

WEEK ENDED JANUARY 30, 2026

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## Bonds Really DO Have More Fun

*"I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a .400 baseball hitter. But now I would want to come back as the bond market. You can intimidate everybody."*

– James Carville

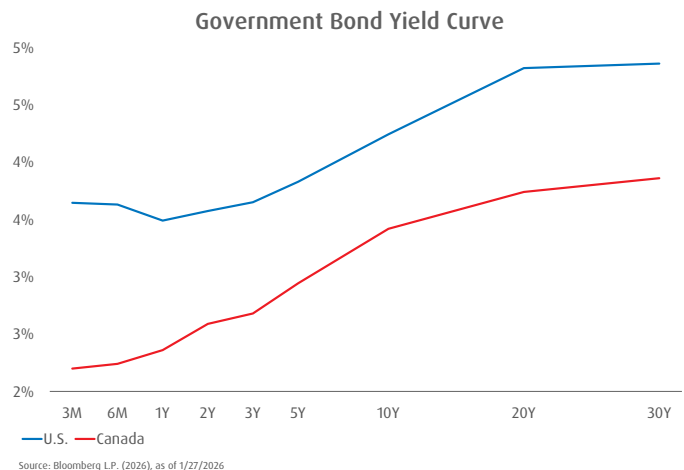
**The Through Line:** For many of us, stock markets are where the fun is (because they're growth obsessed and chock full of interesting stories). Bonds, on the other hand, can be tough to wrap our heads and hearts around. Yet fixed income markets play a vital role as an early warning system giving critical feedback on the health of economies or the wisdom of anticipated macroeconomic policy. Ignore them, and you're missing out on an impactful information loop.

### A refresher on bond basics

Before we dive into a more nuanced discussion of recent bond behavior, let's review some basics:

- Bonds come in different flavors that are categorized broadly by type of borrower: **sovereigns** (issued by a country), **corporate** (by a business) or **municipal/provincial**. We also have **securitized** bonds (such as mortgage-backed securities or credit card receivables) that are bundled packages of loans.
- Bonds matter. The markets where they trade are the largest, broadest and often the most regulated on the planet. Global public debt was over USD145 trillion at the end of 2024 according to the Securities Industry and Financial Markets Association's 2025 Capital Markets Fact Book.<sup>1</sup>
- In deciding whether or not to engage in the fixed income markets, bond participants focus on the borrower's ability to repay the original loan amount (a.k.a. **par value**). The longer it is until the bond **matures** (when final repayment of the par value is due), the higher the rate of interest investors typically demand. This higher rate of interim interest (the **coupon payment**) is meant to compensate for the potential that more variables could disrupt the borrower's ability to repay over a longer time period (**credit or default risk**).
- An additional consideration is the ability of the interim coupon payment to retain purchasing power relative to inflation (known as **term/duration risk**). Most of the time, the coupon does not change over the life of the bond (other than for the small subset of floating rate securities). If prevailing yields in the open market move up/down thanks to policy changes or inflation expectations then the price of that fixed rate bond moves in the *opposite* direction in order to keep the same effective yield relationship. Longer-dated bonds tend to be more volatile than shorter maturities given the extra time that

fixed ratio is subject to additional market forces. The graphical representation of the yield demanded at each maturity is called the **yield curve**. A normal yield curve usually slopes upward – with higher yields tracking to longer maturities.



- Sovereign bonds, particularly in the U.S. and Canada, typically offer lower interest rates than other types of debt at similar maturities. This is due to the market's presumption that countries have more options to secure repayment, given their power to levy taxes on large, diversified economies and implement other revenue-generating initiatives such as tariffs.
- Central bank policy is typically the biggest influence on bonds with shorter maturities. Many additional factors, including economic growth prospects, fiscal policy (current and contemplated) and inflation, factor into the analysis of longer maturities.

## Where have all the vigilantes gone?

**Bonds – especially sovereigns – can play an important feedback loop allowing investors to gauge reaction to changing macro policy.** If newly elected legislators move to cut taxes and increase spending, for example, then bond prices could decline, indicating investors worry that such moves would be inflationary and/or exacerbate existing deficits. In 2022, Liz Truss was elected U.K. Prime Minister. She quickly initiated a steep tax cut and large spending program in an attempt to revive Britain's ailing economy. Bond markets rebelled, and the British pound dropped to historic lows against the dollar. This led PM Truss to resign after just six weeks on the job.

