GUARDIAN CAPITAL

GUARDIAN INVESTMENT GRADE CORPORATE BOND FUND Q4 2025 REVIEW AND OUTLOOK

DECEMBER 2025

Market Review

Canadian bond yields ended the quarter higher, except for money market yields (terms of one year and less), which moved lower. Short- and mid-term yield curve relationships (e.g., 5-year vs. 2-year, and 10-year vs. 2-year) steepened, while longer-term relationships (e.g., 30-year vs. 10-year) flattened slightly.

Early in the quarter, the macroeconomic backdrop in Canada showed continued signs of softening, with the S&P Global Canada Purchasing Managers' Index (PMI) moving further into contraction territory. The Bank of Canada (BoC) delivered what is widely expected to be the final rate cut of this cycle, lowering its policy rate from 2.50% to 2.25%. However, momentum shifted later in the quarter as the labour market demonstrated resilience: Statistics Canada's Net Change in Employment surpassed expectations, pushing the unemployment rate down from 7.1% to 6.5%. Third-quarter GDP also beat forecasts (0.5% expected vs. 2.6% actual vs. -1.6% prior), driven by lower imports and strong residential investment, as increased resale activity and renovations offset declines in new construction.

In the U.S., the Federal Reserve reduced the federal funds rate from 4.25% to 3.75%, citing downside risks to employment and ongoing economic uncertainty. Globally, some developed world central banks continued their rate-cutting cycles: the Bank of England and the Reserve Bank of New Zealand each lowered policy rates by 25 basis points. In contrast, the Bank of Japan raised its policy rate by 25 basis points to address inflationary pressures driven by higher import costs and a weakening yen. Despite this move toward policy normalization, short-term real interest rates in Japan remain in negative territory.

Domestically, the broader fixed income market posted negative returns for the quarter, with the FTSE Canada Universe Bond Index down -0.32%. The short-term segment (FTSE Canada Short-Term Overall Bond Index; +0.33%) outperformed both the mid-term (FTSE Canada Mid-Term Overall Bond Index; -0.35%) and long-term (FTSE Canada Long-Term Overall Bond Index; -1.36%) segments. Corporate bonds (FTSE Canada All Corporate Bond Index; +0.34%) outperformed government bonds (FTSE Canada All Government Bond Index; -0.54%), supported by shorter duration and credit spread compression.

The USD/CAD exchange rate weakened from 1.3920 to 1.3724 over the quarter as long-term interest rate differentials between the U.S. and Canada narrowed. Meanwhile, the spread between West Texas Intermediate (WTI) and Western Canadian Select (WCS) crude oil prices widened.

10-YEAR TREASURY YIELDS

COUNTRY	END OF Q4 2025	QTD CHANGE (BPS)	1 YEAR CHANGE (BPS)
Canada	3.43%	25	21
US	4.17%	2	-40
Germany	2.86%	14	49
UK	4.48%	-22	-9
Japan	2.07%	42	97

Source: Guardian Capital, Bloomberg. As of December 31, 2025. 100 bps is equal to 1.0%.

Performance Attribution and Positioning

The Fund outperformed its benchmark, the FTSE Canada Mid Term Corporate Bond Index, in the fourth quarter of 2025, primarily driven by narrowing credit spreads.

From a performance attribution standpoint, the Fund's credit selection of corporate bonds in the Communication, Energy, and Real Estate sectors provided the largest contribution to relative returns, benefiting from tighter credit spreads and higher yield carry compared to the benchmark The Fund's yield curve positioning, concentrated in 3- and 10-year key rates, also supported relative performance. While government benchmark mid-term yields steepened, this was mitigated by a flattening in A-rated and BBB-rated corporate credit curves.

During the quarter, the Fund realized gains on its subordinated debt positions within the Financial sector and redeployed capital incrementally further out the curve to enhance spread carry and roll-down. Relative spread duration exposure remains concentrated in the Federal, Energy, Communication, and Real Estate sectors.

The Fund's holdings are of comparable credit quality to the benchmark but offer higher yield carry. The Manager continues to actively seek attractive opportunities to enhance portfolio structure and improve relative total returns.

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Outlook

Market expectations suggest the Bank of Canada is unlikely to implement additional rate cuts in 2026. While slower labour force growth constrains potential economic expansion, cooling inflation and stable employment support a neutral monetary policy stance.

The significant re-steepening of the yield curve from near-historic inversion levels over the past two years has enhanced the relative attractiveness of longer-term bonds (e.g., 20-year and 30-year maturities).

From a credit perspective, we view the most favourable reward-to-risk is in shorter duration corporates. Current spreads are likely factoring in accommodative monetary and fiscal policy for 2026 which we believe will continue. Net primary issuance in 2026 will probably be as strong as last year with some firms looking to opportunistically refinance debt maturing in 2027; with capital spending and M&A financing potentially providing upside surprises to issuance.

Values are reported in CAD, unless stated otherwise.

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