

Quarterly Market Commentary

Third Quarter 2025

Central banks and Big Tech cheer investors.

- Global equities, as measured by the MSCI ACWI Index, finished in positive territory in the third quarter of 2025, amid optimism regarding the Federal Reserve's (Fed) interest-rate cut and anticipated monetary policy easing by other major central banks, as well as generally upbeat corporate earnings news. Emerging markets outperformed developed markets.
- Global fixed-income assets posted modest gains for the quarter. U.S. Treasury yields moved lower across the yield curve. (Bond prices move inversely to yields.)
- Diversification within equity markets remains our key call for the remainder of 2025.

SEI's Domestic View

In recent quarters, we predicted the political and policy environments could get quite interesting and that economic outlooks—both in Canada and worldwide—were highly uncertain as a result. Those expectations have certainly proven true through the first three quarters of 2025. In the following update, we'll briefly review the domestic environment and then discuss the importance of the global outlook to Canada's economic fortunes.

The two major headwinds to domestic economic performance remain household indebtedness and the labour market, where the unemployment rate continued to rise, reaching 7.1% through August. Despite these headwinds, the Canadian economy has continued to demonstrate resilience, with a formal recession yet to take hold. This is almost certainly due in part to fiscal support measures at the federal level and (thanks to comparatively better progress on lowering inflation) relatively low interest rates. It's important to note, however, that Canada's economic fortunes are also tightly linked to external developments. This is not surprising given its categorization as a small, open economy, but even more important given the stretched state of household finances. While the global economy also faces plenty of uncertainty, there are reasons to believe it will continue to lend some support to activity within Canada. As a result, there are grounds for guarded optimism, despite the discouraging domestic employment situation and ongoing trade upheaval with the U.S.

There are still reasons to be concerned about the global economic outlook. Obvious examples include the potential for stubbornly high and even reaccelerating inflation, the Trump Administration's ongoing attacks on prior global trade and immigration patterns, military conflicts, and softening labour markets in many countries. The latter is an area where Canada stands out, unfortunately. While some of the countries that have experienced a surge in unemployment are, like Canada, faced with high household debt levels, that factor alone does not explain the dynamic.

However, investors shouldn't overlook that the global economy has continued to chug along despite all the aforementioned risks, high levels of uncertainty, and some notably softer national labour markets. Nor should they ignore that global activity appears to have lent a welcome measure of support to the Canadian economy recently. For example, after struggling in the second quarter, a rebound in economic growth during July was driven by export-oriented sectors such as mining, energy, and manufacturing. This helped overcome the recent contraction in domestic retail activity, according to Statistics Canada. As we noted in our previous economic outlook, the expansion of exports to countries other than the U.S. was encouraging, and Canada stood to benefit from continued gold and precious metals demand by foreign central banks seeking to diversify massive (especially in the case of the People's Bank of China) foreign-currency reserves. If investor interest in this theme continues to broaden, it should lend further support to the domestic mining sector.

One especially important dimension to the global outlook is the likelihood of expanded fiscal expenditures in many countries over the remainder of the 2020s. This includes Canada, where larger deficits are expected to be driven by defence spending and infrastructure investment, although details won't be clear until the government's long-delayed budget is finally released—we hope—in early November. Nonetheless, a number of other countries have been running and/or are expected to run sizeable deficits in the years ahead, including China, France, Germany, Japan, the U.K. and the U.S.¹ While this could raise the risk of unwanted inflation and thus make some central bankers' jobs more difficult, it should also be supportive of overall global activity. If it is, a small, open economy like Canada's that's actively seeking to expand trade relationships beyond the U.S. could benefit.

While Canada's gross domestic product contributions from construction and agriculture were flat in July, U.S. immigration and trade policies could provide Canada with a competitive edge in those sectors. Immigration to the U.S. has slowed to a trickle in 2025, and the U.S. agricultural sector is facing some tariff-induced struggles. Although Canada's previous government implemented measures to marginally slow immigration flows, Canada remains an immigration-friendly destination overall. Residential construction remains a policy priority, and the federal government has engaged in efforts to expand trade agreements with countries other than the U.S. While highly speculative at this point, it's plausible that sectors like agriculture and construction could lend additional support to future growth. Speculating further, the Trump administration's recently announced plans to charge six figures for H-1B visas could create an opening for Canada to better compete for global tech-sector labour, as Prime Minister Carney observed in recent public remarks.²

There's been a fair amount of attention paid to the "Elbows Up" movement and similar expressions of anti-American (or at least anti-Trump) sentiment in Canada this year, with notable shifts in consumer preferences towards goods produced domestically or anywhere but America and, reportedly, travel preferences. As noted in our previous outlook, exports to non-U.S. destinations increased significantly. However, it remains to be seen how permanent these changes will be and whether they will persist in services sectors such as travel. While Statistics Canada and various news outlets have claimed that reduced travel to the U.S. marks a notable shift in Canadians' preferences, some historical context argues that more data is needed before drawing any firm conclusions. We have seen a strong preference among Canadian travelers for destinations outside the U.S. before.

