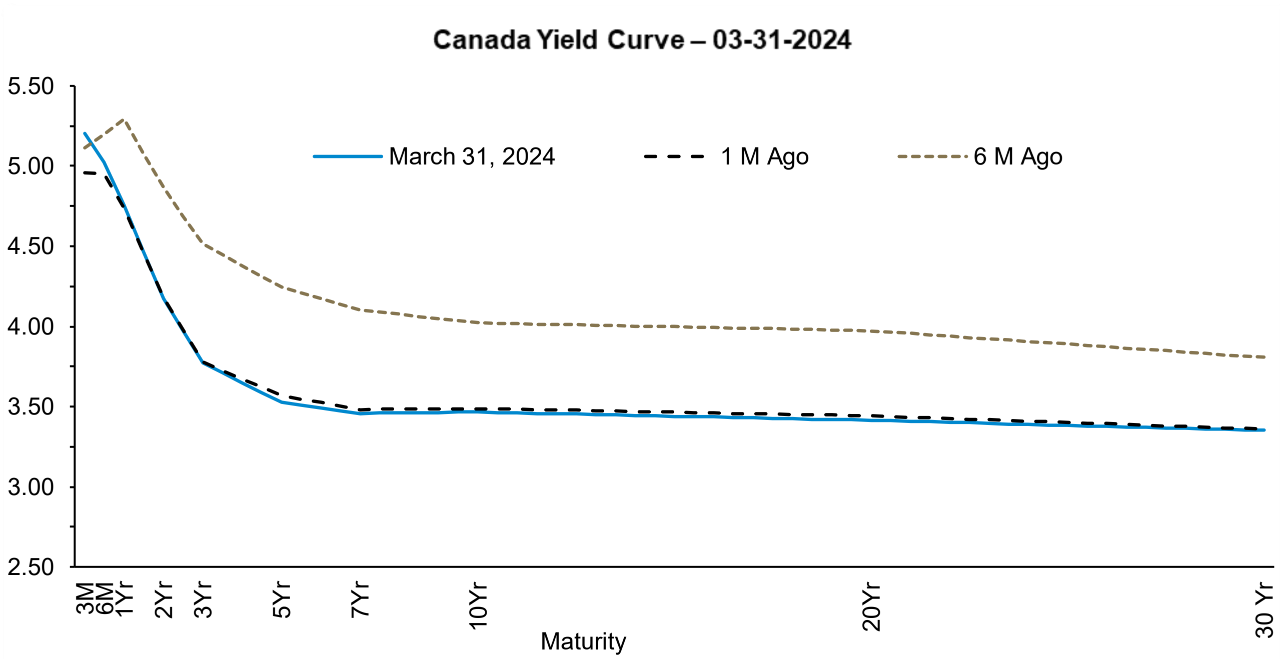
GUARDIAN CAPITAL™

AHEAD OF THE CURVE

MARCH 2024 BOND MARKET RECAP AND OUTLOOK

RECAP

- Canadian fixed income markets faced a reality check at the start of 2024, following their historic end to 2023, with negative returns in the first two months. The continued resiliency in the economic dataflow - particularly firmer than anticipated readings on gauges of underlying inflationary pressure such as Personal Consumption Expenditure (PCE) and Consumer Price Index (CPI), as well as an indication that the Bank of Canada (BoC) may not be as proactive as hoped in moving toward a more "neutral" policy setting – caused a rethink around expectations of imminent and aggressive rate cuts that had fueled the year-end rally.
- The FTSE Canada Universe Bond Index returned 0.49% in March, marking the first month of positive returns in 2024. In aggregate, Canadian corporate bonds, as measured by the FTSE Canada All Corporate Bond Index, had the best returns (0.54%) closely followed by federal bonds, as measured by the FTSE Canada Federal Bond Index (0.51%). Both segments outperformed relative to provincial bonds, as measured by the FTSE Canada Provincial Bond Index (0.43%).
- Despite a very promising January CPI print, the BoC March decision was about as predictable as it could be. As expected, the overnight rate was left unchanged, while the central bank suggested a looser policy on the horizon. It appears that while the central bank is looking for some consistency in the inflation numbers, they have acknowledged that the economy is slowing, and will need to see evidence of sustained easing in the employment data, before gaining confidence that the wage pressures have been contained.
- This data dependency, coupled with the BoC's reluctance (as of yet) to begin contemplate easing, should serve to keep the yield curve from dis-inverting in a significant way. In this environment of wait and see, one trend persists from last year: investors continue to seek out higher returns from credit risk premia resulting in credit spreads remaining tight throughout the month.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at March 31, 2024

