

# Attachment 1



## **Investment Management Report for** **ONE Investment - Quarterly Commentaries**

For Period Ending September 30, 2025

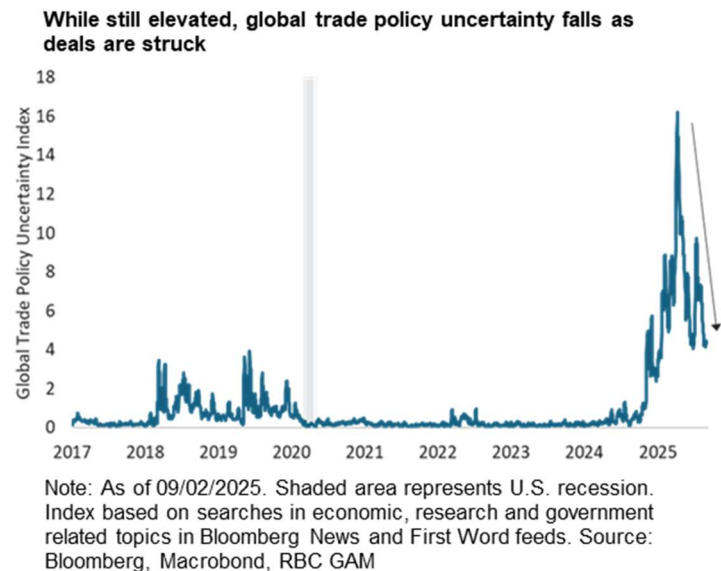
## Macroeconomic and Capital Markets Commentary and Outlook

The following commentary summarizes meaningful trends and events that we've observed over the past quarter.

After causing significant volatility in asset prices earlier in the year, **U.S. public policy** had a more muted impact on markets in the third quarter, though it remains a dominant theme. Progress on trade was made as several deals were struck between major economies, and uncertainty diminished even as the average U.S. tariff rate rose yet again over the period. Accordingly, investors have shifted their focus away from trade policy and are instead choosing to recognize the strength in corporate profits, benefits of artificial intelligence (AI), and the prospect of a resumption in interest rate cuts by the U.S. Federal Reserve (Fed). In this environment, stocks extended their gains and most major equity markets reached record levels in the third quarter. Bond yields, meanwhile, fluctuated in a relatively narrow range as investors weighed the impact of fiscal challenges and inflation concerns against a backdrop of subdued economic growth, weaker labour-market conditions, and the potential for interest rate cuts.

In terms of **economic activity**, the U.S. and indeed the global economy have proven fairly resilient in the face of these headwinds, likely reflecting a combination of genuine economic buoyancy and lags that may reveal additional damage later. Some economic indicators such as the unemployment rate and jobless claims have begun to soften, but only modestly. U.S. economic exceptionalism has diminished given the combination of fiscal concerns, declining international trust in the U.S., and sub-optimal economic policies, but the U.S. advantage is probably not gone altogether. Meanwhile, the rest of the developed world has seemingly awakened from a period of complacency and is now better positioned to grow economically than it has been in some time, albeit with certain limitations.

Canada is not among the countries that have reached new trade agreements with the U.S., as the majority of trade is currently protected by CUSMA. However, the renegotiation of this trade deal is casting a pall over the **Canadian economy**. That said, Canada's prime minister, Mark Carney, has been addressing trade tensions and advancing a resource and infrastructure agenda. The One Canadian Economy Act, passed in June, aims to reduce barriers to free trade and labour mobility across provinces and accelerate approval of major resource and infrastructure projects. The energy, mining, and construction industries could benefit from a new commitment to get projects approved and built, while the



