

3Q25 | SOME NOTES OF CAUTION, BUT OPTIMISM PREVAILED IN THE QUARTER

INVESTMENT ENVIRONMENT

- Markets remain tolerant of a certain level of U.S. policy uncertainty. Surge in proposed megadeals highlights growing corporate confidence.

EQUITY MARKETS

- In a standout quarter, equity markets remained buoyant driven by secular themes with Artificial Intelligence taking center stage.

FIXED INCOME MARKETS

- Interest rate cut signals the U.S. has rejoined the central bank monetary easing crowd. Corporate bond spreads continue to tighten.

INVESTMENT ENVIRONMENT | MARKETS MORE FOCUSED ON POSITIVE DEVELOPMENTS THAN HEADLINE NOISE

Despite some lingering policy uncertainty and frequent back-and-forth on tariff developments, financial markets carried the positive momentum from the middle of the second quarter into the third. The worst-case outcome for markets in a world of higher tariffs would have been stagflation, caused by a stalling economy, weak labour markets, a retrenching consumer, and inflation high enough to prevent central banks from easing monetary policy. **Such fears have largely been averted, and markets remain focused on positive developments, rewarding the segments best able to navigate the current environment.**

The U.S. Federal Reserve (The Fed) attracted greater-than-usual attention recently due to the Trump administration’s attempt to remove governor Cook. This move was blocked by lower courts, and the case is scheduled to be heard by the Supreme Court in the new year. The outcome of the hearing will be crucial in shaping the market’s view of the Fed’s independence, the questioning of which would be expected to bring negative implications. Notwithstanding uncertainty regarding the forward path of inflation, the Fed chose to cut rates at the September meeting given a slowdown in employment. Markets expect the Fed to continue easing, while remaining above Bank of Canada (BoC) rates, which are expected to have a flatter trajectory (Figure 1).

It remains unclear what magnitude and precise timing the effects of tariffs and potential supply chain upending will have on goods inflation. Many variables such as the use of bonded warehouses, inventory management, and some potential cost absorption by companies complicate the picture, though the upward bias remains. However, as the primary driver of core inflation, services could potentially offset pressure arising from goods prices, especially if real estate (including rent) continues to moderate (Figure 2).

While there are certainly pockets of weakness in the U.S. economy, the Artificial Intelligence (AI) ecosystem remains white hot. In fact, AI investment is estimated to have been among the largest contributors to U.S. GDP growth year-to-date. Significant capital continues to be spent on high-performance semiconductor chips, the data centers that house them, and securing access to the electricity generation plants that power them as the race for AI dominance continues. In another sign of corporate confidence, a surge in megadeals was announced this quarter, highlighted by the proposed Union Pacific and Norfolk Southern railroad merger. Greater certainty around future tariff policy and the path of interest rates might further contribute to the momentum in dealmaking.

The environment in Europe gradually improved during the quarter. Industrial activity firmed, and easing energy prices provided a meaningful tailwind to manufacturing and consumer sectors. A July 2025 EU–US trade agreement restored predictability for exporters, helping stabilize the euro and prevented deeper disruption. The favorable external backdrop was supported by stronger emerging markets and improving global demand. Regionally, Southern European economies were buoyed by resurgent tourism and resilient domestic demand, but fiscal strains intensified in France, as widening deficits and political uncertainty weighed on confidence. Similar budget pressures are building in the UK and other high-debt countries, limiting fiscal flexibility and tempering recovery. Overall, the backdrop is constructive, but persistent deficits warrant close attention.

Looking ahead, a period of consolidation is often observed following big moves in financial markets. Near-term items to monitor include developments related to the U.S. government shut-down and the evolving dynamic of global trade.