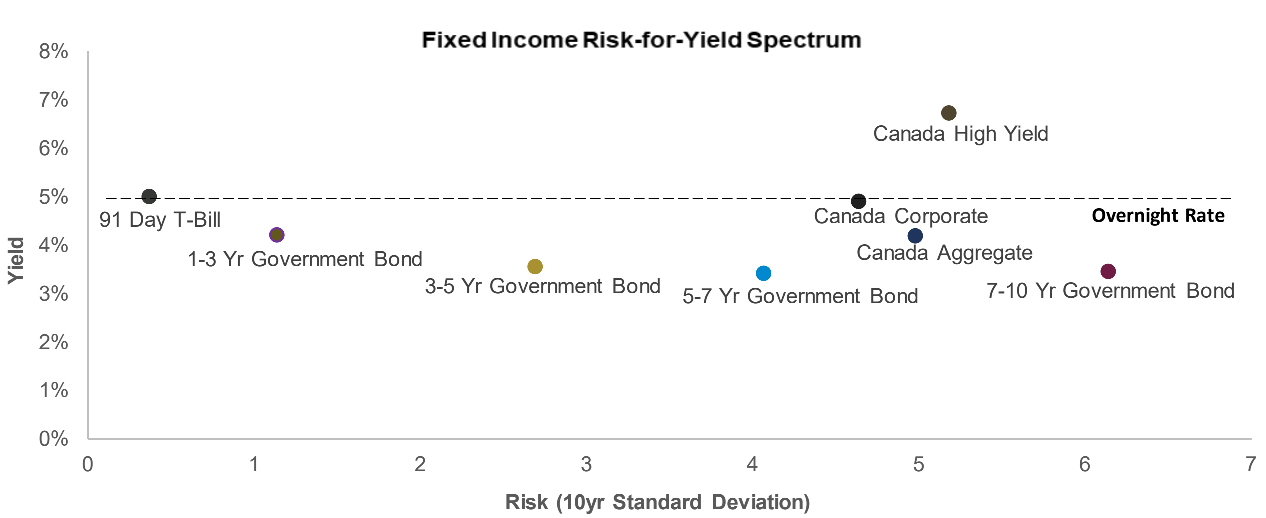
THE LOOK AHEAD

- South of the border, the overarching theme from the Federal Open Market Committee's (FOMC) March meeting was "closer, but not yet close enough" when it came to rate cuts. While conceding that it was premature to pivot to less restrictive policy rates, the FOMC implied that cutting conditions should gradually fall into place.
- Looking forward, the adjustment of expectations over the last few months brings the market more closely aligned with the views of central banks, which leads to a better balance of risks than prevailed at the end of 2023.
- It is the view of the Guardian Capital LP Fixed Income team that the rates have peaked in Canada, which bodes well for the market going forward. At the end of March, Bloomberg market pricing was indicating about 75 basis points of expected rate cuts for the year in Canada.

POSITIONING OPPORTUNITIES

Assuming, as we do, that rates have peaked for the cycle, we believe the mid-part of the yield curve (5yr to 10yr bond maturities) is likely to provide the best risk-adjusted returns as the yield curve dis-inverts through an easing cycle. The combination of relatively high yields coupled with the potential for capital gains, we believe offer an attractive risk-reward into an easing cycle.

