GUARDIAN CAPITAL

GUARDIAN CANADIAN BOND FUND
Q3 2026
REVIEW AND OUTLOOK

SEPTEMBER 2026

Market Review

Canadian bond yields moved higher over the quarter driven by both domestic factors as well as spillover effects from rising global yields. Investors priced in a more hawkish path for Bank of Canada policy reflecting concerns about potentially higher inflation from resilient economic growth, geopolitical uncertainty, and ongoing trade tensions with the United States. As a result, the yield curve bear flattened, with shorter-term yields rising more than those at the mid and long ends of the curve. Canadian investment-grade corporate bond spreads widened modestly earlier in the quarter, before tightening in September, remaining at near historical tights, supported by strong investor demand for spread product despite record levels of corporate issuance and increasing new-issue concessions.

In Canada, the macroeconomic backdrop was mixed over the quarter, as GDP rebounded meaningfully in Q2, with the economy growing at an annualized rate of 3.8% over the period, driven by a surge in exports and further supported by strong consumer spending and capital investment. Despite labour productivity growing 1.0% in the second quarter and the unemployment rate sitting at 6.4%, labour market conditions remain soft. Much of the weakness was concentrated among younger workers and new entrants to the labour force, reflecting subdued hiring for entry-level positions. In contrast, employment conditions for prime-age workers remained relatively resilient, pointing to a labour market characterized by slow hiring and low layoffs. Trade uncertainty with the United States intensified over the quarter as CUSMA renegotiations became increasingly contentious, clouding the economic outlook and weighing on business confidence and investment activity amid concerns over the potential impact of tariffs. Against this backdrop, the Bank of Canada (BoC) left its policy rate unchanged during the quarter, balancing increasing downside risks to economic growth against the risk that inflationary pressures remain persistent. While lower interest rates could provide further support to economic activity, they could also increase the risk that inflation remains above target and place additional downward pressure on the Canadian dollar. Conversely, higher rates would place additional strain on an already highly leveraged Canadian consumer and further dampen economic growth.

In the United States, the Federal Reserve (Fed) raised the federal funds target range to 3.75%–4.00% during the quarter. Markets responded to a more hawkish-than-expected tone from Fed Chair Kevin Warsh, who emphasized the importance of restoring price stability and maintaining policy credibility. Consequently, market expectations shifted toward a more restrictive policy path, with investors increasingly pricing in the possibility of additional policy tightening. Globally, central bank policy paths adopted a more hawkish stance over the quarter. Escalating geopolitical tensions, including unsuccessful renegotiations related to the conflict in Iran, placed upward pressure on energy prices, while a surge in government debt issuance intensified concerns regarding fiscal sustainability. Against this backdrop, several major central banks tightened monetary policy, including the Federal Reserve, the Bank of Japan, the European Central Bank, and the Reserve Bank of Australia, each of which raised policy rates during the quarter, while the Bank of Canada left its policy rate unchanged.

Domestically, the broader fixed income market delivered negative total returns, with the FTSE Canada Universe Bond Index returning -2.96%, as a significant rise in bond yields weighted on fixed income markets. Longer-duration sectors were especially impacted, with Provincial government bonds (-4.09%) and corporate bonds within the rate-sensitive Infrastructure sector (-3.60%) leading the negative performance. The front-end segment (FTSE Canada Short Term Overall Bond Index; -0.91) outperformed both the mid-term (FTSE Mid Term Overall Bond Index; -2.98%) and long-end (FTSE Canada Long Term Overall Bond Index; -6.31%). Corporate bonds (FTSE Canada All Corporate Bond Index; -2.14%) outperformed government bonds (FTSE Canada All Government Bond Index; -3.24%).