**For some observers, the current feedback loop for sovereign debt seems to be running a little too tame.** The global pivot that is occurring (as a result of shifting trade routes and political and economic alliances) has prompted many countries to increase plans for defense and infrastructure spend. Then, too, many are suggesting increased fiscal stimulus, sometimes alongside reduced taxes.

Germany, for example, recently lifted its debt brake. The EU has agreed to spend 5% of GDP on defense and infrastructure. And Canadian Prime Minister Mark Carney's budget aims to "build big," allocating strategic fiscal spend to core technology and resource development. Each of these would seem to augur for increased global issuance (pushing prices down and yields up). In the past, consternation would have greeted plans like this, yet in recent days they have been tolerated- even in the U.S. Global yield curves have gradually steepened, mainly reflecting easing by central banks (pushing short rates down) and improving economic outlooks (lifting intermediate and long rates).

**More contained inflation pressures and shifts in funding strategies toward shorter-term debt reliance may help explain the more muted response so far.** Increased issuance of Treasury bills in the U.S. and the U.K. in particular, plus expectations for lower policy rates have kept some major yield curves inverted (when short rates are higher than longer rates).

## Then along came the JGBs

A glaring exception: volatility in longer-dated Japanese government bonds. Investors are exceedingly wary thanks to a confluence of factors: a snap election called by Japan's newly elected Prime Minister to secure a stronger mandate for her platform of increased spending; a significant reduction of the consumption tax; and plans for the largest military spending budget since WWII. Aggravating it all, aging demographics and rising inflation have been pushing yields to decades-long highs. Things could have been worse and the damage has been contained so far.

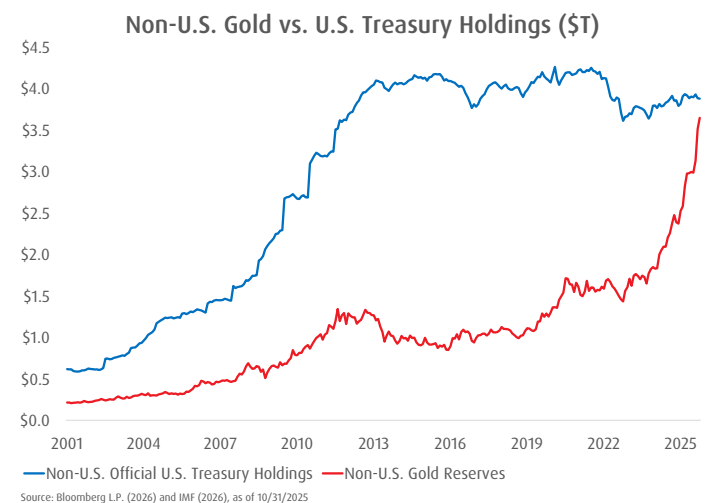
**Over 50% of JGBs are owned by the Bank of Japan and only about 6% by foreign holders. Compare that to the U.S. Federal Reserve and Bank of Canada: each central bank owns less than 20% of their respective outstanding debt.** Their bonds have a more diversified ownership, including a larger foreign interest that could react more strongly to policy errors, government largess and surprise inflation.

The end of the Bank of Japan's negative rate policy and the higher JGB yields might lead to the unwinding of the speculative yen carry trade, which involves investors borrowing yen to invest in other

currencies, including U.S. greenbacks. *Since the yen carry trade has an estimated value of USD20 trillion, an unwind could cause a ripple effect on global markets.*

## Other potential clouds

**The U.S. internal/Western hemispheric pivot** and overt antagonism to former partners is prompting global investors to re-evaluate where their next investment dollar will go, a.k.a. the "sell America" trade. Despite record-high purchases of UST as recently as last fall, we see some indications this is shifting. Nordic funds (Sweden, Norway) have started reducing their exposure to U.S. Treasuries<sup>ii</sup> as have central banks (China in particular), which have been shifting holdings toward gold in recent years. Reducing holdings in a country's debt can put downward pressure on its currency.



