MONTHLY MACRO & STRATEGY

November 2026

Takin’ Care of Business

After decades of cheap money, the bond market is taking back control and restoring financial discipline

iA Global Asset Management

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"And I've been takin' care of business
Every day,
Takin' care of business,
Every way."

– Bachman-Turner Overdrive

The bond market is back in the driver's seat as interest rates are sitting at their highest levels in more than 20 years.

At the time of writing, the 10-year U.S. Treasury yield stands at 5.0%, the 30-year yield is 5.3%, and U.S. mortgage rates have moved above 7.0%. These are all among the highest numbers in decades.

Higher rates are not exclusively a U.S. phenomenon. Long-bond yields have risen across major economies as governments borrow more, investment needs expand and investors demand better compensation for committing capital. Defence, infrastructure and energy security all require financing, while the investment boom in artificial intelligence adds another substantial claim on global savings. Countries face different domestic circumstances but increasingly share the same challenge: attracting enough capital at a price their economies can absorb.

The United States nevertheless remains the main engine of this global repricing. Treasury securities provide the reference point against which investors assess many other assets. For example, stock market valuation is dependent on the interest rate environment; higher rates rhyme with lower price-to-earnings ratios. As U.S. sovereign rates increase, competing sovereign borrowers generally need to offer more attractive terms as well. So, as is often the case in financial markets, the story starts, and will likely end, in the United States.

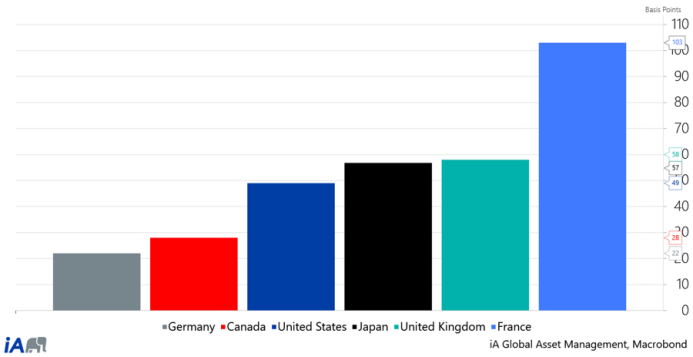
U.S.: 10-Year Rate
U.S. Department of Treasury, as at 10/23/2026

Highlights

- Rising interest rates are forcing households, businesses, and governments to exercise greater financial discipline as they adapt to persistently higher borrowing costs.
- For investors, this new environment calls for more rigorous risk management and realistic return expectations, but it also restores the appeal of fixed-income securities and underscores the importance of diversification.
- Due to rising rates and less favourable macroeconomic conditions, we have reduced our overweight positions in equities and commodities. We now hold a neutral position in both asset classes.

November 2026	--	-	N	+	++
ASSET CLASSES					
Money Market		■			
Fixed Income		■			
Equities			←		
Alternatives					
RELATIVE EQUITY					
Canadian Equities					
U.S. Equities					
International Equities					
EM Equities					
RELATIVE FIXED INCOME					
Government Bonds		■			
IG Corporate Bonds					
HY Bonds					
OTHERS					
Commodities			←		
USD (trade weighted)					
CAD/USD					

World: Change in 30-Year Sovereign Bond Yield Since the Start of the Year
Macrobond Financial AB, as at 10/23/2026



A real story

To understand the economic implications, we must distinguish nominal rates from real rates.

A nominal yield includes compensation for expected inflation. A real yield measures the return after accounting for that inflation and is, therefore, more informative about the economic cost of financing. For a company considering a new plant, higher borrowing costs are less problematic if the prices of its products rise proportionately. A higher real rate, meanwhile, raises the return the project must generate relative to its expected revenues.

That distinction is central to this year's move. Roughly 90% of the increase in the nominal 10-year Treasury yield since January came from its real component. The message is that investors are not too concerned about runaway inflation. But they do require higher compensation to lend.