These fluctuations may be due at least in part to exchange-rate dynamics. Although we're only looking at two-plus years' worth of data, it appears that travel preferences have previously shifted when the Canadian dollar was stronger or weaker versus U.S. or non-U.S. foreign currencies.

As entertaining as these speculations might be, we can set them aside, wait for further data, and focus on the more important issue of Canada's overall trade relationship with the U.S. and North America more broadly. Renegotiation of the Canada-U.S.-Mexico Agreement (CUSMA), which was struck with the first Trump Administration and replaced the North American Free Trade Agreement or NAFTA, is expected to take place sometime in 2026. There are still unknowns around how this process will unfold. Unfortunately, it appears to be off to a rocky start, with the U.S. engaging in unilateral study and consultation. Meanwhile, there have been trade-related overtures between Canada and Mexico. We will be keeping a close eye on further developments.

Despite the suspense, there have been some welcome developments in the Canada-U.S. trade dynamic. First is the abandonment of retaliatory tariffs by Canada. As unsatisfying as that might be politically, it's an economic positive on balance. If your major trading partner intentionally drops an anvil that hits you squarely on the foot while crushing a few of its own toes, why repeat the process from your side? The number of goods deemed compliant with CUSMA has also helped keep the effective U.S. tariff rate on Canada at a somewhat manageable level to date. Furthermore, anticipated U.S. Supreme Court decisions on the legality of Trump's various tariff measures in the coming weeks or months will—again, we hope—provide some much-needed clarity.

SEI's Global View

Not surprisingly, diversification within equity markets remains our key call for the remainder of 2025. Diversification by geography, by our preferred factors, by sector, by single names, and by theme will help investors reduce their exposure to what we see as heightened market fragility. Active management also appears attractive here, particularly in U.S. large caps given the acute market concentration.

Our preference for yield-curve steepeners in the U.S. and Europe has played out nicely given easy monetary policy's influence on the short end and debt concerns boosting the long end. While yield curves have moved dramatically, we believe conditions remain in place for a further widening between short- and long-term yields. Overall interest-rate sensitivity is broadly neutral and focused on the belly (intermediate section) of the curve.

Finally, in terms of positioning, we remain long inflation via breakeven yields on strength in services and expectations for more significant tariff flow through into prices and future inflation expectations. Gold continues to look attractive despite recent highs due to continued geopolitical concerns and our view that both investors and central banks will continue to be solid sources of demand.

Regarding the U.S. government shutdown to start the fourth quarter, the market impact will clearly be dependent on the length of this latest budget fight while the more immediate effects will include the suspension of government statistics releases, including the monthly employment report. The lack of data, combined with the potential for a large number of furloughed federal workers, could solidify two more Fed rate cuts in 2025. While predicting politics is at times harder than predicting the market, our expectations are that this will be resolved in a reasonable amount of time with a relatively modest market and economic impact.

Economic Backdrop

Global equities, as measured by the MSCI ACWI Index, finished in positive territory in the third quarter of 2025, amid optimism regarding the Fed's interest-rate cut and anticipated monetary policy easing by several other major central banks, as well as generally upbeat corporate earnings news, particularly in the information technology sector. Emerging markets outperformed developed markets.

The Far East led the emerging markets during the quarter, bolstered by strength in China, Thailand, and Taiwan. Additionally, Latin America's robust performance was attributable to significant upturns in Peru and Colombia. Eastern Europe registered a positive return for the quarter, but was the primary emerging-market laggard due to relative weakness in Poland. North America was the strongest performer among the developed markets for the quarter, with notable rallies in both Canada and the U.S., while the Far East benefited from strength in Singapore and Japan. Conversely, the Nordic countries ended the quarter in negative territory due to a sharp market decline in Denmark.³

