QUARTERLY MARKET UPDATE

AS AT MARCH 31, 2025

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.*

Look for terms with a dotted underline in this Quarterly Market Update.
You can find definitions of these terms and others by visiting vestcor.org/glossary.

Market Environment & Outlook

Potential for global trade war met with mostly negative equity market returns and increased volatility

Equity markets saw increased volatility and weaker returns to start 2025, with U.S. markets experiencing significant declines of about -4% for the S&P 500 and about -8% for the Nasdaq. Canada, in contrast, was initially spared, with the S&P/TSX Composite Index gaining just over 1% in Q1, despite the apparent risks to the Canadian economy from a protracted trade dispute with the U.S. The value of global diversification was clearly demonstrated with a broad benchmark of developed and emerging market equities only declining slightly more than 1% from January to March.

Globally, equity markets diverged sharply as regional dynamics and policy responses shaped performance

Overall, concerns about economic growth and employment in the face of an increasingly significant global trade war dominated investor attention and contributed negatively to the market outlook. The Atlanta Fed's *GDPNow* measure dropped from a 3% annualized rate to approximately -2% during the quarter, while the University of Michigan Consumer Sentiment measure dropped from the mid 70s at year end to just over 50 in the beginning of Q2. Equity market volatility as measured by the VIX Index increased modestly by quarter-end before spiking rapidly with the onset of tariffs in early April, as investors digested the rapidly changing economic outlook.

Market Environment & Outlook

Central banks facing tough choices

From a policy perspective, central banks are likely faced with the difficult prospect of easing policy to accommodate market volatility and declining growth expectations while navigating the price impacts of tariffs on imported goods. As of the end of March, as many as three quarter-point rate cuts were priced in for the U.S. market by the end of 2025, with two cuts priced in for Canada following the Bank of Canada's quarter-point cut on March 12. Canadian interest rates now sit solidly below those of the U.S. across essentially the entire yield curve.