To further clarify the move in long-term rates, real yields can be decomposed into two components: the expected path of monetary policy and a term premium, which compensates investors for the uncertainty associated with holding longer bonds. These components can move independently: Expectations of tighter monetary policy can lift yields, but so can greater debt issuance or uncertainty about fiscal policy. The recent move in rates can be explained by both components.

Variable	Nominal U.S. 10-year yield	Real U.S. 10-year yield	Real yield: short-term component	Real yield: term premium
Level	5.00%	2.65%	2.00%	0.65%
1-year change	+1.03%	+0.93%	+0.78%	+0.16%

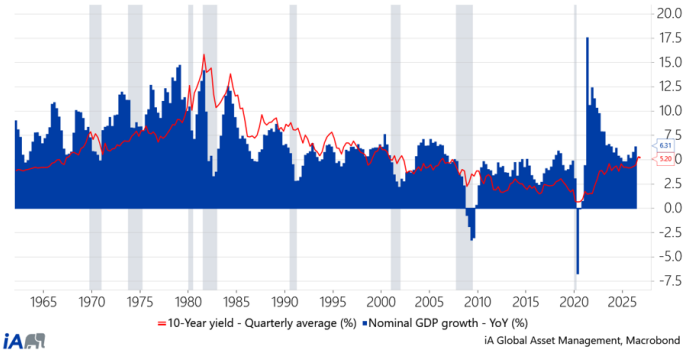
Note: As at October 22, 2026. Sums may not add up because of rounding.

Higher rates are not necessarily a sign of economic dysfunction. They tend to accompany strong growth and productive investment opportunities. In fact, a useful rule of thumb is that the 10-year yield should be roughly equal to nominal GDP growth over the past year. With nominal growth currently above 6% in the United States, rates have room to increase. Higher rates are also a reflection of the AI investment cycle, which promises a structural productivity boom.

The reality is that interest rates are back to levels considered normal before the Great Financial Crisis in 2008–2009. Indeed, the average U.S. 10-year yield was 4.6% from 2005 to 2007, compared with approximately 2.3% from 2009 to 2021.

Nevertheless, the transition creates headwinds. Households, businesses and governments built their plans around yesterday's financing conditions. Now they have to adapt those plans to a more demanding price of money.

U.S.: Nominal GDP Growth vs 10-Year rate
U.S. Bureau of Economic Analysis (BEA), U.S. Department of Treasury, as at 2026 Q4



The consequences of higher rates

To assess where things might go from here, it is useful to continue with the decomposition between short rates and long rates.

Short rates primarily reflect central bank decisions and expectations about their path. Long rates incorporate that path but add a term premium, which responds to fiscal credibility, debt supply and investors' willingness to absorb risk.

Are short rates approaching a peak?

For short rates, energy is currently the major driver.

Developments in Iran and disruptions in the Persian Gulf affect crude oil prices, shipping costs and refined-product availability.

With the usual caveat that the situation is highly uncertain, our working assumption is that strong incentives to maintain oil flows create some resistance to sustained prices much above US$100 for West Texas Intermediate and US$110 for Brent. However, even if crude stabilizes or turns lower, tight diesel and other refined-product markets can continue the inflation pass-through via transportation and production costs.

Even though high energy prices are here to stay, they are unlikely to cause an inflationary spiral. High energy prices force households to adjust their spending patterns, leading to relatively contained core inflation in many advanced economies. Meanwhile, U.S. wage growth is decelerating, and real wage growth has been negative for several months.

That said, markets are incorporating substantial tightening, with roughly three to four rate hikes expected over the next year, depending on the central bank. Our view is that the hurdle for a further upward revision is relatively high. Short rates could, therefore, be approaching a peak, although the unpredictability of the energy shock demands humility.

Long rates present a more complex picture

Long rates face a different set of pressures. Governments must refinance existing debt and fund new deficits, while private borrowers compete for the same pool of savings. Fiscal credibility becomes particularly valuable in that environment. Investors do not assess debt solely by its size; they also ask whether the borrower has the economic capacity and political will to stabilize its trajectory.

