Market Commentary

As at October 31, 2025

Fund Performance

PEPP's asset allocation funds extended their streak to a sixth consecutive month of positive returns since the April 2025 tariff shock. The Balanced Fund rose 0.9%, with returns nearly uniform across the risk spectrum. In a typical up-month, more aggressive funds would pull further ahead of conservative ones, but PEPP's returns stayed tightly clustered—largely because the equity sleeve lagged its benchmark. All allocation funds underperformed their targets in October, with value and quality tilts in equities detracting amid a growth-led rally fueled by technology and select international markets. This reflects PEPP's diversified, resilient approach—prioritizing long-term retirement security over short-term momentum.

Equity Markets

Public equities advanced in October, led by Japanese stocks and emerging markets. Japan's Nikkei 225 soared to a record high—its strongest monthly gain in three decades—fueled by stimulus expectations, U.S.-China trade optimism easing supply chain pressures for exporters, and robust AI demand in semiconductors and tech. U.S. markets advanced, driven by AI-exposed leaders on strong earnings and sustained infrastructure build-out. Emerging markets climbed, supported by and regional policy tailwinds. Canadian equities posted widely disparate returns, led higher by tech (Celestica and Shopify) and uranium (Cameco's surge) but held back by a pullback the gold miners, alongside weakness in the petroleum sector.

Commodities

Precious metals continued their climb amid economic jitters, with gold futures settling just shy of $4,000/oz as a key hedge against inflation and uncertainty, while silver followed on safe-haven demand. Copper markets tightened, supported by supply disruptions at major mines and rising demand from global infrastructure and green energy. WTI crude edged lower on ample supplies, pressuring energy producers even as LNG projects like Kitimat advance toward startup.

Fixed-Income

Canada's main bond index advanced for a third consecutive month, supported by renewed rate-cut expectations. The Bank of Canada lowered its policy rate by 25 basis points to 2.25% on October 29, citing cooling inflation, softening labour markets, and ongoing U.S. tariff headwinds. Yields across the curve drifted lower, with the 10-year Government of Canada bond ending October at 3.1%.

Market Review – October 2025

Equities extended their gains while bonds and alternatives rose steadily. Market details:

- The FTSE Canada Universe Bond Index, which tracks broad Canadian bond market investments, rose 0.7 per cent, while money market investments gained 0.2 per cent.
- The S&P/TSX Composite Index advanced 1.0 per cent, while returns for Canadian small/mid cap stock indices ranged between 1.6 and 2.3 per cent.
- In the U.S., the unhedged S&P 500 Index increased 2.3 per cent in U.S. dollars and gained 3.0 per cent in Canadian dollar terms as the U.S. dollar strengthened versus the Canadian dollar. The unhedged Russell 2000 Index rose 2.4 per cent higher.
- In Canadian dollar terms, the MSCI ACWI Index advanced 2.9 per cent, the MSCI World Index gained 2.6 per cent, the MSCI EAFE Small Cap Index edged 0.2 per cent lower, and the MSCI Emerging Market Index gained 4.8 per cent.

Market Review – Plan Year 2025-26

Equity markets delivered very strong returns, fixed-income markets and PEPP's alternative investments delivered small gains, 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 rose 1.6 per cent, while money market investments likewise gained 1.6 per cent.
- The S&P/TSX Composite Index increased 23.3 per cent, while gains for Canadian small/mid cap stock indices ranged between 33.0 and 38.2 per cent.
- In the U.S., the S&P 500 Index advanced 22.8 per cent in U.S. dollars and gained 19.7 per cent gain in Canadian dollar terms as the U.S. dollar depreciated versus the Canadian dollar. The unhedged Russell 2000 Index rose 21.1 per cent.
- In Canadian dollar terms, the MSCI ACWI Index gained 20.0 per cent, the MSCI World Index rose 19.2 per cent, the MSCI EAFE Small Cap Index appreciated 20.2 per cent, and the MSCI Emerging Market Index rose 26.5 per cent.