Global fixed-income assets, as represented by the Bloomberg Global Aggregate Bond Index, edged up 0.6% (in U.S. dollars) in the third quarter. Investment-grade corporate bonds led the U.S. fixed-income market, followed by high-yield bonds, mortgage-backed securities (MBS), and U.S. Treasuries. Treasury yields moved lower across the yield curve. Yields on 2-, 3-, 5-, and 10-year Treasury notes declined by corresponding margins of 0.12%, 0.07%, 0.05%, and 0.08%, ending the quarter at 3.60%, 3.61%, 3.74%, and 4.15%, respectively. The 10-year to 3-month yield curve normalized after being inverted (3-month yields were higher than 10-year yields) at the beginning of the quarter, widening to +0.14% as of September 30.⁴

Global commodity prices, as measured by the Bloomberg Commodity Index, gained 3.7% in the third quarter. The spot prices for West Texas Intermediate (WTI) and Brent crude oil fell 4.2% and 1.1%, respectively, over the quarter, hampered by an increase in supply and softer demand. Ongoing geopolitical tensions in the Middle East, Russia, and Ukraine contributed to the 16.8% surge in the gold price to numerous record highs over the quarter as investors sought safe-haven assets. The 5.4% decline in the New York Mercantile Exchange (NYMEX) natural gas price for the quarter was attributable to softer demand, high output, and growing inventories. The wheat price was down 5.6% for the quarter amid an increase in global production. Furthermore, the upcoming harvest in the U.S., the European Union (EU), and the Black Sea region is expected to yield abundant new supply, which would weigh on wheat prices.

U.S. trade policy remained a focal point for global financial markets in the third quarter. In late August, a U.S. federal appeals court upheld a lower-court decision striking down the tariffs that President Donald Trump has implemented this year. The court ruled by a 7-4 margin that Trump had exceeded his authority under the International Emergency Economic Powers Act (IEEPA). The court found that IEEPA does not explicitly authorize the president to impose tariffs, which fall under the purview of the U.S. Congress. However, the court let the tariffs remain in place until mid-October to allow time for a potential U.S. Supreme Court appeal. In late September, Trump announced in a social media post that his administration would be imposing tariffs of 100% on branded or patented pharmaceutical drugs (with an exception for companies building plants in the U.S.); and 25% on heavy trucks, which took effect on October 1. Additional tariffs of 50% on kitchen cabinets, vanities, and similar products, and 30% on upholstered furniture, are scheduled to be implemented on October 14.

On the geopolitical front, towards the end of the quarter, Trump introduced a 20-point plan to end the Gaza war between Israel and Hamas. Among other provisions, the proposal calls for the creation of a “Board of Peace” to oversee interim governance in Gaza, and Israel would gradually withdraw its military forces but maintain a security buffer zone around Gaza. The plan also leaves open the possibility of a Palestinian state, but does not mention a “two-state solution.” Trump stated that, if Hamas does not accept the terms of the plan, “Israel would have my full backing to finish the job of destroying the threat of Hamas.”

Economic Data (unless otherwise noted, data sourced to Bloomberg)

