GUARDIAN CAPITAL | PRIVATE WEALTH

All that glitters…

Equities

The third quarter of the year was another rewarding one for developed market equity investors, creating excellent year-to-date returns that belie the anxiety spurred by U.S. tariff announcements only six months ago.

Over the three months ended September 30th, the MSCI EAFE[1] markets in Europe and Asia rose 6.8%, while in the U.S., the S&P 500 Index[2] gained 10.3%, both in Canadian dollar terms.

The Canadian market (S&P TSX Composite Index[3]) fared even better, rising 12.5%, propelled in part by gold prices hitting record highs. That said, strength in Canadian equities extended well beyond gold during the quarter, with nine of 11 sectors rising in value, with only the small domestic Health Care sector failing to post a gain year-to-date.

Enthusiasm for stocks within the sphere of artificial intelligence (AI) remains remarkably strong, with investors targeting companies building and operating data centers, supplying equipment to these facilities, contracting to sell electricity to them, or developing the semiconductors and electronics housed within. Conversely, companies offering software applications that may be vulnerable to competition from AI are facing increased scrutiny. Many companies once considered high-quality and dependable investments have seen their share prices come under pressure. This group joins the packaged foods and pharmaceuticals sectors as some of the weaker parts of the market in 2025, where lower valuations could potentially pave the way for future investment opportunities.

The rapid declines in early April of global stock markets seem a distant memory after a steady rise in equities since then. The strength comes despite a backdrop of tepid labour markets, lethargic housing activity and a new tariff regime that has yet to reveal its true impact on the economy. Reflecting these concerns, central banks in most major economies made an interest rate cut in Q3, with likely more to follow, although this path will require balancing inflationary pressures that continue to percolate. Performance of equity markets in the coming months will reflect this confluence of factors, and aside from the most popular cohort of AI stocks, some very reasonable valuations for high-quality stocks in many sectors should act as a supportive backdrop for investors.

Fixed Income

The expected path of policy rates underwent a pretty dramatic shift over the last three months. The third quarter began with persistent signs of firmness in economic activity indicators and inflation metrics alike, reinforcing the view that central banks could take a patient approach to making any policy adjustments. Accordingly, markets pared back expectations for rate cuts — particularly in Canada, where odds of the central bank staying on the sidelines for the remainder of the year rose markedly — putting upward pressure on market yields and weighing on fixed income performance.

As the summer progressed, signs of slowing economic momentum and growing political uncertainty began to cloud the outlook. Concerns about the employment landscape also came to the forefront, prompting a shift in tone from monetary policymakers in both Canada and the U.S. Both the Bank of Canada and the U.S. Federal Reserve ultimately opted to reduce policy rates in mid-September and signal a willingness to make further cuts in the months ahead.

The end result was that bond yields finished the quarter lower across the curve and supported decent returns throughout the fixed income space. The domestic benchmark FTSE Canada Universe Bond Index[4] rose 1.5% in Q3, with major sub-groupings all roughly keeping pace — the FTSE Canada All Corporate Bond Index[5] was up 2.2% and the FTSE All Government Bond Index[6] saw a 1.4% gain; the FTSE Canada Short Term Bond Index[7] was up 1.3%, along with the Mid Term Index[8] up 2.0% and Long Term Index[9] up 1.2%.

Looking forward, it appears that North American central banks are likely to take further steps to ease policy in the coming months in an effort to support their economies and mitigate job market pressures, which in turn should continue to support bond market performance. With that said, however, measures of underlying inflation remain above central bank targets, and tariff-related pressures on goods are starting to become more evident, which is keeping inflation expectations elevated and making the path much less clear-cut.

With a solid expectation of rate cuts built into the market, particularly in the U.S., there would likely need to be further weakening in the dataflow to bring bond yields down further. Concerns over inflation and government fiscal sustainability remain potential offsetting factors; however, central bank policy will probably continue to be the main influence on rates.

