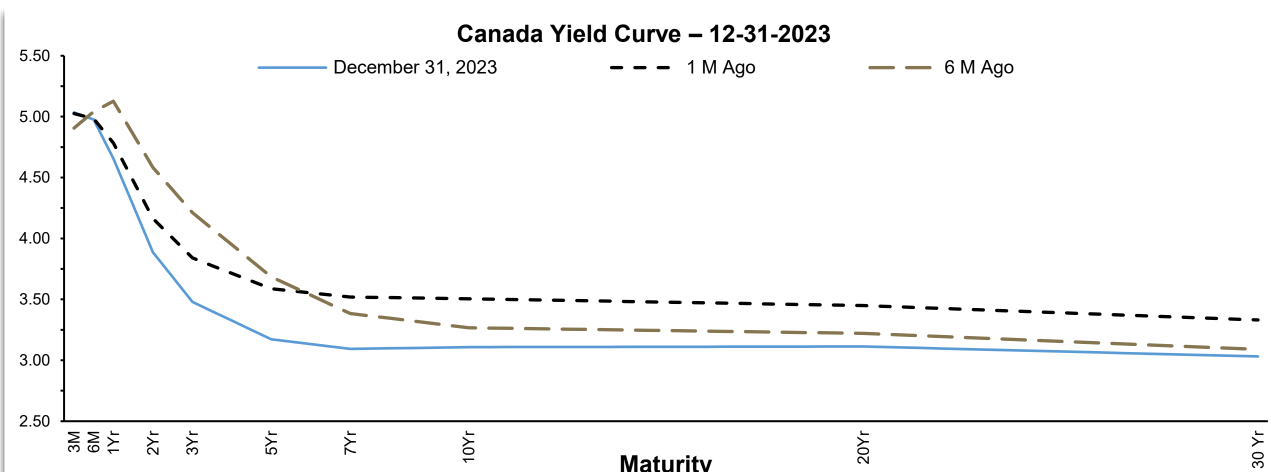
GUARDIAN CAPITAL™

AHEAD OF THE CURVE

MONTHLY BOND MARKET RECAP AND OUTLOOK

RECAP

- In 2022, fixed income markets globally experienced one of the worst years in recent history, on a total return basis. 2023 looked to be headed the same way, until mid way through October. Then, in November and December, slowing inflation and the narrative that the federal banks were done with hiking rates fueled a rally on the bond markets. The FTSE Canada Universe Bond Index ended the year up 6.69%, while returning 3.43% in December alone.
- In aggregate, Canadian Provincial bonds, as measured by the FTSE Canada Provincial Bond Index, had the best returns (4.22%) followed by Corporate bonds as measured by the FTSE Canada All Corporate Bond Index (3.27%). Both segments outperformed relative to Federal bonds, as measured by the FTSE Canada Federal Bond Index (2.83%) – as the bond markets rallied, providing a boost to investors who have been bracing themselves for a third year of losses.
- With the November data showing inflation decelerating, nobody was surprised by the Bank of Canada (BoC) and the U.S. Federal Open Market Committee's (FOMC) decision to keep their respective policy rates unchanged in December.
- The idiosyncratic risks of elevated household debt levels, coupled with the housing sector's outsized impact on the economy, have translated into a weaker economic environment in Canada relative to its less-levered neighbour to the south.
- The credit spreads tightened, driven by optimism for a soft landing and a lack of corporate bond issuance, and circled back to the levels seen at the beginning of 2022.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at December 31,2023

