Fixed Income Perspectives

JULY 2026

Michael Plage, Portfolio Manager | **Celso Muñoz**, Portfolio Manager | **Stacie Ware**, Portfolio Manager | **Brian Day**, Portfolio Manager | **Julian Potenza**, Portfolio Manager

The big story

> "Fed-watching is a cottage industry... That industry may be facing an existential crisis."

Nearly every fixed income discussion begins and ends with the U.S. Federal Reserve (the Fed) (in the middle are other important factors like economic growth and inflation). Fed-watching is a cottage industry, with analysts parsing every word of the statement, checking for clues in the press conferences, trying to identify which dot belongs to which governor, and synthesizing the seemingly endless Fed-speak into a narrative describing the future path of interest rates, or at least the Fed's reaction function to incoming data or changes in economic conditions. That industry may be facing an existential crisis as Chair Warsh has promised to be much less transparent. Think of the Greenspan approach ("if I seem unduly clear to you, you must have misunderstood what I said") rather than the Bernanke-Yellen-Powell full-disclosure culture of the past two decades. Independent economic expertise will become even more critical as, without forward guidance, unexpected changes to monetary policy could increase interest-rate volatility, at least in the front end of the curve. The transition at the Fed was one of our known unknowns for this year, with the potential to significantly change the aspect of the fixed income markets. Chair Warsh's opening salvo certainly seems destined to do just that.

U.S. Federal Reserve (the Fed)

Warsh, in his debut as Fed Chair, kept the focus firmly on restoring price stability. The probability of hikes is higher now given the resilience of the economy and sticky inflation. The Fed trajectory will be increasingly sensitive to the dataflow from here, given the lack of forward guidance. The five task forces on Fed communications, balance sheet, data sources, productivity and jobs, and inflation framework will be crucial to watch going forward.

Bank of Japan

Policy voters seem comfortable in market expectations for two more hikes over the next year, having reaffirmed views that the underlying consumer price index (CPI) can rise beyond 2% in the months ahead, and that financial conditions are likely still accommodative despite hiking a quarter-point in June.

European Central Bank (ECB)

In June, the ECB hiked to 2.25% and Chief Economist Lane separately commented that a fair upper bound for neutral policy might be 2.5%. We see no push-back from other voters. The market also seems to agree, pricing in another hike followed by an extended pause ahead.

Bank of Canada (BoC)

The BoC is holding at 2.25% and keeping its options open. For investors, the message is balanced with near-term inflation risks tied to energy remaining, but underlying softness and excess capacity suggesting policy will stay on hold unless conditions shift meaningfully in either direction.

Bank of Mexico

The Bank of Mexico is firmly on pause at 6.5%, with the cutting cycle effectively over. Inflation is improving, but is still not comfortably at target on a core basis, so policymakers are content to wait. Markets are aligned with a prolonged hold before any further monetary easing.

Central Bank of Brazil (BCB)

The BCB delivered another cut to 14.25% in June but is clearly slowing the pace. Inflation expectations have picked back up, while activity and labour remain firm, pointing to a more cautious, step-by-step easing path rather than an aggressive cycle.

People's Bank of China (PBoC)

The PBoC is holding rates steady and sticking with targeted easing. Growth is steady but uneven, and inflation remains subdued, so policy is focused on liquidity support and fine-tuning rather than broad interest rate cuts.

