

# QUARTERLY MARKET UPDATE

AS AT DECEMBER 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](https://vestcor.org/glossary).

## Market Environment & Outlook

### 2025 was another strong year, with solid equity market returns across the globe.



Despite the volatility experienced during the “Liberation Day” events in April, the year turned out to be a strong one for global equity markets. Even with an “America-first” policy perspective from the current U.S. administration, global stocks broadly outperformed U.S. equities for the year, with Canadian stocks performing even better.

With more modest returns from other asset classes, diversified investors (such as globally invested 60/40 stock/bond portfolios) likely earned high single-digit to low double-digit returns, depending on the specific allocations in the portfolio.

### Concentration increasingly an issue in U.S. markets



Concentration continues to be an issue for the U.S. market. As of December 31, the Mag 7 stocks accounted for more than 1/3 of a broad representative index of U.S. stocks, while the top 10 companies made up nearly 40% of the market. By some measures, the U.S. market is now more concentrated than the Canadian market.

More concentrated markets present increased challenges for active managers and also, imply potentially heightened risks for all investors due to decreased diversification potential.

## Market Environment & Outlook

### Elevated valuations may lead to lower returns and higher volatility



The strong returns of recent years, while certainly welcomed by investors, mean that many markets are at near extreme valuation levels. Using the well-known Shiller Cyclically Adjusted Price-Earnings (“CAPE”) Ratio, at the end of 2025, the U.S. market is likely priced at a level exceeded only during the dot-com peak of 1999-2000.

While valuations should not be used for short-term market predictions, elevated valuation levels often imply lower long-term future returns, and potentially greater sensitivity to market dislocations, resulting in larger than expected drawdowns to geopolitical or policy risk events.

### Outlook



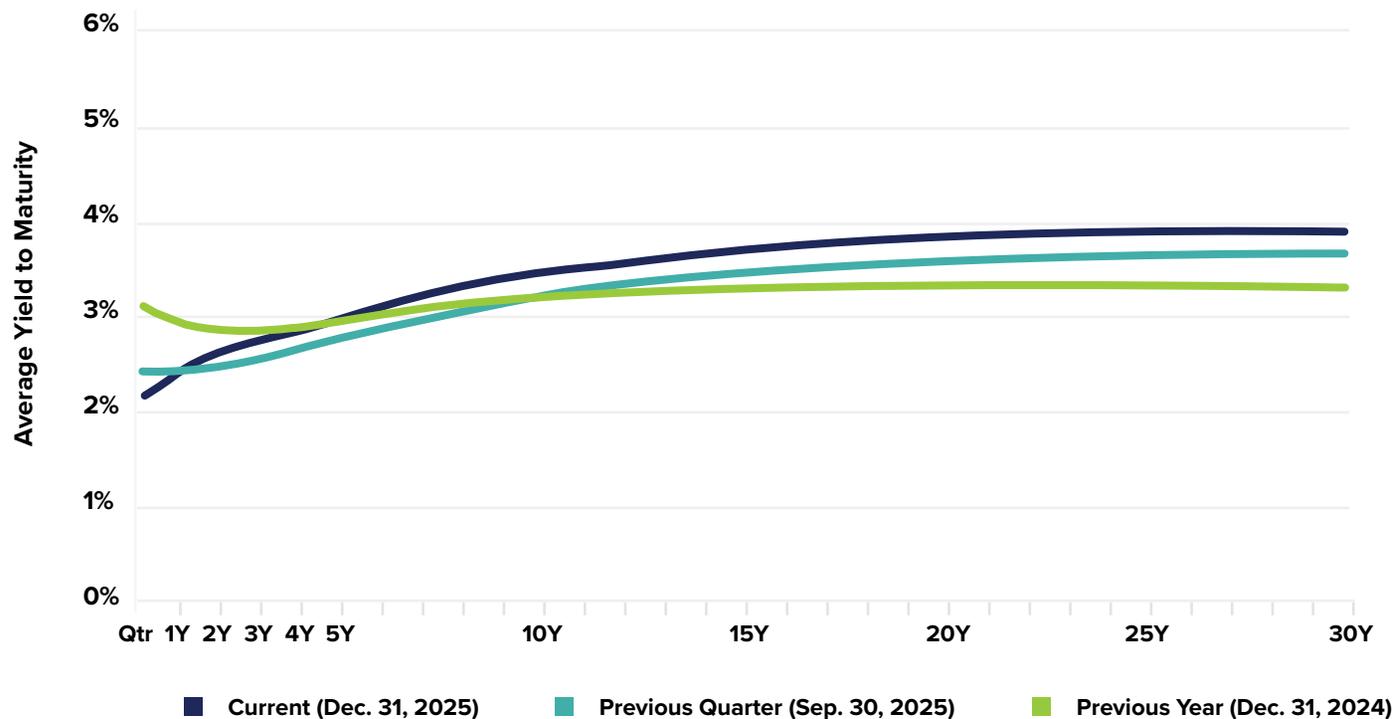
Geopolitical risk remains a source of potential (if not yet realized) risk for markets. While conflicts in Eastern Europe and the Middle East, along with the apparent threat of global trade realignment, have continued to be broadly ignored by markets, risks continue to stack. Recent U.S. military actions in Venezuela combined with increased rhetoric around Greenland and the expected renegotiation of the Canada-U.S.-Mexico free-trade agreement in 2026 suggest that investors will have numerous sources of risk to keep an eye on throughout the year.

