QUARTERLY MARKET UPDATE

AS AT JUNE 30, 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

Trade negotiations and U.S. domestic macroeconomic policy continue to dominate market news headlines

Despite reasonably strong economic fundamentals, investors have dealt with significant market reversals and volatility throughout the first half of 2025 because of ongoing trade and tariff negotiations globally. While the second quarter started with significant negative results in global equity markets because of "Liberation Day" tariff announcements, the seemingly never-ending series of delays, exemptions, and reversals have seen equity markets climb a wall of worry all the way to fresh highs.

Year-to-date, the S&P 500 gained about 6%, while global markets (in USD terms) gained even more, with global and emerging markets indices gaining approximately 9% and 15%, respectively. Closer to home, the S&P/TSX Composite Index also experienced strong gains, rising about 10% in Canadian dollar terms despite the apparent potential for negative impact of protectionist U.S. trade policy on the Canadian economy.

One to two interest rate cuts are priced into the U.S. bond market between July and year end 2025

Similar to the outward-looking view, U.S. domestic economic policy is also undergoing turmoil. Ignoring the potential legal issues around the firing of the Chair of the Federal Reserve Board of Governors, the status of Jerome Powell remains somewhat uncertain in the face of ongoing criticism from President Trump over the pace of interest rate cuts. Currently, 1-2 rate cuts are priced into the U.S. bond market for the rest of 2025, fewer than desired by the President. Furthermore, the recent upward tick of inflation has done nothing to accelerate market expectations of future rate cuts.

Overall, Fed independence remains an important facet of global macroeconomic policy expectations, and uncertainty created by the current administration in this regard will necessarily flow through into financial market prices and volatility.

VESTCOR

Market Environment & Outlook

Foreign exchange markets have seen large impacts

While risk assets have rebounded strongly and interest rates have remained mostly rangebound, one area where current economic policy has impacted market prices significantly is the foreign exchange market. Year-to-date, the DXY Index, a weighted average of U.S. dollar strength against global currencies, has declined more than 10% as of midyear, reflecting investor acknowledgment of the intentions of the current U.S. administration to broadly weaken the U.S. dollar in global FX markets.

