GUARDIAN CAPITAL

GUARDIAN CANADIAN EQUITY INCOME FUND
Q3 2026
MANAGER COMMENTARY

Market Review

The S&P/TSX Composite Index ended the third quarter of 2026 with a total return of +1.6%. Performance was led by the Information Technology sector (+17.9%) as software stocks performed well in the quarter buoyed by strong earnings and improving expectations. Sector performance was also positive in the Materials (+12.9%) and Energy (+3.3%) sectors. The Communication Services sector (-9.3%) was the largest detractor from performance as Telus's stock continued to come under pressure in the quarter, along with a dramatic rise in bond yields that weighed on the sector along with Real Estate (-7.3%) and Utilities (-7.2%). The Consumer Staples (-7.0%), Health Care (-5.4%), Consumer Discretionary (-5.1%), Industrials (-3.2%), and Financials (-3.0%) sectors also detracted from performance in the quarter.

Canadian equity markets began the quarter on a strong note, as renewed hostilities in the Middle East once again caused oil prices to rise. While the U.S. government and President Trump continue to claim that a permanent resolution is imminent, the two sides appear to remain far apart on any deal, and flows through the Strait of Hormuz remain below pre-conflict levels. The July 1st deadline to renew the CUSMA trade agreement passed without a deal to extend it, throwing the future of North American free trade into greater uncertainty. President Trump also announced new 50% tariffs on select Canadian goods that took effect in mid-August, and also signed a ban on the importation of Canadian goods such as alcohol and dairy products. While the duration of these policies, and the magnitude of their effects, remains uncertain, it is likely that they will be a dampening force on the Canadian economy in the last quarter of 2026. The Federal government continued to signal a change in direction on natural resource policy, as progress towards approving a new west -coast oil pipeline advanced, with Energy minister Tim Hodgson announcing that the project would likely receive designation as a "project of national interest" under the new major projects office. The announcement comes as Canada attempts to diversify its trade markets, and European and Asian markets hasten their efforts to access oil and natural gas supplies that are unrestricted by the conflict in the Middle East. The Bank of Canada held its policy interest rate steady twice in the quarter, leaving the policy rate at 2.25% for the 6th and 7th consecutive decisions, while the 10-year government of Canada bond yield increased 61 basis points to 3.99%.

U.S. equity markets, represented by the S&P 500 Index, also posted moderately strong performance in the quarter, rising +2.3%. American equities benefited from record corporate profits reported in the quarter as software and other Information Technology stocks had strong earnings reports. Towards the end of the quarter, U.S. bonds came under pressure as markets became increasingly concerned about inflation, the Federal Reserve raised its interest rate for the first time since 2023, and concerns about the sustainability of growing government debt continued to mount.

In the commodity market, oil prices surged (WTI +30.1%, in U.S.$) after declining towards the second quarter, once the likelihood of a peace agreement in the Middle East appeared to wane. Copper prices also rose significantly (+8.3%, in U.S.$) amidst short-term supply disruptions and increasing demand driven by electrification and Artificial Intelligence ("AI") infrastructure construction, outperforming gold (+3.7% in U.S.$).

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Performance Attribution

The Guardian Canadian Equity Income Fund (the "Fund") underperformed the S&P/TSX Composite Index in the quarter predominantly due to negative sector allocation. On the positive side, stock selection in the Financials sector benefitted from outperformance in the holding of Manulife Financial, as well as not owning National Bank or Canadian Imperial Bank of Commerce ("CIBC"), with a partial offset being the holding of Intact Financial, which declined. In the Energy sector, the holdings of Suncor Energy, Canadian Natural Resources, and ARC Resources outperformed, and not owning Cameco was also additive. The primary negatives during the period were the Fund's underweight position in Information Technology and Materials sectors, the two sectors with by far the best returns during the period. Other stocks that detracted from performance included: Alimentation Couche-Tard, Canadian Apartment Properties REIT, Capital Power, Chartwell Retirement Residences, Element Fleet Management, Granite REIT, Maple Leaf Foods, and RioCan REIT.

Portfolio Transactions

During the period, the Manager sold ARC Resources from the Fund.

In late April 2026, ARC Resources agreed to be acquired by Shell plc for $32.80 per share (75% in Shell common shares and 25% in cash), representing a 27% premium to the prior closing price. With ARC effectively trading at the offer price we sold ARC.

In addition, the Manager added to positions in Brookfield Asset Management, Canadian Natural Resources Chartwell Retirement Residences, Northland Power, and Suncor Energy, while trimming Bank of Nova Scotia, and Royal Bank of Canada.

Portfolio Outlook & Positioning

The Canadian equity market continued its positive trajectory in the third quarter of 2026, as commodity prices, improved economic growth numbers and strong earnings all contributed to positive returns, led by the Information Technology sector. While there were encouraging signs for the Canadian economy, such as the progress on natural resource and infrastructure development, significant risks remain related to macroeconomic factors, trade tensions and geopolitical risks. Global economic growth has remained resilient over the past 18 months, however increasing risks of rising inflation and interest rates are beginning to draw concern from investors as bond yields continue to rise to levels not seen in more than a decade. The persisting trade tensions with the United States are also a risk to Canadian equities, as the new tariffs and import bans that President Trump announced this quarter are likely to weigh on economic growth and potentially put downward pressure on earnings. In addition to the prior two risks, the conflict in the Middle East remains as a source of volatility. Should the conflict either escalate further or come to a resolution commodity prices would likely react drastically, causing large movements in both Energy stocks and the broader market.

Sentiment has begun to improve for traditional IT services and software companies in the Information Technology sector, with strong earning results and consistent growth helping to alleviate the fears of these companies being disintermediated by AI. The share prices of most of the large Canadian Banks pulled back slightly throughout the quarter, after a very strong start to the year, as the likelihood of interest rate increases rose due to persistent inflation risks. With bank valuations that remain above historical levels, this environment warrants careful monitoring of the industry for signs of either ongoing resilience or increasing consumer credit stress.

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Overall, the Manager remains mindful of the present internal and external risks to Canadian equities. Sustained high oil prices will put pressure on inflation, and Central Banks may be forced to temper this with increases to benchmark interest rates, raising the cost of investments and potentially slowing growth. Geopolitical risks remain ever-present with trade tensions creating an uncertain environment for business investment and increasing costs for both businesses and consumers. Additionally, the conflict in the Middle East has the potential to increase energy costs and volatility in the commodity markets. Keeping these risks in mind, we have sought to build the portfolio to be well diversified across both sectors and fundamental drivers of performance.

Canadian equity valuations remain reasonable relative to historical levels, with multiples trading only slightly above long-term averages. The Manager continues to see good opportunities in high-quality dividend stocks that generate steady and growing income that helps to mitigate potentially more volatile markets. In addition, the Manager believes Canadian stocks remain well positioned relative to their US and global peers given Canadian stocks provide reasonable relative valuations, and there is greater support for domestic economic development for infrastructure and the extraction of natural resources as well as increasing Canada's investment competitiveness.

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Values are reported in CAD, unless stated otherwise.

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