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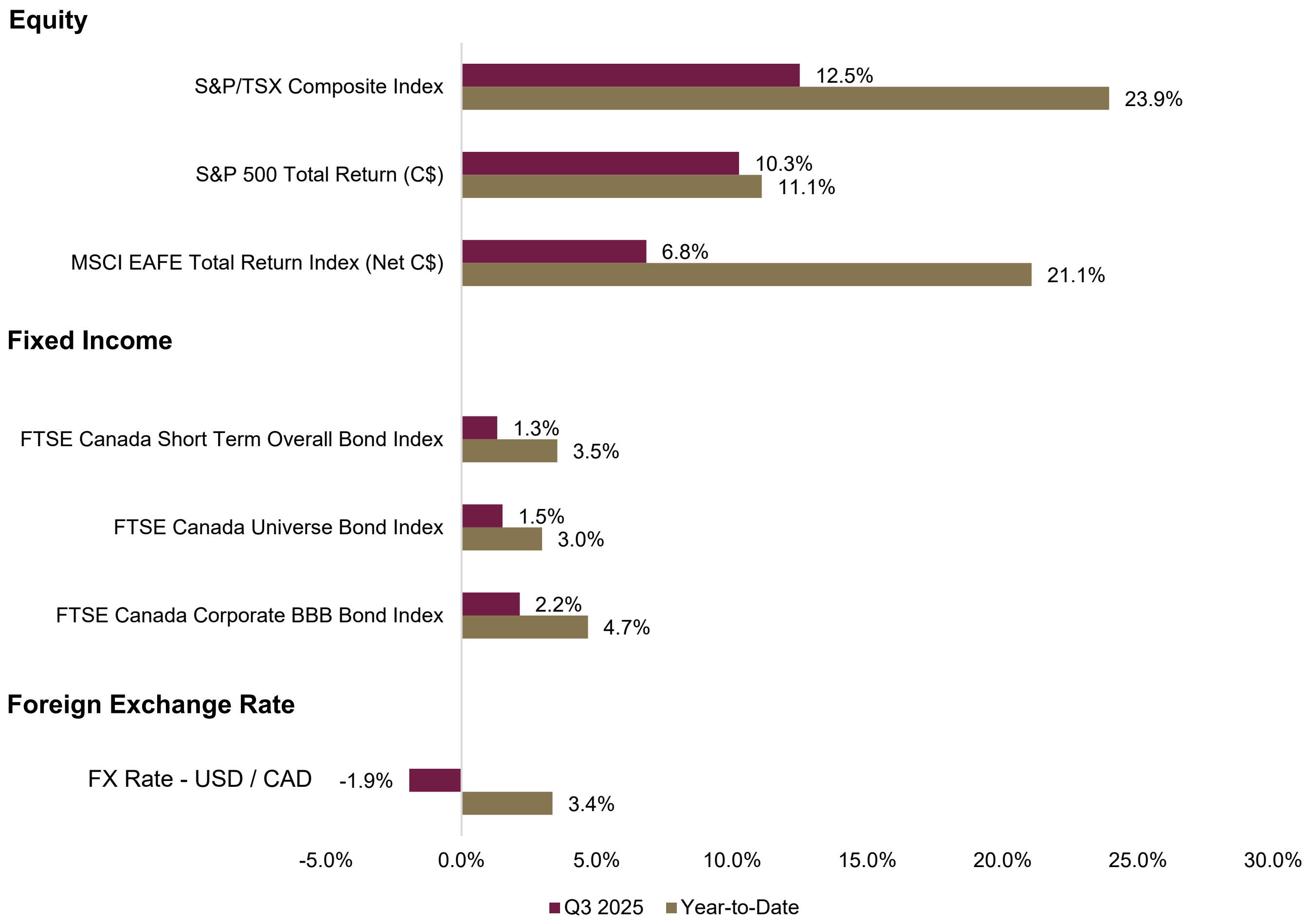
Market Indices Performance (C$ - September 30, 2025)



