Market overview

- Global equities broadly declined for the quarter. Market participants continued to focus on the inflationary environment and actions by central banks to combat inflation. This led to concerns that central banks might be too aggressive with their interest rate hikes, which could lead to demand destruction and, in turn, a recession. Continued supply chain issues and the ongoing Ukraine-Russia geopolitical conflict added to uncertainty, further lowering investor confidence. The U.S. Federal Reserve (the Fed) raised the Fed funds rate by 50 basis points at its May meeting, and by 75 basis points at its June meeting. In addition, the Fed stated that it is strongly committed to returning inflation to its 2% objective.[1] The Canadian equity market, as represented by the S&P/TSX Composite Index, returned -13.2% for the quarter.[2] All eleven sectors of the Canadian equities market posted negative returns, with health care and information technology lagging the most.
- Global bond markets faced yet another turbulent quarter and posted negative returns across the board. Inflation prints touched multi-year highs in the U.S., U.K. and Europe as energy and food prices surged due to Russia's invasion of Ukraine. Despite downgrading their growth outlook for 2022 and beyond, major central banks, led by the U.S. Fed, turned incrementally hawkish and signalled their resolve to take the necessary steps to bring inflation down.
- Canadian investment-grade bonds, as measured by the FTSE Canada Universe Bond Index, returned -5.7% for the quarter. Global investment-grade bonds, as measured by the Bloomberg Global Aggregate Bond Index, returned -8.3% in local currency terms, and -5.3% in Canadian dollar terms.[3]

SERIES B (NET OF FEES) As at June 30, 2022	3 MTHS	1 YR	3 YRS	5 YRS	10 YRS	SINCE INCEPTION	INCEPTION DATE
Fidelity Income Portfolio	-7.8	-9.1	0.8	1.9	4.0	3.5	Apr. 18, 2007
Fidelity Global Income Portfolio	-7.9	-10.0	0.4	1.7	4.3	3.5	Apr. 18, 2007
Fidelity Balanced Portfolio	-9.7	-10.2	2.6	3.5	5.8	4.1	Apr. 18, 2007
Fidelity Global Balanced Portfolio	-10.0	-12.4	1.5	3.1	6.0	3.9	Apr. 18, 2007
Fidelity Growth Portfolio	-11.5	-10.2	5.2	5.8	8.1	5.2	Apr. 18, 2007
Fidelity Global Growth Portfolio	-11.9	-13.3	3.7	5.2	8.4	5.0	Apr. 18, 2007
Fidelity Conservative Managed Risk Portfolio	-7.7	-10.1	-0.2	1.4	-	1.7	Nov. 16, 2016
Fidelity Balanced Managed Risk Portfolio	-8.7	-9.6	1.1	2.4	-	2.9	Nov. 16, 2016

Source: Fidelity Investments Canada ULC. Periods greater than one year have been annualized. Past performance is no guarantee of future performance.

[1] Source: Federal Reserve.
[2] Source: Fidelity Investments Canada ULC.
[3] Source: Fidelity Investments Canada ULC.

Quarterly performance

- For the second quarter of 2022, Fidelity Managed Portfolios (Series B) posted returns ranging from -11.9% to -7.7%, net of fees and expenses.
- The Portfolios benefited primarily from holdings in Canadian equities and security selection among emerging markets equities, in addition to their lower-than-benchmark exposure to U.S. equities. Among fixed income asset classes, an out-of-benchmark allocation to U.S. Treasury Inflation-Protected Securities (TIPS) also contributed to relative performance.

Portfolio positioning

- At the end of the review period, portfolio managers Geoff Stein, David Wolf and David Tulk maintained a neutral weighting in equities, net of commodities-related allocation that is held for its inflation resiliency. During the quarter, the managers trimmed their equity exposure, given that the business cycle has continued to mature and in acknowledgement of the ongoing monetary tightening by central banks to tackle inflation.
- Among equities, the Portfolios continue to hold a lower-than-benchmark allocation to Canadian equities, in favour of equities from the U.S. and, to a lesser extent, emerging markets. The managers have, however, reduced their exposure to international equities and have a lower-than-benchmark position in the region, given a weaker economic outlook for the eurozone. The managers also continue to hold out-of-benchmark allocations to inflation-sensitive commodities, such as gold and energy-related equities, for their inflation resiliency.
- Among fixed income securities, the portfolio managers maintained smaller-than-benchmark allocations to both global and Canadian investment-grade bonds, in favour of U.S. Treasury bonds, as well as inflation-protected securities, as a hedge against inflation and to manage duration. The managers continue to prefer credit spread assets but are selective with their exposure. They continue to hold positions in U.S. convertible bonds, global high-yield bonds, floating rate debt, emerging markets debt and emerging markets debt denominated in local currency.

Outlook

- Portfolio managers Geoff Stein, David Wolf and David Tulk believe that the investment landscape remains supportive; however, tighter monetary policy has pushed the global economy into the late cycle, with recession risks rising. Persistent inflationary pressures have prompted policy actions by central banks to intensify, which will continue to contribute to periods of volatility. The managers continue to allocate less than the benchmark to the Canadian dollar to help build downside protection into their portfolios in the ongoing volatile environment.
- The managers believe that central banks will continue to respond to inflation pressures until they see definitive signs of declining inflation. The managers are aware that investor sentiment remains bearish, even though corporate fundamentals have shown signs of remaining firm. They note, though, that despite the fear in the market, fear is not an

investment strategy; instead, it is a motivation to see through the volatility and appreciate the degree to which asset classes can rebound.

- The managers believe that inflation risk is entrenched and persistent. They note that inflation is not transitory, as perceived by many market participants, but will remain sticky, due to higher service costs for consumers, contributing to an aggressive policy tightening stance by central banks, as we are seeing currently. The managers also note that inflation will likely remain above the Fed's 2% target in the medium term. As a result, they continue to monitor inflation indicators very closely and have positioned the Portfolios with a level of defensive positioning in inflation-sensitive assets such as a gold ETF, commodities-related equities and inflation-protected bonds.
- The portfolio managers aim to have portfolios that are resilient given a wide range of outcomes. They believe that constructing portfolios that are well diversified across asset classes, styles and regions is the right way to both grow and protect capital over the long run.

For more information, contact your financial advisor or visit fidelity.ca

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