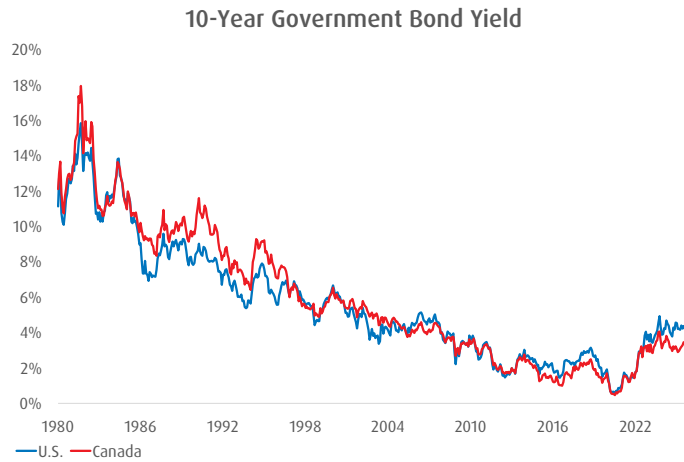
**The threat to Fed Independence** remains high in light of a criminal investigation against Fed Chair Jerome Powell and the pending appointment of his replacement. A Fed that bows to political pressure and cuts rates might prompt investors to reduce their holdings in the mid- to longer-portions of the yield curve. This would happen on the back of fear that the central bank was potentially paving the way to run the U.S. economy hot, leading to higher long-term inflation.

**Increased issuance of corporate debt, provincial (CDA) and municipal debt (U.S.)** could put pressure on investors' ability to absorb the extra bonds, though new issues have so far experienced strong demand.

**A Goldilocks economic scenario could frighten bond investors,** at least initially. We can craft a scenario where growth runs hotter around the globe but inflation is tame/continues to decline. Fears of rate hikes could cause volatility, but this is not yet a risk for major economies (other than Australia and Japan). However, we suspect softer hiring and/or technology-enhanced margins could prevent upward pressure on rates and could actually exert downward pressure. The realization of the two factors may not occur simultaneously although it could cause a growth-with-presumed-inflation scare to roil markets (especially since more supply is coming online).

## Bringing it all together

Before COVID, trillions of dollars of global debt traded with yields near zero – or even below. This created an anomaly that was not righted until after the pandemic. Most global yield curves now have a more normalized slope following two years of inversion (when short rates are uncharacteristically higher than long rates which happened from 2022-2024).



Source: Bloomberg L.P. (2026) and Bank of Canada (2026), as of 12/31/2025.  
Canada yields prior to June 1989 are proxied by Bank of Canada average 5-10 year yields.

The heightened level of geopolitical and policy changes that occurred over the last 12 months would traditionally have pushed yields lower when demand for safe haven assets moved prices up. This is especially true in U.S. Treasuries. However, given the Fed's slow walk toward rate cuts and still-sticky inflation, rates have remained elevated. **Fiscal policies and improved growth outlook are gradually causing the yield curve to steepen. Increased deficit funding and risk of stickier inflation could keep them steep and even lead to higher mid- to long-term yields.**

While inflation has stabilized and is gradually moving toward pre-COVID (and pre-Global Financial Crisis) levels, a policy mistake (monetary or fiscal) could lead to inflation surprises that the market has not yet priced in. A degree of complacency or other forces may also be at play. The increased demand for fixed income from private credit funds and ETFs is making it easier for wealth investors to access global bond markets. This may have temporarily changed the rate landscape.

Bonds can play an important role in investor portfolios, but it's important to understand the potential yield and price volatility dynamics. If we get **a backdrop of higher growth but lower inflation then long yields could migrate upward on fundamentals – even if a more dovish Fed were to institute several cuts.** This would mean declining prices at the long end of the curve and increased prices (lower yield) at the short end.

## In focus in North America

Jon Borchardt, Sr. Analyst

George Trapkov, CFA, VP and Portfolio Manager

### This week

**Bank of Canada on hold** – For the second meeting in a row, the BoC kept its key interest rate unchanged at 2.25%, which was universally expected. The tone of the statement and the updated forecasts also provided few surprises; the bank suggests that the outlook is too uncertain to seriously revise the economic view and/or give much guidance on when and where rates are going next. On the inflation outlook, there was a subtle shift: the BoC is now talking about inflation being “close to the 2% target” and expected to stay there in 2026. Gone is the narrative about underlying inflation being “around 2.5%.” The central bank remains cautious amid heightened uncertainty. Unless and until there is a resolution on USMCA/CUSMA negotiations or the economic data break either way, it’s clear the bank has little appetite to move on rate changes.

**U.S. Congress tries to pass a budget bill to keep the government open** – The U.S. Senate has until 12:01 Saturday night to pass omnibus spending legislation containing the six remaining appropriations bills that make up the annual federal budget. Failure to advance the legislation would result in the funding well running dry for government agencies that account for 70% to 80% of discretionary spending. A week ago, it could be argued politicians from both sides of the aisle had little appetite for another government shutdown. However, last Saturday’s shooting death of Alex Pretti in Minneapolis by U.S. Border Patrol agents has now cast doubt on timely passage. Senate Minority Leader Chuck Schumer has called for Department of Homeland Security (DHS) funding to be stripped out, reflecting Democrats’ demand for increased congressional oversight of immigration policy enforcement. On Monday, Washington policy experts consulted by BMO Wealth Management placed the odds of a government shutdown at 80% to 100%, although the situation remains fluid and an immigration policy pivot from President Donald Trump on Tuesday could allow cooler heads to prevail. Potential outcomes in the run-up to the weekend deadline include full passage, a continuing resolution to maintain funding while debate continues, or a government shutdown. Any Senate changes to the legislation would then require approval in the House, which is on recess until Monday.