The USD/CAD exchange rate strengthened from 1.4196 to 1.4232 over the quarter, supported by widening interest rate differentials and a relatively stronger U.S. growth outlook. Renewed trade tensions weighed on the Canadian dollar, while investors increasingly priced in divergent monetary policy trajectories between the Fed and the BoC

10-YEAR TREASURY YIELDS

COUNTRY	END OF Q3 2026	QTD CHANGE (BPS)	1 YEAR CHANGE (BPS)
Canada	3.99%	62	81
US	5.29%	82	114
Germany	3.59%	73	88
UK	5.42%	67	73
Japan	3.05%	38	141

Source: Guardian Capital based on data from Bloomberg as of September 30, 2026. 100 bps is equal to 1.0%.

Performance Attribution and Positioning

The Guardian Canadian Bond Fund (the “Fund”) underperformed its benchmark, the FTSE Canada Universe Bond Index, during the third quarter of 2026. Relative performance was primarily driven by curve and spread changes over the quarter.

From a performance attribution perspective, the Fund’s underweight allocation to Federal bonds contributed provided the largest contribution to relative performance, driven by more positive relative impacts from curve changes over the quarter. While the Fund’s underweight allocation to corporate bonds in the Energy sector detracted from relative returns, favourable curve dynamics within the sector partially offset this impact and contributed positively to overall relative performance. In addition, the Fund’s exposure to mid-term U.S. Treasuries contributed positively to returns, benefiting from favourable U.S.-Canada interest rate differentials and attractive carry opportunities, while the associated currency exposure remained hedged. Offsetting the positives, the Fund’s overweight allocation to corporate bonds within the Financial sector detracted from relative returns driven by negative contributions from curve and spread changes over the period.

During the quarter, the Fund realized gains on its Canada Housing Trust issues (CANHOU 1.1 03/15/31) and redeployed capital into corporate issues, most notably senior unsecured IBM bonds (IBM 4.1 08/15/30) and CIBC Bail-in (CM 3.78 06/18/32). The Fund also sold Canadian Treasuries over the quarter and reallocated proceeds into increasing the overall exposure to Financial sector credit. This repositioning enhanced the portfolio’s defensive characteristics while maintaining attractive spread carry

and high credit quality. The Fund also increased its exposure to 30-year key rates to an overweight position relative to the benchmark, while reducing its bullet positioning in the mid-term segment.

Relative spread exposure remains primarily concentrated in Corporate bonds within the Financial sector as well as Provincial bonds, which provide an attractive balance of yield enhancement and lower spread risk relative to comparable-term corporate issues. The Fund continues to maintain a modest bullet positioning in the mid-term segment of the yield curve, although the position has been reduced relative to previous quarters. At the same time, the Fund has increased its exposure to 30-year key rates, reflecting the relative attractiveness of long-term yields and historically steep curve relationships. With most key yield curve relationships now at or above their long-term historical norms, particularly at the long end of the curve, the portfolio is positioned to benefit from attractive carry while also participating in a potential flattening of the yield curve over time.

Overall, Fund holdings remain of comparable credit quality to the benchmark while providing higher yield carry. We continue to actively assess opportunities to enhance Fund structure and support improved relative total-return outcomes.

Outlook

Looking ahead, fixed income markets appear increasingly driven by policy and growth expectations rather than inflation fears. While inflation expectations have largely retraced their first-quarter rise, meaningful divergence remains between the U.S. and Canadian outlooks. Stronger U.S. economic momentum continues to support relatively higher yields and restrictive policy settings, while softer Canadian growth expectations suggest limited upward pressure on rates and a greater likelihood that the BoC remains on hold.

For investors, elevated yields continue to provide an attractive source of income, particularly as benchmark returns are expected to be driven more by carry than spread compression. With credit spreads remaining tight by historical standards and yield curve relationships broadly near their long-term averages, the potential for further valuation-driven gains appears more limited. In this environment, disciplined security selection and defensive portfolio positioning, including an emphasis on higher-quality spread sectors and issuers with resilient fundamentals, are likely to be increasingly important sources of excess returns.

Values are reported in CAD, unless stated otherwise.

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