FIGURE 1: CANADA OVERNIGHT & U.S. FED FUND RATES

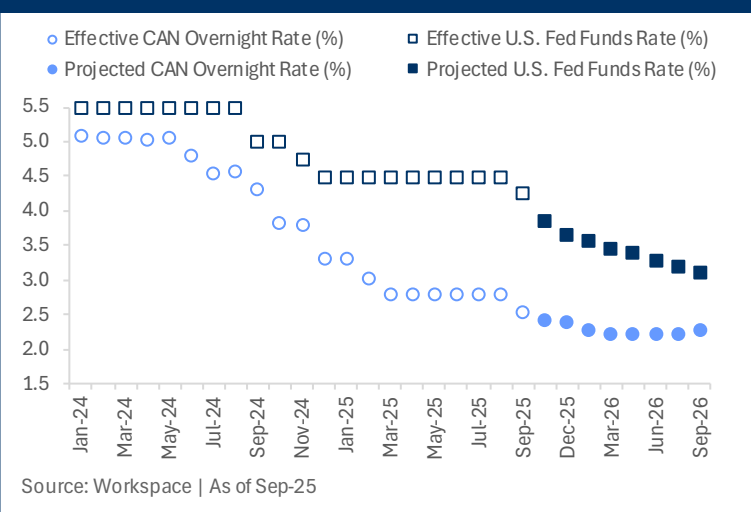
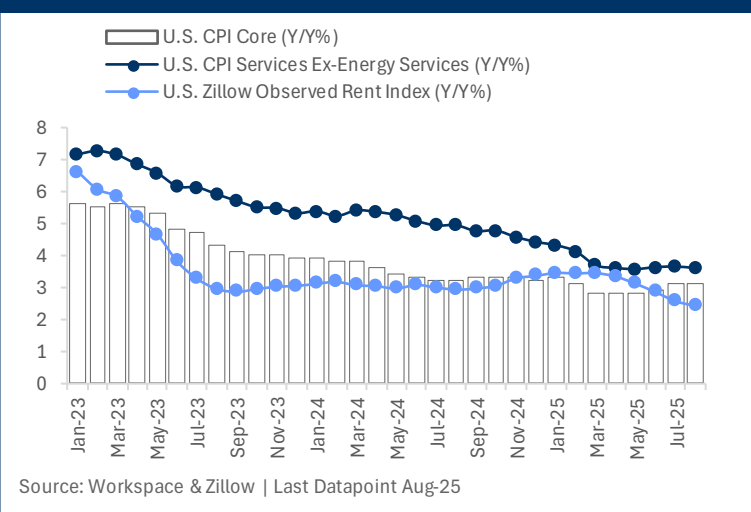


FIGURE 2: REAL ESTATE MAY DAMPEN SERVICES INFLATION



EQUITY MARKETS | ARTIFICIAL INTELLIGENCE NOT THE ONLY SECULAR THEME AT PLAY

Equity Index Returns				
	3Q25 (CAD)	3Q25 (USD)	YTD25(CAD)	YTD25(USD)
Global (Net)	9.4%	7.3%	13.6%	17.4%
Canadian	12.5%		23.9%	
CDN Small Cap	20.9%		36.3%	

Equity markets had a very strong third quarter with indices moving sharply higher. Across all markets, companies with positive exposure to Artificial Intelligence (AI) performed very well. Globally, this led to outperformance from the Information Technology and Communications sectors. Within Canada, gold stocks delivered outsized gains as the ‘debasement’ trade (moving capital away from fiat currencies into precious metals or cryptocurrencies) gained steam.

BIM EQUITY FRAMEWORK

While economic data impacts all companies to some degree, sector-specific variances can be meaningful at any given time. We know that AI-related firms are far outpacing the broader economy, while those companies that are more impacted by tariffs may have more subdued current prospects. Some of the current trade-related uncertainty has spilled into the job market with U.S. job growth slowing, albeit without an alarming level of layoffs when excluding the brief time period surrounding ‘Liberation’ day earlier this spring (Figure 3). So while corporations in aggregate may be cautious in their hiring plans, the relatively stable but slow labour market plods forward for now and could improve with greater trade clarity.

Unique circumstances may also be impacting sentiment-related data, such as consumer confidence surveys. Corporate commentary denotes a very healthy high-end consumer but expresses concern for the low-end consumer. This contrast is evident in the sentiment data, but not to the degree implied by the qualitative comments offered by executives. The comparison may be muddled somewhat by the increased weight of political persuasion on sentiment (Figure 4). Now more than ever, insights provided by management remain a key input to our investment decision making.

GLOBAL MARKETS

In the past quarter, AI once again emerged as a dominant force behind equity market returns. A sharp acceleration in AI-related capital spending and a faster pace of adoption continued to drive substantial share gains for "picks and shovels" players, such as semiconductor designers, hardware manufacturers, and cloud

infrastructure providers. The impact extended beyond the technology sector, with areas like utilities and industrials also benefiting from their exposure to the AI-driven physical build-out cycle. This broader participation made AI a central driver of aggregate market performance during the quarter, as reflected in the strength of our holdings in companies like Schneider Electric.

Although conviction in the AI build-out has grown, certain software and IT services firms have come under pressure, as markets price in potential disruption and margin compression from AI-driven automation. While some legacy service lines will inevitably be cannibalized, the broader AI opportunity is still in its early stages and should ultimately prove a tailwind. The true value creation will emerge as large enterprises begin to integrate AI across their organizations—a complex, data-intensive process still years from full realization. Given that most companies lack the in-house talent, infrastructure, or urgency to execute this transformation independently, Accenture PLC stands out as a key beneficiary of this next phase. Its strong management and track record of adapting to disruptive technologies like cloud, digital transformation, and cybersecurity, position it well to evolve again as AI becomes increasingly embedded in enterprise workflows.