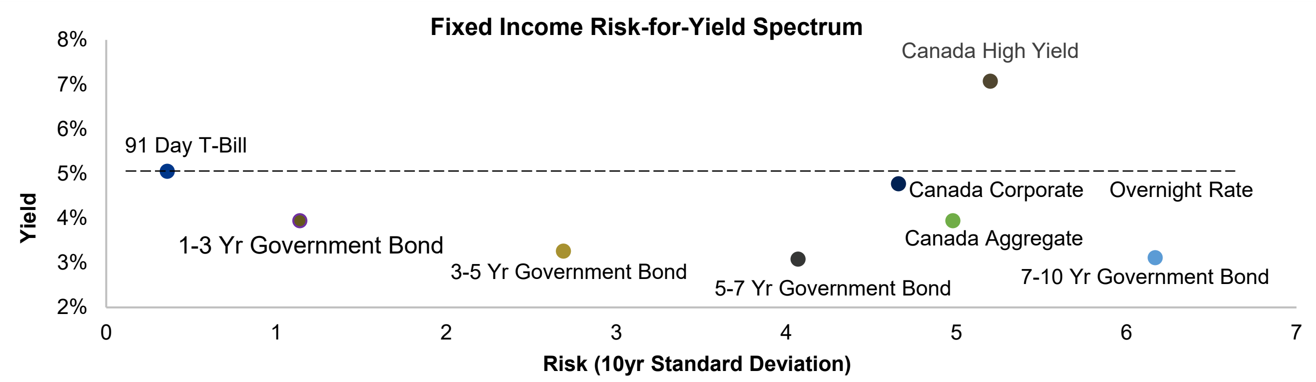
THE LOOK AHEAD

- While it seems that the peak in rates for this cycle has likely passed, yields remain at levels that provide among the best risk/reward trade-offs for bonds in more than a decade.
- As the lagged effects of the rate hikes begin to weigh on the economy, some forward indicators suggest that the BoC could start cutting rates sometime in 2024.
- In the U.S. the FOMC's approach will be data dependent – recent data is showing a slowdown in the economy, especially in November, with inflation trending downward. Nevertheless, there isn't much upside to a FOMC pivot in the immediate future, particularly when considering that the markets have been easing going into 2024.
- It's still not clear whether the decline in inflation is durable and sustainable, since labour market remains tight and wage gains are above a level consistent with 2% inflation target.

POSITIONING OPPORTUNITIES

The shift in forward-looking expectations from a 'higher for longer' to a 'lower and sooner' scenario has driven yields down across all tenures of the yield curve, with the exception of money market rates. December witnessed a continuation of the trend towards less inversion in the majority of Canadian yield curve relationships, resulting in a reduction of inversions compared to the previous month. However, with a regime of rate rises seemingly at its tail end, there are likely decent capital appreciation opportunities in the 5-10-year segment of the curve. There could still be volatility here, but investors are now being compensated with higher yields to wait for a normalization of the curve, which would benefit this segment of bonds.

For investors concerned about the recent volatility and reinvestment risk they might incur with short-term investments maturing in their high-interest savings accounts (HISA), GuardBonds Investment Grade Bond Funds offer an alternative value proposition. Investors seeking a more conservative risk-return profile can take advantage of Guardian's Ultra-Short T-Bill Funds. For example, currently, investors can earn yields on the short-end of the curve in excess of 5%, whereas the Canada five-year bond rate is slightly over 3%. Investors seeking to dampen fixed income volatility may consider a tactical allocation to T-Bills, such as those held in the Guardian Ultra-Short Canadian T-Bill Fund and Guardian Ultra-Short U.S. T-Bill Fund (USD). Those seeking to add risk to an ultra-short or HISA allocation may consider a tactical allocation to corporate credit, such as the holdings in the Guardian Investment Grade Corporate Bond Fund. Likewise, investors may consider an alternative fixed income solution that looks to provide monthly distributions and the opportunity for capital gains, while seeking low correlation to other asset classes, such as offered by the Guardian Strategic Income Fund*.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at December 31, 2023.
**Details of the Indexes used in the chart can be found on page 3.

GUARDIAN FIXED INCOME FUNDS | Current Positioning

Guardian Ultra-Short Canadian T-Bill Fund

- Largely invested in Provincial T-Bills, given their attractive yield premium (10-20bps)
- Slightly added to the overall duration this month to help optimize yield
- Excellent cash equivalent option providing attractive yield and liquidity

GuardBonds™ Investment Grade Bond Funds

- A suite of actively managed, defined maturity bond funds, that can be used to efficiently construct customized bond ladders.
- Mostly invested in Investment Grade Bonds purchased at a discount, to take advantage of potential capital gains
- Excellent GICs alternative, more liquid[1] and tax efficient[2]

Guardian Strategic Income Fund*

- The Manager took profits and exited some Canadian investment grade holdings in the Communication Services, Energy and Financials sectors, which have performed well recently
- Although high yield defaults have ticked up slightly, we believe the risk-reward trade-off remains compelling given healthy corporate balance sheets and the high level of absolute yield in companies held in the portfolio
- US high yield in the Energy sector has become more attractive as oil prices rise, and we remain constructive on this sector's prospects

[1]Each GuardBonds™ fund, despite having a specified maturity date, is fully liquid (intra-day liquidity on the ETF versions, daily liquidity on the mutual fund versions). GICs – even those of the redeemable variety – do not offer the same option for liquidity should it be needed.
[2]Each GuardBonds™ fund prioritizes holding bonds trading at a discount with the intention of holding them until maturity. When a discount bond matures at par value, the price appreciation is treated as a capital gain. Total return on a GuardBonds™ fund is expected to consist of bond interest income and capital gains. GICs, on the other hand, are always fully taxed as interest income.