Investors benefitted from a strong year in 2025 and would be wise to manage risks carefully going into 2026. Between valuations, policy uncertainty, and global geopolitical risk sources, it is likely that any unforeseen events will have a larger impact on markets than would have otherwise been expected. While economic fundamentals remain solid in the U.S., 2026 is likely not the right time to extend further out the risk spectrum in search of enhanced yield.

## Overview: Fixed Income

The Bank of Canada reduced the policy interest rate by 25 basis points early this quarter, bringing the overnight rate to 2.25%, but then held rates constant at the December meeting, indicating that the policy rate could be close to “just right”. Yields on durations of one year or less decreased over the quarter while yields on durations longer than three years increased by approximately 20 to 25 bps.

### Canadian Bond Market Overview

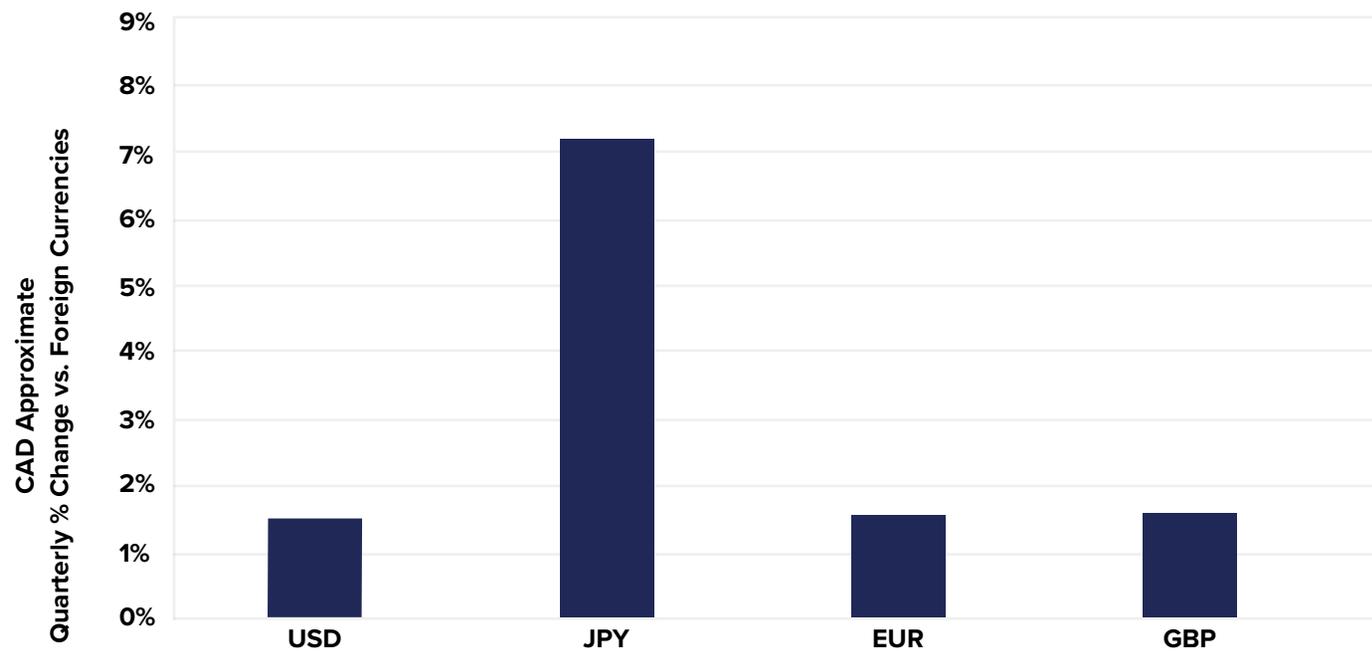


Given this backdrop, the Canadian All Government Bond Index returned -0.54% as yields increased during the quarter. The Canadian Corporate Bond Index outperformed government bonds, earning 0.34% as credit spreads tightened, offsetting the impact of the increase in yields.