Valuations

- **Leveraged loans:** We are modestly overweight. The asset class has recovered in the past few months and is now delivering a positive return year-to-date with income more than offsetting artificial intelligence (AI)-driven concerns. About 8% of loans are trading below $80, reflecting idiosyncratic credit issues and a broader fear that AI will supplant the software sector, which is a significant part of the broadly syndicated loan market. Active management can be important during periods of dislocation within the asset class; unlike direct lending, broadly syndicated loans trade in the secondary market. Floating-rate coupons have helped sector total returns as Treasury rates have moved higher and potential Fed rate hikes are being considered.
- **High-yield:** We are modestly overweight. High-yield spreads are near the level where they were at the start of the year, having recovered from the Iran-related volatility. The increase in Treasury yields is putting downward pressure on prices, but not enough to offset a high level of income. 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. We are also watching supply and demand dynamics as data centre funding has ramped up significantly.
- **U.S. investment-grade corporates:** We are underweight. Earnings for large-cap companies are robust, balance sheets remain strong, and the longer-term 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. As such, we are patiently waiting for better entry points.
- **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. In addition, the shorter duration and higher quality of the European benchmarks could justify further spread tightening. 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. Emerging markets continue to be one of the best-performing sectors, with riskier credits (below investment-grade) leading the way. More aggressive U.S. foreign policy decisions (e.g. Venezuela and Iran) may lead to higher-than-recent spreads and foreign exchange volatility, perhaps compounded by elevated starting valuations.
- **U.S. Treasuries:** We maintain a long-duration position. Amid increased U.S. Treasury volatility, we maintained duration steady after having added as nominal interest rates have moved up to the high end of the three-year range. Furthermore, we have used episodes of yield-curve-flattening to shift some exposure from long bonds to the belly of the curve (e.g. seven-year bonds). 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.

- **U.S. Treasury Inflation-Protected Securities (TIPS):** We have a zero weighting in TIPS. Longer-term inflation break-evens have been 2.2% to 2.4% for the better part of three years. The Iran conflict has pushed oil prices higher, leading to an increase in inflation expectations in the very short end of the yield curve (e.g. less than two years). We prefer the liquidity of nominal U.S. Treasuries, with volume 10 to 20 times greater than TIPS.
- **Mortgage-backed securities (MBS):** We have a zero weighting in MBS. Despite recent spread-widening, 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 over 14%.