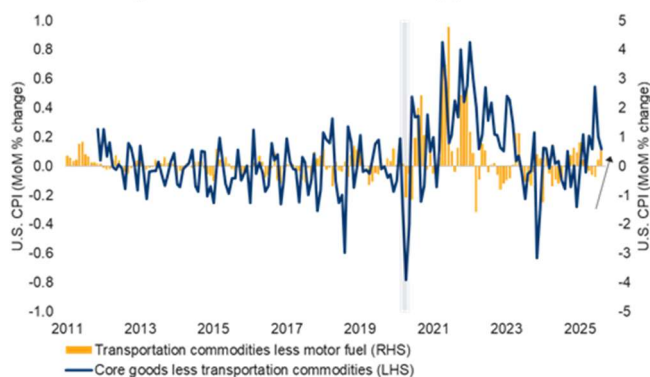
broader economy and Financials sector may gain from stronger labour demand and increased finance activity.

**Inflation** resulting from President Trump's tariffs is becoming visible, most prominently in the cost of core U.S. consumer goods, reflecting the fact that most tariffs focus on this subset of products. We anticipate further price increases given that U.S. inflation has risen by only a fraction of the 1.1% increase that our models indicate is likely, and real-time data is signaling the arrival of additional price pressures. That said, the net effect of tariffs on inflation may be somewhat smaller than initially expected. The reasons for this surprise include the fact that many manufacturers have so far held off on passing all of the current inflationary pressures on to consumers, the disinflationary impact of declining prices for shelter and oil, and the reality that inflation is not affecting most other countries and regions as much as the U.S.

The current **central bank** rate-cutting cycle has been an unusually sporadic and extended one, with the European Central Bank now potentially nearing the finish line and the Bank of England seemingly unable to ease much further given stubborn inflation. In Canada and the U.S., fiscal challenges and weakness in the labour market led both the Bank of Canada (BoC) and the U.S. Federal Reserve (Fed) to cut their policy rates by 0.25% at their September meetings. This was the BoC's first rate cut since pausing in March, while the Fed had not cut since the end of last year. Additional monetary stimulus is likely in the year ahead, but remains a tricky proposition as policymakers balance inflation concerns with the prospect of below-target growth.

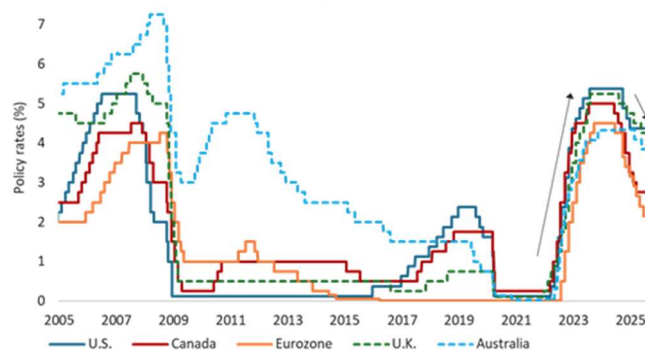
**Artificial intelligence** remained a central theme for investors, with developments fueling enthusiasm about capital spending on AI and the potential for AI-driven corporate productivity, as well as strong earnings growth from mega-cap technology companies. While semiconductor companies are obvious beneficiaries, the benefits extend to specialized equipment suppliers, engineering and construction firms, and utilities as well. Supporting the continued growth in AI-related capital expenditures are trends such as demand for computing power that outpaces supply, and the rapidly expanding range of AI applications. However, we remain cautious about the risks of overbuilding and excessive risk-taking, which often accompany themes as influential to equity markets as AI has become.

**U.S. core goods inflation has risen sharply**



Note: As of August 2025. Shaded area represents recession.  
Source: BLS, Macrobond, RBC GAM

**Global central banks easing cautiously**



Note: As of 09/04/2025. Source: Macrobond, RBC GAM

Turning back to capital markets, most **global equity markets** extended their impressive rebound from earlier this year and rallied to record levels in the third quarter. While returns were initially led by mega-cap technology stocks amid the AI boom, the rally ultimately broadened to include a wide range of sectors and geographies. While there is concern that parts of the market are getting expensive, we would point out that aside from U.S. mega-cap

technology, stocks are reasonably or even attractively priced, and that further gains remain possible if economies and corporate profits can continue to grow as we expect.