**Overview: Currency**

In currency markets, the Canadian dollar strengthened relative to the U.S. dollar and appreciated against most other major currencies. Overall currency impacts for the quarter were moderately negative for a typical portfolio.

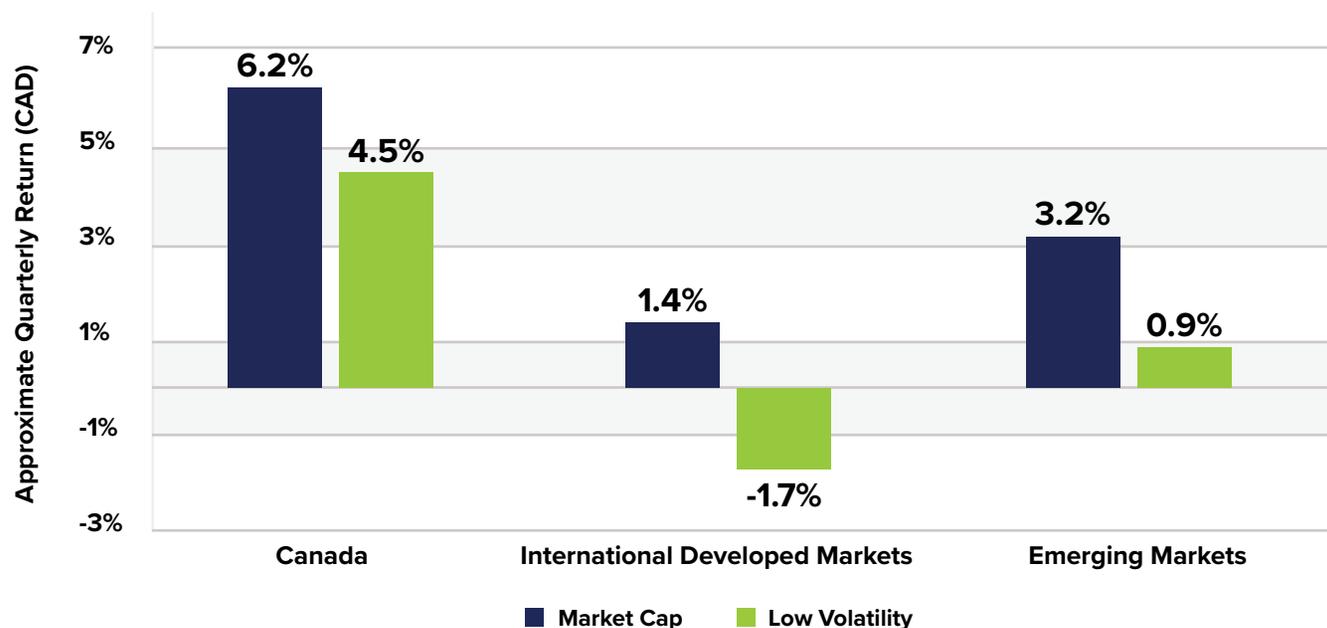
**Currency Markets Overview**



## Overview: Equities

Performance for market capitalization-weighted strategies was consistently in positive territory this quarter, with performance in domestic markets being stronger. Low volatility equity indexes underperformed market capitalization-weighted equity indexes in all geographies.

**Global Equity Markets Overview (Broad Market & Low Volatility)**



## Overview: Alternatives

For real estate, occupancy levels weakened slightly during the quarter, but remain strong across all property types (industrial, multi-family, retail, and office). Capitalization rates dropped slightly during the quarter, which contributed to positive overall returns. Office and retail assets had a particularly good fourth quarter with capitalization rate improvements for both sectors, stronger occupancy prospects for office and continued high demand from investors for necessity-based retail centres. Multi-family rental growth continues to slow and will need to be monitored, but occupancy remains high. Lastly, availability rates in industrial markets are at 10-year highs but appear to be stabilizing.