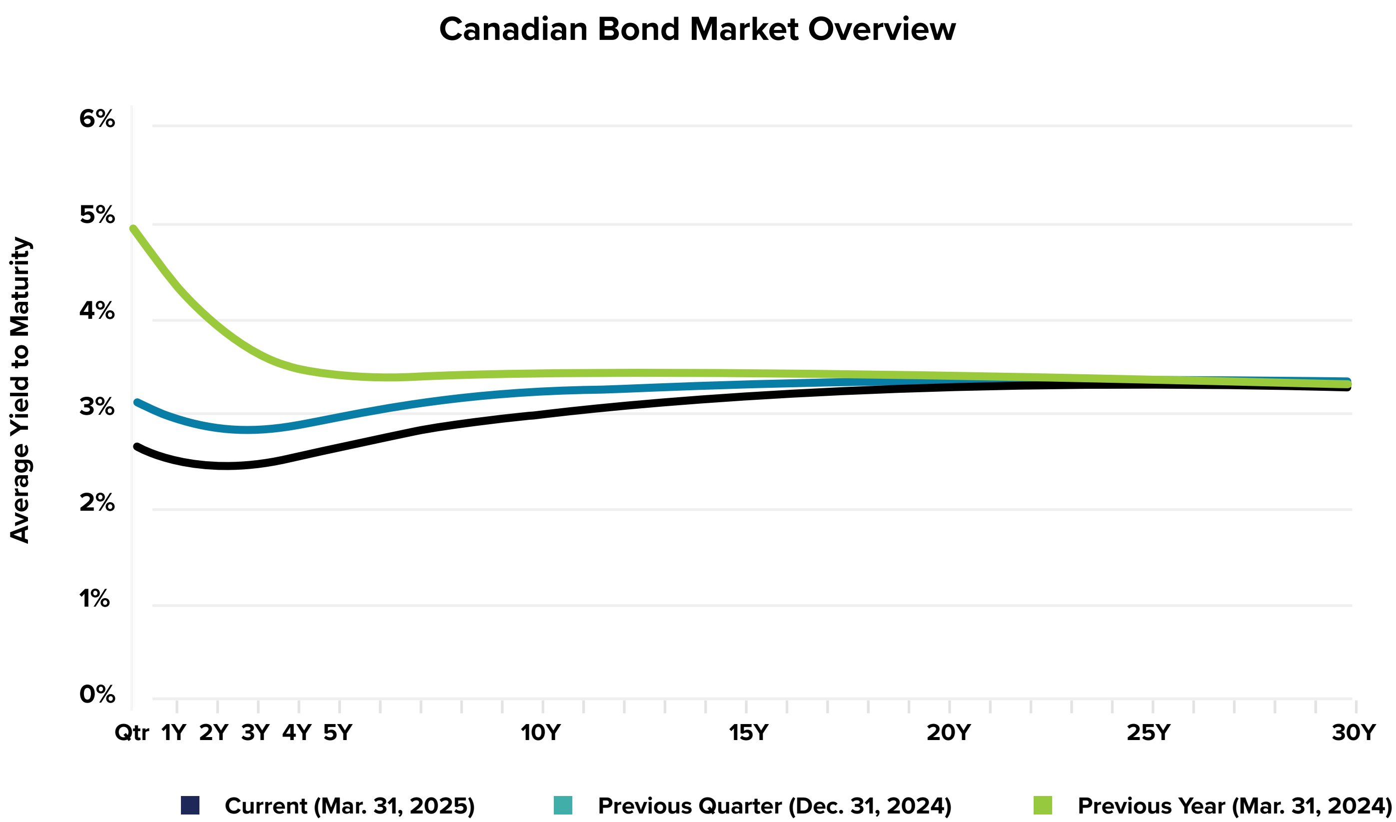
Outlook

In general, investor expectations appear to have coalesced around a base case outlook of slower than recent trend growth with associated gradual disinflation, albeit with significant risk to the upside for consumer prices should tariffs prove more damaging than expected. While "stagflation" (lower than trend growth at the same time as above normal CPI increases) does not currently appear to be the default outcome, continued risks of prolonged trade disruptions along with limited policy flexibility on the part of central banks have raised the potential of such an outcome.

However, while overall market volatility remains elevated, investors with solid liquidity positions and a long-term perspective can continue to search for opportunities in attractive markets and strategies, including relatively lower-priced global equities, while taking advantage of medium-term market dislocations.

Overview: Fixed Income

The Bank of Canada reduced the policy interest rate by 50 basis points this quarter, bringing the overnight rate down to 2.75% as concerns emerge that trade tensions and tariffs could increase inflationary pressures while slowing the pace of the economy. Consequently, yields on short durations declined over the quarter while yields on longer maturity bonds remained relatively stable, resulting in a slightly steeper yield curve.

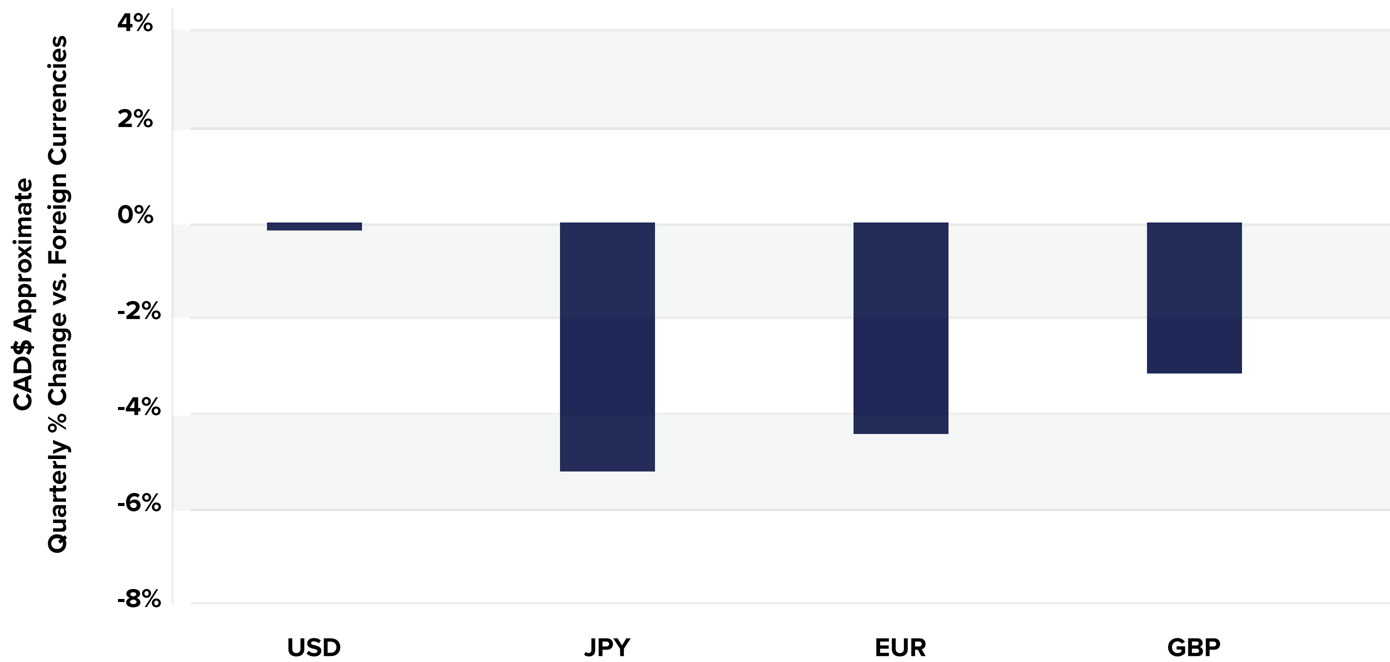


Given this backdrop, the Canadian All Government Bond index returned 2.09% as yields decreased during the quarter. The Canadian Corporate Bond index underperformed Government Bonds, earning 1.81% due to lower sensitivity to falling yields and a slightly widening credit spread which eroded returns.

