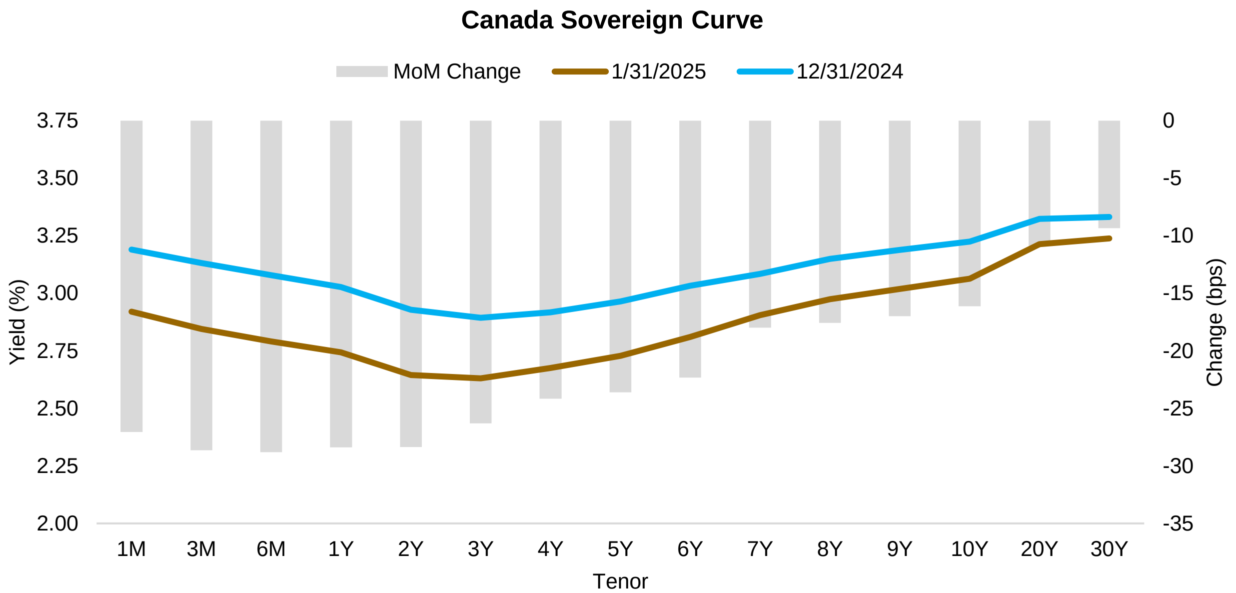
GUARDIAN CAPITAL™

AHEAD OF THE CURVE

JANUARY 2025 BOND MARKET RECAP AND OUTLOOK

RECAP

- Canadian bond markets rallied, with FTSE Canada Universe Bond Index gaining +1.20% for the month.
- U.S. economic momentum spilled over into the new year, driven by strong employment and sustained growth. However, high-frequency data were mixed, as the U.S. manufacturing Purchasing Managers Index ("PMI") remained below 50 and the U.S. services PMI moderated below 50.
- Canada's jobs market also showed surprising strength in December, adding 90.9k jobs (vs. 25k expected vs. 50.5k previous period) - the largest gain since January 2024, despite the country's sub-par economic growth.
- Inflation continued to moderate in both the U.S. and Canada, lending hope to lower rates through 2025.
- The Bank of Canada (BoC) lowered its overnight lending rate this month by another 25 basis points to 3.00%, indicating its focus has shifted from inflation to growth as price pressures subsided. The Bank of Canada assessed the economy was currently operating with excess supply. Coupled with evolving trade tensions with the U.S., markets now see the BoC leaning towards further rate reductions through the rest of the year.
- In the U.S., the downward trajectory in bond yields stalled after the Federal Reserve held its policy rate steady at 4.50%. Consumer sentiment dipped for the first time in six months on job and inflation concerns. December housing starts surged, but 2024 annual housing total sold was reported at a 30-year low amid record-high prices.
- The middle part of the bond curve (FTSE Canada Mid Term Overall Bond Index 1.45%) outperformed both the short-end (FTSE Canada Short Term Overall Bond Index 0.88%) and the long-end (FTSE Canada Long Term Overall Bond Index 1.36%). Shorter duration corporate bonds (FTSE Canada All Corporate Bond Index 1.06%) underperformed longer duration government bonds (FTSE Canada All Government Bond Index 1.24%) as treasuries rallied.
- Credits spreads on investment-grade corporate bonds (FTSE Canada All Corporate Bond Index) widened 3 basis points over the month of January. Longer-duration bonds within the Energy and Infrastructure sectors outperformed shorter-duration bonds within Communication, Financial, Industrial, and Real Estate sectors.



