

QUARTERLY MARKET UPDATE

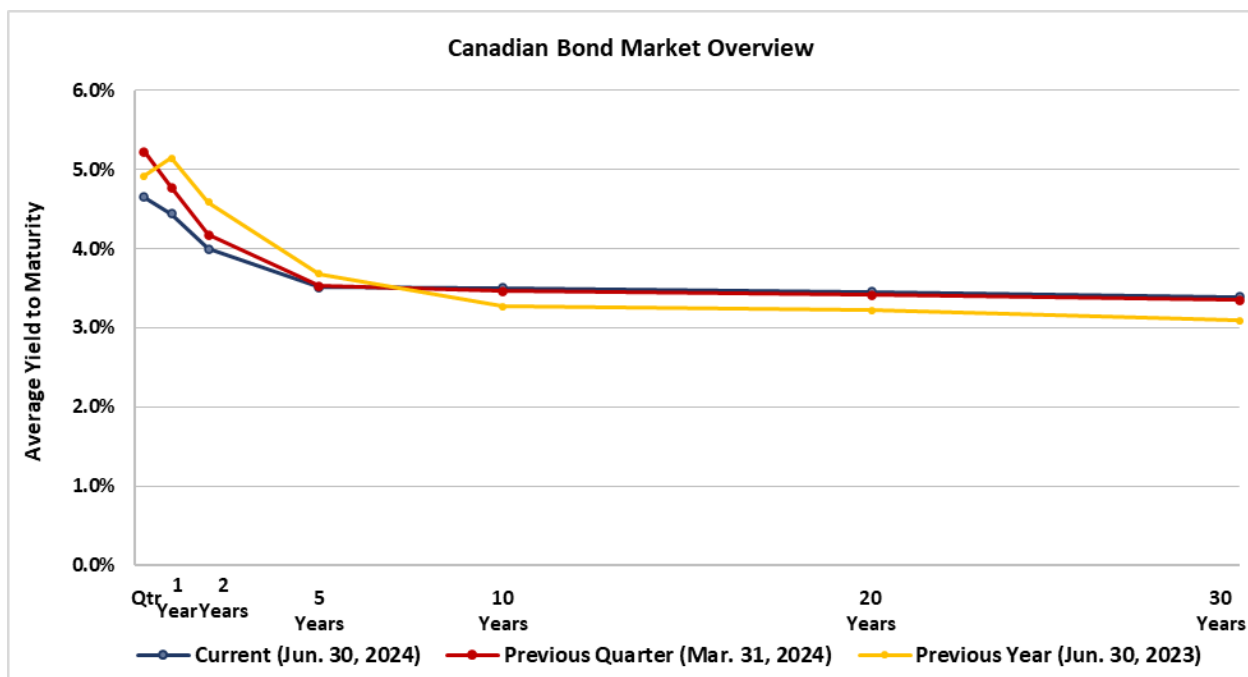
AS AT JUNE 30, 2024

The following information is being provided as an overview of Vestcor Inc.'s (Vestcor) investment activities and the general financial market conditions experienced during the noted reporting period.

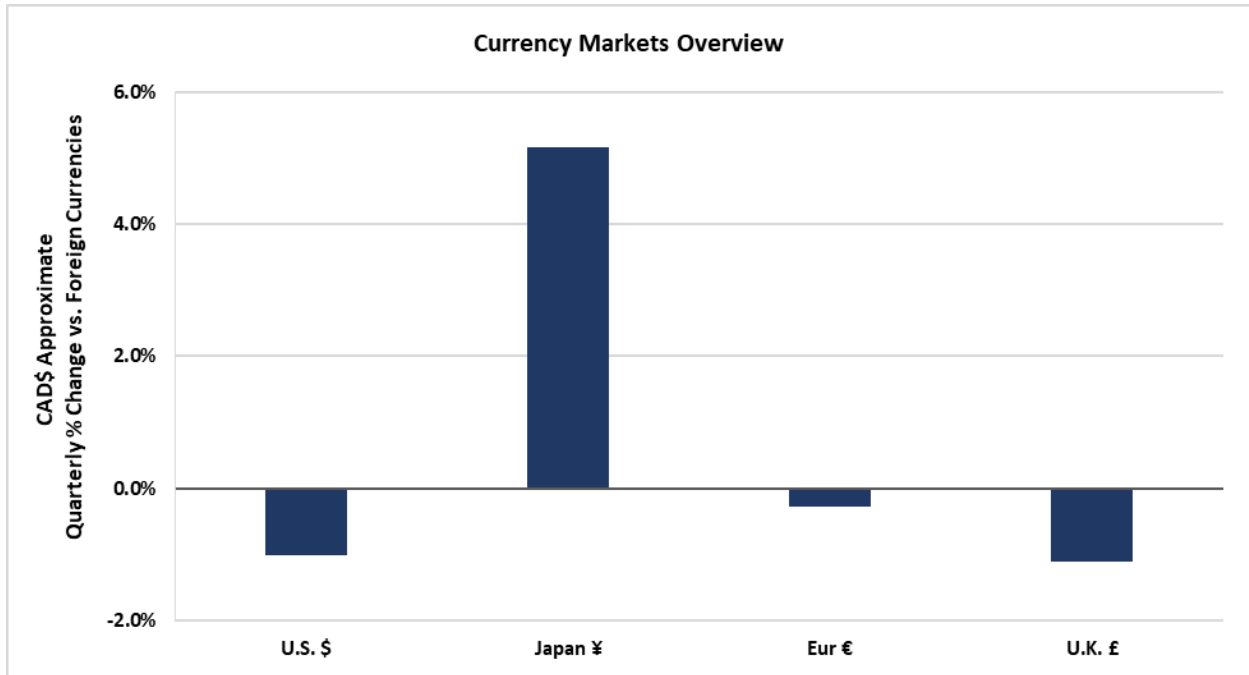
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor with respect to their own specific financial matters.

