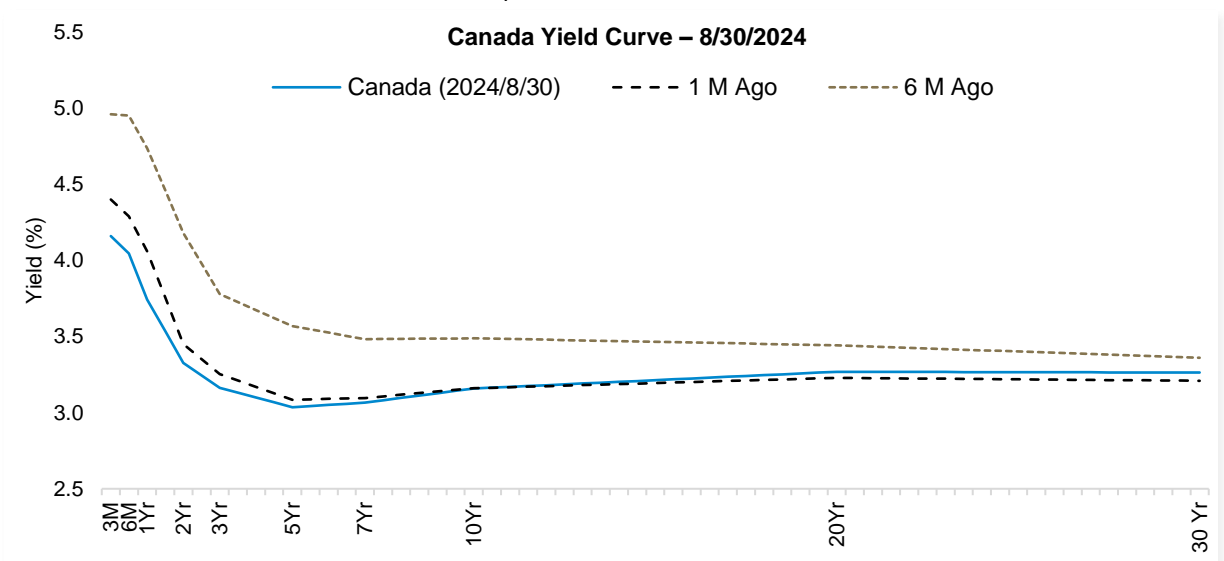


# AHEAD OF THE CURVE

## AUGUST 2024 BOND MARKET RECAP AND OUTLOOK

### RECAP

- Bond markets were in the green this month, with the FTSE Canada Universe Bond Index posting a +0.33% gain in what was a volatile month for global capital markets.
- In Canada, measures of headline and core inflation continue to moderate on a year-over-year basis. The unemployment rate remained unchanged at 6.4%, however, nominal GDP growth for the second quarter of the year came in higher than expected (2.1% vs 1.5%) on an annualized basis – key drivers of growth included government spending (+6.7%) and business spending on non-residential structures and machinery and equipment (+11.1%). However, despite the positive surprise, implied futures market pricing suggests a 100% probability that the Bank of Canada (BoC) will cut rate rates at their September 4th meeting.
- South of the border, the US Federal Reserve’s (Fed) preferred gauge of domestic inflation came in more favourably than anticipated in July, adding further confirmation that underlying inflationary pressures are cooperating, signaling that the Fed is expected to begin their rate cutting cycle at their September meeting.
- The bond yield curve continued to steepen, as short-term and mid-term bond yields moved lower while longer term bonds saw their yields slightly rise.
- The short end of the curve (FTSE Canada Short-Term Overall Bond Index, +0.51%) and the belly (FTSE Canada Mid-Term Overall Bond Index, +0.51%) outperformed the long end of the curve (FTSE Canada Long-Term Overall Bond Index, -0.13%).
- Longer duration government bonds (FTSE Canada All Government Bond Index, +0.35%) outperformed shorter duration corporate bonds (FTSE Canada All Corporate Bond Index, +0.26%) driven by Federal agency bonds (+0.50%).
- For Canadian corporate bonds, credits spreads retraced from their widening at the beginning of the month, as spreads on BBB (+0.04%) and A-rated (+0.01%) corporate bonds ended the month slightly wider, while AA and AAA-rated corporate bonds slightly narrowed -0.02%. Bonds within the Financial and Real Estate sectors outperformed, while bonds within the Infrastructure and Communication sectors underperformed.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at August 30, 2024

