Market Commentary

As at April 30, 2025

April returns among the PEPP asset-allocation funds were negative, with more aggressive funds experiencing larger declines than their conservative counterparts. Equity and bond markets declined, PEPP's alternative investments likewise had small negative returns. The Accelerated Growth Fund decreased 2.0 per cent, the Balanced Fund lost 1.6 per cent, and the Conservative Fund fell 1.0 per cent. Currency translation had a net negative influence on returns, as the U.S. dollar depreciated versus the Canadian dollar. However, PEPP implements a passive 50 per cent currency hedge program to reduce currency risk. For Plan members, the currency drag was therefore only half as influential as a fully unhedged position.
On a relative-return basis, PEPP funds underperformed benchmarks. This short-term relative setback, driven primarily by private assets, arises from benchmark timing differences, compounded by currency conversion effects. Such transient swings are routine—some months show a favorable effect, others unfavorable— but PEPP's diversified portfolio and long-term strategy ensure its core value holds firm.

In more detail, April markets were highly volatile, with early declines triggered by U.S. tariff fears and global growth concerns. A late-month rally, driven by growth sectors like software and semiconductors, softened the losses. The Russell 2000 index, representing U.S. small-cap stocks, trailed global markets, reflecting its vulnerability to tariff risks and rising interest rates. Growth strategies outperformed Value strategies, reversing the first quarter's Value-led trend, as technology and consumer discretionary stocks rebounded. In Canada, gains in banks, software, and mining stocks were offset by weakness in energy and industrials. Commodities also faced challenges: the S&P Goldman Sachs Commodity Index declined, with WTI oil dropping to $58 per barrel amid recession fears, gold hitting record highs due to safe-haven demand, and copper falling due to manufacturing slowdowns. In fixed income, intra-month volatility sparked price swings, with the Government of Canada 10-year bond yield ending the month slightly higher at 3.1%, pressuring longer-dated bonds.

Market Review – April 2025

Equity and fixed-income markets declined, alternative investments declined in market value, while the Plan's foreign currency position had a net negative influence on returns in April the U.S. dollar weakened significantly.

- The FTSE Canada Universe Bond Index, which tracks broad Canadian bond market investments, fell 0.6 per cent, while money market investments gained 0.2 per cent.
- The S&P/TSX Composite Index edged 0.1 per cent lower, while losses for Canadian small/mid cap stock indices ranged between 0.9 and 1.8 per cent.
- In the U.S., the unhedged S&P 500 Index decreased 0.7 per cent in U.S. dollars but declined 4.5 per cent in Canadian dollar terms as the U.S. dollar weakened versus the Canadian dollar. The unhedged Russell 2000 Index retreated 6.1 per cent.
- The unhedged MSCI ACWI Index lost 3.0 per cent, the unhedged MSCI World Index likewise declined 3.0 per cent, while the unhedged MSCI EAFE Small Cap Index rose 1.8 per cent. The unhedged MSCI Emerging Market Equity Index fell 2.6 per cent.