

# Market Commentary



As at May 31, 2025

May returns for PEPP's asset allocation funds were positive, with more aggressive funds outperforming their conservative counterparts. The Accelerated Growth Fund gained 4.0 per cent, the Balanced Fund rose 2.7 per cent, the Conservative Fund advanced 1.1 per cent, and the Bond Fund increased 0.2 per cent. This performance reflected May's market trends, with Canadian and foreign equities outperforming bonds. Alternative investments also appreciated in value. Currency movements impacted May's performance, as foreign currencies, like the U.S. dollar and Euro, weakened against the Canadian dollar, resulting in a net negative effect from currency translation. PEPP's passive 50 per cent currency hedge program mitigated this drag, reducing its effect by half compared to a fully unhedged position. On a relative basis, PEPP funds outperformed their benchmarks, with modest gains across the Plan's major asset classes: equities, fixed income, and alternatives.

In more detail, the bellwether S&P 500 Index rallied strongly in May, fueled by earnings growth and tariff relief optimism, with technology stocks leading the charge. The Russell 1000 Growth and Value indices, which track the performance of large-cap U.S. companies with either growth-oriented traits—like high earnings potential—or value-oriented traits—like lower valuations—highlighted the market's preference for risk. Specifically, the Russell 1000 Growth gained 8.8 per cent, while the Russell 1000 Value rose 3.5 per cent for the month. Cyclical sectors like banks and industrials outperformed defensives, reflecting a risk-on environment. Defensives, including health care, utilities, and consumer staples, trailed amid a market favoring riskier assets. Within this group, health care suffered losses, driven by a sharp retrenchment in UnitedHealth Group shares as investors sold off the stock amid higher medical costs, Department of Justice investigations, and uncertainty following the CEO's departure. In Canadian equities, the S&P/TSX Composite Index achieved mid-single digit gains, led by banks and technology, though the influential gold sub-sector, despite its significant presence, lagged with a modest 1.2 per cent gain amid a risk-on market shift. The S&P Goldman Sachs Commodity Index, a benchmark tracking a diversified basket of commodity futures, advanced 1.6 per cent, led by energy and base metals, though oil faced pressure from OPEC+'s planned production increases starting in July. In Canadian fixed-income markets, the main benchmark bond index was flat as government bond yields rose slightly and credit spreads narrowed, with the 10-year yield reaching 3.2 per cent.

## Market Review – May 2025

Equity markets rallied, fixed-income markets were flat, alternative investments edged higher, while the Plan's foreign currency position had a net negative influence on returns in May as foreign currencies weakened versus CAD. Market details:

- The FTSE Canada Universe Bond Index, which tracks broad Canadian bond market investments, was flat, while money market investments gained 0.2 per cent.
- The S&P/TSX Composite Index advanced 5.6 per cent, while returns for Canadian small/mid cap stock indices ranged between 7.2 and 7.4 per cent.
- In the U.S., the unhedged S&P 500 Index increased 6.3 per cent in U.S. dollars and gained 5.8 per cent in Canadian dollar terms as the U.S. dollar weakened versus the Canadian dollar. The unhedged Russell 2000 Index rose 4.8 per cent.
- The unhedged MSCI ACWI Index advanced 5.3 per cent, the unhedged MSCI World Index increased 5.5 per cent, while the unhedged MSCI EAFE Small Cap Index gained 5.2 per cent. The unhedged MSCI Emerging Market Equity Index rose 3.8 per cent higher.

## Market Review – Plan Year 2025-26

Equity markets advanced, fixed-income markets and PEPP's alternative investments declined, while the Plan's foreign currency position had a net negative influence on returns on a Plan year-to-date basis as the U.S. dollar weakened. Market details:

- The FTSE Canada Universe Bond Index declined 0.6 per cent, while money market investments gained 0.4 per cent.
- The S&P/TSX Composite Index increased 5.5 per cent, while gains for Canadian small/mid cap stock indices ranged between 5.2 and 6.4 per cent.
- In the U.S., the S&P 500 Index advanced 5.6 per cent in U.S. dollars but saw a more modest 1.0 per cent gain in Canadian dollar terms as the U.S. dollar depreciated markedly versus the Canadian dollar. The unhedged Russell 2000 Index fell 1.6 per cent.
- The unhedged MSCI ACWI Index gained 2.2 per cent, the unhedged MSCI World Index rose 2.3 per cent, and the unhedged MSCI EAFE Small Cap Index appreciated 7.1 per cent. The unhedged MSCI Emerging Market Equity Index rose 1.1 per cent.