GUARDIAN CAPITAL

GC ONE FIXED INCOME PORTFOLIO
Q3 2026
COMMENTARY

Market Overview

Global financial market performance was volatile and mixed across asset classes in the third calendar quarter of 2026. Positive economic momentum and strength in earnings growth supporting gains across equities despite renewed geopolitical uncertainty. Persistent concerns surrounding the outlook for inflation, in no small way exacerbated by the renewed upward pressure on energy prices following the collapse of negotiations and ongoing war in the Middle East, drove notably hawkish turns from global central banks over the summer that saw many across Developed Markets hike policy rates which put upward pressure on rates and weighed on fixed income.

Global bond yields rose significantly over the quarter and ended September at their highest levels in two decades. As a result, the broad-based FTSE Canada Universe Bond Index dropped 3.0% in Q3, marking its worst quarterly performance in three years (and sixth worst quarter of the last 20 years). More rate-sensitive segments of the market underperformed, with the FTSE Canada Long-Term Overall Bond Index falling 6.3% and the FTSE Canada All Government Bond Index declining 3.2%. The FTSE Canada Short Term Overall Bond Index and the FTSE Canada All Corporate Bond Index fared somewhat better, declining 0.9% and 2.1%, respectively, but still finished the period in the red.

Performance Attribution

The GC One Fixed Income Portfolio (the "Fund") recorded negative returns against a challenging market environment in Q3, however, the Fund's bias toward short- and mid-term credit factored into the mandate's outperformance relative to the broad domestic bond benchmark, with these positives compounded by the outperformance relative to the benchmark of all strategies held within the Fund's portfolio.

Portfolio Transactions

No materials changes were made to allocations in Q3. The Manager remained comfortable with its risk exposures in the high uncertainty and high interest rate environment. The near-term upside risks to rates support a continued preference toward below benchmark duration. Credit markets are likely to remain volatile but ultimately continue to perform well against a generally constructive economic backdrop with strong corporate earnings.

Portfolio Outlook & Positioning

As has been the refrain over much of the last year, the dataflow continues to be broadly positive despite the ongoing challenges and uncertainties, providing continued indications of generally sustained economic momentum supported by ongoing resiliency in consumer spending, an upswing in business investments in information technology and significant government spending plans.

Earnings have continued to come in strong and analysts have been scaling up their expectations for growth in the months to come in spite of the geopolitical headwinds which in turn provides a fundamental support to risk assets.

With that said, the road ahead looks to continue to be lined with challenges. Domestic politics in the U.S. will return to the forefront of discussions with the looming midterm elections carrying significant implications for the remaining half of the President's term. Geopolitical tensions remain elevated as wars continue in the Middle East and Ukraine with no sign of imminent resolutions.

The sustained upward pressure on commodity prices (particularly for energy products) is filtering into prices pressures which combined with the sustained economic growth momentum is skewing inflation expectations higher. As a result, central banks globally are likely to maintain their recently adopted hawkish biases, which at a minimum suggests policy rates staying at their current levels for longer.

While the all-in yield on offer on bonds makes the asset class arguably the most attractive it has been in decades from a return and balanced portfolio diversification perspective, the near-term upside risks for rates supports the Manager's continued preference to remain underweight the Fixed Income and below benchmark duration within the asset class.

Overall, portfolio asset mix continues to have a modest skew in favour of high-quality corporate credit which offers additional carry and duration remains below that of the broad bond market index.

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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