Performance Overview

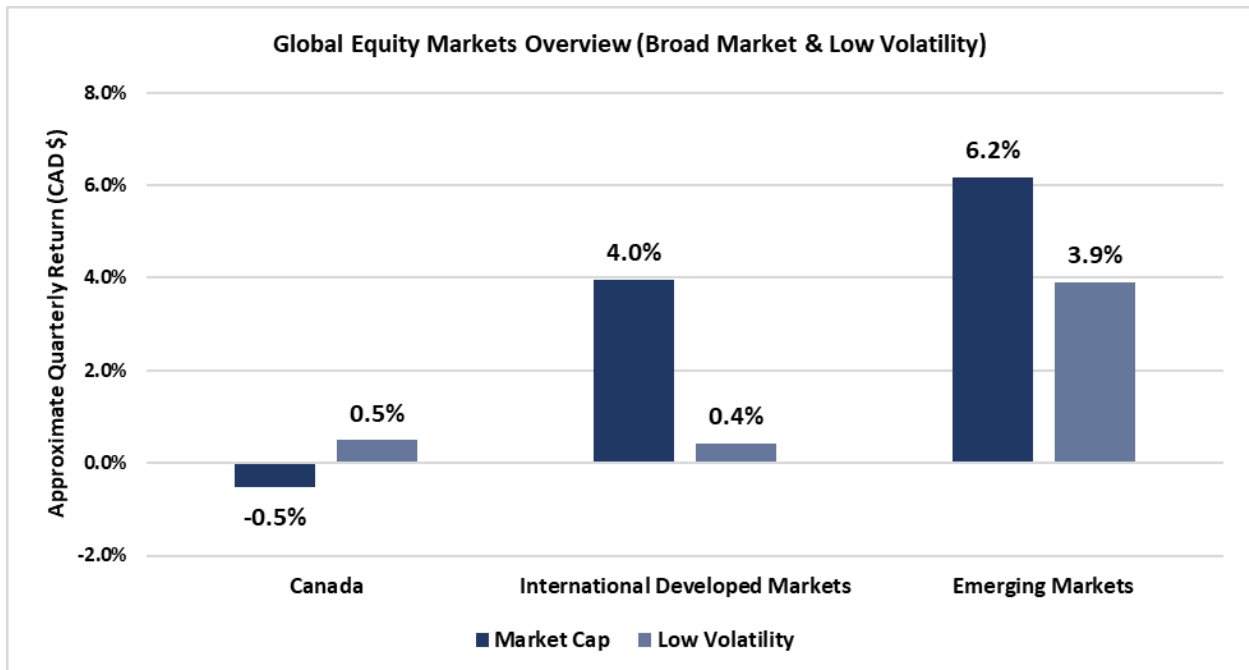
- The yield curve became less inverted over the quarter as short-term rates fell while longer term yields remained anchored. During the period, the Bank of Canada lowered interest rates 25 bps to 4.75% as inflation rates normalize within the targeted band.



- Given this backdrop, the Canadian All Government Bond index returned 0.78% due to interest income earned as yield change impacts were minimal. The Canadian Corporate Bond index outperformed government bonds, earning 1.09%, due to declining credit spreads and higher interest income earned.
- The Real Return Bond index had a return of 1.05%, slightly outperforming government bonds due to higher inflation linked interest income.
- In currency markets, the Canadian dollar weakened against the US Dollar and British Pound while strengthened relative to the Japanese Yen.



