

Notes from the Trading Desk - Q4 2025

January 8, 2026

Happy New Year!

The 2025 chapter closed quietly after delivering positive returns across all asset classes for the first time since the pandemic. The “everything rally” extended to fixed income as well, with spreads compressing (becoming more expensive) across the credit spectrum and lower yields being a key driver of fixed income returns.

Although the market struggled to forecast interest rate expectations all year, 2025 ultimately experienced a more aggressive and faster easing cycle in both Canada and the US than anticipated. We went into greater detail on the pace and magnitude of these cuts in our November Newsletter.

2025 was a positive year for investors, but we saw firsthand the importance of diversification and having global exposure as the ability to pivot between US, Canadian, and European markets proved incredibly useful amid tight valuations and persistent uncertainty.

We were conservatively positioned all year in order to preserve capital in a market where uncertainty was the only certainty. Despite headline risks and broad market moves, opportunities persisted beneath the surface, especially with single names, as the market environment was shifting rapidly.

Millrose Properties (MRP), a US land developer, is a BBB-rated company (investment grade) that acquires and holds land on behalf of homebuilders, charging monthly interest until the builders are ready to purchase the site to begin construction. Our credit research team recommended this company due to its attractive relative value, strong carry, industry tailwinds as homebuilders increasingly use companies like MRP, and strong upside potential as investors recognize this business model’s value. We purchased the company’s 7-year bond, and we have been quite active in dialing up our exposure or trimming the position as spreads move, allowing us to capture value when those opportunities present themselves.

North American fuel distributor, Sunoco, was a BB-rated (high yield) single-name opportunity from Q4. Our credit research team identified the company as a good buy due to its large scale and strong business model, attractive relative value, clear de-leveraging path, and good upside potential. We purchased the issuer’s bonds, which were trading cheap after a recent acquisition that increased leverage. Sunoco has been a positive contributor in our long/short OM strategies since we bought into that position in the Fall.

On the topic of oil, 2026 came with a bang as the world woke up on Saturday morning to news that the US had captured Venezuelan President, Nicolas Maduro. Despite the initial shock of hearing that a foreign leader was physically captured from his home, markets largely shrugged off the event. Canadian oilsands producers' stocks sold off on the potential longer-term impact that US refiners will replace some Canadian heavy oil barrels with Venezuelan heavy oil barrels. But otherwise, there has been no material impact on credit. The fact is, building the infrastructure to move the plentiful Venezuelan oil from the ground to US refineries will require significant capital investment and a much-improved security environment, all of which will take time to implement before we see any meaningful impact on the global oil market.

In other news, AI continues to be the belle of the ball. We will see a tech-driven supply surge as giants like Amazon, Microsoft, Apple, and others are in line to be potential issuers this year. These companies traditionally have not been large debt issuers, and the sudden supply is putting upward pressure on tech spreads and has created spillover effects in adjacent sectors such as Technology, Media & Telecom.

The supply picture is not just dominated by these investment grade tech companies. In fact, market expectations for USD issuance sit at \$1.8T for investment grade and \$380bn for high yield. Credit selection will be crucial, and we expect that capturing technical trends will likely drive performance this year.

From a credit perspective, spreads remain at tight valuations, but we continue to see pockets of value and trading opportunities. Renewed M&A activity could be another catalyst for dispersion, creating numerous opportunities for capturing additional value. Between AI-related issuance, M&As, and the comeback of leveraged buy-out financing, 2026 offers many opportunities for an active manager with a global reach – though credit expertise is vital to identify the right opportunities.

Looking forward, we believe the market is well positioned to absorb the anticipated supply tsunami. As the year continues, the real test will be when the new-issue euphoria wanes and markets pivot focus to tech earnings and future supply. We expect the theme of “mini pullbacks and micro rallies” will likely continue in the near-term, and tactical trading will be important in this environment.

For more updates on the credit market, read our [Credit Market Themes in 5 Charts](#) article for this quarter. As always, if you have questions about our market outlook or our strategies, please do not hesitate to reach out to our team.

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