GUARDIAN CAPITAL

# GUARDIAN CANADIAN EQUITY FUND
# Q2 2026
# MANAGER COMMENTARY

## Market Review

The S&P/TSX Composite Index ended the second quarter of 2026 with a total return of +7.0%. Performance was led by the Financials sector (+25.6%), as the Canadian Banks continued their recent positive trajectory amid near-historical high valuations. The S&P/TSX Composite Index Banks industry returned 30.7% in the quarter, contributing 91% of the Index's positive return. Sector performance was also positive in the Health Care (+14.0%), Industrials (+10.6%), Consumer Discretionary (+8.9%), Real Estate (+8.4%), Information Technology (+6.4%), Utilities (+5.9%), and Consumer Staples (+5.7%) sectors. The Materials sector was the largest detractor from Index performance, declining -11.6% as precious metals prices declined from previous highs. The Communication Services (-10.0%) and Energy (-5.0%) also detracted from performance in the quarter.

The Canadian equity market started the quarter with a strong rebound as hopes for a deal to end the war between the United States and Iran grew, with a two-week ceasefire being announced on April 7th. However, this relief was short-lived, as the Iranian authorities announced the closure of the Strait of Hormuz on April 18th. Over the next several weeks, a series of mixed-signals and conflicting reports on the status of the conflict were released, creating a high degree of volatility in the energy and equity markets. Canada, being an energy exporter with limited exposure to the Strait of Hormuz, was more insulated from the energy shocks than most economies but still faced the risk of rising inflation should energy prices remain elevated for an extended period. Concerns about the strength of the Canadian economy continued to rise as Statistics Canada announced that Canada's Real GDP had fallen in the first quarter of 2026, marking the second consecutive quarter in which the economy had contracted. This came as trade tensions with the United States remained high, with a deal to extend the CUSMA trade agreement by July 1st looking less likely as the deadline approached. Despite the combination of weak economic growth and heightened trade tensions, Canadian equities continued to appreciate, with Canadian Banks reporting strong earnings growth and extending their high valuations. Pressure on Prime Minister Mark Carney and the Federal Government to shift directions on natural resource policy continued to build, as Alberta Premier Danielle Smith announced a referendum on whether Alberta should begin the process of holding a binding referendum on separating from Canada. While Prime Minister Carney has signalled a change in approach with regards to resource development, so far there has been a tepid response regarding investment by the private sector. The Bank of Canada held its key policy rate at 2.25% in both April and June, marking five consecutive meeting in which the policy rate remained unchanged.

U.S. equity markets, as represented by the S&P 500 Index, also rebounded strongly from the lows of March, returning +15.2% (US$), with most companies reporting strong earnings, and despite the mixed signals from the White House and Iran, the risk of a continuing escalation of the conflict in Iran appeared to dissipate as the quarter went on. The recovery was led by Information Technology stocks which rose +31.8% (US$) after declining throughout the first quarter of the year. The first Federal Reserve meeting caused U.S. bond yields to rise, as while the policy rate was held, as was widely expected, the commentary was from the Fed was more hawkish than previous meetings.

In the commodity markets, oil prices declined following the de-escalation of the conflict in Iran and the partial reopening of the Strait of Hormuz. While oil prices declined from the highs of March, they remain elevated from their pre-conflict levels and will likely remain so as physical supply shortages continue. Gold and silver prices also declined with a more hawkish Federal Reserve, and a return to a risk-on market sentiment put pressure on precious metals. Copper prices appreciated due to a combination of supply constraints and rising demand from electrification and AI infrastructure needs.

## Performance Attribution

The Guardian Canadian Equity Fund (The "Fund") underperformed its benchmark, the S&P/TSX Composite Index in the first quarter of 2026. The underperformance was due to negative security selection, with positive sector allocation partially offsetting.

*Positives*

Contributions to performance from sector allocation were driven by being underweight the Materials (-11.6%) sector

- Stock selection contributing to performance was driven by portfolio holdings within the Materials (CCL Industries, Teck Resources) sector and the Utilities (Capital Power) sector.
- Top stock contributors to relative performance during the quarter:
  - **MDA Space Ltd.:** MDA Space's shares performed well in the quarter, supported by recent contract awards with the Canadian Space Agency for a replenishment satellite and with Mitsubishi Electric to provide various subsystems for Japan's next-generation defense communications satellite program. MDA also acquired Blue Canyon Technologies (BCT), a US-based provider of turnkey small satellite solutions, including spacecraft buses, subsystems, components and mission services. The BCT acquisition provides MDA with an established US footprint, allowing MDA to pursue substantial US defense work (including classified projects) and compete for prime contracts.
  - **CCL Industries Inc.:** CCL Industries performance this quarter was led by steady execution rather than a single event. The company was a relative winner in the broader market, benefiting from its diversified exposure across Home & Personal Care, premium food & beverage and healthcare. Its more defensive, cash-generative profile and continued capital returns to shareholders underpinned outperformance.
  - **Teck Resources Ltd.:** Performance for Teck Resources reflected the underlying copper price this quarter, which came into April on a weak footing with the Iran conflict still disrupting energy flows and the market concerned about long-term demand growth. That fear began to fade throughout the quarter and copper recovered towards record levels, all whilst Teck delivered strong operating results, and the company continues to advance towards its near-certain merger with Anglo American in the coming months.

