

# Market Commentary

As at February 28, 2025

February returns among the PEPP investment options were muted, with the more conservative funds outperforming aggressively structured funds. The Accelerated Growth Fund declined 0.3 per cent, the Balanced Fund was flat, the Conservative Fund advanced 0.5 per cent, and the Bond Fund gained 0.9 per cent. This return differentiation among the funds reflected the market action in the month, characterized by a downward move in equities and price appreciation in the bond market. Alternative investments experienced slightly negative returns. On a relative return basis, the allocation funds tracked closely to their respective benchmarks in the month. The PEPP equity portfolio delivered positive excess returns by protecting value in a negative market in February. The PEPP fixed income portfolio, meanwhile, delivered returns on par with its aggregate benchmark while the PEPP alternatives segment trailed its benchmark in February.

In more detail, volatility was elevated amid investor concern over trade tensions between the U.S. and its largest trading partners. The U.S. has levied tariffs to shrink its trade deficit and strengthen manufacturing while tackling immigration and drug flows, though the broad sweep sidesteps the varying scale of each trading partner's profile. In U.S. equities, volatile cyclicals stumbled, and defensive names outperformed as risk-averse sentiment gripped investors, while value stocks outperformed their growth-style rivals. In Canada, market declines were led by the information technology sector, while insurance firms and gold minors notched gains during a choppy February. In commodities, futures' prices were broadly subdued, with oil sliding while gold prices closed the month near a lofty \$2,858 per ounce in U.S. dollars. In fixed-income, Canada's primary benchmark bond index appreciated for the second month in a row. The yield on the benchmark Government of Canada 10-year bond, fell by 17 basis points to 2.9 per cent as at the close of February.

## Market Review – February 2025

Fixed-income markets gained, alternative investments edged lower, equities declined, while the Plan's foreign currency position had a small net negative influence on returns in February. Market details:

- The FTSE Canada Universe Bond Index, which tracks broad Canadian bond market investments, increased 1.1 per cent, while money market investments gained 0.2 per cent.
- The S&P/TSX Composite Index fell 0.4 per cent, while losses for Canadian small/mid cap stock indices ranged between 0.4 and 2.3 per cent.
- In the U.S., the unhedged S&P 500 Index decreased 1.3 per cent in U.S. dollars and declined 1.5 per cent in Canadian dollar terms as the U.S. dollar weakened versus the Canadian dollar. The unhedged Russell 2000 Index retreated 5.6 per cent.
- The unhedged MSCI ACWI Index lost 0.8 per cent, the unhedged MSCI World Index fell 0.9 per cent, while the unhedged MSCI EAFE Small Cap Index declined 0.5 per cent. The unhedged MSCI Emerging Market Equity Index edged 0.3 per cent higher.

## Market Review – Plan Year 2024-25

Equity and fixed-income markets advanced, PEPP's alternative investments appreciated, while the Plan's foreign currency position had a net positive influence on returns on a Plan year-to-date basis. Market details:

- The FTSE Canada Universe Bond Index gained 8.0 per cent, while money market investments gained 4.2 per cent.
- The S&P/TSX Composite Index increased 17.6 per cent, while gains for Canadian small/mid cap stock indices ranged between 8.3 and 15.3 per cent.
- In the U.S., the S&P 500 Index advanced 14.7 per cent in U.S. dollars and appreciated 22.3 per cent in Canadian dollar terms as the U.S. dollar appreciated versus the Canadian dollar. The unhedged Russell 2000 Index gained 9.8 per cent.
- The unhedged MSCI ACWI Index gained 19.4 per cent, the unhedged MSCI World Index rose 19.9 per cent, and the unhedged MSCI EAFE Small Cap Index appreciated 10.2 per cent. The unhedged MSCI Emerging Market Equity Index advanced 15.3 per cent.