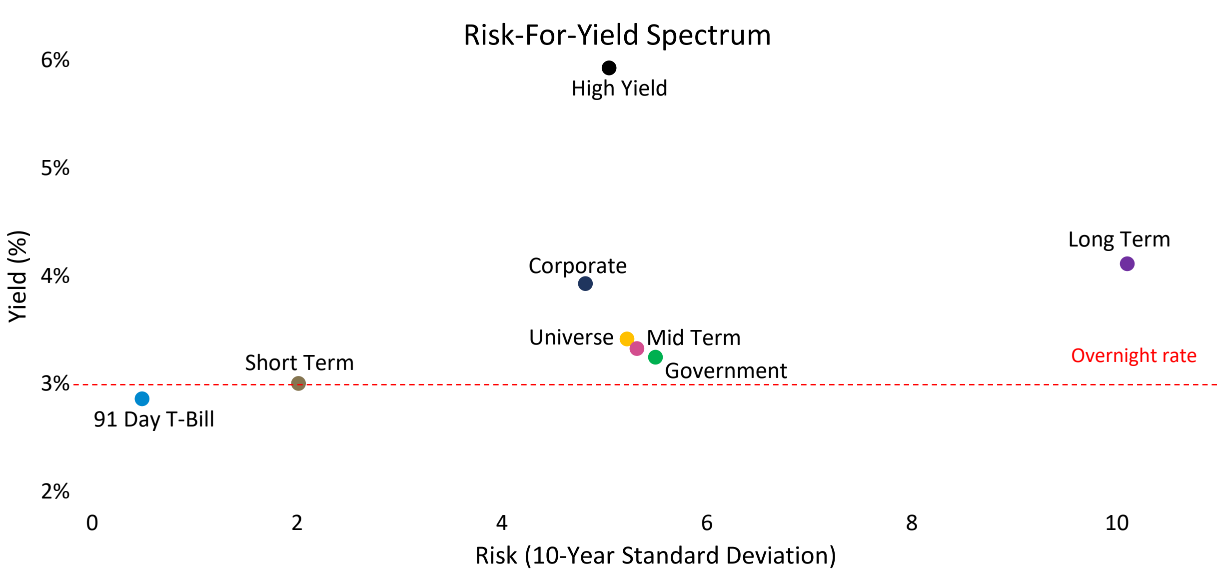
Source: Guardian Capital based on month over month (MoM) change data for the FTSE Canada Universe Bond Index from PC Bond, and data from Bloomberg for the Canada Sovereign Curve rates (ID: YCGT0007); as at January 31, 2025

THE LOOK AHEAD

- Rising U.S. tariffs and potential Canadian retaliation have added bond market uncertainty, yet risk appetite remains strong, as seen in the narrowing of average earnings yield of S&P 500 Index issuers vs. 10-year Treasury spread and muted Merrill Lynch Option Volatility Estimate (MOVE) Index. With Canada's economy lagging the U.S., Canadian bond yields could potentially stay around these historically low levels.
- From an interest rate term structure perspective, the trend of yield curve steepening is expected to persist. However, uncertainty around the Bank of Canada's rate cut trajectory has risen due to the current geopolitical environment.
- Credit spreads have remained tight, supported by resilient corporate fundamentals and strong investor demand driven by elevated all-in yields. While spreads are currently at historically low levels and could be sensitive to changes in the macro environment, they may remain stable if government bond yield volatility declines and the yield curve steepens.

POSITIONING OPPORTUNITIES

- For investors seeking to reduce the reinvestment risk associated with Guaranteed Investment Certificates (GICs) and high-interest savings accounts (HISAs) due to short term yields moving lower, GuardBonds™, a suite of target maturity funds, aim to 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 credit spreads at their tights amid significant uncertainty surrounding macro policy, the Manager has implemented some portfolio credit hedges within the Guardian Strategic Income Fund while continuing to find specific investment opportunities that offer attractive risk adjusted returns.
- Reducing credit risk in favour of lower beta corporate bonds while incrementally adding curve exposure aiming to enhance returns (i.e., roll-down) from further steepening of the yield curve is the focus for the Guardian Investment Grade Corporate Bond Fund.
- Reducing exposure to higher beta corporate issues and lowering contribution to duration from corporates to maintain yield carry while mitigating risks from a spread widening event and re-applying yield curve steepening position (i.e., overweight the belly of the curve) is the strategy for the Guardian Canadian Bond Fund.



Source: Guardian Capital based on data for the FTSE Canada Universe Bond Index from PC Bond, Bloomberg as at January 31, 2025
**Details of the Indexes used in the chart can be found on page 5.