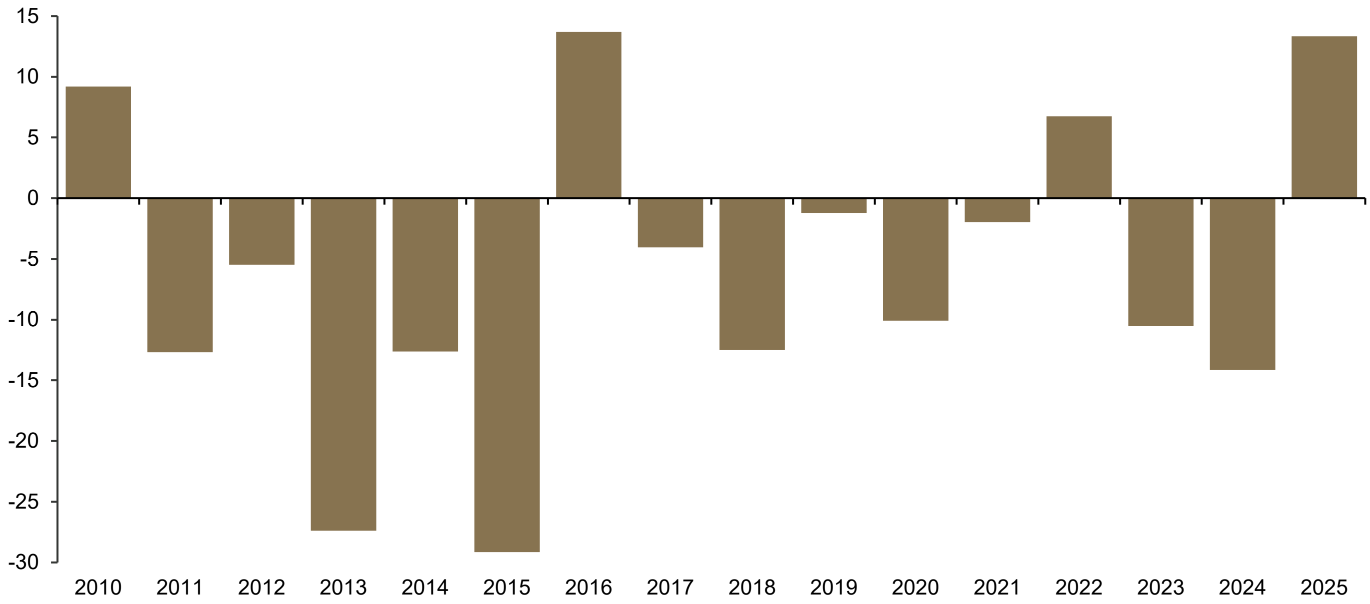
Source Bloomberg: All figures stated in Canadian dollars as of September 30, 2025

Commentary

While the rally in U.S. equity markets and the resumption of the outperformance of the AI trade grabbed the headlines over the last three months, it has been the stocks north of the 49th parallel that continued to find themselves at the top of the league tables over the summer.

This year's outperformance by Canada is somewhat of a rare occurrence. Canadian equities have lagged the U.S. in seven of the last eight years (2022 being the exception, when they fell by less) and 12 of the last 14. This strength in capital markets has come despite a barrage of tariffs from Canada's largest trading partner. This tariff-related uncertainty has factored heavily into a material slowing of economic momentum, which raises the clear questions of "why?" and "is it sustainable?

S&P/TSX Composite Index performance versus S&P 500
(percentage point difference; Canadian dollar basis; >0 denotes S&P/TSX outperformance)