# AHEAD OF THE CURVE

## AUGUST 2024 BOND MARKET RECAP AND OUTLOOK

### THE LOOK AHEAD

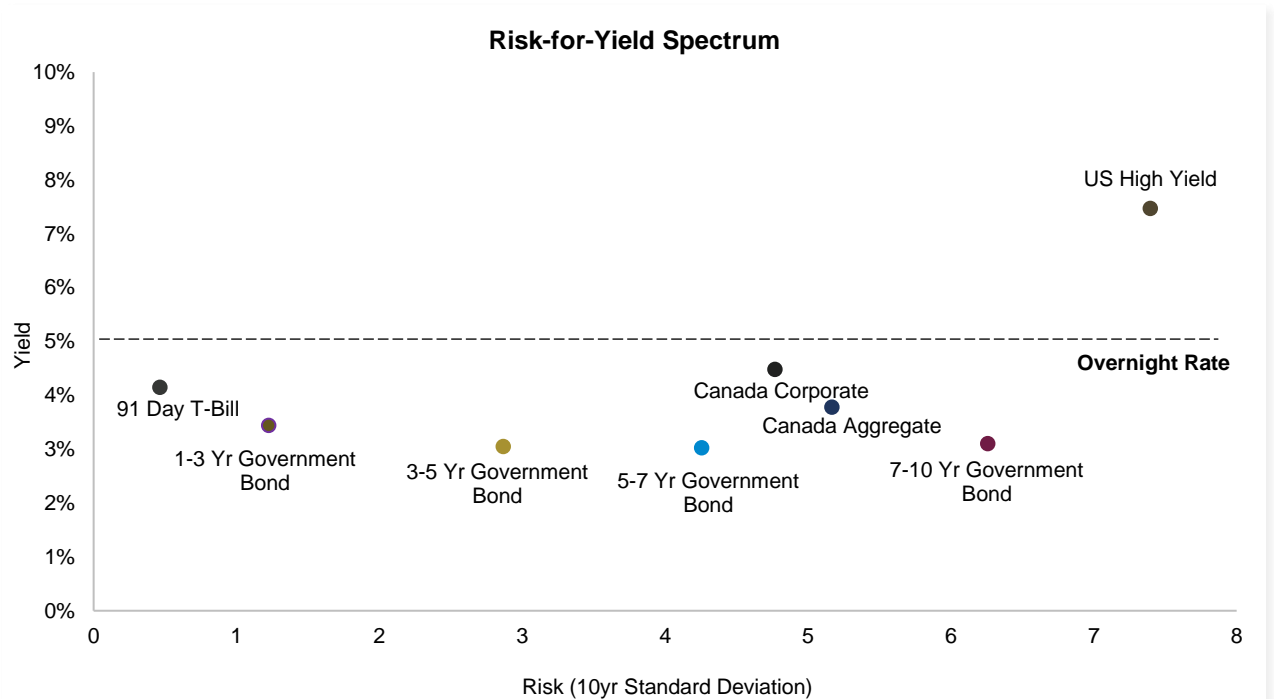
- Indications of rising slack in the Canadian economy, as is evident by the slowing pace of discretionary consumer spending, indicate that the BoC is likely to continue easing rates in September.
- Futures market pricing suggests three more rate cuts before the end of the year, with an implied probability of 95%.
- From an interest rate term structure perspective, the market consensus is that the yield curve will continue to steepen as the BoC normalizes policy towards its neutral rate.
- From a credit perspective, while credit spreads remain relatively tight on a historical basis, catalysts for additional spread compression may be limited..

### POSITIONING OPPORTUNITIES

In a yield curve steepening environment where short-term yields decline more than mid-term and long-term yields, a bulleted portfolio structure of bonds (i.e., multiple bonds concentrated around a particular maturity year) are expected to outperform a barbell (i.e., bonds with only short and long-term maturities) or laddered (i.e., bonds with staggered maturities) portfolio structure, all else being equal.

For investors seeking to reduce the reinvestment risk associated with Guaranteed Investment Certificates (GICs) and high-interest savings accounts (HISAs) due to yields moving lower, GuardBonds™, our suite of target maturity funds, provide attractive yields and offer the potential for greater tax efficiency because of the capital gains potential embedded in purchasing of discount bonds. Additionally, GuardBonds™ are able to provide daily liquidity to investors unlike non-redeemable GICs, which may penalize investors for early redemption.

With risks being asymmetrically skewed to credit spreads widening, we have implemented portfolio credit hedges within the Guardian Strategic Income Fund.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at August 30, 2024

\*\*Details of the Indexes used in the chart can be found on page 5.