**Trade policy remains a front-burner issue** – Legacy U.S. trading partners are increasingly looking to diversify end-market opportunities to reduce perceived risk in the wake of volatile Trump administration policies. Prime Minister Carney said at the World Economic Forum in Davos last week that the world order has been “ruptured” and great powers are now “using integration as a weapon” and “tariffs as leverage.” Mr. Carney added, “when the rules no longer protect you, you must protect yourself.” The week prior to Davos, the Prime Minister traveled to China, where he sought to mend long-strained ties and was able to strike a preliminary agreement to improve trade and economic cooperation between the two countries. This week, U.K. Prime Minister Keir Starmer followed in Canada’s footsteps, traveling to

China at the invitation of President Xi Jinping. After more than two decades of impasse, the European Union and India announced a new free trade agreement, which European Commission President Ursula von der Leyen said would “create a free trade zone of two billion people, with both sides set to benefit.” President Trump warned Canada that the U.S. would levy 100% tariffs if a Canada-China free trade deal is struck. He also announced that tariffs on Korea would be raised to 25% if the country’s legislature did not give final approval to a framework trade deal announced last week. The response to this type of threat increasingly reflects a shift from appeasement to diversification away from the U.S.

**Canadian retail sales a bit stronger than anticipated** – Retail sales were up 1.3% in November, slightly better than initial estimates. The increases were broad based, led by food and beverage on the end of a two-month strike impacting B.C. alcohol distributors. Auto sales were up 0.3%, driven by used cars, while gas station receipts rose 2.0% (helped by higher prices). That left spending ex-autos up 1.7%, and sales ex-autos and gas at +1.6%. Meanwhile, the flash estimate for December calls for a 0.5% decline, which could also translate to a drop in volumes since goods prices were little changed. Separately, the manufacturing flash for December posted a 0.5% increase. Despite a decent November report, Canadian retail sales continue to be choppy. Considering the significant headwinds of trade uncertainty, consumers appear to be holding on, supported in part by past interest rate cuts.

### Next week

Earnings season rolls on. Sentiment surveys in both the U.S. and Canada and key U.S. employment statistics are all on the docket.

