GUARDIAN CAPITAL

GUARDIAN MANAGED INCOME & GROWTH 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.

In equities, the MSCI World Index gained a further 1.9% (Canadian dollar terms) over the three months ended September although the advance was narrow and the path more turbulent compared with the sharp 15.6% rally recorded in Q2. The gains came mostly from large technology and semiconductor companies tied to artificial intelligence which led to outperformance from the U.S. (S&P 500 Index +2.4% in CAD); stocks in Canada registered somewhat more modest gains (S&P/TSX Composite Index +1.6%) supported by rising while those in Europe, Australasia & the Far East posted positive, albeit fairly muted, gains (MSCI EAFE Index +0.9% in CAD). Emerging Market equities lagged (MSCI Emerging Markets Index -0.3% in CAD) largely reflecting the impact of the semiconductor selloff early in the quarter.

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 Indexes fared somewhat better, declining 0.9% and 2.1%, respectively, but still finished the period in the red.

Performance Attribution

The Guardian Managed Income & Growth Portfolio's (the "Fund") overweight allocation to Equity (particularly top performing Global Equity and the strong performance of quality growth strategies held therein within the portfolio) versus its Strategic Asset Allocation made a positive contribution to relative performance in Q3, as did the continued underweight allocation to laggard Fixed Income and the tilt toward credit in allocations therein. These effects, however, were partially offset by the impact of the underperformance of Canadian Equity strategies held in the Fund's portfolio that lagged benchmarks (reflecting both sector and security selection effects) in the quarter. The net result was the Fund's tactical multi-asset portfolio outpaced its blended benchmark over the three months ended September.

Portfolio Transactions

No materials changes were made to Equity and Fixed Income allocations in Q3. The Manager remained comfortable with its risk exposures in the high uncertainty and high interest rate environment where 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.

For Equity, 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 — and the dataflow suggests are — the most likely scenario appears to be one in which markets that remain fairly reasonably valued outside some expensive pockets continue to climb the wall of worry.

The recent return of narrow leadership in the market if sustained represents a cause for concern, as does the sustainability of profits tied to information technology investments — though the dataflow does suggest trends are set to shift in the near future.

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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