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The big story

In addition to our strong focus on research, another edge for us in the market is our proprietary data – particularly our labour market data. Given Fidelity's large footprint in the 401(k) space, we have a front-row seat to labour market dynamics, including employment levels and wages, in nearly real time. Our dataset covers ~40% of the U.S. manufacturing base, and includes significant representation across services sectors (e.g., ~20% of finance and insurance payrolls). At a time when some of the public data has been volatile or noisy, having our own data has been very advantageous.

"This softer labour picture supports the case for more rate cuts by the Fed, even if we see some upward pressure on inflation from tariffs."

While the labour market is generally healthy, our data has consistently signalled a moderation in labour market activity over the last three years. Most notably to us, over the last 18 months we've seen a shift, with more industries reducing headcount than expanding it. However, market expectations had become increasingly optimistic, which made the recent Bureau of Labor Statistics data appear surprisingly soft to many market participants. From our perspective, the market is now catching up to what we had already been seeing for months with our proprietary data. This softer labour picture supports the case for more rate cuts by the U.S. Federal Reserve (the Fed), even if we see some upward pressure on inflation from tariffs. More broadly, this type of data – combined with our research efforts and thousands of annual meetings with CEOs and CFOs – is a powerful tool in helping us form a macro mosaic and positioning our portfolios.

U.S. Federal Reserve

The Fed delivered a 25-basis-point rate cut at the September meeting, citing downside risks to employment. Chair Jerome Powell viewed the decision as a risk management cut and characterized tariffs as a one-time shift in price levels. While the median FOMC participant projected two more cuts for this year, this masks the division between members who are more concerned about labour versus those concerned about their inflation mandate. Ordinarily, this division would argue for data dependence, but this approach will be complicated by the potential for delayed economic data in the event of a government shutdown. While our base case is for Powell to deliver a few more cuts in this cycle, this may come with dissents.

European Central Bank (ECB)

Voting members of the ECB continue to posit a neutral tone. The September policy meeting left the policy rate at 2%, as expected. A moderate risk of eurozone CPI undershooting in the quarters ahead remains, given marginal Euro strength and ongoing domestic cost disinflation. This may motivate the ECB to tweak policy rates lower, as Euro rates have somewhat priced in.

Bank of Canada (BoC)

The BoC lowered its policy rate in September for the first time since March after a slew of weak macro data. The market expects one more cut, but rate-setting policy will remain data dependent and will now "look over a shorter horizon than usual." Encouragingly, growth in July surprised to the upside; however, after three months of contraction, the outlook remains tempered, pointing to only modest expansion in Q3.

Bank of Japan (BoJ)

The probability of an October hike has increased. Attention is turning to inflation, as BoJ members acknowledge that the decades-long Japanese “deflation mindset” has been overcome, and that the recent spike in rice prices diffuses into other goods and services prices, which may potentially increase inflation expectations.

Valuations

- **Leveraged loans:** We are modestly overweight. The sector still boasts one of the highest current yields in fixed income, driving its attractiveness. However, as the Fed cuts short-term rates, this advantage will diminish and possibly disappear over time. Furthermore, with spreads having mostly recovered and the majority of loans trading above par, the upside from capital gains is limited.
- **High yield:** We are modestly overweight. “Liberation Day” volatility provided a short window of opportunity to add exposure before spreads returned to historically tight levels, where they have remained for the past several months. We are not expecting near-term spread-widening (although we recognize a susceptibility to exogenous shocks), but valuations no longer justify further increasing beta. Dislocations at the industry and issuer level encourage us to focus on idiosyncratic opportunities.
- **U.S. investment-grade corporates:** We are underweight. As with high-yield bonds, valuations have recouped all the tariff-related underperformance, and spreads have set new all-time highs when adjusted for duration and credit quality. Balance sheets for large-cap, investment-grade issuers are strong, and the assumed impact of tariffs was modest, given broad-based pricing power and the ability to absorb some margin impact. Dislocation in this sector may require an actual recession, given the strong fundamentals and technical support.
- **International credit (hedged):** We are modestly overweight. A very modest spread advantage persists relative to U.S. investment-grade corporate bonds, presenting a small carry opportunity 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 have selective ownership of issues in Brazil, Colombia and Mexico. Changes in U.S. trade policy remain uncertain and could create a headwind. We expect higher-than-normal foreign exchange volatility while trade policies are being negotiated.
- **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 will 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 short 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 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 CMBS 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 below 2%. Currency volatility is significantly higher than rate volatility – approximately three times higher. We own exposure in Brazil and Japan. Brazilian local currency bonds currently yield approximately 14%.

