GUARDIAN CAPITAL

GC ONE FIXED INCOME PORTFOLIO Q4 2023 QUARTERLY COMMENTARY

Market Review

After a soft start to Q4, global financial markets rallied aggressively through the final nine weeks of 2023 as indications of moderating underlying inflationary pressures suggested the desired rebalancing of supply and demand was taking place, allowing central banks to move to the sidelines and stoking expectations that policy would begin to move back toward "neutral" sooner than previously assumed. November and December marked the best two-month stretch for the domestic bond market since 1982.

For the quarter as a whole, fixed income markets turned in robust gains as market interest rates fell sharply from their earlier decade-plus highs. The FTSE Canada Universe Bond Index rose 8.3% in Q4 (its best quarter since 1985) with long-term bonds (FTSE Canada Long Term Bond Index +14.8%) notably outperforming short- and mid-term bonds (the FTSE Canada Short Term Bond Index and FTSE Canada Mid Term Bond Index were up +4.1% and +8.3%, respectively). Generally shorter-duration corporate bonds (FTSE Canada All Corporate Bond Index +7.6%) lagged government bonds (FTSE Canada All Government Bond Index +8.5%) and High Yield bonds underperformed their higher quality counterparts (FTSE Canada High Yield Overall Bond Index +6.1%).

Performance Attribution

The GC One Fixed Income Portfolio (the "Fund") registered strong absolute returns in Q4 against the highly positive backdrop for bonds in the quarter (Series A +7.8%; Series I +8.2%), however, the Fund's performance marginally lagged that of the domestic bond market benchmark over the three month's ended December reflecting the impact of the Fund's tactical bias toward corporate credit and below benchmark duration.

Portfolio Transactions

There were no changes to the Fund's portfolio asset mix in Q4.

Portfolio Outlook & Positioning

The market backdrop improved fairly notably in Q4, with the dataflow continuing to indicate that a material downturn in economic momentum is not imminent while inflationary pressures have continued to abate.
Indeed, while inflation remains above central bank targets, the degree of moderation and trajectory has removed the impetus for policymakers to keep hiking interest rates. Global central banks have increasingly moved to the sidelines, but, more notably, the recent communications from the US Federal Reserve indicated that not only are no more hikes anticipated but discussions have shifted to the potential timing of rate cuts.

This development has driven a material shift away from the views that rates would stay higher for longer, with markets pricing in more rate cuts sooner — underpinning the rally in bond markets through the last quarter.

That said, the magnitude of the recent cross-asset rally suggests that markets may well have gotten ahead of themselves, and this is particularly the case for bonds. Ordinarily, the end of a tightening cycle (and the beginning of easing) would favour adding duration to Fixed Income allocations, but the move in the final weeks of 2023 creates a more balanced outlook than otherwise would be expected. As such, there has been no preference to make changes to allocations that are tilted in favour of credit and modestly below benchmark duration.

Overall, the Fund's portfolio asset mix remains skewed in favour of high-quality corporate credit, for which carry and spreads are attractive, and duration remains below that of the broad bond market index. The position in cash represents dry powder should an attractive opportunity present itself while collecting a high yield in the meantime.

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Date Published: January 25, 2024