France illustrates this challenge. The country is facing high debt, a high deficit and an already large tax intake. It has been politically deadlocked since President Emmanuel Macron called a legislative election in 2024, making it impossible to pass a budget to address the fiscal issues. With a presidential election slated for next year, it will be up to a new president, and a new legislative assembly, to present a credible path back toward sustainability. The market remains skeptical, and yields on long-term French bonds are rising.

The danger is a reinforcing cycle. Higher yields raise debt-service costs, leaving less room for other priorities and making consolidation more demanding. A government that repeatedly postpones the adjustment may then face a larger financing premium.

Which brings us to the United States, the country with the worst fiscal picture among the G7. Almost 30% of its revenues go to pay interest on its debt. As with France, it is hard to see a political path toward fiscal consolidation.

Why were rates so low from 2010 to 2022?

The long period of inexpensive money began with an unusually difficult recovery.

Although historical precedents were scarce, we learned from the 1930s that it could take up to 10 years to recover from a financial crisis. The sequence goes like this: Households reduce leverage, banks repair their balance sheets, businesses face weak demand and governments are forced to implement austerity measures. Add to that the housing crisis, which turned into a government debt crisis, especially in Europe.

Central banks kept policy rates exceptionally low because the economy needed support long after the immediate financial emergency had passed. The Federal Reserve did not begin raising rates until December 2015, seven years after the collapse of Lehman Brothers.

Meanwhile, demographic trends and abundant savings supported a world where capital was plentiful relative to attractive investment opportunities. And inflation stayed low; commodity prices crashed in 2014 and globalization pushed goods prices lower.

The pandemic brought another emergency response, with lower policy rates, additional asset purchases and extraordinary fiscal support. But the subsequent inflation surge changed the outcome. Rather than extending the low-rate regime indefinitely, the pandemic and its aftermath helped bring it to an end.

Even so, some of the forces behind low rates have not disappeared. Aging populations, demand for safe assets and high savings rates among wealthy households can still exert downward pressure. But the conditions prevailing through much of the 2010s and the early 2020s were prime for the history books, as they reflected two exceptional crises (the GFC and the COVID-19 pandemic) and the exceptional interventions that were required.

The good news is that the United States benefits from greater protection because of the dollar's reserve role and the depth of the Treasury market. Those advantages reduce the likelihood of an abrupt financing crisis, but they do not eliminate the cost of persistent deficits.

The problem is that a reckoning with the bond market becomes increasingly likely the longer it takes for Washington to reduce its deficit toward a sustainable level.

Corporate issuance adds to the pressure on long rates, particularly as AI investment expands. Large technology companies have substantial internal resources, but the scale of their spending increasingly brings debt financing into the picture. In the United States, 2026 is expected to be a record year for corporate bond issuance. Governments and companies must, therefore, compete more actively for capital.

The bond market will enforce discipline

So, even if short rates peak, long rates may continue to rise as governments and corporations keep issuing debt. But how much higher can they go?

The bond market is trying to find a new equilibrium. In a way, high rates are a cure for high rates: As debt becomes more expensive, households, corporations and governments change their behaviour.

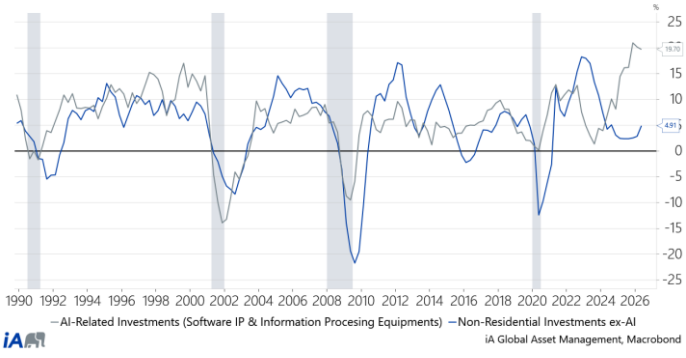
The resulting adjustment is already visible in the channels most sensitive to financing costs.

