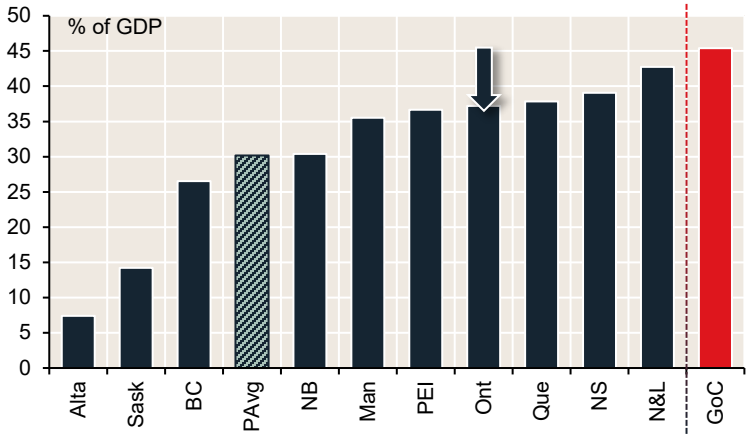
Ontario net debt-to-GDP ratio: FES26 vs. prior budget plans



Source: NBC, Ont

Chart 6: Putting Ontario's debt burden in perspective

Federal-provincial net debt-to-GDP ratios: 2026-27 (latest projections)

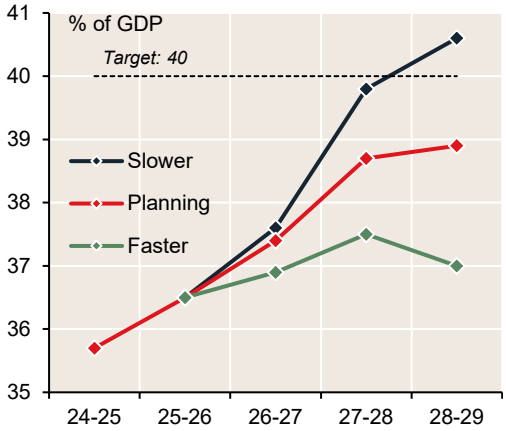


Source: NBC, fed-prov gov'ts | Note: Uses NBC GDP estimates

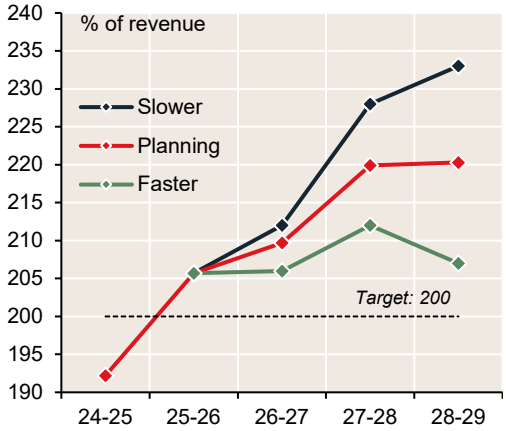
Notwithstanding an accounting change that lowered the level of net debt, incremental red ink and non-trivial capital plans would see Ontario's net debt burden peak one year later than envisioned in Budget 2026 (peak: 38.9% in 2028-29). Canada's provincial sector could be considered heavily indebted, though Ottawa's expansive fiscal policies mean the federal debt burden is relatively higher.

Charts 7-9: How much wiggle room vs. debt sustainability targets? Depends on the measure… and the economic scenario

