

Market Commentary

As at July 31, 2026

Fund Performance

July returns were subdued across the PEPP asset-allocation funds, with the most aggressive funds being approximately flat, while more conservative allocations, including the Bond Fund, posted slightly larger declines amid rising bond yields. This pattern reflected weakness across both equities and fixed income, yet the Plan's equity portfolio successfully generated positive alpha—a notable achievement after a prolonged period of headwinds from April 2025–May 2026 driven by narrow mega-cap growth and AI concentration. Value-oriented and diversified global strategies demonstrated improved relative performance with early signs of recoupment. This environment validated the Plan's emphasis on style, size, and geographic diversification over concentrated positioning.

Equity Markets

Global large-cap equities saw continued leadership rotation into July following June's expansion of market breadth. While absolute equity benchmark returns were negative, the Plan's equity portfolio emerged as a relative standout—delivering slightly positive returns as value-oriented and quality strategies captured meaningful alpha when market leadership shifted beyond the narrowest mega-cap growth and AI names. This movement also supported robust relative results in U.S. small-cap value, rewarding valuation discipline and quality fundamentals over momentum-driven exposures. The segment's ability to convert a challenging market backdrop into a positive outcome leaves the portfolio well-positioned going forward.

Fixed-Income

Canadian and global fixed-income markets declined in July as longer-term yields rose. The 10-year Government of Canada yield moved higher, while U.S. 30-year Treasuries touched 19-year highs. Income-focused holdings, particularly longer-duration bonds, faced downward pressure. Following the Federal Reserve's July meeting, officials held rates steady but signaled continued vigilance on inflation, complicating the outlook for duration-sensitive securities. Credit spreads remained relatively contained, supported by resilient corporate fundamentals across the investment-grade universe.

Commodities

Commodity markets remained sensitive to U.S.-Iran tensions and shipping risks through the Strait of Hormuz. WTI crude displayed notable volatility, with sharp swings tied to escalating geopolitical fears, diplomatic pauses, and supply disruption concerns—briefly dipping below \$70 before recovering amid inventory draws and renewed risk premiums. Gold

Key Market Returns (in \$CAD terms)	July 2026	Plan YTD 2026
FTSE Canada Bonds	-1.5%	+0.4%
Money Market	+0.2%	+0.8%
TSX Composite	+1.2%	+8.3%
S&P 500	-1.3%	+15.8%
MSCI World	-0.7%	+15.1%
Emerging Markets	-4.2%	+21.0%
US Small Cap	-4.2%	+18.5%
EAFE Small Cap	+0.7%	+12.0%

traded in an elevated but pressured range near \$4,000–\$4,100 per ounce, supported by geopolitical uncertainty yet facing headwinds from higher real yields. Base metals, including copper, remained anchored around \$13,500–\$13,800 per ton amid tightening physical supply and demand from electrification infrastructure. These movements underscored spot-market sensitivity to geopolitical shocks and macroeconomic impulses.

Alternatives

The PEPP Alternatives portfolio provided intended stabilization amid public-market volatility. These less-liquid holdings, which lack frequent public pricing, typically exhibit low correlation to equities and bonds—enhancing overall portfolio diversification. Over the trailing 12 months, alternatives delivered mid-single-digit returns, reinforcing their role in smoothing outcomes for plan members—particularly valuable during periods when public equities face rotational pressures or fixed-income encounters yield volatility. This validates the long-term strategic value of the Plan's diversified, outcome-oriented construction approach.