- Equity markets presented mixed results this quarter, with some regions and strategies producing positive outcomes while others were more muted. Emerging Markets outperformed other regions during the period. In Canada, low volatility strategies managed a slight gain compared to a decline for market-capitalization weighted strategies. Internationally, low volatility underperformed in both Developed and Emerging Market regions.



- Private real estate has generally outperformed their public market counterparts. Retail assets are seeing strong operational results which are positive for valuations. Office markets are still under pressure, but there are signs of improvement in several regions. Multi-family rental continues to perform very well while industrial markets weaken at the margins.

- Private infrastructure has generally performed similar to their public market counterparts. Higher interest rates are weighing on the sector but much of that impact has been offset by revenues tied to inflation.
- Private equity generally underperformed its public market counterparts as valuations in private markets tend to lag public markets. The market’s anticipation of potential interest rate cuts by the US Federal Reserve reportedly has some private equity sponsors revisiting exit planning options for some of their investments in the second half of 2024.

Market Environment & Outlook

Summary:

- The rally in U.S. equities has persisted as the Magnificent 7 stocks continued to outperform in Q2, although analysts have begun to shift attention toward the broader market, with non-technology companies currently expected to report their strongest earnings growth in several quarters.
- Although recently concentrated markets have proven challenging for active managers, gauges of diversification have improved recently, with greater dispersion in outlooks for different industries offering more significant opportunities – both positive and negative – for active portfolios.
- Geopolitical risk, including but not limited to the upcoming U.S. federal election, have so far been largely ignored by the market, but could produce volatility, particularly in the context of a rapidly evolving macroeconomic policy environment.

Stocks have continued to rally so far in 2024. The S&P 500 effectively sits at all-time highs, and the artificial intelligence/technology trade continues to perform for investors, with the Magnificent 7 stocks as a group up more than 35% so far this year. While the recent concentration in equity markets has been challenging for active managers, Analysts currently expect Q2 earnings for the non-technology sectors of the U.S. equity market to post stronger earnings growth than the past several quarters. This, combined with declining stock correlations (indicating greater dispersion in returns across the broader market) could finally present opportunities for strategies that have lagged the market over the past 18 months to begin to claw back some performance. Broader, more diversified markets generally result in improved performance for a wide range of active strategies.

However, while underlying market fundamentals may prove somewhat more attractive for active managers going forward, the overall economic policy environment remains highly uncertain. Inflation reduction over the past 1.5 years has proven successful, with higher interest rates and in general tighter monetary policy providing a moderating force on markets while underlying fundamentals remained strong. Despite this, the “last mile” of inflation reduction has proven somewhat difficult, and markets currently remain uncertain as to the path of rates and policy going forward.

At the beginning of the year, as many as six rate cuts were priced in for both the U.S. and Canada, with investors widely expecting continued falling inflation providing an opportunity for policymakers to cut rates rapidly. Despite this, inflation remained solidly above 3% annualized throughout the first half of the year, and by late spring, only 1-2 rate cuts were expected by investors for all of 2024 (although a slightly cooler than expected inflation figure for the month of June itself allowed investors to once again re-evaluate). In general, while the Bank of Canada was first among G7 central banks to ease policy with a 25-basis point cut, market expectations for the path of monetary policy will remain quite uncertain until investors see several consecutive months of a well-defined trend despite the fact that rates are in all likelihood well above a neutral policy setting. Future divergence in policy rates between the U.S. and Canada will potentially have a follow-on impact on foreign exchange rates, with the Canadian dollar potentially under pressure if the Canadian economy weakens – necessitating lower rates – much faster than the U.S.

In general, economic performance has remained sufficiently strong – particularly in the U.S. – to allow investors to turn a mostly blind eye to risks to the outlook, although certain parts of the global economy have shown signs of weakening. The Canadian economy in particular has underperformed, with many analysts referencing a “per capita recession” where only population growth from immigration contributes positively to GDP. In addition to these apparent soft spots in underlying economic performance, geopolitical events will likely also contribute to short-term market volatility in the coming quarters. The U.S. federal election cycle continues to be highly uncertain and will dominate the news cycle throughout the year, while global considerations in eastern Europe, the middle east, and the Asia Pacific region have so far defied easy resolutions. Overall, despite the ongoing strength in markets, investors will likely be well-served by a focus on quality and defensive opportunities within portfolios while prioritizing liquidity to allow for tactical opportunities to react to short term market events.