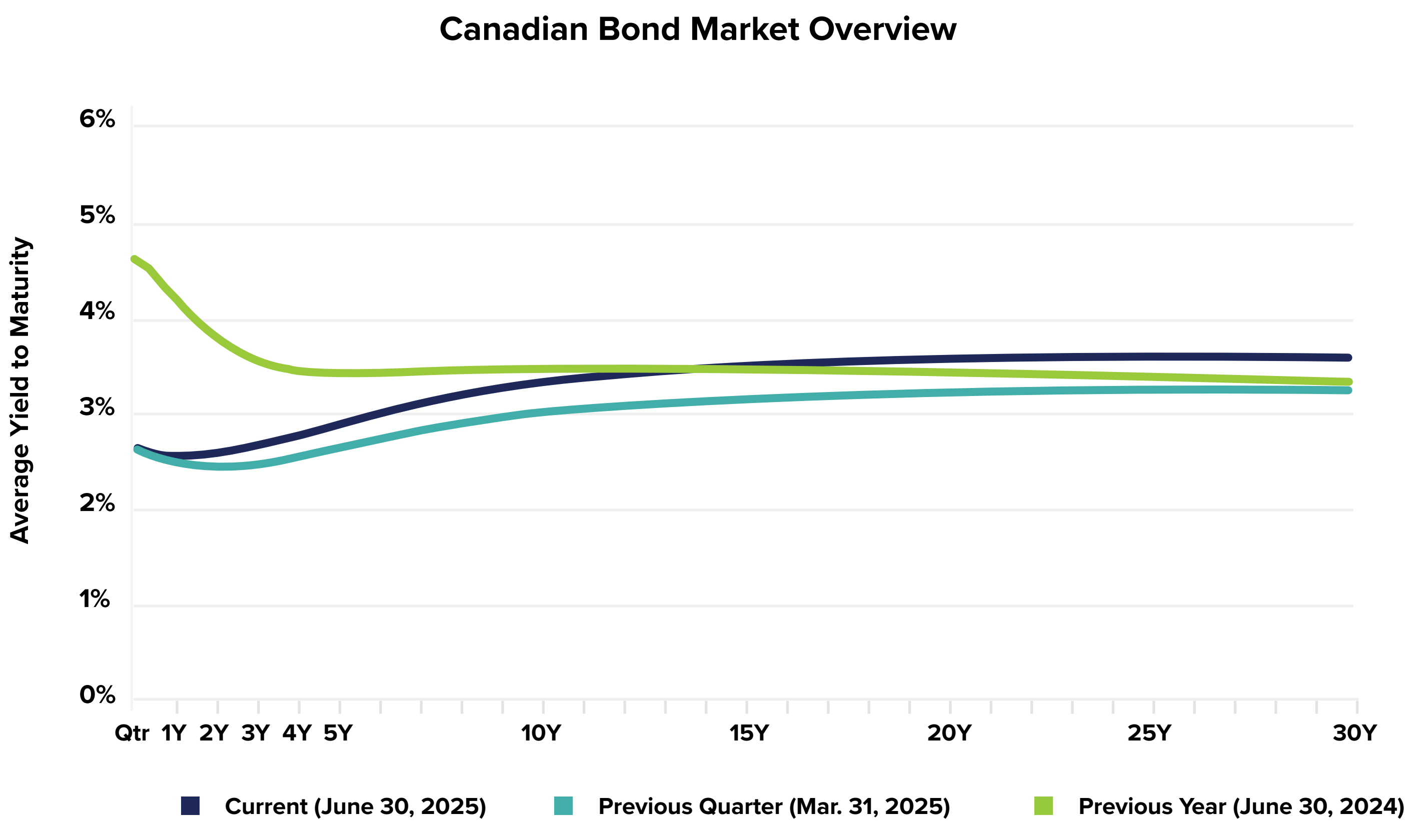
Outlook

Overall, investors have apparently digested the “uncertainty as policy” approach of the current U.S. administration. Despite continued daily noise on trade negotiations and disruptions to domestic policy, overall measures of market risk have settled back into long-run average positions as equity markets have rallied. The VIX Index, a measure of equity market volatility inferred from option market prices, sits at approximately 16% as of this writing, well within the normal range for this measure.

While the policy shift in early 2025 was taken as a shock by markets with significant market impacts and a large volatility spike, investors appear to be taking continued uncertainty in stride while waiting for resolution to trade negotiations, Fed policy uncertainty, and continued global geopolitical issues. Investors with diversified and lower-risk portfolios continue to weather market noise well, while remaining appropriately positioned from a liquidity perspective to take advantage of short-term dislocations where appropriate.

Overview: Fixed Income

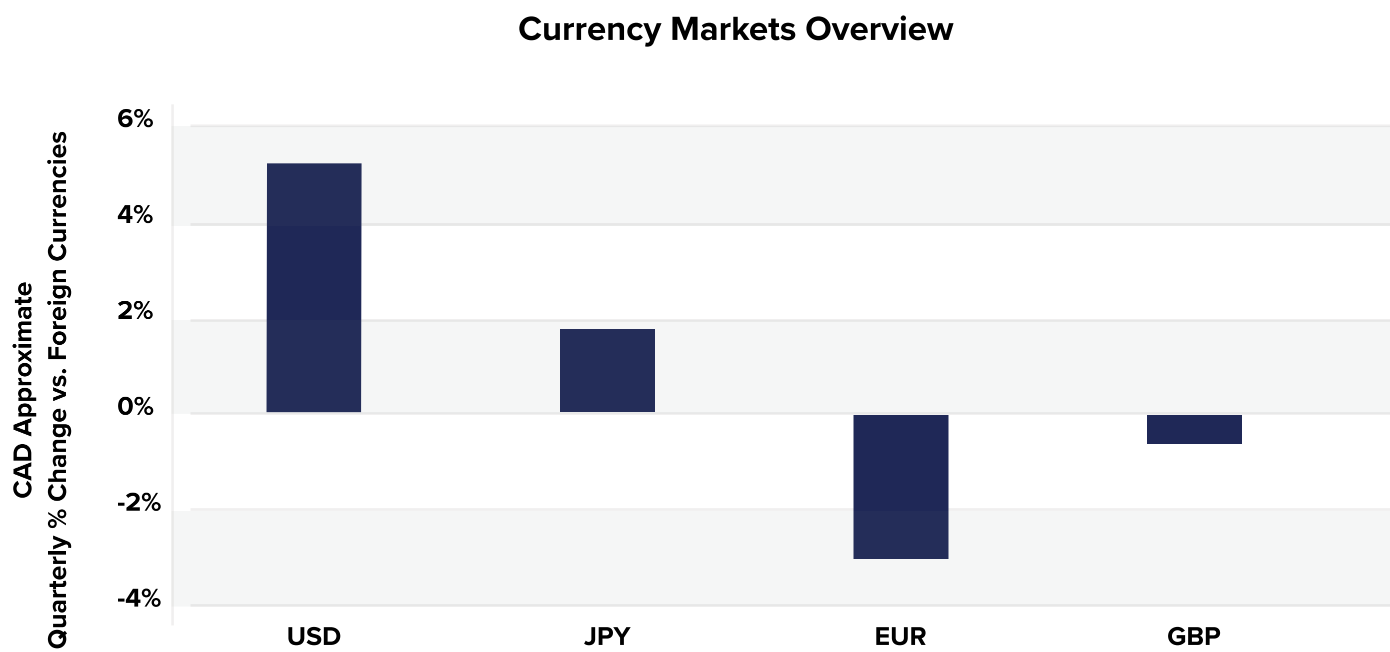
The Bank of Canada held the policy interest rate steady throughout this quarter, keeping the overnight rate to 2.75% as the uncertainty around tariffs looms and the potential for upward inflationary pressures from higher costs is met with downward inflationary pressures from a weakening economy. Yields on durations of less than one year remained mostly unchanged over the quarter; however, yields on bonds of longer durations increased 10 to 40 basis points.



