

SEPTEMBER 2026

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

The big story

With no Federal Open Market Committee (FOMC) meeting in August, markets pivoted to focus on announcements from the U.S. Treasury. First was the announcement that the U.S. would buy Yen (funded with Euro) to "assist" the Bank of Japan (BoJ) in its foreign exchange intervention, perhaps to mitigate the risk of U.S. Treasury liquidation from Japan. Second, Secretary Bessent announced an increased buyback in the long end of the Treasury market, also theoretically to slow/stop the sell-off in rates. The latter happened to coincide with the point at which the U.S. debt very publicly crossed \$40 trillion, and the 30-year bond reached the highest yield since 2002. This is at least the second time Bessent has gotten nervous at this level of interest rates (the first was during the selloff following Liberation Day). It is clear that Secretary Bessent, closely aligned with President Trump and having more autonomy than Chair Warsh, plans to do what he can to keep interest rates contained ("Treasury put"?). Without significant escalation, there is no guarantee that this effort will be effective and it may induce additional volatility/uncertainty. So, although we are not getting forward guidance from Chair Warsh and the Federal Reserve (the Fed), we certainly seem to be getting a reaction function from Secretary Bessent and the Treasury. Every discussion of fixed income begins and ends with the Fed, but the Treasury is making the case that it belongs in the conversation as well.

"It is clear that Secretary Bessent plans to do what he can to keep interest rates contained."

U.S. Federal Reserve (the Fed)

Inflation remains the focus for most of the Fed. Chair Warsh's hawkish remarks at Jackson Hole have raised the odds of a September hike. He viewed the economy as resilient, labour markets as stable, but inflation as "concerning." The upcoming inflation data has to be benign to argue against a near-term hike.

Bank of Japan (BoJ)

Rate hikes are now expected to be delivered sooner than was the case in July. A rate hike is now widely expected in September and, if not, at the October meeting. Hawkish developments include the joint foreign exchange intervention to support the currency on July 31, the government speaking less negatively about rate hikes and the persistent inflationary pressures.

European Central Bank (ECB)

A rate hike at the next meeting is still expected by consensus, taking the policy rate to 2.5%. The risk of higher energy prices remains a primary concern to policymakers. Growth developments will likely become more of a focus toward year end and have greater influence on monetary policy decisions thereafter.

Bank of Canada (BoC)

The BoC is sitting comfortably at 2.25%, watching an economy that's finding its footing but not overheating. For investors, the real story is trade, with inflation looking manageable, while renewed U.S. tariff tensions are the bigger swing factor for growth.

Valuations

- **Leveraged loans:** We are modestly overweight. The floating rate nature of the loan market has protected the asset class from rising U.S. Treasury yields that have pushed prices of other fixed income sectors lower. Persistently wide spreads in the software sector have increased the overall income available in the asset class as long as defaults remain low. To the extent that some of this credit risk is realized through losses, the opportunity for active management to generate alpha has become more significant.
- **High yield:** We are modestly overweight. High yield spreads are still in the bottom decile relative to history, reflecting strong balance sheets and low realized losses from defaults and restructurings. The increase in Treasury yields is putting downward pressure on prices, but not enough to offset a high level of income. "Breakeven" (yield per unit of duration) is an important metric used in simulating potential return outcomes for fixed income – high-yield bond screen well. 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, given historically low "breakeven," the sector may be vulnerable to significant underperformance with even a minor fundamental hiccup or technical imbalance (seeing signs of supply/demand mismatch in the AI ecosystem). 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:** Emerging markets continue to be one of the best performing sectors, with riskier credits (below investment-grade) leading the way. We continue to own idiosyncratic risk through selective ownership of names in Brazil, Colombia and Mexico. More aggressive U.S. foreign policy decisions have not led to higher spread volatility thus far.
- **U.S. Treasuries:** The trend of higher yields on U.S. Treasury securities continues, increasing the attractiveness of an already appealing asset class. Treasury volatility has increased as the market prices in the uncertainty of the new Fed Chair and the potential absence of forward guidance. We have added duration as nominal interest rates move up to or above the high end of the three-year range. Treasuries exposure remains close to the highest level in the history of the strategy. This position has been and will be the source of funding 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. Relative to nominal yields, longer-term inflation breakevens have been 2.2% to 2.4% for the better part of three years. On an absolute basis, real rates have risen to the highest level in nearly two decades. The Iran conflict has pushed oil prices higher, leading to an increase in inflation expectations in the short end of the yield curve (for example, less than 2 years). We prefer the liquidity of nominal U.S. Treasuries, with volume 10–20 times greater than TIPS.
- **Mortgage-backed securities (MBS):** We have a zero weighting in MBS. The sector has continued to underperform, and spreads against U.S. Treasuries in the area of 30 basis points are still not compelling for this strategy. As such, 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 and currently have no exposure to collateralized loan obligations (CLOs) but would add exposure on material weakness. 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 local currency bonds currently yielding over 14%.