# AHEAD OF THE CURVE

## AUGUST 2024 BOND MARKET RECAP AND OUTLOOK

### GUARDIAN FIXED INCOME FUNDS | Current Positioning

#### 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.<sup>2</sup>
- Excellent GICs alternative, more liquid<sup>1</sup> and tax efficient.<sup>2</sup>

#### Guardian Canadian Bond Fund

- Shorter duration profile relative to its benchmark, the FTSE Canada Universe Bond Index (7.67 vs. 7.33 years, respectively, as at August 30).
- Higher concentration in the 7-year rate and lower concentration in the 10-year and 20-year rates, relative to the benchmark.
- Overweight corporate bonds (Financials) and underweight government bonds (primarily Federal bonds).

#### Guardian Investment Grade Corporate Bond Fund

- Similar duration profile relative to its benchmark, the FTSE Canada Mid Term Corporate Bond Index (5.83 vs. 5.83 years, respectively, as at August 30).
- Higher concentration in the 10-year rate and lower concentration in the 5-year and 7-year rates, relative to the benchmark.
- Overweight bonds within the Real Estate, Financial, and Energy sectors and underweight bonds within the Infrastructure, Industrial, and Communication sectors.

#### Guardian Strategic Income Fund (Alternative Fund)\*

- Profit taking in select holdings within the Energy (i.e., Enbridge Inc., and TransCanada) sector, while opportunistically adding new positions within the Consumer Staples sector (i.e., Walgreens). The portfolio is focused on reducing its risk exposure, by adding hedges and increasing overall portfolio quality.
- Although defaults on high yield bond issues have ticked up year-to-date, their proportion in the market is well within expectations for this year and is concentrated in a couple of highly levered sectors (e.g. Technology, Media, and Telecom). The risk-reward trade-off for high-yield more broadly and corporate hybrid bonds remains intact (albeit a bit less than earlier this year) given generally healthy fundamentals, a relatively measured amount of primary supply and easing financial conditions. We continue to look for opportunities to add incremental high-quality exposure at wider spreads during risk-off periods. The Manager continues to maintain this focus for companies held in the Fund's portfolio.

<sup>1</sup> 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.

<sup>2</sup> 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.

# AHEAD OF THE CURVE

## AUGUST 2024 BOND MARKET RECAP AND OUTLOOK

### FUND DETAILS

FUND NAME				CHARACTERISTICS OF PORTFOLIO HOLDINGS				
				FUND CODE/ TICKER	CURRENT YIELD	DURATION (YRS)	YTM†	COUPON
MONEY MARKET	Guardian Ultra-Short Canadian T-Bill Fund	GCTB	4.57	0.16	4.57	-	98.63	R-1(H)
	Guardian Ultra-Short U.S. T-Bill Fund (USD)	GUTB.U	5.19	0.15	5.19	-	98.38	A-1+
	FTSE Canada 30-Day T-Bill Index		-	-	4.15	-		
TARGET MATURITY	GuardBonds™ 2024 Investment Grade Bond Fund	GBFA	2.88	0.11	4.64	2.89	99.78	A
	GuardBonds™ 2025 Investment Grade Bond Fund	GBFB	1.97	0.89	4.19	1.94	98.01	A
	GuardBonds™ 2026 Investment Grade Bond Fund	GBFC	2.03	1.85	4.04	1.96	96.21	A
	GuardBonds™ 2027 Investment Grade Bond Fund	GBFD	2.28	2.73	3.80	2.20	95.65	A
	GuardBonds 1-3 Year Laddered Investment Grade Bond Fund	GBLF	2.06	0.96	4.29	2.26	97.99	A
SHORT DURATION	Guardian Short Duration Bond Fund	GCG603	3.31	2.83	3.75	3.33	99.47	A
	Guardian Strategic Income Fund*	GCG602	6.58 <sup>^^</sup>	3.31	6.85 <sup>^</sup>	6.12	101.37	BB
	FTSE Canada Short Term Overall Bond Index		3.29	2.58	3.65	3.32	99.81	AA
UNIVERSE	Guardian Fixed Income Select Fund	GCG601	3.73	4.75	4.37	3.68	96.51	A
	Guardian Investment Grade Corporate Bond Fund	GCG694	4.55	5.83	4.75	4.60	100.50	BBB
	Guardian Canadian Bond Fund	GCG654	3.63	7.51	3.80	3.60	97.34	AA
	FTSE Canada Mid Term Corporate Bond Index		4.50	5.83	4.55	4.68	101.13	BBB
	FTSE Canada Universe Bond Index		3.44	7.21	3.78	3.40	97.11	AA

Source: Guardian Capital based on data from PC Bond, Bloomberg as at August 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.

