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GUARDIAN INVESTMENT GRADE BOND FUND Q3 2024 REVIEW AND OUTLOOK

SEPTEMBER 2024

Market Review

Bond markets rallied strongly this quarter, as inflation continued to moderate, and the Bank of Canada (BoC) cut its policy rate by 25 basis points in both July and September to 4.25%; and the U.S. Federal Reserve (Fed) also lowered the fed funds target rate by 50 basis points to 5%.

Global central banks elsewhere also increasingly took steps to move away from highly restrictive policy stances this quarter. The European Central Bank lowered its policy rate by a further 25 basis points in September, while the Bank of England cut its bank rate by 25 basis points in August; and central banks in Switzerland, Sweden, Denmark and New Zealand also made cuts in the quarter.

Domestically, the result was a bull-steepening of the yield curve (short term rates decreasing more than long-term rates) with the FTSE Canada Universe Bond Index up 4.66% and all major subcomponents also finishing in positive territory. Longer duration bonds (FTSE Canada Long Term Overall Bond Index +5.75%) notably outperformed their shorter duration counterparts (FTSE Canada Short Term Overall Bond Index, +3.4%) for the three-months ended September 30, reflecting shorter term bonds greater sensitivity to interest rate changes. Corporate bonds (FTSE Canada All Corporate Bond Index, +4.67%) closely matched government bonds performance in the period (FTSE Canada All Government Bond Index, +4.66%), as credit spreads on BBB-rated bonds continued to tighten, while credit spreads on AA and AAA-rated bonds ended the quarter slightly wider.

The anticipated ongoing easing cycle in both Canada and the U.S. is expected to remain a positive driver for fixed income assets in the months ahead. Rate volatility, however, appears likely to persist as markets reassess the path for policy rates against ongoing concerns over the economic outlook, escalating geopolitical tensions in the Middle East, uncertainties around the upcoming U.S. election and fiscal deficit outlook.

The Canadian dollar (CAD) appreciated marginally relative to the US dollar (USD) during the quarter, ending June at 1.3679 CAD per USD and closing the quarter at 1.3525 per USD.

10-YEAR TREASURY YIELDS

COUNTRY	END OF Q3 2024	QTD CHANGE (BPS)	1 YEAR CHANGE (BPS)
Canada	2.96%	-55	-107
US	3.75%	-65	-82
Germany	2.13%	-37	-71
UK	3.98%	-20	-46
Japan	0.85%	-20	9

Source: Guardian Capital, Bloomberg. As of September 27, 2024. 100 bps is equal to 1.0%.

Performance Attribution and Positioning

The Fund outperformed its benchmark, the FTSE Canada Mid Term Corporate Bond Index, in the third quarter of 2024, driven primarily by narrowing credit spreads.

From a performance attribution perspective, the Fund's overweight exposure to bond issues within the Real Estate, Energy and Financial sectors provided the largest contribution to relative returns. The Fund's underweight exposure to bond issues within the Infrastructure, Industrials, and Communication sectors detracted from performance. From a yield curve positioning standpoint, the Fund's relative overweight key rate duration exposures are in 3-,10-, and 20-year key rates.

During the quarter the Fund's relative key rate exposures migrated from 7- and 10-year to 5-year key rates. The Fund also reduced its overweight exposure to bond issues within the Energy and Financial sectors in favor of bond issues within the Real Estate, Communication and Industrial sectors. As of September 30, 2024, the Fund's duration is slightly shorter than the benchmark's.

The Fund is of similar credit quality, that provides a higher yield carry, relative to the benchmark. The Manager continues to actively seek attractive opportunities to enhance portfolio structure and relative total returns.

Outlook

The global economy has been resilient so far this year, as growth in the U.S. is expected to return to trend over the next few quarters. The rising slack in the Canadian economy, due to consumer spending, should recover as interest rates trend lower. The economies of the EU and Asia are slowly starting to improve. In all, recession risks look to be contained as the business cycle extends.

A global easing cycle under moderating growth, coupled with a fall in the stock-bond correlation (i.e., bonds providing a portfolio hedge), generally support a longer duration overweight. However, key risks such as inflation or wages reaccelerating, as well geopolitical and uncertainty around the outcome of the U.S. election, may result in bear-flattening yield curve or cause credit spreads to widen. As a result, relative to the benchmark, the Manager is leaning towards shorter duration but overweight credit with a bias towards higher quality and lower beta.

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