

# GUARDIAN MANAGED BALANCED PORTFOLIO

## Q4 2024

# COMMENTARY

### Market Overview

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It was a volatile calendar fourth quarter of 2024 that saw mixed performance across global financial markets as investors digested the implications of the outcome of the US election for economic growth, interest rates and geopolitics.

In equities, the MSCI World Index ended the final three months of 2024 with a 6.3% gain in Canadian dollars, however, that solid overall return masked significant divergences across regions with the US (S&P 500 +9.0% in Canadian dollar terms) again handily outperforming its Developed Market counterparts in Canada (S&P/TSX +3.8%) and Europe, Australasia & the Far East (MSCI EAFE -2.2%) — and that American exceptionalism was on further display for Canadian investors as the sharp dive in the loonie in the fourth quarter (-6.1% versus the US dollar) boosted international performance levels. Even within the US, there were significant disparities among market segments, with just a handful of sectors seen as benefitting from the new US Administration (and a narrow subsection of stocks within these sectors) accounting for a bulk of the returns.

Bond markets also experienced notable volatility to close out the year — falling materially early in the fourth quarter only to rallying back before ultimately ending the period unchanged (FTSE Canada Universe Bond Index 0.0%) — as investors balanced the impact of the further easing of monetary policy worldwide (including 100 basis points worth of cuts by the Bank of Canada in the fourth quarter) against the upward pressure on longer-term yields due to rising inflation expectations and a renewed focus on fiscal sustainability in the aftermath of the US election. More policy sensitive short-term bonds outperformed longer-term debt issues while corporate credit beat government bonds.

### Performance Attribution

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The Guardian Managed Balanced Portfolio (the “Fund”) was underweight laggard Fixed Income and overweight top-performing Global Equity relative to its Strategic Asset Allocation in the fourth quarter which proved accretive to relative performance in the quarter. With respect to underlying holdings, the positives of the underlying bias toward growth strategies in Equity allocations and credit in Fixed Income were offset by the negative impact of the underperformance of the more income-oriented Equity strategies in the quarter. The net result was our tactical multi-asset Fund’s portfolio outperformed its blended benchmark in the fourth quarter.

### Portfolio Transactions

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The Manager was comfortable with the overall exposures to Equity and Fixed Income, however, there were some changes made to allocations within asset classes in the fourth quarter. Most notably, the decision was made to shift weight from the core Fixed Income allocation to the Guardian Investment Grade Corporate Bond Fund given the expectation that economic growth would remain on decent footing and the yield curve continued to steepen as longer-term rates remained fairly anchored, which created attractive risk-adjusted prospects for high quality mid-term credit. As well, with the risks to the outlook appearing skewed in favour of the US over its international peers, the Manager added exposure to American equities at the expense of other geographic locations.

### Portfolio Outlook & Positioning

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The baseline global outlook represents a positive backdrop for equities and history shows that positive growth and modestly declining short-term rates have coincided with the asset class’ best performance.

The question, however, remains of how much upside remains in markets given the strong performance seen over the last two years that has pushed global stocks up by more than 50% (and US equities by nearly 70%)?

For starters, the narrow market performance coupled with a broader improvement in earnings, suggests that stocks are not priced for perfection. For example, while the MSCI World Index ended the year trading at a valuation that stood well above its longer-term average (i.e. expensive), the version of the index in which each stock carries the same weighting (and therefore is more indicative of the average stock) trades at a valuation that is actually below average (i.e. inexpensive).

Further, the positive performance in 2024 (especially in the second half of year) increasingly reflected a fundamental earnings thrust rather than multiple expansion exclusively (even in the US, stock performance was largely consistent with the increase in earnings). With earnings momentum still tilted to the upside and global profits currently expected to post double-digit growth next year, there remains further potential for solid equity performance. The prospect of a more pro-business government and lower tax burdens in the US suggests that American exceptionalism is likely set to continue.

With respect to bonds, yields on issues with longer maturities are generally expected to remain anchored compared to those at the front-end of the curve reflecting the return to more “normal” supply and demand dynamics as central banks are no longer active participants in the market and governments worldwide continue to issue debt to fund their yawning deficits — and on this latter point, the looming election in Canada does not suggest a willingness to rein in spending while the prospect of the adoption of an expansionary fiscal policy in the US could add upside risk to longer-term rates.

Moving further out the risk spectrum into credit can provide additional yield carry while also offering the potential for positive performance tied to improving credit fundamentals. High-grade corporate bonds appear to offer a somewhat better risk/return profile at the moment given current relative valuations and the outlook, while history shows quality credit issues have turned in the best performance against a backdrop of modestly declining rates.

With that all said, the rise in geopolitical uncertainty and the attendant increase in headline risks that may come as a result of the government transition in the US, however, represents a material risk to this otherwise fairly sanguine outlook that could mean the path forward is not without some bumps.

Moreover, a particularly inimical approach to international policy may well perpetuate the performance gap between the US and the rest of the world experienced over the last two years. While the likelihood is that the more onerous proposals presented on the campaign trail such as universal tariffs and hefty levies aimed specifically at Canada are nothing more than negotiating tactics that may not come to fruition, the threats and their negative economic consequences cannot be dismissed out of hand and will likely weigh on market sentiment.

As such, the focus remains on maintaining exposures to high quality equity and fixed income assets that are able to generate positive performance should the more positive baseline outlook materialize while also managing to mitigate the downside risks in more volatile market environments.

The Fund’s portfolio asset mix remains overweight Equity with a bias toward Global Equity and a focus on quality growth strategies. In Fixed Income, there remains a skew in favour of high-quality corporate credit and duration remains modestly below that of the broad bond market index.

Returns are presented in CAD, unless otherwise stated.

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