

GUARDIAN SHORT DURATION 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 Short Term Overall Bond Index, in the fourth quarter of 2025. This outperformance was primarily driven by narrowing credit spreads and spread carry.

From a performance attribution standpoint, the Fund's credit selection of corporate bonds in the Energy, Financial and Real Estate sectors provided the largest contribution to relative returns, benefiting from tighter credit spreads and higher spread carry compared to the benchmark. The Fund's yield curve positioning, concentrated in 2- and 3-year key rates, also supported relative performance. While government benchmark yields increased, 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. The Fund continues to concentrate its relative spread duration exposure within the Financial, Energy, 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 relative total returns.

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.

This commentary is for general informational purposes only and does not constitute investment, financial, legal, accounting or tax advice or a recommendation to buy, sell or hold a security or be considered an offer or solicitation to deal in any product or security mentioned herein. It is only intended for the audience to whom it has been distributed and may not be reproduced or redistributed without the consent of Guardian Capital LP. This information is not intended for distribution into any jurisdiction where such distribution is restricted by law or regulation.

Please read the prospectus, Fund Facts or ETF Facts before investing. Important information, including a summary of the risks, about each Fund is contained in its respective offering documents. Commissions, trailing commissions, management fees and expenses all may be associated with investments in mutual funds and exchange traded fund (ETF) investments. You will usually pay brokerage fees to your dealer if you purchase or sell units of an ETF on a stock exchange. If the units are purchased or sold on the stock exchange, investors may pay more than the current net asset value when buying units of the ETF and may receive less than the current net asset value when selling them. Mutual funds and ETFs are not guaranteed, their values change frequently and past performance may not be repeated.

There can be no assurance that the Fund's portfolio will continue to hold the same position in companies referenced here, and the portfolio may change any position at any time. The securities discussed may not represent the Fund's entire portfolio and in the aggregate may represent only a small percentage of portfolio holdings. It should not be assumed that any of the securities discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable, or will equal the investment performance of the securities discussed.

The opinions expressed are as of the published date and are subject to change without notice. Assumptions, opinions and estimates are provided for illustrative purposes only and are subject to significant limitations. Reliance upon this information is at the sole discretion of the reader. This document includes information and commentary concerning financial markets that was developed at a particular point in time. This information is subject to change at any time, without notice, and without update. This commentary may also include forward-looking statements concerning anticipated results, circumstances, and expectations regarding future events. Forward-looking statements require assumptions to be made and are, therefore, subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Investing involves risk. Equity markets are volatile and will increase and decrease in response to economic, political, regulatory and other developments. Investments in foreign securities involve certain risks that differ from the risks of investing in domestic securities. Adverse political, economic, social or other conditions in a foreign country may make the stocks of that country difficult or impossible to sell. It is more difficult to obtain reliable information about some foreign securities. The costs of investing in some foreign markets may be higher than investing in domestic markets. Investments in foreign securities also are subject to currency fluctuations. The risks and potential rewards are usually greater for small companies and companies located in emerging markets. Bond markets and fixed-income securities are sensitive to interest rate movements. Inflation, credit and default risks are all associated with fixed income securities. Diversification may not protect against market risk and loss of principal may result. Certain information contained in this document has been obtained from external parties, which we believe to be reliable, however, we cannot guarantee its accuracy.

Guardian Capital LP is the Manager of the Guardian Capital mutual funds. Guardian Capital LP manages portfolios for defined benefit and defined contribution pension plans, insurance companies, foundations, endowments and investment funds. Guardian Capital LP is a wholly owned subsidiary of Guardian Capital Group Limited, a publicly-traded firm listed on the Toronto Stock Exchange. For further information on Guardian Capital LP, please visit www.guardiancapital.com. All trademarks, registered and unregistered, are owned by Guardian Capital Group Limited and are used under license.

Date Published: January 29, 2026