FUND DETAILS

	FUND NAME	FUND CODE/ TICKER	CURRENT YIELD	CHARACTERISTICS OF PORTFOLIO HOLDINGS				
				DURATION (YRS)	YTM†	COUPON	AVERAGE PRICE	AVG QUALITY
MONEY MARKET	Guardian Ultra-Short Canadian T-Bill Fund	GCTB	N/A	0.17	5.09	N/A	98.49	R-1(H)
	Guardian Ultra-Short U.S. T-Bill Fund (USD)	GUTB.U	N/A	0.15	5.22	N/A	97.48	A-1+
	FTSE Canada 91-Day T-Bill Index		N/A	N/A	5.05	N/A		
SHORT DURATION	Guardian Short Duration Bond Fund	GCG603	3.63	2.79	5.03	3.49	96.89	A
	Guardian Strategic Income Fund*	GCG602	6.88	2.76	6.80	5.37	96.61	BB
	FTSE Canada Short Term Overall Bond Index		3.04	2.68	4.09	3.01	98.35	AA
UNIVERSE	Guardian Fixed Income Select Fund	GCG601	3.48	4.31	4.72	3.27	92.55	A
	Guardian Investment Grade Corporate Bond Fund	GCG694	4.36	5.85	5.10	4.14	95.87	BBB
	Guardian Canadian Bond Fund	GCG654	3.34	7.60	3.93	3.10	95.96	AA
	FTSE Canada Mid Term Corporate Bond Index		4.42	6.75	4.71	4.45	99.90	A
	FTSE Canada Universe Bond Index		3.29	7.47	3.94	3.24	97.05	AA

Source: Guardian Capital based on data from PC Bond, Bloomberg as at December 31, 2023.

The Duration, Yield to Maturity, Coupon, Average Price and Average Quality shown are based on the weighted average of the securities held in the respective Funds' portfolio, and for the comparative benchmarks they are based on the weighted average of the Index constituents.

YTM: The Yield to Maturity (YTM) shown is the current yield-to-maturity, gross of fees, based on underlying portfolio holdings as at the date indicated. These yields will fluctuate regularly. YTM represents the expected annual rate of return earned on a bond under the assumption that the debt security is held until maturity.

†Note: For the T-Bill Funds, the YTM shown is the Yield to Maturity at Cost or **YTM (at Cost),** which is the weighted average YTM (at Cost) of each of the underlying T-Bill securities in the portfolio, net of cash. YTM (at Cost) means the percentage rate of return paid if the T-Bill security is held to its maturity date from the original time of purchase. The calculation is based on the coupon rate, length of time to maturity, and original price of the underlying T-Bill securities. This is not the yield, distribution rate or performance return of the Fund and is not intended to represent the distribution or return experience of any unitholder. It is only intended to give investors an idea a particular portfolio characteristic of the underlying securities held in the Fund's portfolio.

Current Yield: The Current Yield is an annualized historical yield based on actual net income of the Fund for the seven-day period ended on the date specified and does not represent an actual one-year return.

For more information on the financial terms used in this document, please refer to the **Glossary of Financial Terms** on our website at: https://www.guardiancapital.com/investmentsolutions/glossary-of-terms/

*The Guardian Strategic Income Fund is an alternative mutual fund. It is permitted to invest in asset classes or use investment strategies that are not permitted for other types of mutual funds. The specific strategies that differentiate this Fund from other types of mutual funds include borrowing cash, engaging in short selling and investing in specified derivatives. While these strategies will be used in accordance with the Fund's objectives and strategies, during certain market conditions they may accelerate the pace at which your investment changes in value. This Fund also pays the Manager a Performance Fee equal to 15% of the amount by which the Investment Performance of the applicable series of Units exceeds the aggregate of the High Water Mark and the cumulative Hurdle Amount during the Performance Period. Please refer to the Fund's prospectus for additional details.

**Fixed Income Risk-for-Yield Spectrum chart
91 Day T-Bill: FTSE Canada 91 Day T-Bill Index, which tracks Canadian Treasury Bills with maturities of 91 days.
1-3yr Government Bond: FTSE Canada 1-3 Government Bond Index, which tracks Government of Canada Bonds with maturities of 1-3 years.
3-5yr Government Bond: FTSE Canada 3-5 Government Bond Index, which tracks Government of Canada Bonds with maturities of 3-5 years.
5-7yr Government Bond: FTSE Canada 5-7 Government Bond Index, which tracks Government of Canada Bonds with maturities of 5-7 years.
7-10yr Government Bond: FTSE Canada 7-10 Government Bond Index, tracks Government of Canada Bonds with maturities of 7-10 years.
Canada Aggregate: FTSE Canada Universe Bond Index:, which tracks all Canadian Bonds.
Canada Corporate: FTSE Canada All Corporate Bond Index, which tracks corporate bonds within Canada.
Canada High Yield: FTSE Canada High Yield Overall Index, which tracks high-yield bonds within Canada.

DISCLAIMER

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