Given this backdrop, the Canadian All Government Bond Index returned -0.90% as yields increased during the quarter. The Canadian Corporate Bond Index outperformed government bonds earning 0.45% as credit spreads tightened, offsetting the impact of the increase in yields.

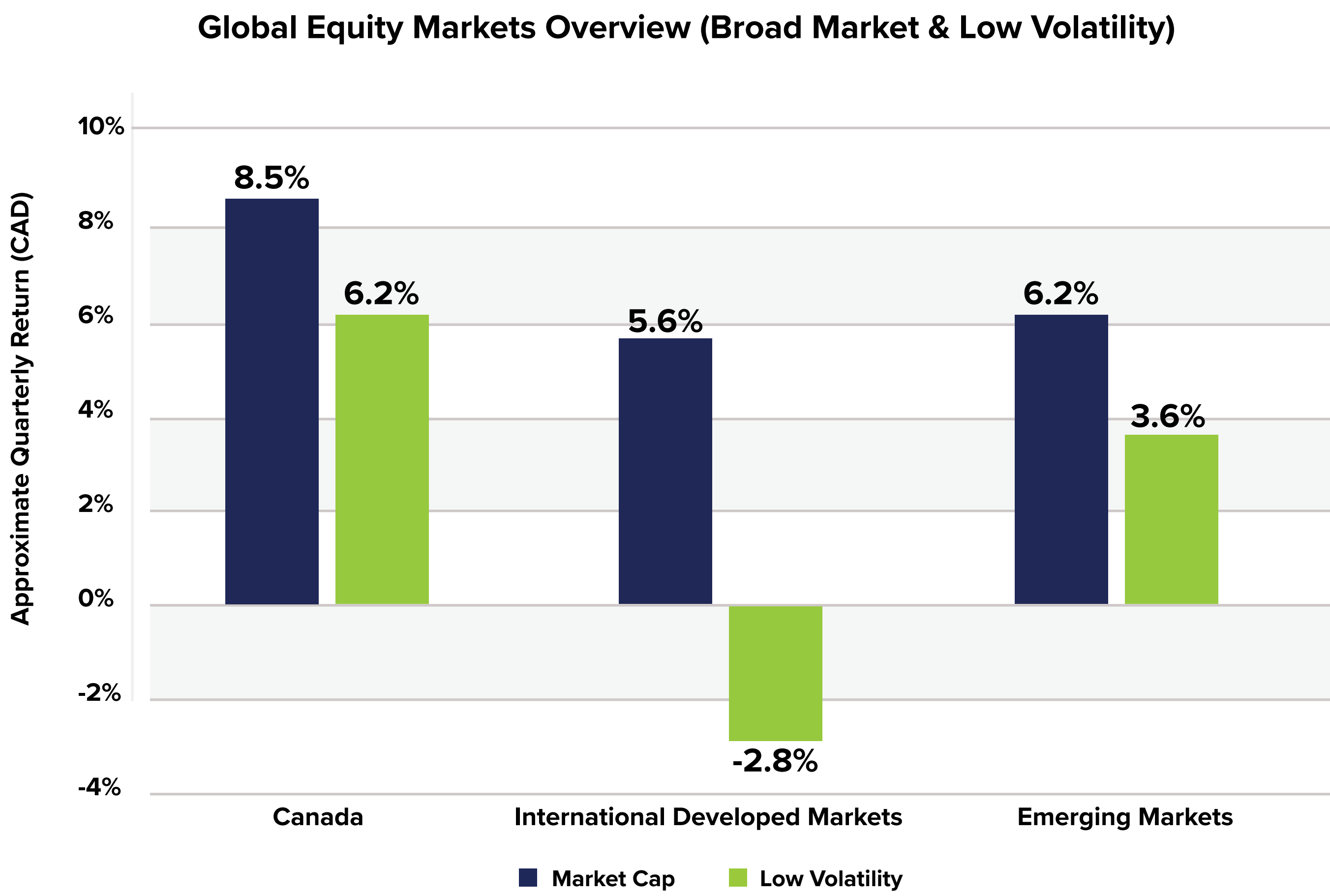
Overview: Currency

In currency markets, the Canadian dollar strengthened relative to the U.S. dollar and depreciated against most other major currencies. This translated into a moderately negative impact for a typical portfolio.



Overview: Equities

Equity markets were mostly strongly positive this quarter; however, low volatility strategies in international developed markets had negative returns. Market-capitalization weighted strategies outperformed low volatility strategies in all geographies.



Infrastructure assets are performing well, especially in the utilities sector (power generation, electric transmission). The passage of the U.S. budget bill will create challenges for renewable energy developments, but the extent of the obstacles remains to be determined. GDP-sensitive assets continue to perform well, but we expect international trade issues to eventually soften operations.