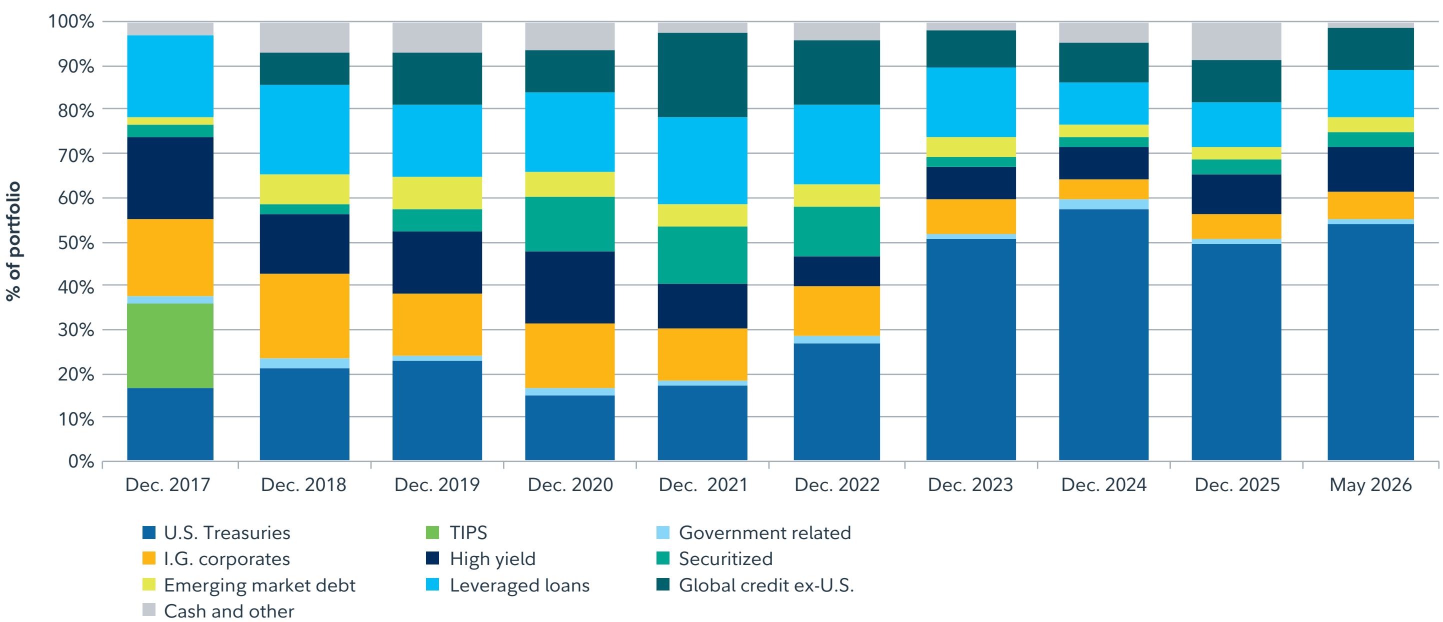
Performance

As at June 30, 2026	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
Fidelity Multi-Sector Bond CN Fund – Sr. F	0.8	0.3	2.2	3.4	3.1	0.2	2.0
Fidelity Investment Grade Total Bond CN Fund – Sr. F	0.9	0.5	2.4	3.5	3.3	-0.2	1.6
Fidelity Global Core Plus Bond ETF	0.8	0.5	2.3	3.7	3.4	0.5	1.2
Fidelity Global Investment Grade Bond ETF	1.0	0.7	2.5	3.7	3.1	-0.2	0.3
Fidelity Tactical Credit Fund – Sr. F	1.6	1.1	3.4	4.3	5.0	-	3.1

Source: Fidelity Investments Canada ULC. Performance shows annual compounded returns as at June 30, 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 May 31, 2026. Benchmark: Bloomberg U.S. Aggregate Bond Index.

Commissions, trailing commissions, management fees, brokerage fees and expenses may be associated with investments in mutual funds and ETFs. Please read the mutual fund's or ETF's prospectus, which contains detailed investment information, before investing. The indicated rates of return are historical annual compounded total returns for the period indicated, including changes in unit value and reinvestment of distributions. The indicated rates of return do not take into account sales, redemption, distribution or option charges or income taxes payable by any unitholders that would have reduced returns. Mutual funds and ETFs are not guaranteed. Their values change frequently, and investors may experience a gain or a loss. Past performance may not be repeated.

If you buy other series of Fidelity Funds, the performance will vary, largely due to different fees and expenses. Investors who buy Series F pay investment management fees and expenses to Fidelity. Investors will also pay their dealer a fee for financial advice services in addition to the Series F fees charged by Fidelity. The rate of return or mathematical table shown is used to illustrate the effects of the compound growth rate and is not intended to reflect future values of the fund or returns on investment in any fund.

The statements contained herein are based on information believed to be reliable and are provided for information purposes only. Where such information is based in whole or in part on information provided by third parties, we cannot guarantee that it is accurate, complete or current at all times. It does not provide investment, tax or legal advice, and is not an offer or solicitation to buy. Graphs and charts are used for illustrative purposes only and do not reflect future values or returns on investment of any fund or portfolio. Particular investment strategies should be evaluated according to an investor's investment objectives and tolerance for risk. Fidelity Investments Canada ULC and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

From time to time, a manager, analyst or other Fidelity employee may express views regarding a particular company, security, and industry or market sector. The views expressed by any such person are the views of only that individual as of the time expressed and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time, based upon markets and other conditions, and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity Fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity Fund.

Certain statements in this commentary may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest, and assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable and, accordingly, may prove to be incorrect at a future date. FLS are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any FLS. A number of important factors can contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition and catastrophic events. You should avoid placing any undue reliance on FLS. Further, there is no specific intention of updating any FLS, whether as a result of new information, future events or otherwise.

FIC-4618402 07/26 797351-v2026730