

Market Commentary



As at July 31, 2025

Fund Performance

Returns among the PEPP asset allocation funds in July were positive, reflecting a strong recovery from the April 2025 tariff crash. The Accelerated Growth Fund gained 1.3%, driven by equity strength, while the Balanced Fund rose 0.9%, blending equity with fixed-income losses. The Conservative Fund edged up 0.3%, hampered by bonds, and the Bond Fund declined 0.3% due to rising yields. The PEPP Alternatives portfolio matched equity gains, boosted by a US dollar rebound. Most PEPP funds lagged benchmarks, with the global large cap equity portfolio trailing in a narrow market.

Equity Markets

Public equities delivered positive returns in July, building on the post-April rally, pushing year-to-date returns near double digits. Info Tech led strongly, fueling market gains with significant influence, while defensive sectors like Staples and Healthcare declined. Nvidia shone with AI momentum, while UnitedHealth faced regulatory challenges. Growth styles outpaced value, with the Russell 1000 Growth Index up 3.8% versus 0.6% for the Russell 1000 Value Index, emphasizing growth's edge. In Canada, the S&P/TSX Composite's 1.7% return highlighted banks, Shopify, energy, and gold miners, though rails declined and Teck Resources, a key copper and zinc miner, dropped 18% due to a Q2 2025 earnings miss at Quebrada Blanca.

Commodities

The S&P GSCI, a broad commodity index, rose 3.6% in July, driven by a 6.4% WTI oil rally amid Israel-Iran conflicts, while gold held stable despite global uncertainties. Copper plunged 14% to \$4.35 after a U.S. tariff exemption for raw copper spiked inventories. Iron ore climbed on China's property recovery hopes, fueled by stimulus. Natural gas softened due to oversupply and cooler forecasts. July's trends reflect constrained oil supply against mixed metal demand, with China's construction rebound offsetting industrial slowdowns.

Fixed-Income

Bond prices fell in July as the Canada 10-Year Government Bond Yield climbed 0.20 points to 3.5%, causing Canada's leading bond benchmark to drop 0.7% and the PEPP Bond Fund to decline 0.3%. Rising yields, tied to inflation and central bank signals, pressured bond-heavy funds. Narrowing credit spreads since April boosted investment-grade corporates over government bonds, offering relative stability.

Market Review – July 2025

Equity markets and alternative investments advanced, fixed-income markets declined, and the Plan's foreign currency position had a net positive influence on returns in July. Market details:

- The FTSE Canada Universe Bond Index, which tracks broad Canadian bond market investments, declined 0.7 per cent, while money market investments gained 0.2 per cent.
- The S&P/TSX Composite Index advanced 1.7 per cent, while returns for Canadian small/mid cap stock indices ranged between 1.5 and 2.0 per cent.
- In the U.S., the unhedged S&P 500 Index increased 2.2 per cent in U.S. dollars and gained 3.9 per cent in Canadian dollar terms as the U.S. dollar strengthened versus the Canadian dollar. The unhedged Russell 2000 Index rose 3.4 per cent.
- The unhedged MSCI ACWI Index advanced 3.0 per cent, the unhedged MSCI World Index likewise gained 3.0 per cent, while the unhedged MSCI EAFE Small Cap Index rose 1.6 per cent. The unhedged MSCI Emerging Market Equity Index gained 3.7 per cent.

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 1.3 per cent, while money market investments gained 0.9 per cent.
- The S&P/TSX Composite Index increased 10.4 per cent, while gains for Canadian small/mid cap stock indices ranged between 13.4 and 14.8 per cent.
- In the U.S., the S&P 500 Index advanced 13.4 per cent in U.S. dollars but gained only 9.2 per cent gain in Canadian dollar terms as the U.S. dollar depreciated versus the Canadian dollar. The unhedged Russell 2000 Index rose 6.3 per cent.
- The unhedged MSCI ACWI Index gained 9.0 per cent, the unhedged MSCI World Index rose 8.9 per cent, and the unhedged MSCI EAFE Small Cap Index appreciated 12.5 per cent. The unhedged MSCI Emerging Market Equity Index rose 10.2 per cent.