



Market Commentary

As at August 31, 2025

Fund Performance

August marked the fourth consecutive month of positive returns for PEPP asset allocation funds since the April 2025 tariff crash. The Accelerated Growth, Balanced, and Conservative Funds returned 2.0%, 1.4%, and 0.8%, respectively, fueled by strong equities but moderated by fixed income and bond allocations. The PEPP Alternatives portfolio was flat, pressured by a weakening U.S. dollar against the Canadian dollar. Most PEPP funds trailed their benchmarks in August due to short-term timing challenges in the Private Markets programs. The lagged nature of private market valuations, combined with significant unhedged U.S. dollar exposure, created temporary headwinds as the USD weakened. These factors contributed to a short-term performance gap relative to benchmarks in the private markets segment.

Equity Markets

Public equities posted strong gains in August, with small caps leading. The S&P/TSX Small Cap Index surged 9.3%, outpacing the S&P/TSX Composite's 5.0% rise, which handily beat global large-cap indices. Canada's market thrived, driven by a Materials sector rally, fueled by robust precious and industrial metals, with names like Capstone Copper Mining bolstered by strong Q2 earnings. Shopify's tech rally, tied to solid Q2 results, added momentum. Banks and pipelines contributed, contrasting Consumer Staples' slight decline. The rally in riskier assets, reflecting eased tariff concerns, underscored metals' strength. The TSX's resource-heavy composition, with gold names over 10 per cent of constituents, drove its standout performance.

Commodities

Summer brought excitement for commodity investors, as gold hit all-time highs above \$3,500 per ounce, extending a two-year rally driven by Fed rate cut bets and safe-haven demand. Silver rallied strongly. Canadian miners shone, with the S&P/TSX Gold sub-sector soaring 20%. In Energies, crude oil, a key global commodity, fell to \$64 per barrel for WTI as the OPEC+ group boosted output, reflecting oversupply. Natural gas prices eased on high inventories, while uranium rallied, lifted by nuclear demand and supply constraints.

Fixed-Income

In fixed-income, Canada's main bond index rallied for a modest gain. The benchmark Government of Canada 10-year bond ended August yielding 3.4 per cent. The Bank of Canada's policy rate held steady at 2.75 per cent since March, balancing inflation and trade risks.

Market Review – August 2025

Equity markets delivered another monthly gain, bonds edged higher, and alternative investments were flat. Market details:

- The FTSE Canada Universe Bond Index, which tracks broad Canadian bond market investments, rose 0.4 per cent, while money market investments gained 0.2 per cent.
- The S&P/TSX Composite Index advanced 5.0 per cent, while returns for Canadian small/mid cap stock indices ranged between 5.5 and 9.3 per cent.
- In the U.S., the unhedged S&P 500 Index increased 2.0 per cent in U.S. dollars but gained 1.2 per cent in Canadian dollar terms as the U.S. dollar weakened versus the Canadian dollar. The unhedged Russell 2000 Index surged 6.2 per cent higher.
- The unhedged MSCI ACWI Index advanced 1.7 per cent, the unhedged MSCI World Index gained 1.8 per cent, while the unhedged MSCI EAFE Small Cap Index gained 3.8 per cent. The unhedged MSCI Emerging Market Equity Index rose 0.6 per cent.

Market Review – Plan Year 2025-26

Equity markets delivered strong gains, 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 notably. Market details:

- The FTSE Canada Universe Bond Index declined 0.9 per cent, while money market investments gained 1.1 per cent.
- The S&P/TSX Composite Index increased 15.8 per cent, while gains for Canadian small/mid cap stock indices ranged between 21.2 and 24.0 per cent.
- In the U.S., the S&P 500 Index advanced 15.7 per cent in U.S. dollars but gained only 10.5 per cent gain in Canadian dollar terms as the U.S. dollar depreciated versus the Canadian dollar. The unhedged Russell 2000 Index rose 12.9 per cent.
- The unhedged MSCI ACWI Index gained 10.9 per cent, the unhedged MSCI World Index rose 10.8 per cent, and the unhedged MSCI EAFE Small Cap Index appreciated 16.7 per cent. The unhedged MSCI Emerging Market Equity Index rose 10.9 per cent.