**Monday 2/1** – U.S. Manufacturing ISM | Canada Manufacturing PMI

**Tuesday 2/2** – U.S. Services ISM

**Wednesday 2/3** – U.S. ADP employment | Canada S&P Global Composite and Services PMIs

**Thursday 2/4** – U.S. Initial jobless claims

**Friday 2/5** – U.S. Nonfarm payrolls, Consumer Sentiment | Canada Unemployment statistics

## Data scorecard as of January 28, 2026

Equity Market Total Returns						
	1/28/2026 Level	WTD	YTD	2025	2024	5-Year*
S&P 500	6,978	0.9%	2.0%	17.9%	25.0%	14.4%
NASDAQ	23,857	1.5%	2.7%	21.2%	29.6%	13.4%
DOW	49,016	-0.2%	2.1%	14.9%	15.0%	11.6%
Russell 2500	4,572	-0.5%	6.3%	11.9%	12.0%	7.3%
S&P/TSX	33,176	0.1%	4.8%	31.7%	21.7%	16.1%
MSCI EAFE	11,147	1.5%	5.1%	31.2%	3.8%	8.9%
MSCI EM	850	3.7%	10.9%	33.6%	7.5%	4.2%
Bond Market Total Returns						
		WTD	YTD	2025	2024	5-Year*
Bloomberg U.S. Aggregate		0.0%	0.1%	7.3%	1.3%	-0.4%
Bloomberg U.S. Treasury		0.0%	-0.1%	6.3%	0.6%	-1.0%
Bloomberg U.S. Corporate		-0.1%	0.2%	7.8%	2.1%	-0.1%
Bloomberg U.S. High Yield		-0.1%	0.6%	8.6%	8.2%	4.5%
Bloomberg 1-10 Year Munis		0.1%	0.9%	5.1%	0.9%	1.2%
Bloomberg Canada Aggregate		0.0%	0.5%	2.4%	4.0%	-0.4%
Bloomberg Canada Treasury		0.0%	0.2%	1.4%	2.9%	-0.8%
Bloomberg Canada Corporate		0.1%	0.7%	4.4%	6.9%	1.5%
Government Bond Yields						
	1/28/2026	Last Month End	Last Quarter End	2025	2024	5-Year Average
U.S. 10-Year Treasury	4.24%	4.17%	4.17%	4.17%	4.57%	3.37%
Canada 10-Year Government	3.43%	3.43%	3.43%	3.43%	3.23%	2.81%
U.K. 10-Year Gilt	4.54%	4.48%	4.48%	4.48%	4.56%	3.16%
German 10-Year Bund	2.86%	2.85%	2.85%	2.85%	2.36%	1.66%
Japan 10-Year Government	2.23%	2.06%	2.06%	2.06%	1.09%	0.65%
Currencies & Real Assets						
	1/28/2026 Level	WTD	YTD	2025	2024	5-Year*
USD Index	96.45	-1.2%	-1.9%	-9.4%	7.1%	1.8%
CAD:USD	\$0.74	1.0%	1.2%	4.8%	-7.9%	-1.5%
Bitcoin	\$89,277.17	0.0%	1.9%	-6.5%	120.5%	24.8%
Gold	\$5,417.21	8.6%	25.4%	64.6%	27.2%	17.9%
Oil (WTI)	\$63.21	3.5%	10.1%	-19.9%	0.1%	3.4%

\*Annualized

5-Year data as of December 31, 2025. Benchmark data does not reflect actual investment performance but reflects benchmark results of the underlying indices referenced. You cannot invest directly in an index. Index definitions can be found at the end of this publication.

## Index Definitions

### Equity indices

**S&P 500® Index** is an index of large-cap U.S. equities. The index includes 500 leading companies and covers approximately 80% of available market capitalization.

**NASDAQ Composite Index** is a market-cap weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.

**Dow Jones Industrial Average (“DOW”)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

**Russell 2000® Index** (Russell 2000®) is an unmanaged index that measures the performance of the smallest 2000 U.S. companies in the Russell 3000® Index.

**S&P/TSX Index** is a capitalization-weighted equity index that tracks the performance of the largest companies listed on Canada’s primary stock exchange, the Toronto Stock Exchange (TSX).

**MSCI EAFE Index (Developed Markets —Europe, Australasia, and Far East Index)** is a standard unmanaged foreign securities index representing major non-U.S. stock markets, as monitored by Morgan Stanley Capital International. The index captures large and mid-cap representation across 21 developed markets countries around the world, excluding the U.S. and Canada.

**MSCI Emerging Markets Index** is a market capitalization weighted index representative of the market structure of the emerging markets countries in Europe, Latin America, Africa, Middle East and Asia. Prior to January 1, 2002, the returns of the MSCI Emerging Markets Index were presented before application of withholding taxes.

### Fixed income indices

**Bloomberg U.S. Aggregate Bond Index** is an unmanaged index that covers the U.S. investment-grade fixed-rate bond market, including government and credit securities, agency mortgage pass-through securities, asset-backed securities and commercial mortgage-based securities.

**Bloomberg U.S. Treasury Index** is an unmanaged index that includes a broad range of U.S. Treasury obligations and is considered representative of U.S. Treasury bond performance overall.

**Bloomberg U.S. Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by U.S. and non-U.S. industrial, utility and financial issuers.

**Bloomberg U.S. Corporate High Yield Index** is an unmanaged index that covers the USD-denominated, non-investment-grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody’s, Fitch and S&P is Ba1/BB+ or below.

**Bloomberg 1-10 Year Blend Municipal Bond Index** is a market value-weighted index which covers the short and intermediate components of the Bloomberg Capital Municipal Bond Index — an unmanaged, market value-weighted index which covers the U.S. investment-grade tax-exempt bond market.

**Bloomberg Canada Aggregate Bond Index** measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market. It includes treasuries, government-related, and corporate issuers.

**Bloomberg Canada Aggregate Bond Index - Treasury** is the treasury sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.

**Bloomberg Canada Aggregate Bond Index - Corporate** is the Corporate sub-component of the Bloomberg Canada Aggregate Bond Index, which measures the investment grade, Canadian dollar-denominated, fixed-rate, taxable bond market.



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<sup>1</sup> Capital Markets Fact Book - SIFMA

<sup>2</sup> Exclusive: Big North European investors reassess US exposure as geopolitical risk mounts | Reuters