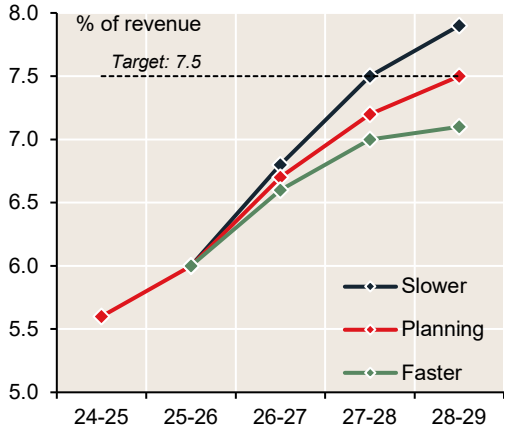
Ontario net debt-to-GDP ratio



Ontario net debt-to-revenue ratio



Ontario interest-to-revenue ratio

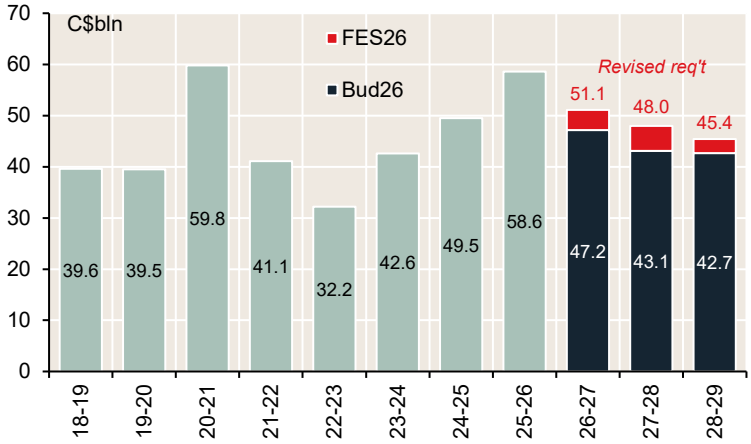


Sources: NBC, Ont | Notes: Refer to Ontario's FES for complete details on debt sustainability measures & economic scenarios

Ontario targets three specific debt sustainability measures. Based on current planning assumptions, the greater wiggle room exists against a debt-to-GDP target of 40%. In contrast, a debt-to-revenue target (of 200%) has been breached. Consistent with Chart 4, the interest-to-revenue ratio is slated to move up, the interest bite seen hitting the 7.5% target by 2028-29. As a reminder, the economic outlook remains uncertain, with Ontario providing useful disclosure on how fiscal metrics (and borrowing needs) could change were growth faster or slower than currently anticipated.

Chart 10: Some incremental borrowing to be done

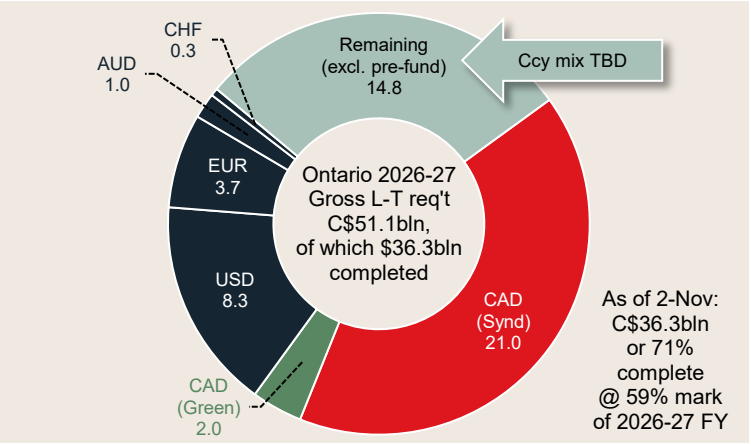
Ontario long-term borrowing: Actual & projected for 2026-27 to 2028-29



Source: NBC, Ont | Note: Red columns denote incremental borrowing from FES26

Chart 11: Funding program relatively well advanced

Ontario long-term borrowing program status: 2026-27 (as of 2-Nov; CAD equiv)

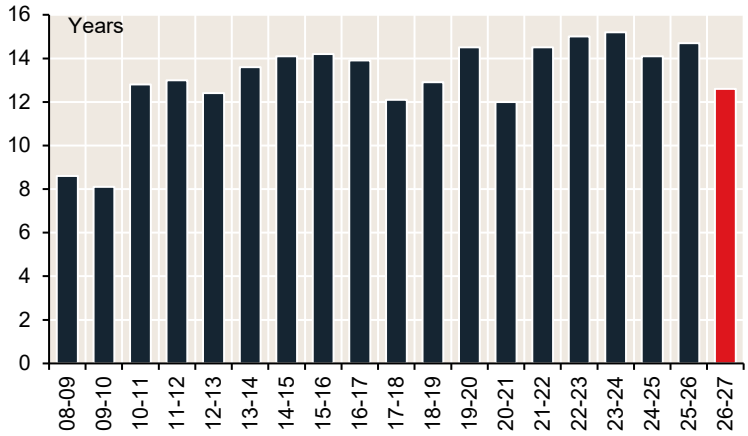


Source: NBC, Ont | Note: Ontario targets 60-80% domestic borrowing share for 2026-27

In total, $11.5 billion was added to the long-term borrowing requirement for the three-year period ending 2028-29. For 2026-27, an upwardly revised $51.1 billion requirement (excluding pre-funding) is relatively well advanced, with $36.3 billion or just over 70% already completed. Ontario aims to secure 60-80% of long-term borrowing from the domestic market (vs. the 65-80% target in budget).