**U.S. equity market** performance was bolstered by monetary policy and interest rate expectations, as the Fed's September rate cut served as a meaningful catalyst for improving investor sentiment. Greater certainty related to U.S. tariff policy was also beneficial. In terms of sectors, the performance of the S&P 500 Index was meaningfully supported by the Information Technology sector, which is both the index's largest sector by weight and was the top performer over the period. Continued enthusiasm for the AI theme was major driver of performance, as heavy investment in AI infrastructure, cloud computing, data centres, and semiconductors continued to support tech leadership. The Communication Services and Consumer Discretionary sectors were also strong contributors to performance.

The **Canadian equity market** generated robust performance in the third quarter despite U.S. tariffs remaining on key Canadian goods including steel, aluminum, and autos. The S&P/TSX Composite Index returned 12.5% over the period, supported by an improved outlook for domestic banks, and expectations for higher earnings driven by rising gold and base metals prices, which drove a 37.8% surge for the Materials sector. Although Canada's stock market has less AI exposure than the technology-heavy U.S. market, the Information Technology sector made a strong contribution to returns, as Shopify, the second-largest company weight in the index, extended gains in line with global technology stocks.

In **emerging markets** (EM), the MSCI Emerging Markets Net Index led major equity indices in the third quarter, supported by reduced tariffs and a weakening U.S. dollar, and returning 12.8% over the period. South Korea and Taiwan performed particularly well over the quarter, benefitting from their key roles in the AI manufacturing supply chain. Chinese equities have also done well, bolstered by China's firm stance in trade disputes with the U.S., as the Chinese believe that the U.S. is more dependent on Chinese products than the other way around, particularly for rare-earth minerals and electronic products. Indian equities, meanwhile, have stumbled in recent quarters after several years of incredible stock market performance and a large rise in valuations triggered by economic reforms. Recent setbacks include slowed infrastructure projects, and potential high tariffs stemming from its ties with Russia and limited trade leverage with the U.S. Reflecting a common theme, the Information Technology sector, which makes up 25% of the index, was a top contributor to returns.

#### Equity Indices Performance Comparison as of Sept 30, 2025 (%)

	3 Mo	1 Yr
S&P/TSX Composite Index (C\$)	12.50%	28.60%
S&P 500 Index (C\$)	10.50%	21.01%
MSCI World Index (C\$)	9.39%	20.76%
MSCI EAFE Index (\$C)	6.83%	18.43%
MSCI Emerging Markets Index (C\$)	12.82%	20.84%

Source: RBC GAM

**Global fixed income** returns were mixed in the latest quarter as bond yields rose slightly in most major markets but declined slightly in the U.S. and Canada. The **Canadian fixed income** market delivered a positive performance in the third quarter, with the FTSE Canada Universe Bond Index returning 1.5%. Short-term Government of Canada bond yields declined while long-term yields rose slightly, resulting in a steepening yield curve. Yields initially increased on stronger June employment and rising core inflation but trended lower later in the quarter amid softer economic

data in Canada and the U.S., ultimately ending the quarter at 3.4%, down 0.1%. Short- and mid-term bonds outperformed long-term bonds, with corporate bonds outperforming federal and provincial bonds across all segments, driven by tighter credit spreads and shorter duration profiles in the long-term segment.

Looking ahead, the bond market is looking beyond any near-term policy rate changes and is pricing slightly higher yields for short- and medium-term tenors over the next 12 months, while longer-term yields are expected to remain relatively unchanged after having risen meaningfully over the past year. Key risks that could drive fixed income markets up or down include the persistent threat of a global trade war and its potential impact on economic growth and inflation, alongside geopolitical tensions and the challenges posed by highly indebted governments. These factors suggests that yields are likely to remain volatile over the short to medium term.