- According to Statistics Canada, consumer prices (as measured by the change in the Consumer Price Index (CPI)) fell 0.1% and rose 1.9%, respectively, for the month and the year ending in August. Annual inflation ticked up as declines in prices for gasoline and cellular services moderated, while price for meat and clothing increased. Producer prices were mixed in August, as the Industrial Product Price Index (IPPI) rose 0.5% while the Raw Materials Price Index (RMPI) decreased 0.6%. Year-over-year prices were stronger, rising 4.0% and 3.2%, respectively, for the IPPI and RMPI. Prices for metals, chemicals, and meat were higher, while prices for energy slumped.
- The Department of Labor reported that the consumer-price index (CPI) rose 0.4% in August, up from the 0.2% rise in July and slightly exceeding expectations. Housing costs rose 0.4% and comprised the bulk of the upturn in the index for the month. Additionally, food prices were up 0.5% as the food at home index climbed 0.6%. Conversely, prices for utility gas service fell 1.6% during the month. The CPI advanced 2.9% year-over-year in August—modestly higher than the 2.7% rise in July and in line with expectations. Costs for utility gas service surged 13.8% over the previous 12-month period, while electricity prices were up 6.2%. In contrast, gasoline and fuel oil prices saw year-over-year declines of 6.6% and 0.5%, respectively. Core inflation, as measured by the CPI for all items less food and energy, rose 3.1% year-over-year in August, unchanged from the increase in July. Prices for used cars and trucks, medical services, and housing rose by corresponding margins of 6.0%, 4.2%, and 3.6% over the previous 12 months. According to the final estimate from the Department of Commerce, U.S. gross domestic product (GDP) expanded at an annual rate of 3.8% in the second quarter of 2025—up sharply from the 0.6% decline in the first quarter of 2025 and a significant improvement from the government’s prior estimate of a 3.3% rise. The upturn in the economy for the second quarter was attributable primarily to a substantial decline in imports (which are subtracted from the GDP calculation) following a surge in imports in the first quarter as businesses rushed to stockpile goods before the Trump administration’s tariffs took effect, as well as an increase in consumer spending. Conversely, there were declines in investment and exports.
- The Office for National Statistics (ONS) reported that inflation in the U.K., as measured by the CPI, increased 0.3% in August, up from the 0.1% rise in July. The CPI advanced at an annual rate of 3.8% for the month, matching the year-over-year upturn in July. Costs for clothing and footwear, furniture and household goods, and transportation (mainly airfares) posted the largest gains in August, while prices for restaurants and hotels declined. Education, housing and household services, and communication costs climbed 7.5, 7.4%, and 6.1%, respectively, over the previous 12-month period. Clothing and footwear prices were up just 0.2% year-over-year. Core inflation, as represented by the CPI excluding energy, food, alcohol, and tobacco, rose 3.6% over the previous 12-month period in August, edging down from the 3.8% annual increase in July.⁵ According to the final estimate of the ONS, U.K. GDP increased 0.3% in the second quarter of 2025, down from the 0.7% growth rate in the first quarter of this year. Output in the construction and services sectors rose 1.0% and 0.4%, respectively, over the quarter, while the production sector saw a 0.8% decline.⁶
- According to Eurostat’s preliminary estimate, inflation for the eurozone rose 2.0% for the 12-month period ending in August, unchanged from the increase in July. Prices for food, alcohol and tobacco increased 3.2% year-over-year in August versus the 3.3% annual rise for the previous month. Costs in the services sector rose at an annual rate of 3.1% in August, inching down from the 3.2% increase in July. In contrast, energy prices fell 2.0% year-over-year. Core inflation, which excludes volatile energy, food, and alcohol and tobacco prices, increased at an annual rate of 2.3% in August, matching the year-over-year increase in July.⁷ Eurostat also reported that eurozone GDP ticked up 0.1% the second quarter of 2025—down from the 0.6% growth rate for the first quarter of this year—and increased 1.5% over the previous 12-month period. The economies of Denmark, Croatia, and Romania were the strongest performers for the second quarter, expanding 1.3%, 1.2%, and 1.2%, respectively. In contrast, GDP for Iceland, Finland, and Germany declined by corresponding margins of 0.7%, 0.4%, and 0.3% during the quarter.⁸

Index Data (Q3 2025, in CAD)

- The S&P/TSX Composite Index jumped 12.50%.
- The FTSE Canada Universe Bond Index gained 1.51%.
- The S&P 500 Index, which measures U.S. equities, returned 10.26%.
- The MSCI ACWI (Net) Index, used to gauge global equity performance, rose 9.74%.
- The ICE BofA U.S. High Yield Constrained Index, representing U.S. high-yield bond markets, returned 1.93% (currency hedged) and 4.42% (unhedged).
- The Chicago Board Options Exchange Volatility Index, also known as the “fear index,” a measure of implied volatility in the S&P 500 Index, was little changed as it moved from 16.73 to 16.28 for the quarter.
- WTI Cushing crude-oil prices, a key indicator of movements in the oil market, moved lower from US\$65.11 to \$62.37 a barrel to end the quarter.
- The Canadian dollar weakened to C\$1.39 per U.S. dollar. The U.S. dollar was stronger to little changed versus the world’s other major currencies, ending September at US\$1.18 versus the euro, US\$1.35 against sterling, and at 147.69 yen.

Glossary

The **Bloomberg Commodity Total Return Index** comprises futures contracts and tracks the performance of a fully collateralized investment in the index. This combines the returns of the index with the returns on cash collateral invested in 13-week (three-month) U.S. Treasury bills.

The **Bloomberg Global Aggregate Bond Index** is a market capitalization-weighted index that tracks the performance of investment-grade (rated BBB- or higher by S&P Global Ratings/Fitch Ratings or Baa3 or higher by Moody’s Investors Service) fixed-income securities denominated in 13 currencies. The index reflects reinvestment of all distributions and changes in market prices.

The **Cboe Volatility Index** (VIX) measures the constant 30-day volatility of the U.S. stock market using real-time, mid-quote prices of S&P 500 Index call and put options. A call option gives the holder the right to buy a stock at a specified price; a put option gives the holder the right to sell a stock at a specified price.

The **Consumer Price Index** (CPI) is based on a fixed basket of goods and services designed according to international standards and methods.

The **FTSE Canada Universe Bond Index** comprises a series of benchmarks designed to track the performance of the bonds denominated in Canadian dollars.

