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Americans load up on 'Canadian' paper (and not for the first time)

By Warren Lovely & Ethan Currie

Canada's relationship with the United States is more complicated these days. Despite much geopolitical wrangling, U.S.-based investors continue to express confidence in Canada. As per StatCan's fresh international securities transactions data, Americans were only too happy to hold Canadian assets, mainly bonds, in their portfolios.

American-based investors scooped up C$20 billion of 'Canadian' bonds in January alone. Add in net buying from across the pond (i.e., Europe) and other corners of the globe and non-residents net purchased C$33.5 billion of our bonds in the first month of the year (Chart 1)—this despite swirling tariff threats and a cloudier-than-normal outlook for the economy and many of the nation's largest bond issuers. As it happened, January's net foreign buying was the second largest on record, trailing only the most extreme of all months: April 2020.

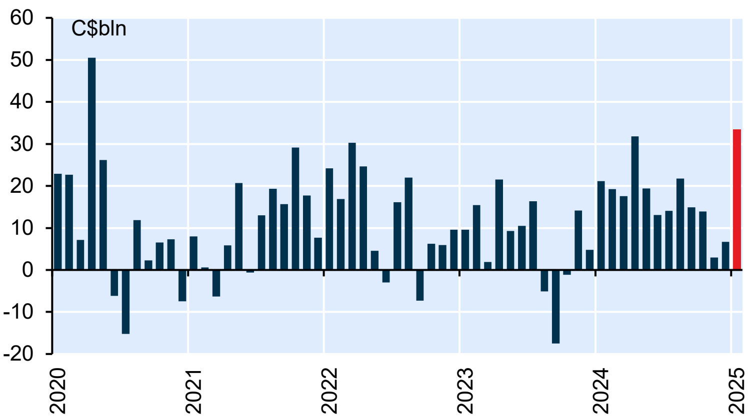
As we routinely remind readers, reported flows in 'Canadian' bonds include securities denominated in *all currencies*. For January, domestic (i.e., CAD-denominated) bonds accounted for a minority of the net buying (Chart 2). Put another way, Americans (and other foreign investors) were more aggressively adding to their Canadian bond exposure in the USD market. This isn't exactly new. Fact is, of the C$2.23 trillion of Canadian bonds owned by non-residents, two-thirds are denominated in foreign currencies (Chart 3).

Notwithstanding currency related implications, foreign investor interest is foreign investor interest. The ready/steady appetite for Canadian term debt issued south of the border (or other foreign markets) allows our provinces and corporates to divert a non-trivial share of supply away from the home market (insulating domestic spreads in the process). This is the 'foreign currency issuance as a funding shock absorber' theme we touched on in a related note (**link**), and one that is likely to remain topical given the likely amount of borrowing to be done here.

And before you ask, yes, the ongoing streak of outsized non-resident buying of Canadian bonds serves to increase the nation's exposure to foreign investors. As previously explored (**link**), over 40% of Canada's national bond stock is held outside the country—an unprecedented level of foreign exposure that edged even higher in the Q4 national balance sheet accounts (Chart 4). As we've warned, this is one export we can't take for granted and where diversification has merit… even if American bond investors still had their arms opened wide in January.

Chart 1: January ushers in another wave of foreign buying

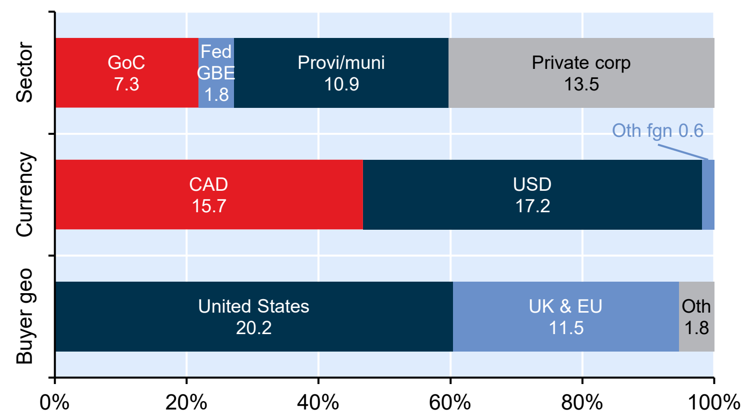
Net foreign purchases of Canadian bonds (all sectors, all currencies)



Source: NBC, StatCan

Chart 2: Breaking down January's net bond buying

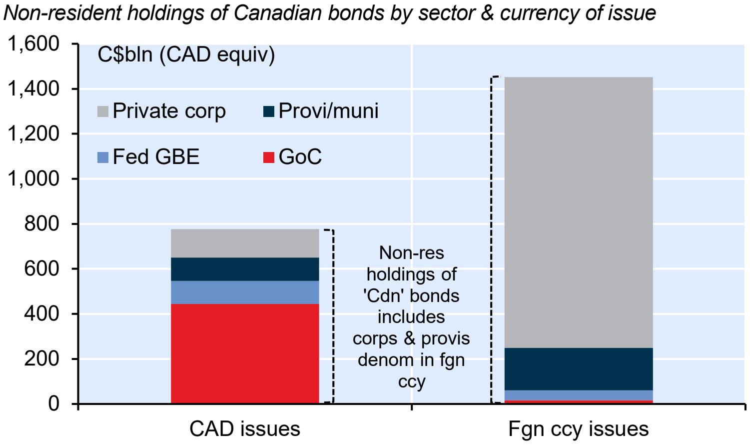
Net foreign purchases of Canadian bonds by sector, currency & buyer geography



Source: NBC, StatCan | Note: Based on net flows for one month only (Jan-25)

Chart 3: A lot of Canadian bond exposure in fgn ccy markets

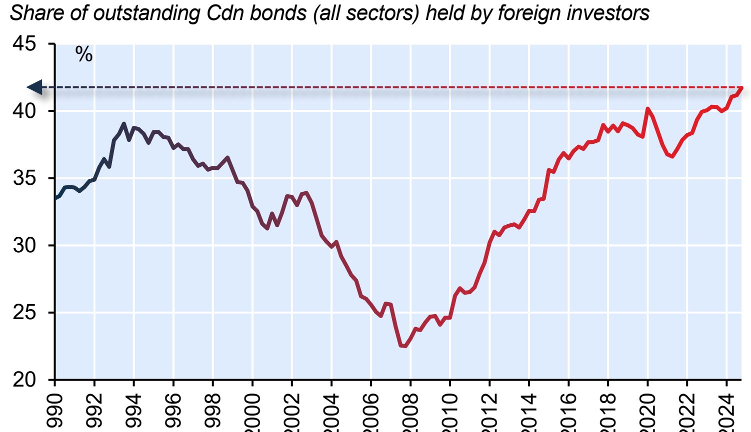
Non-resident holdings of Canadian bonds by sector & currency of issue



Source: NBC, StatCan | Note: Based on book value of bond holdings as at Jan-25

Chart 4: Record exposure to non-resident bond investors

Share of outstanding Cdn bonds (all sectors) held by foreign investors



Source: NBC, StatCan | Note: Based on balance sheet accounts book value (to 2024:Q4)

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