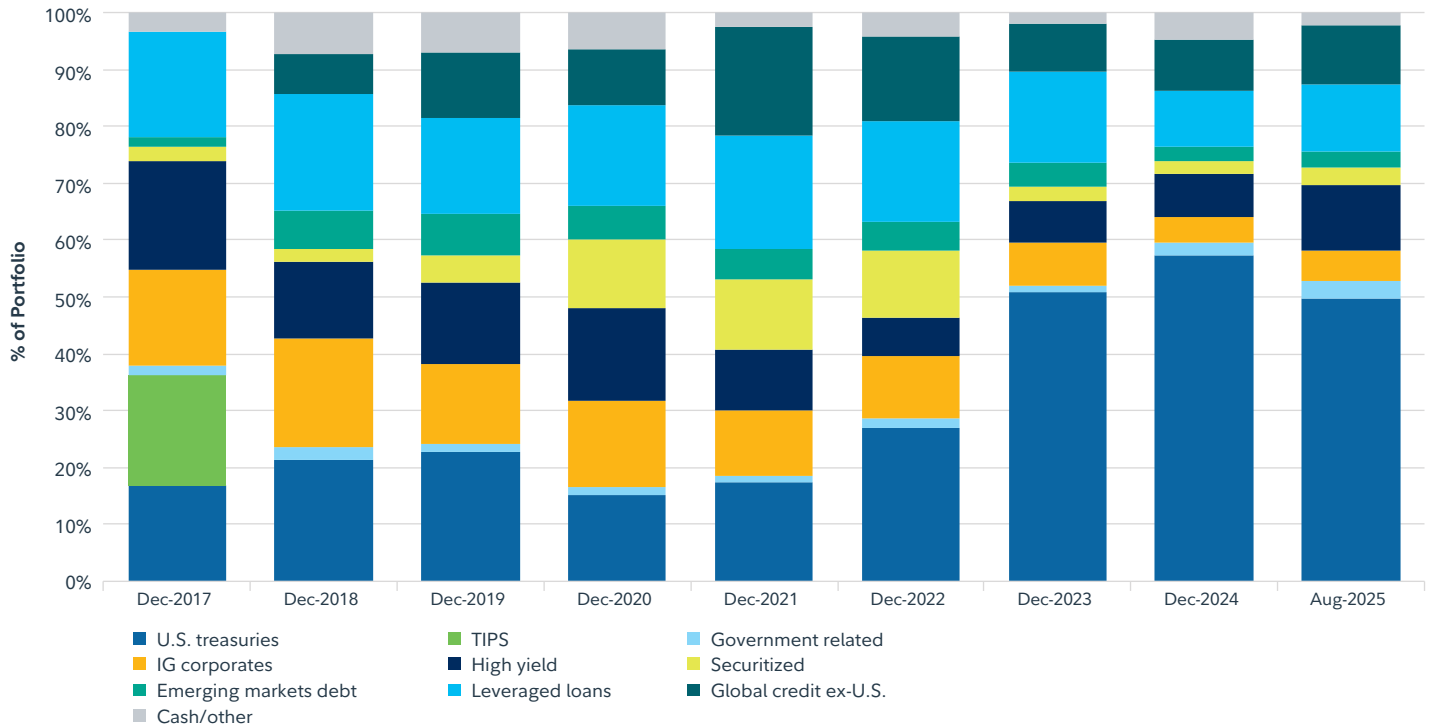
Performance (%)

As at September 30, 2025	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
Fidelity Multi-Sector Bond CN Fund – Sr. F	1.7	5.2	1.6	6.2	4.7	0.6	2.1
Fidelity Investment Grade Total Bond CN Fund – Sr. F	1.7	5.0	1.5	6.4	4.6	0.1	1.6
Fidelity Global Core Plus Bond ETF	1.7	5.3	1.8	6.6	5.1	1.0	1.3
Fidelity Global Investment Grade Bond ETF	1.7	5.4	1.6	6.1	4.1	-0.2	0.2
Fidelity Tactical Credit Fund – Sr. F	1.7	4.2	3.9	6.9	6.9	–	3.3

Source: Fidelity Investments Canada ULC. Performance shows annual compounded returns as at September 30, 2025, 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 August 31, 2025. **Benchmark: Bloomberg U.S. Aggregate Bond Index.**

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