

FEBRUARY 2026

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The big story

Since “Liberation Day” last April, there has been a steady decline in fixed income market volatility, perhaps best exemplified by the downward shift in the MOVE Index and the resilience of corporate spreads. This is very notable, especially considering the number of prominent events during that time which could have been expected to produce some volatility, including new tariff announcements, Venezuela, Department of Justice investigations into members of the U.S. Federal Reserve, massive increases in expected corporate supply driven by artificial intelligence (AI) spending and some private credit defaults. This points to complacency working its way into the market at a time when spreads on risk assets sit near historic tights. While the economic backdrop remains benign and corporate fundamentals on the whole are supportive, there are plenty of issues that could disrupt the markets, including a new Federal Reserve Chair, AI issuance fatigue and geopolitics. In other words, risk assets remain priced for perfection in an imperfect world.

“[Declining volatility] points to complacency working its way into the market at a time when spreads on risk assets sit near historic tights.”

U.S. Federal Reserve (the Fed)

The Fed is on hold and considers policy to be “well positioned” to address both labour and inflation conditions. While the Fed is adopting a data-dependent stance from here, the question of Fed independence will remain in the spotlight this year as the next Fed Chair navigates political pressure and faces a divided committee.

European Central Bank (ECB)

On February 5, the ECB is unlikely to depart from its on-hold monetary stance. Medium-term consumer price index (CPI) expectations have firmed slightly for policy voters in the past few months, yet there remains no indication from them that the 2% policy rate needs altering. Also, we expect recent U.S. dollar weakness to be dismissed as a reason to ease ECB policy, as the trade-weighted Euro has barely moved.

Bank of Canada (BoC)

The BoC held its overnight rate at 2.25% in January, maintaining its output gap and neutral rate estimates. While geopolitical risks exist, recent data shows a stronger-than-expected economy and tighter labour market, suggesting an extended hold with a potential bias towards higher rates.

Bank of Japan (BoJ)

The baseline expectation continues to be two rate hikes a year to a terminal rate of 1.25-1.50%. We believe that another rate hike is most likely in June, although a weakening or weak Japanese yen could accelerate the rate hike to April.

Bank of Mexico

The Bank of Mexico cut its policy rate by 25 basis points in December to 7.0%, signaling a likely pause in its forward guidance, while raising near-term inflation forecasts. Markets expect this to be the last cut, but we see scope for one more, potentially in the second quarter.

Central Bank of Brazil

The Central Bank of Brazil's policy committee held its main interest rate at 15% and signaled potential rate cuts in March. Markets are expecting a 50-basis-point move, supported by stronger disinflation forecasts and a firmer Brazilian local currency. Although monetary easing usually begins gradually, improved inflation confidence provides flexibility. The final extent of rate reductions will depend on upcoming inflation data.

Valuations

- **Leveraged loans:** We are modestly overweight. The floating-rate loan market delivered solid total returns last year. Due to refinancing activity, fewer loans now trade above par, albeit with lower coupons, reducing call risk in the sector. Looking forward, as the Fed cuts short-term rates, the yield advantage in this sector may diminish over time, at which point loans could lose their appeal for unlevered portfolios.
- **High yield:** We are modestly overweight. We are not expecting near-term spread-widening given the strength of issuer balance sheets, but the sector is susceptible to exogenous shocks. With spreads once again close to historic lows, valuations do not justify increasing beta at this time. Dislocations at the industry and issuer level focus our attention on idiosyncratic opportunities as we patiently wait for signs that the credit cycle is turning.
- **U.S. investment-grade corporates:** We are underweight. Earnings for large-cap companies are robust, balance sheets remain strong and the appreciation in the equity market has increased the cushion beneath the debt in the capital structure, justifying current valuations. However, if fundamentals unexpectedly deteriorate, the sector may be vulnerable to significant underperformance, particularly if the technical backdrop weakens as the market digests extremely heavy AI- and data-centre-related supply.
- **International credit (hedged):** We are modestly overweight. The spread advantage relative to U.S. credit that we saw earlier in 2025 is mostly gone, though there is still a carry advantage after hedging currency risk. We still value the diversification and security selection benefits of evaluating a larger pool of investment-grade issuers.
- **Emerging markets debt:** We continue to own idiosyncratic risk through selective ownership of names in Brazil, Colombia and Mexico. Broadly speaking, this sector was the best-performing fixed income asset class last year as long-duration investment-grade issuers and distressed/high-yield issuers both contributed. We expect higher-than-normal spread and foreign exchange volatility while trade policies are negotiated, U.S. foreign relations remain in flux, and central banks stay active.
- **U.S. Treasuries:** We maintain a long-duration position at this historically high level of interest rates. U.S. Treasury exposure remains close to the highest level in the history of the strategy; it has been and will continue to be a source of funds when the market gives us an opportunity to buy credit sectors. We still think the curve has potential to steepen further, but in a gradual contrarian trade, we have leaned into the underperformance of the long end of the curve.
- **U.S. Treasury Inflation-Protected Securities (TIPS):** We have a zero weighting in TIPS. Inflation break-evens have been 2.2% to 2.4% for the better part of two years, despite the expectation that tariffs will increase price levels in the near term. We prefer the liquidity of nominal U.S. Treasuries.
- **Mortgage-backed securities (MBS):** We have a zero weighting in MBS. Spreads against U.S. Treasuries in the area of 20 basis points are not compelling for this strategy, and we prefer the liquidity and stability of U.S. Treasuries.

