GUARDIAN CAPITAL

GUARDIAN MANAGED GROWTH PORTFOLIO
Q2 2026
COMMENTARY

Market Overview

The early setback in global financial markets in 2026 proved short-lived with major European, Asian and North American stock benchmarks posting strong rebounds through the second quarter against solid corporate earnings (particularly within Technology-related areas) and welcome de-escalation of tensions in the Middle East.

In equities, the MSCI World Index rallied 15.6% (Canadian dollar terms) over the three months ended June, more than retracing Q1's decline and marking the best quarterly performance since Q4 2020. Sector leadership essentially flipped from the first quarter. Energy was the biggest laggard in Q2, retracing its earlier strength as crude oil prices plunged in response to an agreement between the U.S. and Iran that saw the Strait of Hormuz reopen and tanker traffic resume — this also put downward pressure on other commodity prices and, combined with central bank hawkishness weighing on gold, saw Materials underperform. At the other end of the spectrum, Information Technology led the way, helped by renewed appetite for AI infrastructure and a strong recovery in semiconductor shares (memory pricing especially). Growth materially outperformed value in Q2 globally.

Regionally, the U.S. was a top Developed Market (S&P 500 Index (net, C$) +17.1%) due to the strength in the Information Technology sector Stocks in Europe, Australasia & the Far East posted solid, though comparatively softer, gains (MSCI EAFE Index (net, C$) +12.7%) while the resource-heavy Canadian market turned out a softer quarter on the retracement of earlier strength in commodities (S&P/TSX Composite Index +7.0%). Emerging Market equities rallied sharply (MSCI Emerging Markets Index (net, C$), 26.1%, best quarter since Q2 2009) on strength in the heavily-weighted semiconductor and Tech hardware stocks.

Fixed income markets also improved upon their earlier performance in Q2 despite continued volatility, with the benchmark FTSE Canada Universe Bond Index up 2.0%. The impact of higher energy prices saw generally more hawkish tones on inflation from central bankers in the quarter, though the signs of softening economic momentum in Canada tempered expectations of policy tightening and put some downward pressure on yields in the quarter. The positive earnings backdrop saw credit spreads tighten and led corporate credit to modestly outperform government bonds. Longer duration securities outperformed those with shorter maturities.

Performance Attribution

The Guardian Managed Growth Portfolio's (the "Fund") overweight to top performing Global Equity versus its Strategic Asset Allocation made a positive contribution to relative performance in Q2, as did the continued underweight to laggard Fixed Income through the quarter and the tilt toward credit in allocations therein. These effects, however, were more than offset by the underperformance of key Global Equity strategies held in the Fund's portfolio that lagged benchmarks against the renewed narrowing of market leadership early in the period. The net result was the tactical multi-asset portfolio trailed its blended benchmark over the three months ended June.

Portfolio Transactions

No material changes were made to Equity and Fixed Income allocations in Q2. The Manager remained comfortable with its risk exposures in an environment where markets are likely to remain volatile but ultimately continue to perform well against a generally constructive economic backdrop with strong corporate earnings and indications of de-escalating geopolitical tensions.

Portfolio Outlook & Positioning

Despite the ongoing challenges clouding the outlook, the dataflow remains generally positive and continues to provide indications of generally sustained economic momentum supported by ongoing resiliency in consumer spending and an upswing in business investments in information technology.

Corporate earnings have been particularly strong, with the recent earnings season representing one of the best overall in recent history and providing a lift to risk assets in the face of persistent uncertainties.

Headline inflation has moved higher in response to the sharp increase in energy prices, but measures of underlying price pressures are showing limited instances of broader second-round impacts.

While geopolitical tensions are coming off the boil amid a tentative agreement between the U.S. and Iran, and the Strait of Hormuz has reopened, the likelihood is that supply-side pressures on commodities will have some staying power and create growing risks of inflation pressures rising throughout the supply chain.

There are limited indications of spillovers to this point, however, any broadening out of price pressures is likely to result in some demand destruction due to deteriorating purchasing power. Combined with the potential transitory nature of the price shock (oil prices have plunged is response to efforts to de-escalation tensions), this creates a dilemma for policymakers as efforts to tighten policy to combat inflation would exacerbate headwinds to growth.

With that said, policymakers are increasingly shifting focus toward upside risks to inflation, and markets are pricing in the prospect of rate hikes for major central banks. The Manager views that markets are being over-aggressive in their expectations for hiking, as there is generally limited appetite to tighten given the nature of this shock and the potential negative implications for growth (and resulting deflationary forces).

The expectation is that market rates will likely remain range-bound for the near-term, but there are upside risks given growing inflation concerns, which argues for keeping duration in fixed income allocations below benchmark.

For equities, while policy uncertainty and geopolitical risk are likely to remain elevated for the coming months and keep markets vulnerable to bouts of volatility, as long as the underlying drivers of economic and earnings growth remain broadly intact — the dataflow suggests they have so far — the most likely scenario appears to be one in which markets that remain reasonably valued outside some richly valued pockets continue to climb the wall of worry.

The return of narrow leadership in the market represents a cause for concern, as does the sustainability of profits tied to information technology investments — though there does not appear to be a clear near-term catalyst for the trends to shift.

Overall, the Manager remains comfortable with the overall risk exposures. The asset mix remains overweight Equity with a continued bias toward Global quality-focused strategies. Fixed Income allocations maintain a tilt to shorter duration credit and therefore carry a below-benchmark duration.

The Manager will continue to monitor economic and market developments closely and stands ready to tactically exploit opportunities that may present themselves.

Values are reported in CAD, unless stated otherwise.

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