Chart 12: Shorter (but hardly short) WAT to 2026-27 supply

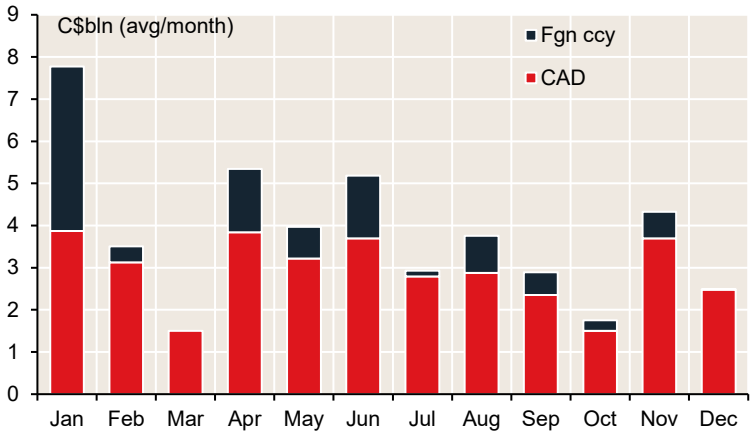
Ontario weighted-average borrowing term by fiscal year



Source: NBC, Ont | Note: 2026-27 is FYTD as of 2-Nov

Chart 13: Seasonals could support near-term CAD issuance

Seasonal/monthly pattern of Ontario gross bond issuance: Prior 5Y average

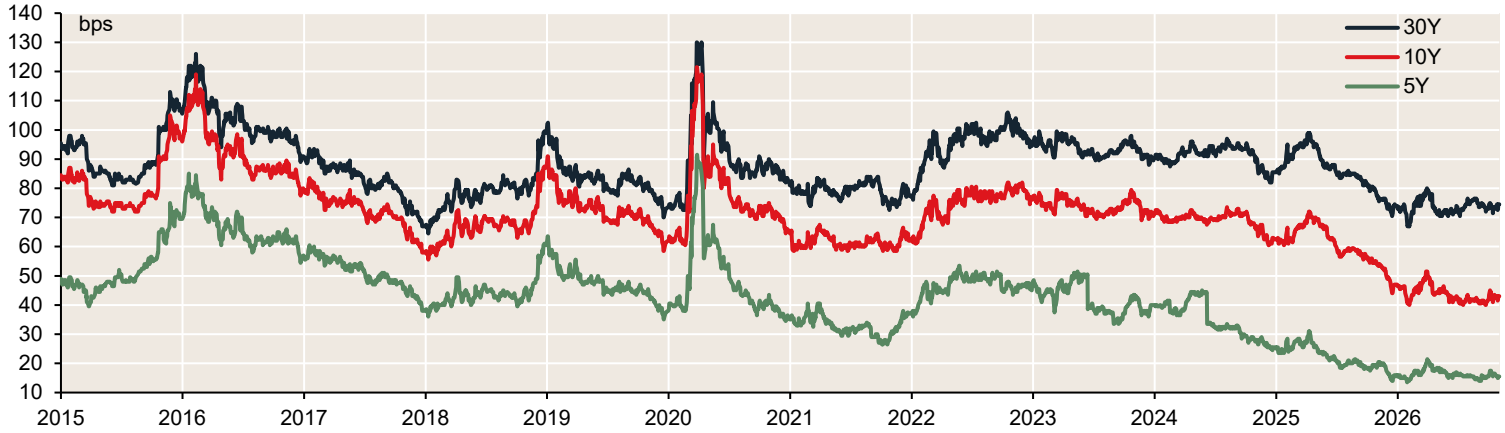


Source: NBC, BBG | Note: Based on prior 5Y of marketable issuance (2021-25)

While making good progress against the official requirement, Ontario (and the provincial sector as a whole) has shortened the weighted-average term of gross supply in 2026-27. We see this as less of a concern, however, given a concerted effort (over many years) to lock in much of the debt stock for longer. Moreover, Canada's looming bond market seasonals—including outsized cashflows and notable index extensions (link, link)—could generate underlying demand as we approach December. Not for nothing, November has typically been a productive month for Ontario supply wise.