The **ICE BofA High Yield Constrained Index** is a market value-weighted index of all domestic and Yankee high yield bonds, including deferred interest bonds and payment-in-kind securities, with maturities of one year or more and a credit rating of BB+ or lower by S&P Global Ratings and Fitch Ratings or Ba1 or lower by Moody’s Investors Service, but are not in default.

The **Industrial Product Price Index** (IPPI) reflects the prices that producers in Canada receive as goods leave the factory gate. The IPPI does not reflect what the consumer pays. Unlike the Consumer Price Index, the IPPI excludes indirect taxes, such as sales taxes and tariffs, and all costs that occur between the time a good leaves the plant and the time the final user takes possession of the good. This includes transportation, wholesale and retail costs. Although the IPPI does not measure the direct effect of tariffs on prices, tariffs may indirectly influence prices measured in the IPPI. For example, inputs used in the production process that are imported and on which Canada imposes a tariff may raise the prices charged by Canadian producers. Tariffs on Canadian imports or exports may also indirectly influence prices in the IPPI through their impact on supply and demand dynamics.

The **MSCI ACWI Index** is a market capitalization-weighted index that tracks the performance of over 2,000 companies, and is representative of the market structure of 48 developed and emerging-market countries in North and South America, Europe, Africa, and the Pacific Rim. The index is calculated with net dividends reinvested in U.S. dollars.

The **MSCI World ex-USA Index** tracks the performance of the large- and mid-cap segments of equity markets across 22 of 23 developed- market countries--excluding the U.S. The index's 887 constituents comprise approximately 85% of the free float-adjusted (i.e., including only shares that are available for public trading) market capitalization in each country.

The **Nasdaq Composite Index** is a market capitalization-weighted index that tracks the performance of all domestic and international companies listed on the Nasdaq Stock Market. Technology stocks comprise nearly 50% of the index's weighting.

The **Raw Materials Price Index** (RMPI) reflects the prices paid by Canadian manufacturers for key raw materials. The RMPI includes all charges purchasers incur to bring a commodity to the establishment gate, including transportation charges, net taxes paid, and customs duties and tariffs paid on imported raw materials. Many of the prices measured by the RMPI are set on the world market. However, as few prices are denominated in foreign currencies, their conversion into Canadian dollars has only a minor effect on the calculation of the RMPI.

The **Russell 2000 Index** tracks the performance of the small-cap segment of the U.S. equity market. The index is a subset of the Russell 3000 Index, which comprises the 3,000 largest U.S. companies, and includes approximately 2,000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 1000 Index** tracks the performance of 1000 of the largest U.S. equity securities based on market capitalization. The index is a subset of the Russell 3000 Index, which comprises the 3,000 largest U.S. companies, and includes approximately 1,000 of the largest securities based on a combination of their market cap and current index membership.

The **S&P 500 Index** is a market-weighted index that tracks the performance of the 500 largest publicly traded U.S. companies and is considered representative of the broad U.S. stock market.

The **S&P/TSX Composite Index** tracks the performance of the broad Canadian equity market—i.e., stocks listed on the Toronto Stock Exchange (TSX).

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There are risks involved with investing, including loss of principal. Diversification may not protect against market risk. There may be other holdings which are not discussed that may have additional specific risks. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavourable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging

markets involve heightened risks related to the same factors, in addition to those associated with their relatively small size and lesser liquidity. Bonds and bond funds will decrease in value as interest rates rise.

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¹ See, for example, IMF Data Mapper for recent fiscal deficit measures, available at https://www.imf.org/external/datamapper/GGCB_G01_PGDP_PT@FM/ADVEC/FM_EMG/FM_LIDC/FRA, and "Assessing fiscal risks in advanced economies," Oxford Economics, 24 June 2025, available at <https://www.oxfordeconomics.com/resource/assessing-fiscal-risks-in-advanced-economies/> for 2025-2030 forecasts.

² Janice Rodrigues, Asheesh Moosapeta, "Canada to target tech talent impacted by H-1B fee hike, says Carney," CIC News, 25 September 2025, available at <https://www.cicnews.com/2025/09/canada-to-target-tech-talent-us-fee-hike-0960276.html>.

³ All equity market performance statements are based on the MSCI ACWI Index.

⁴ According to the U.S. Department of the Treasury. As of September 30, 2025.

⁵ According to the ONS. September 17, 2025.

⁶ According to the ONS. September 30, 2025.

⁷ According to Eurostat. September 17, 2025.

⁸ According to Eurostat. September 5, 2025.