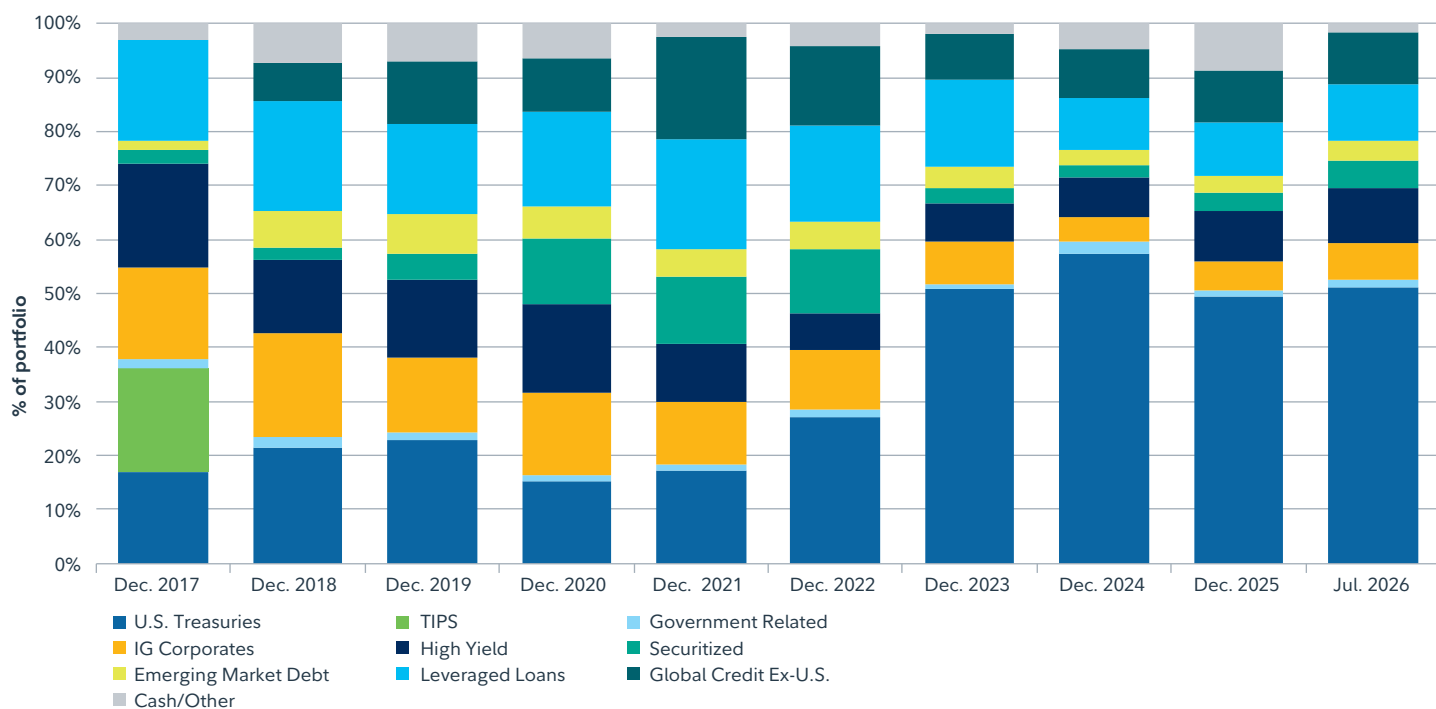
Performance (%)

As at August 31, 2026	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
Fidelity Multi-Sector Bond CN Fund – Sr. F	-0.9	-0.9	0.4	1.1	2.9	-0.3	1.8
Fidelity Investment Grade Total Bond CN Fund – Sr. F	-1.0	-0.8	0.5	1.1	3.1	-0.6	1.4
Fidelity Global Core Plus Bond ETF	-0.9	-0.8	0.4	1.2	3.2	0.0	1.0
Fidelity Global Investment Grade Bond ETF	-0.9	-0.6	0.6	1.2	2.9	-0.7	0.1
Fidelity Tactical Credit Fund – Sr. F	0.0	1.0	2.6	3.3	4.7	–	3.0

Source: Fidelity Investments Canada ULC. Performance shows annual compounded returns as at August 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 July 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.