*Negatives*

- An underweight allocation to the Financials (+25.57%) sector detracted from relative performance in the corner.
- Stocks that detracted from relative performance during the quarter:
  - **Boyd Group Services Inc.:** Boyd Group's share price underperformed in the quarter as Q1's Same-Store Sales Growth (SSSG) came in below market expectations. We view this shortfall as temporary, as adverse weather conditions in the US south resulted in store closures which weighed on SSSG. Boyd Group nevertheless delivered solid underlying results, supported by a continued recovery in end-market demand and repair volumes that outpaced the broader industry.
  - **CGI Inc.:** CGI reported mixed earnings results during the quarter. On one hand, they guided for recovery in both United States Federal business and discretionary IT spending in the near term. However, their organic growth fell short of market expectations. Furthermore, Accenture cut full year guidance and reported negative bookings growth in June, further resetting the valuation of IT services sector. Looking ahead, we continue to maintain our view that CGI is a structural beneficiary of enterprise AI adoption, as large enterprises modernize legacy IT infrastructure to become AI-ready

and seek help managing rising AI token cost, with the industry still in the early innings of this transformation. In the interim, CGI continues to execute on M&A strategy and share buyback.

- **Fairfax Financial Holdings Ltd..:** The stock drifted lower as the broader P&C insurance sector derated and investors rotated away from the group. Insurance stocks have struggled throughout the year even though FFH held up better than peers. FFH's investment-heavy earnings model also makes quarterly marks sensitive to softer equity and market conditions.

## Portfolio Transactions

The Manager initiated a position in Apotex Health Corp., participating in the company's initial public offering. Apotex brings a rare combination of scale, defensiveness, and growth in Canadian healthcare with a diversified platform across generics, branded drugs, biosimilar, and consumer health products. As one of the few sizeable, domestically listed pharma names, Apotex also serves as a diversifier in a Canadian index heavily tilted toward financials, energy, and materials.

The Manager initiated a position in Keyera Corp. based on a fundamental view of the company's opportunity set, driven by the acquisition of Plain's midstream business and the opportunity to grow alongside the WCSB. The combination of leverage to a growing basin and defensiveness relative to E&P provided the team with what it viewed as an asymmetric opportunity.

Following Shell's announcement of its intention to acquire ARC Resources Ltd., the Manager exited its position ahead of the closing and exchange of ARX shares for Shell shares and cash.

## Portfolio Outlook & Positioning

Despite the continuing weakness of the Canadian economy, the domestic equity market showed continued resilience in the second quarter of 2026 led by strong earnings in the Financials sector and improving sentiment in the Information Technology sector. Despite the Canadian equity market's apparent resilience to economic weakness in the first half of the year, there are significant market risks that could materialize should growth fail to improve, or earnings begin to disappoint relative to expectations. In addition to risks stemming from the macroeconomic environment, there are also geopolitical risks that continue to add uncertainty to the Canadian market outlook.

The Canadian equity market continued to be narrowly led in the quarter, with Banks representing over 90% of the contribution to return, and the 10 sectors in the Index excluding the Financials sector having a net negative return. Given that Canadian banks are currently trading at historically high valuations, there is a significant risk of a negative re-rating should earnings growth slow, or any of the Banks report a disappointing quarter. Software stocks also had a relatively strong quarter as they rebounded from the lows of the first quarter of 2026 as fears of the "SaaSpocalypse" lessened, and the general recovery in the market as the War in Iran came to an apparent resolution.

Geopolitical risk continues to be a large presence in the market, as both tensions in the Middle East and the renegotiations of CUSMA weigh on market sentiment and investment decisions. While the U.S. and Iran have agreed to a ceasefire for now, traffic in the Strait of Hormuz remains below pre-conflict levels and physical shortages are likely to cause elevated energy levels to persist in the near future. Should energy prices remain elevated, or the ceasefire end, rising inflation could return to the forefront of the economy, which when mixed with lacklustre economic growth, could give rise to fears of stagflation. Additionally, with the U.S. announcing that they

will not renew the CUSMA agreement on the July 1st deadline, trade uncertainty is now likely to remain in the North American continent until a new agreement is reached. A potential consequence of this will be reducing business investment, as companies will be unlikely to commit large amounts of capital until they can be certain of the trade and regulatory environment in Canada, the U.S. and Mexico going forward.

The Fund maintains a strong quality bias and is diversified across both cyclical and defensive companies. Macroeconomic conditions are expected to affect portfolio holdings to various degrees; however, the Manager believes that companies in the portfolio are set for growth due to a combination of improving fundamentals and modest expectations implied in valuations, which should lead to favourable risk-reward results across the market cycle.

Values are reported in CAD, unless stated otherwise.

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Date published: July 13, 2026