GUARDIAN CANADIAN FOCUSED EQUITY FUND Q1 2024 MANAGER COMMENTARY

Market Review

The S&P/TSX Composite Index advanced 6.6% during the first quarter of 2024. Industrials, Health Care, Energy, and Information Technology sectors each outperformed the overall Index during the quarter. Underperforming sectors included Communication Services, Utilities, Materials, Real Estate, Consumer Discretionary, Consumer Staples, and Financials, which faced headwinds during the quarter.

Global central banks held rates steady, contrary to market expectations at the beginning of the year. The expectation was that the Bank of Canada would be among the first of the major central banks to lower rates, but this is now forecasted for mid-year. Canadian inflation dropped to 2.8% in February while economic growth slowed slightly due to diminished consumer spending. On the other hand, the US showed promising growth, despite the jolt felt by high interest rates.

Oil prices increased during the quarter due to supply cuts from OPEC+, calming concerns of excess US production, and intensifying tensions in the Middle East. As economic growth has continued to slow, investor hopes for a 'soft landing' in Canada rest on the timing and pace of the Bank of Canada's interest rate cuts.

Performance Attribution

The Fund outperformed the S&P/TSX Composite Index during the quarter. The outperformance was due to both positive sector allocation and positive stock selection.

Positives

- Underweights in Communication Services (-8.48%) and Utilities (no exposure) contributed to positive performance from sector allocation.
- Positive performance from stock selection was driven by Financials (NUVEI Corp and Fairfax Financial Holdings) and Information Technology (Celestica).
- Top stock contributors to performance during the quarter:
  - Celestica: Celestica posted better-than-expected results and the company's forecast cemented the market's expectation that the company would be a prime beneficiary of hyperscaler spending on A.I.
  - NUVEI Corp: Nuvei received a take-private bid, which boosted the stock during the quarter.
  - Atkins Realis: Atkins Realis once again posted stellar organic growth while indicating positive industry conditions.

Negatives

- Underweight Energy (+13.1%), detracted from performance in sector allocation.
- Performance from stock selection was negative primarily in Consumer Discretionary (Spin Master) and Consumer Staples (Maple Leaf Foods).

- Stocks that detracted from performance during the quarter:
  - Maple Leaf Foods: Persistent weakness in pork markets have been a headwind for Maple Leaf. Industry losses, however, cannot go on forever, and the company is expected to experience margin expansion in 2024.
  - Open Text: Open Text's return to sustained organic growth should become visible by the second half of 2024, as the company completes the sale of a low-growth division while continuing to see accelerating cloud bookings.
  - Wheaton Precious Metals: Despite the positive move in the gold price during the quarter, Wheaton Precious metals underperformed after the company provided a disappointing production outlook.

Portfolio Transactions

There were no transactions in the Fund's portfolio during the quarter.

Portfolio Outlook & Positioning

Due to persistent economic momentum, the impact of central banks' aggressive tightening moves is being felt later than expected. While inflation has clearly peaked in Canada and the US, it remains unclear where longer-term inflation expectations will settle. Bond yields and the US dollar firmed up during the quarter, as strong data delayed Fed easing action until further into 2024. Still, it is not clear when the US and Canadian economies will fall into recession, increasing expectations for a soft landing. Caution is warranted, however, as policymakers' determination to bring down inflation could require intentionally guiding the economy into recession.

At the company level, falling inflation and slowing growth have introduced crosscurrents. Falling inflation is simultaneously a headwind for revenue growth and a welcome relief from escalating input costs. As such, companies are increasingly flagging slowing revenues, but resilient earnings are being supported by cost cuts. While we believe the companies held in the Fund's portfolio exhibit strong market positions and pricing power, the short-term impacts from the crosscurrents mentioned above are uncertain, which has led to valuation compression in many areas of the market. Over time, we generally expect higher-quality companies to overcome these headwinds, making current valuations attractive for long-term investors.

The Fund maintains a strong quality bias and remains diversified across cyclical and defensive companies. Economic headwinds are expected to affect all portfolio holdings to various degrees; however, the Manager believes that as labour markets and supply chains continue to normalize, multiple companies in the portfolio should benefit, irrespective of the economic outlook.

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Published: April 11, 2024