Housing is an obvious example. Expensive mortgages weaken housing affordability and construction incentives; U.S. home sales have been weak for several months and are seen weakening further, and prices are heading lower. Higher real rates also make conventional business projects harder to justify, especially for smaller firms with limited cash generation.

AI investment appears more resilient because leading companies have strong balance sheets and view participation as strategically essential. But resilience is not immunity. Highly leveraged operators and projects relying heavily on external financing remain vulnerable if costs rise or expected revenues arrive late.

U.S.: AI-Related Investment vs Investments ex-AI

Year-over-Year (%), U.S. Bureau of Economic Analysis (BEA), as at 2026 Q2, 2026 Q2



The late-October selloff in some AI stocks may illustrate this vulnerability. Neoclouds, which borrow to build data centres and lease them to hyperscalers and AI labs, suffered heavy losses as their business model came under growing pressure from rising rates. Yet the broader selloff was cushioned by a sharp decline in interest rates, as investors anticipated less debt issuance ahead. This is the market adjusting in real time.

Governments ultimately face the same need to adapt. The British mini-budget episode under Liz Truss showed how quickly a loss of confidence can become a financing and political problem. Something similar is brewing in France, and more such episodes are likely.

The broader lesson is that delayed adjustment leaves borrowers more exposed to an abrupt repricing. The principal risk is, therefore, not simply that rates will remain high, but also that governments will resist changing course until the market removes their freedom to choose the pace.

U.S. midterms and public finances

The Democrats have won the House of Representatives in the November midterm elections and appear to have taken the Senate as well. The upshot is that President Trump's legislative agenda will be much harder to accomplish. What it means for fiscal policy is probably more of the same.

A divided government can act as a brake on fiscal expansion. Large spending packages or tax reductions become harder to pass when the presidency and Congress do not share the same priorities. Yet preventing additional deterioration is different from stabilizing the debt trajectory. Gridlock can preserve existing imbalances while making negotiations over government funding and the debt ceiling more contentious.

Defence spending is likely to rise because the United States needs to rebuild its stockpile of munitions, but by less than would have been the case had the Republicans kept control of Congress. We are unlikely to see tax hikes or considerable spending cuts. Tariffs are here to stay; they are a new source of revenue that will be hard to abandon, and the political price has already been paid by President Trump. And the President will retain the executive power to set trade policies.

After the midterms, both parties will focus on the 2028 presidential election. Meanwhile, the bond market will assess whether Washington is finally getting serious about fiscal consolidation. If the answer is unsatisfactory, expect the pressure on long rates to keep building.

Implications for investors

After the GFC, the long decline in interest rates supported asset classes such as public and private equities by reducing financing costs and increasing the present value of future cash flows. Despite some wobbles, equities have been in a bull market for more than 15 years. AI has only supercharged it; equities have delivered exceptional returns since 2022 while rising yields have challenged bonds.

As interest rates continue to increase, that balance could become less favourable to stocks and more beneficial to fixed income. Higher real rates create a tougher valuation hurdle, while an economic slowdown could also weigh on earnings. Indeed, high energy prices, tighter monetary policy and a higher cost of debt are ingredients that tend to slow growth. The global economy remains strong, but headwinds are likely to pile up in 2027. Bonds, meanwhile, begin with a more substantial income cushion, and historically benefit when growth slows.

Navigating this environment requires six principles, beginning with the importance of initial yields.

First, a bond portfolio's **initial yield** is a useful anchor for prospective returns over an appropriate horizon. Price declines are painful for existing holders, but they improve the income available to new investments. Better returns can, therefore, emerge from precisely the conditions that produced the recent disappointing performance.