CANADIAN ALL-CAP MARKET

The quarter, though dominated by gold stocks, featured several positive themes. Canadian banks outperformed on easing credit risk and strong capital markets. The AI ecosystem also advanced, including the nuclear value chain and conventional power generators which benefited from increasing data center electricity demand. Additionally, stocks exposed to Canadian defense and nation-building projects performed well.

While the tone of Canadian-U.S. government communications remains generally respectful, there has yet to be a breakthrough in Canada’s attempt to obtain meaningful relief from sectoral tariffs, including those on steel, aluminum, and autos, among others. This situation serves to heighten the importance of defence-related and nation-building initiatives targeted to both boost and diversify the economy. Progress continues on this front, with the Major Projects Office announcing a first tranche of five projects across the energy, mining, and transport sectors to shepherd across the finish line. Future project tranches are expected to target earlier-stage development initiatives, with an announcement related to a second wave targeted before year-end. A continued commitment and follow-through on these projects would both lengthen and increase the benefit to Canadian industrial and resource entities exposed to this theme.

FIGURE 3: A LOW-HIRE AND LOW-FIRE U.S. JOB MARKET

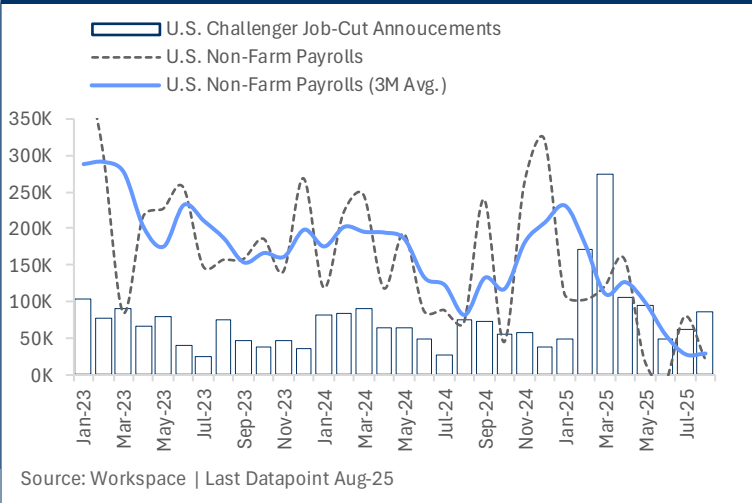
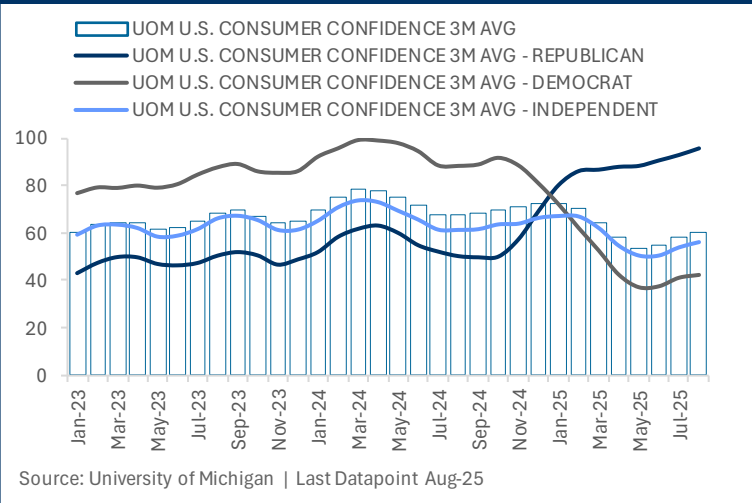


FIGURE 4: CONSUMER CONFIDENCE DIVIDED ALONG PARTY LINES



CANADIAN SMALL-CAP MARKET

Small caps continued higher during Q3, led by surging gold mining equities. The combination of USD weakness, eroding trust in longstanding institutions and alliances, expectations for rate cuts, and geopolitical conflict has all worked in tandem to drive sentiment on gold to record highs. These more capricious factors that buoy sentiment to the sector are what makes it so challenging to value the underlying equities on a fundamental basis. Momentum has taken over and when the winds change, they will change quickly.

Outside of mining, we have seen big bifurcation in performance this year between companies attached to a popular theme (AI, power, infrastructure, defence, etc.) and those without the same direct narrative for investors to get behind. We have picked our spots and have grown exposure this year to areas seeing out-sized industry growth. Companies like Bird Construction (Canada nation-building projects), Exchange Income (defence and development in Canada’s North), and Major Drilling (mining services) are all positioned very well to deliver strong earnings and cash flow growth while still trading at very attractive valuations. Overall solid resilience amongst companies to the uncertain macro and earnings growth is driving small cap stocks higher.