Overview: Currency

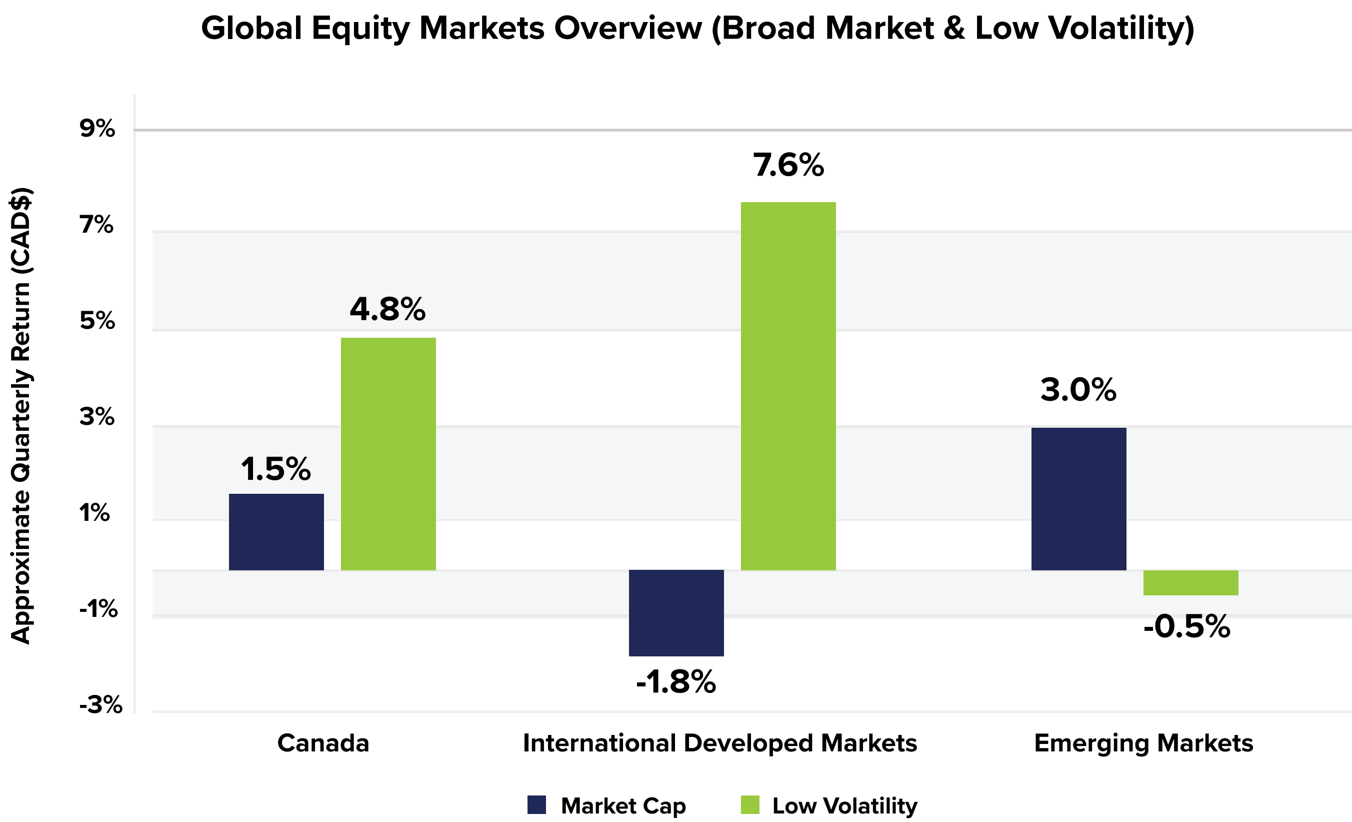
In currency markets, the Canadian dollar weakened relative to the U.S. dollar and depreciated against most other major currencies. Overall currency impacts were slightly positive to the portfolio's quarterly return.

Currency Markets Overview



Overview: Equities

Public equity markets were divided this quarter, with some geographies producing positive results while others were either muted or negative. Market-capitalization weighted strategies underperformed low volatility strategies for developed markets but outperformed low volatility strategies in emerging markets.



On the real estate side, capitalization rates continue to be stable in the broader Canadian market; however, lower growth in rents is leading to softer valuations. Retail assets are having mixed results with enclosed shopping centres still facing capital market headwinds, while grocery-anchored centres are in high demand. Office markets continue to be weak, although there is improvement in leasing and the supply of new products is very low, both of which will help further reduce vacancies. Multi-family rental is performing well, though some signs indicate that growth in rental rates is decelerating. Lastly, availability rates in industrial markets continue to rise, which is putting downward pressure on rental rates.