GUARDIAN CAPITAL

GUARDIAN SHORT DURATION BOND FUND Q3 2026 REVIEW AND OUTLOOK

SEPTEMBER 2026

Market Review

Canadian bond yields ended the quarter materially higher, reflecting a broader global trend led by the U.S., as fixed income investors reassessed the required return on capital amid a sustained increase in public and private sector investment needs, concerns around the fiscal sustainability of government deficits, and continued geopolitical uncertainty. The Canadian government yield curve flattened, as short- and mid-term yields increased more than longer-term yields. Canadian investment grade corporate bond spreads were largely unchanged to marginally tighter, as new issuance declined over the quarter while attractive all-in yields continued to draw investor inflows into the asset class.

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. In contrast, business surveys for the services sector pointed to continued weakness, with the S&P Global Canada Services PMI contracting over the quarter as tariff uncertainty and elevated energy costs weighed on demand and increased firm operating expenses. The Consumer Price Index (CPI) remained near the top of the Bank of Canada's 1 to 3 percent target range, while core inflation firmed as higher energy prices contributed to broader based price pressure across the economy. The labour market also showed signs of softness, with the economy shedding approximately 35,000 jobs over the quarter. Against this backdrop, the Bank of Canada (BoC) left its policy rate unchanged during the quarter, balancing emerging potential downside risks to growth with ongoing concerns that inflation may take longer to return to target. While lower interest rates could support economic activity, they may also risk reinforcing inflationary pressures and contributing to further weakness in the Canadian dollar. Conversely, increasing rates could restrain household spending and business activity.

In the U.S., second-quarter real GDP growth was revised higher to 2.2%, while both the ISM Manufacturing and Services indices remained in expansionary territory. The labour market continued to normalize, with a slower pace of hiring but few signs of a meaningful deterioration in labour demand. The Federal Reserve reaffirmed its commitment to returning inflation to target, raising the federal funds rate at its September meeting and signaling the potential for further policy tightening. Globally, central bank policy paths became more aligned during the quarter, with the Bank of Japan, the European Central Bank, Norges Bank, the Reserve Bank of Australia, and Reserve Bank of New Zealand raising policy rates, while the Bank of England left rates 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 segments within the index 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 Q2 2026	QTD CHANGE (BPS)	1 YEAR CHANGE (BPS)
Canada	3.99%	61	81
US	5.28%	82	113
Germany	3.59%	73	88
UK	5.42%	67	73
Japan	3.07%	38	142

Source: Guardian Capital, Bloomberg. As of September 30, 2026. 100 bps is equal to 1.0%.

Performance Attribution and Positioning

The Guardian Short Duration Bond Fund (the “Fund”) performed in line with its benchmark, the FTSE Canada Short Term Overall Bond Index, in the third quarter of 2026. Relative performance was driven primarily by sector allocation and security selection within corporate credit markets.

From a performance attribution perspective, the Fund’s overweight allocation and security selection within the Financial sector, particularly holdings in the Auto Finance subsector, contributed positively to performance, driven by favourable impacts from curve changes during the period. The Fund’s overweight allocation to the Energy sector also contributed positively, supported by higher energy prices over the quarter and favourable credit market conditions. Further supporting relative performance, the Fund’s underweight allocation to Provincial government bonds contributed positively, as yield curve movements weighed on the sector over the period. Offsetting these gains, the Fund’s selection within Federal government bonds detracted from performance, as curve and spread changes weighed on the sector.

During the quarter, the Fund added a position in AIMCo Realty, reflecting attractive risk-adjusted spread and relative value opportunities. The new issue also provided favourable carry characteristics and were acquired at issuance concessions relative to comparable secondary market securities. The fund continues to concentrate its key rate exposure within the 3-year and 5-year segments, with positioning at the end of the quarter shifting to underweighting the 3-year segment and overweighting the 5- year segment.

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

Outlook

Monetary policy and short-rate expectations remain key drivers of fixed income markets. In the U.S., limited forward guidance from the Federal Reserve has left investors highly sensitive to incoming economic and inflation data, resulting in frequent reassessments of policy rate expectations and corresponding shifts in the shape of the yield curve. In Canada, the Bank of Canada continues to navigate a challenging backdrop, as renewed trade tensions with the U.S. combined with increased fiscal stimulus create uncertainty around the outlook for both growth and inflation. As a result, bond market volatility is likely to remain elevated in the coming quarters.

Yield curve relationships remain broadly consistent with historical ranges, while corporate credit fundamentals continue to be supported by healthy balance sheets and attractive all-in yields continue to draw capital into the asset class. In this environment, income and carry remain important drivers of total return potential, while diversification and disciplined portfolio construction continue to provide valuable downside protection and risk-adjusted return benefits.

Values are reported in CAD, unless stated otherwise.

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