<sup>^</sup>YTM reported for the Guardian Strategic Income Fund is Yield to Worst (YTW), given the Fund mostly holds high yield securities. YTW represents the expected annual rate of return earned on a bond under the assumption that the debt security is repaid in full ahead of schedule by the issuer. YTW is lower than YTM given the bond would be held over a shorter period and is more commonly used for high yield securities like the majority of securities in the Guardian Strategic Income 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.

Note: <sup>^^</sup>Current Yield reported for the Guardian Strategic Income Fund is its Distribution Yield. Distribution Yield is based on Series F distributions per unit over the trailing 12-month period, divided by the end of period unit price. This is a more appropriate measure of the rate of income an investor may expect from the Fund than Current Yield because the Fund may invest in non-coupon paying securities (i.e., futures, option spreads, forwards, etc.) compared to traditional fixed income funds.

# AHEAD OF THE CURVE

## AUGUST 2024 BOND MARKET RECAP AND OUTLOOK

\*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. Statistics only reflect bond segment.

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/>

\*\*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.

**US High Yield:** ICE BofA US High Yield Index, which tracks high-yield bonds within the US.

### DISCLAIMER

**This commentary is for informational purposes only and does not constitute investment, financial, legal, accounting, tax advice or a recommendation to buy, sell or hold a security. It shall under no circumstances be considered an offer or solicitation to deal in any product or security mentioned herein. It is only intended for the audience to whom it has been distributed and may not be reproduced or redistributed without the consent of Guardian Capital LP. This information is not intended for distribution into any jurisdiction where such distribution is restricted by law or regulation.**

Please read the prospectus, Fund Facts or ETF Facts before investing. Important information, including a summary of the risks, about each Fund is contained in its respective offering documents. Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund and exchange traded fund (ETF) investments. You will usually pay brokerage fees to your dealer if you purchase or sell units of an ETF a stock exchange. If the units are purchased or sold a stock exchange, investors may pay more than the current net asset value when buying units of the ETF and may receive less than the current net asset value when selling them. For ETF Units and mutual funds other than money market funds, unit values change frequently. For money market mutual fund Units, there can be no assurances that these mutual fund Units will be able to maintain their net asset value per unit at a constant amount or that the full amount of your investment in the fund will be returned to you. Mutual fund and ETF securities, including money market funds, are not covered by the Canada Deposit Insurance Corporation or by any other government deposit insurer. Mutual funds and ETFs are not guaranteed, and past performance may not be repeated.

The opinions expressed are as of the date of publication and are subject to change without notice. Assumptions, opinions and estimates are provided for illustrative purposes only and are subject to significant limitations. Reliance upon this information is at the sole discretion of the reader. This document includes information concerning financial markets that was developed at a particular point in time. This information is subject to change at any time, without notice, and without update. This commentary may also include forward looking statements concerning anticipated results, circumstances, and expectations regarding future events. Forward-looking statements require assumptions to be made and are, therefore, subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. Investing involves risk. Equity markets are volatile and will increase and decrease in response to economic, political, regulatory and other developments. Investments in foreign securities involve certain risks that differ from the risks of investing in domestic securities. Adverse political, economic, social or other conditions in a foreign country may make the stocks of that country difficult or impossible to sell. It is more difficult to obtain reliable information about some foreign securities. The costs of investing in some foreign markets may be higher than investing in domestic markets. Investments in foreign securities also are subject to currency fluctuations. The risks and potential rewards are usually greater for small companies and companies located in emerging markets. Bond markets and fixed-income securities are sensitive to interest rate movements. Inflation, credit and default risks are all associated with fixed income securities. Diversification may not protect against market risk and loss of principal may result. Certain information contained in this document has been obtained from external parties which we believe to be reliable, however we cannot guarantee its accuracy.

Guardian Capital LP is the Manager of the Guardian Capital mutual funds and ETFs. Guardian Capital LP is a wholly-owned subsidiary of Guardian Capital Group Limited, a publicly traded firm, the shares of which are listed on the Toronto Stock Exchange. For further information on Guardian Capital LP or its affiliates, please visit [www.guardiancapital.com](http://www.guardiancapital.com). All trademarks, registered and unregistered, are owned by Guardian Capital Group Limited and are used under license.

Date published: September 18, 2024