

MAY 2026

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

## The big story

The conflict in Iran, or, rather, the supply shock caused by the conflict in Iran, has prices in the physical market for crude oil and refined products such as gasoline, diesel and jet fuel skyrocketing. Headline inflation has started to move higher, as have inflation expectations, dashing hopes of further easing by many of the world's largest and most important central banks and leading some to consider raising rates. Real rates also remain elevated, and while the drivers here are more complicated (e.g. monetary policy, term-premium expansion, debt-funded fiscal spending, debt-funded artificial intelligence [AI] spending, the impact of AI spending on growth, technical demand factors, etc.), the result is clearly an economic headwind. Yet risk assets remain priced for perfection, with equity markets expecting earnings to remain strong or grow, and credit markets expecting defaults and downgrades to remain contained. Though we can't identify the catalyst that will dislocate markets (there have been several contenders over the past year), we feel strongly that there will be a better entry point in credit, and to remain patient with liquidity to take advantage when it does materialize.

**“Real rates also remain elevated, and, while the drivers here are complicated, the result is clearly an economic headwind.”**

## U.S. Federal Reserve (the Fed)

The Fed is likely to remain on hold for the foreseeable future. Inflation has picked up and labour markets have stabilized, just as the economy faces another supply shock from higher oil prices. With an uncertain outlook, the committee is divided, as it weighs the risks to inflation and labour markets. A leadership transition also lies ahead with Kevin Warsh expected to replace Jerome Powell as Fed Chair, while Powell would remain a Fed Governor.

## Bank of Japan (BoJ)

The Consumer Price Index has potential to rise towards ~3%, while wage growth appears set to sustain ~5% in 2026. With the Japanese yen showing renewed weakness, two rate hikes per year look assured (as the market expects) unless recession strikes.

## European Central Bank (ECB)

The ECB characterizes its 2% policy rate as well-placed to address their outlook. Policy is still slightly accommodative, and the ECB seems to be guiding towards raising rates at least twice in response to the energy-price shock.

## Bank of Canada (BoC)

The BoC held its policy rate at 2.25% in April and came off hawkish, signaling it is willing to tolerate weak growth and labour slack, but not inflation that lingers or spreads. We see the next move as a hike, most likely at year-end, with timing contingent on confirmation that oil prices stay elevated until next year.

## Bank of Mexico

March's cut to 6.75% likely marked the end of the easing cycle, with policymakers openly signaling in April that the governing board is close to done. Inflation is still running too hot for comfort and tighter global conditions mean only clear, sustained disinflation would reopen the door.

## Central Bank of Brazil (BCB)

The BCB reduced its policy rate again by 25 basis points to 14.5% in April, but made it clear that this is a slow, conditional easing cycle. Cooling growth helps the case for cuts, but sticky core inflation, wobbly expectations and tighter global financial conditions mean policymakers will continue easing cautiously and pauses are likely.

## Valuations

- **Leveraged loans:** We are modestly overweight. The asset class has underperformed given recent idiosyncratic credit issues and broader concerns 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. Primary market supply has slowed as prices move below par.
- **High yield:** We are modestly overweight. High yield spreads are now at the same level as 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 year-to-date. 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. 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. This sector was the best-performing fixed income asset class last year and year-to-date following a strong recovery in April. 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 added duration as the conflict in Iran pushed nominal interest rates to the high end of the three-year range. We also took advantage of a brief window of yield curve flattening, shifting 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 breakevens 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 ten 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 30 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%.

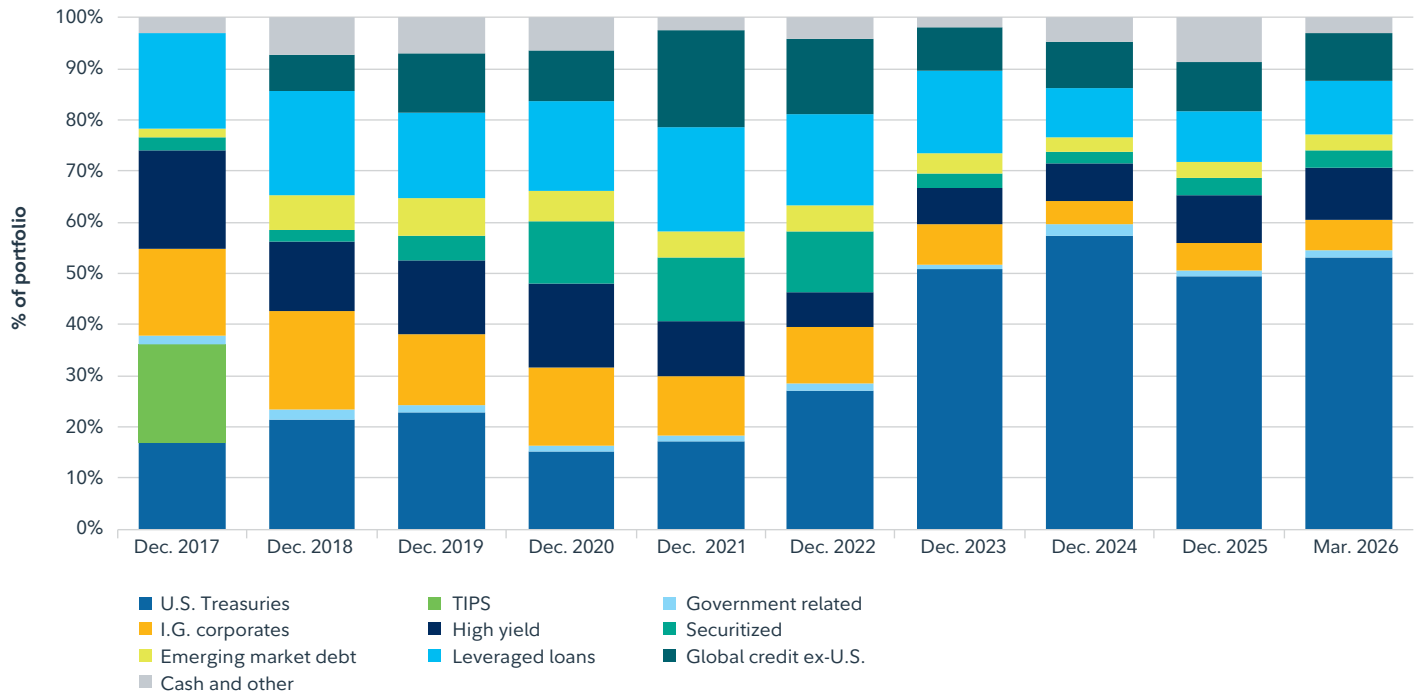
Performance (%)

As at April 30, 2026	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
<b>Fidelity Multi-Sector Bond CN Fund – Sr. F</b>	-0.2	-0.2	2.7	4.3	2.7	0.4	2.0
<b>Fidelity Investment Grade Total Bond CN Fund – Sr. F</b>	-0.3	-0.1	2.7	4.4	2.7	0.0	1.5
<b>Fidelity Global Core Plus Bond ETF</b>	-0.1	0.0	2.8	4.6	2.9	0.7	1.2
<b>Fidelity Global Investment Grade Bond ETF</b>	-0.1	0.0	2.6	4.5	2.3	-0.1	0.2
<b>Fidelity Tactical Credit Fund – Sr. F</b>	0.4	0.6	5.2	4.9	5.1	-	3.1

Source: Fidelity Investments Canada ULC. Performance shows annual compounded returns as at April 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 March 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.