Second, **real rates** deserve more attention than nominal rates alone. They provide a clearer indication of the financing burden relative to inflation and the discount rate applied to future economic returns. A market can retain confidence in long-term inflation control while still imposing tighter financial conditions through higher real yields.

Third, **every asset has duration**. Growth stocks, property, infrastructure and private equity all depend on cash flows arriving in the future. Their sensitivity differs, but none escape the effect of a higher discount rate. Less frequent valuation updates in private markets can obscure that exposure without removing it.

Fourth, a **thin equity risk premium** leaves less room for disappointment. In that setting, earnings growth must carry more of the return. It has done so for the past few years, benefiting from historically strong profits, but a slowdown in growth could challenge that.

Fifth, **stock and bond diversification** depends on the source of the shock. A growth slowdown accompanied by easing inflation can support bonds as corporate earnings weaken. An inflation shock or a rising term premium can hurt both asset classes simultaneously. Their recent tendency to move together should not be assumed permanent, but neither should bonds be expected to protect against every adverse scenario.

Sixth, **money market investments** offer income and flexibility, but they also carry reinvestment risk. They can be appropriate for liquidity needs and capital that cannot tolerate volatility. If policy rates fall, however, their income adjusts quickly, while longer bonds may preserve income and appreciate. An attractive cash yield is a welcome opportunity, not a complete portfolio strategy.

The practical conclusion is to moderate expectations for risky assets and to give bonds a second look. Quality companies can still create value, but higher rates make balance sheets and valuations more consequential. Fixed income offers a stronger income proposition, even if its near-term path remains volatile.

An overweight in equities has been the winning formula for several years, but a move toward a more balanced portfolio is appropriate now.

Conclusion: The world's biggest bully

The bond market is restoring a constraint that years of cheap financing allowed many borrowers to overlook. Households must reassess affordability, businesses must justify investment more carefully, and governments must present credible financing plans.

These adjustments can improve the allocation of capital, but their economic cost depends heavily on whether borrowers act early or wait until confidence deteriorates.

That is the distinction between an orderly slowdown and something more disruptive. Political resistance may delay fiscal consolidation, but ultimately the bond market stays undefeated. Discipline will be restored, whether through an abrupt shock or a persistent increase in borrowing costs.

For investors, higher rates are neither an unqualified threat nor an automatic opportunity. They call for more realistic return expectations, greater attention to financing risk and a renewed appreciation of diversification.

The transition is demanding, but its benefits are tangible: Income has returned to fixed income, and capital once again has a price worth taking seriously.

The moral of this story: After more than 20 years, the bond market is once again the one takin' care of business.

Positioning

We are more neutrally positioned on equities, having reduced the overweight we maintained through much of the year. The fundamental backdrop remains reasonably supportive: economic activity has proven resilient, corporate earnings remain strong, and the artificial intelligence investment cycle continues to generate substantial demand across technology, infrastructure, and related industries. At the same time, the balance of risks has become slightly less favourable. Higher real yields are raising the discount rate applied to equities, the AI cycle is becoming more capital intensive and increasingly reliant on external financing, and recent volatility has demonstrated that strong earnings are no longer sufficient to guarantee positive market reactions in the face of lofty expectations. After a strong run so far this year, we see less asymmetry in favour of additional equity exposure.

We remain underweight on government bonds, although our view has improved marginally following the substantial increase in yields of the past few months. The structural case for caution remains intact. Large fiscal borrowing requirements are competing with an increasingly capital-intensive private investment cycle, while AI-related infrastructure spending is beginning to generate additional corporate financing needs. However, the tactical balance has become less negative. Yields now provide substantially greater income, financial conditions have tightened, growth is slowing, and markets may be pricing more monetary tightening than ultimately proves necessary, as the effects of higher energy prices and restrictive rates increasingly weigh on activity. We therefore continue to prefer an underweight allocation to government bonds, but with less conviction than earlier in the year, as valuation and cyclical considerations become progressively more supportive.