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 capital gains potential.[2]
- Excellent GICs alternative, more liquid[1] and tax efficient.[2]

Guardian Canadian Bond Fund

- Similar modified duration relative to its benchmark, the FTSE Canada Universe Bond Index (7.09 vs. 7.25 years, respectively, as at January 31).
- Higher concentration in 7- and 10-year key rates and lower concentration in 20- and 30-year key rates, relative to the benchmark.
- Increasing contribution to duration in Provincial (ex. British Columbia) Bonds while reducing contribution to duration in Corporates (ex. Financials) Bonds.

Guardian Investment Grade Corporate Bond Fund

- Similar duration profile relative to its benchmark, the FTSE Canada Mid Term Corporate Bond Index (5.86 vs. 5.83 years, respectively, as at January 31).
- Higher concentration in 3-year, 7-year, and 10-year key rates and lower concentration in 5-year key rate relative to the benchmark.
- Overweight bonds within the Real Estate and Energy sectors and underweight bonds within the Financial, Infrastructure, Industrial, and Communication sectors.

Guardian Strategic Income Fund (Alternative Fund)*

- Took some profit in select holding within Basic Material sector (i.e., Algoma Steel) amid U.S. tariffs uncertainty while adding positions in Energy, Consumer Discretionary, and Telecommunications (i.e., Nabors Industries, Norwegian Cruise Lines, Telus) given the favourable outlook and resilient U.S. consumers. Our U.S. and Canada 10-year Government Bond Futures trade also added value. The Manager remains focused on finding idiosyncratic investment opportunities that provide adequate risk/reward, while managing the Fund's overall risk exposure by maintaining hedges and aiming to increase overall portfolio quality.
- Added to some positions that the Manager expects could benefit under the new Administration in the US, reduced exposure to some of the Fund's lower coupon corporate hybrid bonds that had outperformed over the year and are maintaining the overweight in some of the higher coupon hybrid bonds. The Manager continues to look for opportunities to add incremental high-quality exposure at wider spreads during risk-off periods.

[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.

AHEAD OF THE CURVE

JANUARY 2025 BOND MARKET RECAP AND OUTLOOK

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 U.S. T-Bill Fund	GUTB	4.28	0.17	4.28	-	99.32	A-1+
MONEY MARKET	Guardian Ultra-Short Canadian T-Bill Fund	GCTB	3.26	0.18	3.26	-	99.46	R-1(H)
MONEY MARKET	FTSE Canada 30-Day T-Bill Index		-	-	2.94	-		
TARGET MATURITY	GuardBonds™ 2025 Investment Grade Bond Fund	GBFB	2.04	0.51	3.12	2.03	99.49	A
TARGET MATURITY	GuardBonds™ 2026 Investment Grade Bond Fund	GBFC	1.97	1.47	3.17	1.94	98.22	A
TARGET MATURITY	GuardBonds™ 2027 Investment Grade Bond Fund	GBFD	2.06	2.29	3.12	2.00	97.38	A
TARGET MATURITY	GuardBonds 1-3 Year Laddered Investment Grade Bond Fund	GBLF	2.02	1.42	3.14	1.99	98.37	A
SHORT DURATION	Guardian Short Duration Bond Fund	GCG603	3.40	2.91	3.14	3.44	101.21	AA
SHORT DURATION	Guardian Strategic Income Fund*	GCG602	6.58^^	2.89	5.86^	5.40	102.19	BB
SHORT DURATION	FTSE Canada Short Term Overall Bond Index		3.33	2.63	3.00	3.37	101.20	AA
UNIVERSE	Guardian Fixed Income Select Fund	GCG601	3.72	4.59	3.74	3.73	100.28	A
UNIVERSE	Guardian Investment Grade Corporate Bond Fund	GCG694	4.63	5.94	4.23	4.79	103.61	BBB
UNIVERSE	Guardian Canadian Bond Fund	GCG654	3.87	7.24	3.59	3.86	99.82	AA
UNIVERSE	FTSE Canada Mid Term Corporate Bond Index		4.54	5.83	4.12	4.71	103.77	BBB
UNIVERSE	FTSE Canada Universe Bond Index		3.48	7.25	3.41	3.44	98.78	AA

Source: Guardian Capital based on data from PC Bond, Bloomberg as at January 31, 2025

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.

^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: ^^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.

***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.
Short: FTSE Canada Short Term Overall Bond Index, which tracks bonds with maturities of 1-5 years.
Mid: FTSE Canada Mid Term Overall Bond Index, which tracks bonds with maturities of 5-10 years.
Universe: FTSE Canada Universe Bond Index, which tracks the universe of corporate and government bonds within Canada.
Long: FTSE Canada Long Term Overall Bond Index, which tracks bonds with maturities over 10 years.
Government: FTSE Canada All Government Bond Index, tracks government bonds within Canada.
Corporate: FTSE Canada All Corporate Bond Index, tracks corporate bonds within Canada.
High Yield: FTSE Canada High Yield Bond Index:, which tracks high yield bonds within Canada.

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