Chart 14: Investors largely take FES in stride, with broader risk sentiment likely a more dominant consideration for many

Ontario constant maturity domestic bond spread vs. GoC curve

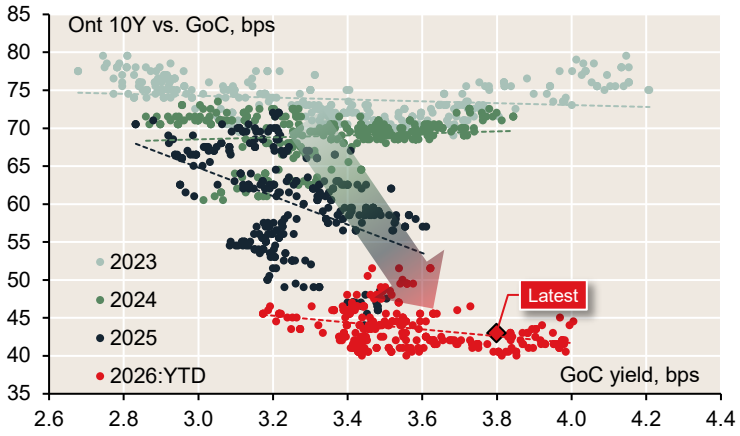


Source: NBC | Note: Daily constant maturity indications to 2-Nov-26

While bond investors clearly took note of Ontario's FES, the larger/long-lasting deficit profile and incremental borrowing needs ultimately led to little discernable re-pricing of Ontario spreads vs. provincial peers. True, Ontario G-spreads closed last week a touch wider as equities swooned on AI worries, but by any objective yardstick provincial credit spreads remain well supported.

Chart 15: Regime shift in provincial credit spreads (A)

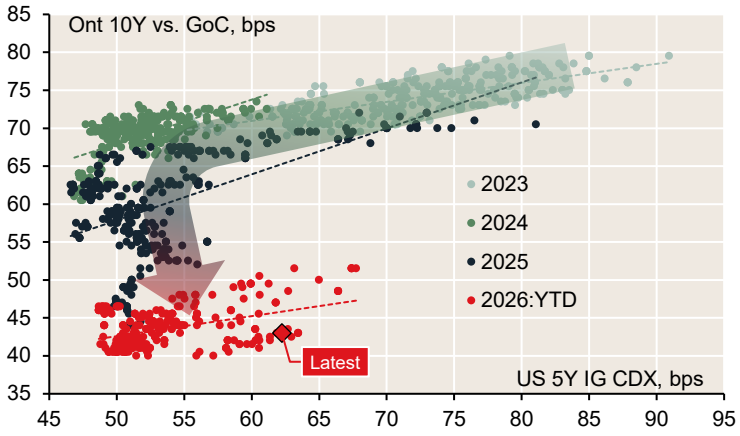
Ontario domestic bond spread vs. GoC yield: Calendar year vintages



Source: NBC | Note: Latest refers to 2-Nov-26

Chart 16: Regime shift in provincial credit spreads (B)

Ontario domestic bond spread vs. key risk proxy: Calendar year vintages



Source: NBC, BBG | Note: Latest refers to 2-Nov-26

There's growing/accumulating empirical evidence supporting a notional 'regime shift' in provincial valuations, with Ontario spreads stepping in versus both the risk-free curve (i.e., GoC) and a well-noted risk proxy (US IG CDX). The missing piece? Well, don't lose sight of supply technicals, with the successful diversion of supply to foreign markets (by Ontario and other provinces) leaving fewer bonds for domestic investors to clean up. That stands in contrast to both the GoC and corporate sectors (the latter including Maples), which have steered abundant supply to the domestic market.

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