- **Structured product:** We are selectively overweight, specifically in franchise bonds and airplane financing. We have a very small allocation to commercial mortgage-backed securities due to valuations. We continue to look for well-structured, idiosyncratic exposure, using our research edge.
- **Local currency debt:** We only own idiosyncratic exposure, with the total size of the allocation near 1%. Currency volatility is significantly higher than rate volatility – approximately three times higher. We own exposure in Brazil, with Brazilian local currency bonds currently yielding close to 14%.

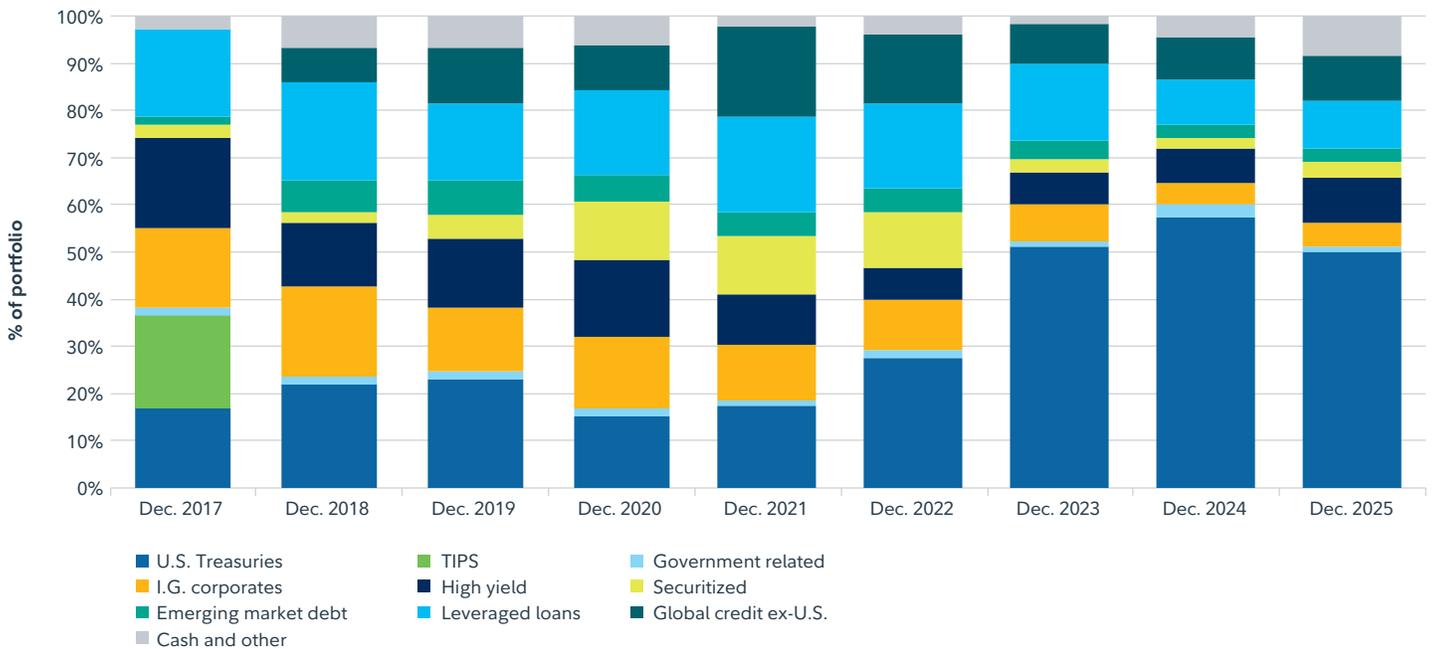
Performance

As at January 31, 2026	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
Fidelity Multi-Sector Bond CN Fund – Sr. F	-0.3	0.1	4.8	3.2	2.9	0.2	2.1
Fidelity Investment Grade Total Bond CN Fund – Sr. F	-0.2	0.2	4.8	3.2	2.8	-0.2	1.6
Fidelity Global Core Plus Bond ETF	-0.4	0.1	4.8	3.3	3.1	0.5	1.2
Fidelity Global Investment Grade Bond ETF	-0.3	0.2	4.9	3.0	2.5	-0.3	0.2
Fidelity Tactical Credit Fund – Sr. F	0.5	0.2	4.3	4.8	5.4	–	3.2

Source: Fidelity Investments Canada ULC. Performance shows annual compounded returns as at January 31, 2026, net of fees, in Canadian dollars.

* Since-inception date for Fidelity Multi-Sector Bond Currency Neutral Fund is May 10, 2017. Since-inception date for Fidelity Investment Grade Total Bond Currency Neutral Fund is January 24, 2018. Since-inception date for Fidelity Global Core Plus Bond ETF is September 20, 2019. Since-inception date for Fidelity Global Investment Grade Bond ETF is June 5, 2020. Since-inception date for Fidelity Tactical Credit Fund is January 25, 2022.

A flexible approach to fixed income: Fidelity Multi-Sector Bond Fund historical exposure



Source: Fidelity Investments Canada ULC. As at December 31, 2025. Benchmark: Bloomberg U.S. Aggregate Bond Index.

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