Within currencies, we have a positive view on the Canadian dollar relative to the U.S. dollar. The Canadian dollar has lagged several other developed-market currencies, leaving its relative valuation more attractive, while our systematic asset-allocation signals have recently turned positive. We also do not believe that Canada-U.S. trade tensions will escalate materially from here. More broadly, Canada's exposure to energy and other natural resources provides useful support in an environment characterized by elevated commodity prices and persistent geopolitical supply risks.

Finally, we have moved back to a neutral tactical position in commodities after maintaining an overweight through much of the recent energy shock. The longer-term investment case remains constructive, as AI infrastructure, reindustrialization, defence spending, and economic-security policies continue to generate substantial demand for energy, power, and industrial materials. However, the short-term risk-reward has become more balanced. Energy prices already incorporate a considerable geopolitical premium, while high prices themselves encourage supply responses, substitution, and demand adjustment.

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POSITIONING

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Market Performance

Total returns as of October 30, 2026, in $CA

	MTD	QTD	YTD	1 Y
EQUITIES (LOCAL CURRENCIES)				
S&P 500	-0.9%	-0.9%	11.8%	12.4%
S&P/TSX	1.2%	1.2%	14.4%	20.7%
NASDAQ 100	-6.7%	-6.7%	12.4%	10.3%
MSCI WORLD Net	-0.8%	-0.8%	11.5%	12.7%
MSCI EAFE Net	-0.5%	-0.5%	11.9%	14.7%
MSCI EM	-7.4%	-7.4%	14.2%	14.6%
COMMODITIES				
Gold	-6.8%	-6.8%	-10.3%	-3.7%
CRB	-0.1%	-0.1%	32.8%	37.2%
WTI	15.2%	15.2%	81.3%	71.9%
FIXED INCOME				
FTSE Canada Universe	1.5%	1.5%	0.7%	-0.3%
FTSE Canada Long Term	2.8%	2.8%	-0.4%	-3.0%
FTSE Canada Corporate	1.0%	1.0%	1.1%	0.8%
CURRENCIES				
DXY	0.4%	0.4%	3.6%	2.4%
USD/CAD	-1.8%	-1.8%	1.8%	-0.1%
USD/EUR	1.5%	1.5%	5.3%	3.6%
USD/JPY	0.1%	0.1%	0.5%	2.2%
USD/GBP	-0.9%	-0.9%	0.6%	-1.8%

	MTD	QTD	YTD	1 Y
SECTORS S&P/TSX				
Financials	3.6%	3.6%	23.8%	35.3%
Energy	8.7%	8.7%	38.8%	42.3%
Industrials	2.4%	2.4%	9.4%	8.9%
Materials	-13.1%	-13.1%	-4.0%	12.3%
Information Technology	2.0%	2.0%	-0.8%	-9.6%
Utilities	5.3%	5.3%	15.0%	12.8%
Communication Services	2.4%	2.4%	-11.6%	-13.7%
Consumer Staples	6.4%	6.4%	7.8%	17.6%
Consumer Discretionary	5.9%	5.9%	5.2%	15.6%
Real Estate	1.5%	1.5%	-2.4%	-3.6%
Health Care	0.5%	0.5%	3.5%	3.4%
SECTORS S&P 500				
Information Technology	-8.4%	-8.4%	21.7%	13.5%
Health Care	8.0%	8.0%	23.2%	30.2%
Consumer Discretionary	2.2%	2.2%	-0.3%	0.1%
Financials	4.1%	4.1%	6.0%	9.2%
Communication Services	-16.5%	-16.5%	-9.7%	-7.1%
Industrials	-1.4%	-1.4%	10.6%	9.0%
Consumer Staples	9.7%	9.7%	19.7%	19.5%
Energy	12.1%	12.1%	62.9%	65.0%
Utilities	8.3%	8.3%	5.9%	-0.5%
Real Estate	3.3%	3.3%	12.7%	10.3%
Materials	4.8%	4.8%	18.1%	22.2%

Get ahead

iagam.ca

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