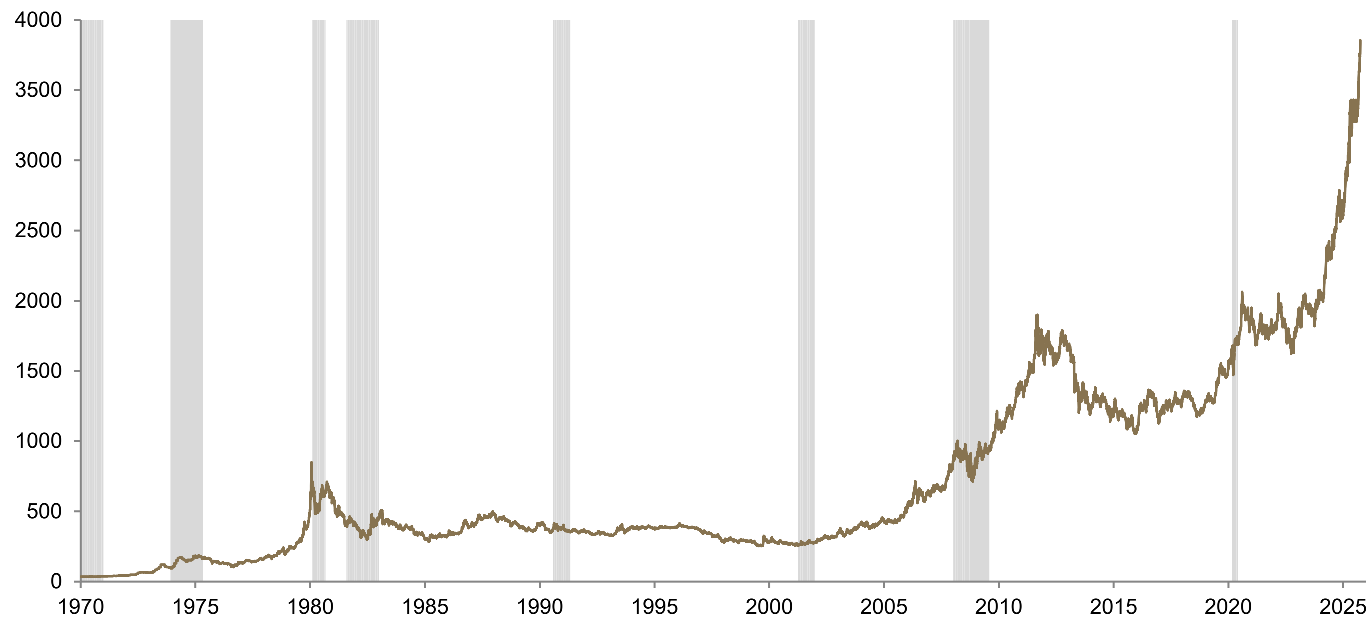


2025 is year-to-September; source: Guardian Capital using data from Bloomberg to September 30, 2025

While the stock rally has been broad-based, without question, a big reason for the shine on Canadian stocks this year is gold.

The yellow metal has been swept up by a perfect storm of elevated inflation, a weaker U.S. dollar, geopolitical uncertainty and, more recently, central bank policy easing that has created a surge in investor demand for the commodity historically viewed as a store of value and a safe haven. As a result, the price of gold is on track for its best year since 1979 and is sitting at an all-time high of nearly US$4,000 per troy ounce.

Gold spot price
(U.S. dollars per troy ounce)



Shaded regions represent periods of U.S. recession; source: Guardian Capital using data from Bloomberg to September 30, 2025

That surge in price flows almost directly to gold producers' bottom lines, which has in turn given a serious lift to these companies' stocks. These companies account for 10% of the weight in the Canadian equity gauge and, as a result, are responsible for nearly half of the overall gains year-to-date.

While parabolic price increases tend not to be sustained, an environment of sustained geopolitical uncertainty combined with U.S. dollar weakness and elevated inflation expectations has historically been supportive of gold prices, while lower interest rates reduce the opportunity cost of investors holding the cash-flow deficient commodity.

To the extent that this backdrop persists, investors are likely to be drawn to Canadian equities that have been overlooked in global investor portfolios. Discriminating investors may also find opportunities that exist in other areas of the domestic market that trade at a significant discount relative to its peers, and consistently achieve high rankings for the safety of its banking sector and political stability. Canada is also home to world-class businesses such as Shopify in the technology space, and the always in-fashion retailer, Aritzia.

Shakespeare's famous line reminds us that appearances can be deceiving — in this quarter, glittering returns were certainly real, but they weren't just about gold.

Endnotes

[1] The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada.
[2] The S&P 500 is an index of 500 stocks designed to reflect the risk/return characteristics of the large-cap U.S. equity universe.
[3] The S&P/TSX Composite Index is the benchmark Canadian index, representing roughly 70% of the total market capitalization on the Toronto Stock Exchange with about 250 companies included in it.
[4] The FTSE Canada Universe Bond Index is the broadest and most widely used measure of performance of marketable government and corporate bonds outstanding in the Canadian market.
[5] The FTSE Canada All Government Bond Index measures the performance of the Canadian dollar-denominated investment-grade fixed income market, covering Canadian government and quasi-government bonds.
[6] The FTSE Canada All Government Bond Index measures the performance of the Canadian dollar-denominated investment-grade fixed income market, covering Canadian government and quasi-government bonds.
[7] The FTSE Canada Short Term Bond Index, a measure of short-term bond performance in the Canadian domestic bond market.
[8] FTSE Canada Mid Term Bond Index, a measure of mid-term bond performance in the Canadian domestic bond market.
[9] FTSE Canada Long Term Bond Index, a measure of long-term bond performance in the Canadian domestic bond market.