Looking ahead, we are positioned for improving sentiment to small caps, while owning a diversified portfolio of quality companies that can weather any economic storm clouds that could start to emerge.

BIM EQUITY THESIS SPOTLIGHT

Capital Power (CPX) is a Canadian-listed, growth-oriented conventional power producer well placed to capitalize on rising North American electricity needs as the data center buildout continues at a rapid pace. Building off of Alberta roots, the company has compiled an impressive suite of efficient assets across both Canada and the U.S. in regions exhibiting strong supply-demand dynamics.

Conventional power generation remains key to electricity grid reliability because its flexibility and on-demand capabilities make it an essential complement to intermittent renewable energy sources, such as wind and solar. These merits have been proven in recent capacity auctions and through the signing of long-term contracts secured by Capital Power and other industry participants. We expect the company to continue to extract value from the re-contracting of existing assets and through the continued execution of its M&A playbook to acquire additional generation capacity.

While Canada has trailed the U.S. in the build-out of data centers, Alberta seems well positioned to host such infrastructure given its current surplus power generation capacity. Whether in support of the government’s digital sovereignty agenda or at the behest of private enterprise, Capital Power is well-placed to benefit from growth in the Canadian AI economy. An upcoming investor day in December is expected to provide further insight into future strategy and how additional value can be unlocked from the company’s portfolio of assets.

FIXED INCOME MARKETS | ECONOMIC CONDITIONS PROVIDE COVER FOR THE U.S. TO START CUTTING RATES

Fixed Income Index Returns		
	3Q25	YTD25
Canadian	1.5%	3.9%

In the third quarter of 2025, both the Fed and the BoC reduced their overnight interest rates by 25 basis points at their respective September meetings, bringing down the short end of the curve (Figure 5). The Fed’s decision reflected growing concern over slowing job growth and rising unemployment in the United States. Policymakers indicated that they are increasingly confident the risk of inflation re-accelerating has diminished. Similarly, the BoC noted that the Canadian labour market continues to soften, while inflationary pressures have eased, partially due to the removal by Canada of retaliatory trade tariffs on certain U.S. consumer and agricultural products.

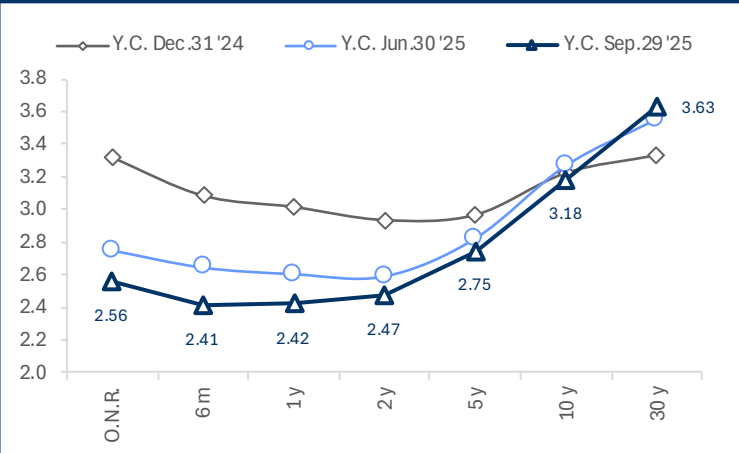
Although global growth is showing signs of moderation, North American consumers remain resilient, with household spending holding up better than expected. Both central banks emphasized their data-dependent approach and cautioned that future policy actions will depend on incoming economic data. Our view is that both the Fed and BoC retain a bias toward further easing, provided inflation stays contained (even it still somewhat elevated versus target levels).

Corporate credit spreads continued to tighten over the quarter, extending their strong year-to-date performance. BBB-rated issuers once again led the rally as investors continued to reach for yield. The energy sector was the best performer within investment-grade credit, particularly at the longer end of the curve (10- and 30-year maturities). In contrast, telecom bonds underperformed as market sentiment turned cautious ahead of potential new issuance. The new-issue market remained very active across both Canada and the U.S., with robust investor demand allowing most deals to price with minimal concession.

BIM FIXED INCOME FRAMEWORK

Within our portfolio, we remain overweight corporate bonds relative to the benchmark, with positioning concentrated in the intermediate segment of the curve (10 years and shorter). We maintain a modest allocation to longer-dated infrastructure debt, taking advantage of attractive relative value opportunities. On the sovereign side, we are underweight federal and provincial issues overall but overweight in the longer end versus the benchmark, reflecting our preference for term exposure in government bonds. Throughout the quarter, we continued to emphasize liquidity and credit quality, consistent with our disciplined approach to risk management.

FIGURE 5: CANADIAN YIELD CURVE (%)



Source: Workspace

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