For investors in the cash-alternative space concerned about recent volatility and reinvestment risk they might incur with short-term investments maturing, such as within their high-interest savings accounts (HISA), as well as those looking to generate an attractive yield using relatively low-risk securities, strategies that can offer some degree of yield certainty at the current higher rates are likely more attractive. For example, consider the GuardBonds™ Investment Grade Bond Funds, which offer an alternative value proposition of defined maturity bond investments. Investors seeking a more conservative risk-return profile may be interested in the Guardian Ultra-Short T-Bill Funds, where investors can currently earn yields on the short-end of the curve, such as (3-month) T-Bills, in excess of 5%, in contrast to the Canada 5-year bond rate which is less than 4%. 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 their fixed income allocation may consider a tactical allocation to corporate credit, such as the holdings in the Guardian Investment Grade Corporate Bond Fund. Investors may also 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*. More information on these Guardian Funds can be found in their respective prospectus and Fund or ETF Facts.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at March 31, 2024
**Details of the Indexes used in the chart can be found on page 5.

GUARDIAN FIXED INCOME FUNDS | Current Positioning

Guardian Ultra-Short Canadian T-Bill Fund

- Largely invested in Provincial T-Bills, given their current attractive yield premium (10-20bps)
- Slightly added to the overall duration of the Fund's T-bill holdings 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[2]
- Excellent GICs alternative, more liquid[1] and tax efficient[2]

Guardian Canadian Bond Fund

- Lengthened duration profile of the Fund's bond holdings, now slightly longer positioning relative to its benchmark, the FTSE Canada Universe Bond Index (7.18 vs. 7.08 years)
- Added long-term federal bonds, but still underweight its benchmark
- Remains overweight corporate bonds to collect higher coupon income

Guardian Strategic Income Fund (Alternative 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 bonds in the Energy sector have 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	-	0.15	5.12	-	98.33	R-1(H)
MONEY MARKET	Guardian Ultra-Short U.S. T-Bill Fund (USD)	GUTB.U	-	0.16	5.29	-	98.16	A-1+
MONEY MARKET	FTSE Canada 91-Day T-Bill Index		-	-	5.01	-		
TARGET MARTURITY	GuardBonds™ 2024 Investment Grade Bond Fund	GBFA	2.84	0.57	5.12	2.82	98.84	A
TARGET MARTURITY	GuardBonds™ 2025 Investment Grade Bond Fund	GBFB	2.23	1.38	4.82	2.16	96.54	A
TARGET MARTURITY	GuardBonds™ 2026 Investment Grade Bond Fund	GBFC	2.12	2.36	4.71	1.99	94.03	A
TARGET MARTURITY	GuardBonds™ 2027 Investment Grade Bond Fund	GBFD	2.74	3.43	4.97	2.63	94.47	A
SHORT DURATION	Guardian Short Duration Bond Fund	GCG603	3.60	2.78	4.71	3.52	86.76	A
SHORT DURATION	Guardian Strategic Income Fund*	GCG602	7.26	2.69	9.75	5.40	99.34	BB
SHORT DURATION	FTSE Canada Short Term Overall Bond Index		3.18	2.58	4.32	3.14	97.47	AAA
UNIVERSE	Guardian Fixed Income Select Fund	GCG601	3.33	4.16	4.33	3.20	89.63	A
UNIVERSE	Guardian Investment Grade Corporate Bond Fund	GCG694	4.07	5.65	4.84	3.91	89.00	BBB
UNIVERSE	Guardian Canadian Bond Fund	GCG654	3.29	7.18	4.18	3.29	92.82	AA
UNIVERSE	FTSE Canada Mid Term Corporate Bond Index		4.51	5.82	4.92	4.58	98.49	BBB
UNIVERSE	FTSE Canada Universe Bond Index		3.41	7.08	4.21	3.30	94.76	AA

Source: Guardian Capital based on data from PC Bond, Bloomberg as at March 31, 2024

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.

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