Manulife Investment Management

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Our starting point here is that central banks will prioritize growth risks over inflation threats. Within this context, we remain positive on the front end of Canadian rates due to three factors. Number 1: the fallout from tariff threats. The ongoing tariff threats pose risks to both exports and capital investments in Canada, weakening the Canadian economy. Number 2: mortgage renewals. Many fixed-rate mortgages from the COVID era are up for renewal at higher rates, affecting, obviously, household finances. And number 3: consumer confidence. We are also seeing a dip in consumer confidence, further signalling economic softness.

At the same time, we are being cautious in the long end, as higher fiscal spend by provinces and the federal government could ultimately lead to higher yields and further curve steepening.

We see credit risk as being very idiosyncratic in the current environment. Some sectors and issuers are feeling more pressure than the others. Auto sector, for example: intense tariff-related pressure at the current moment. But then if you look at telecos, they are struggling with leverage levels in a much more price-competitive market. And then if you look at real estate sub-sectors, some are well positioned while others are going to find the world of tariffs very disruptive, especially for their clients. So we are really doubling down on our bottom-up credit due diligence to navigate the current markets. The fundamental credit work will allow us ultimately to take the appropriate risks, as we have always done.

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