Market overview

- After much pessimism in 2022, investor sentiment improved, leading to strong equity market rallies through the first half of the quarter. Renewed optimism that the U.S. Federal Reserve (the Fed) could slow down the pace of its policy tightening, in addition to encouraging signs that elevated inflation might be moderating, initially supported markets. Markets experienced turbulence in March, however, due to the insolvency of a large California bank. The event led to a depositor-led confidence crisis that trickled across the banking industry and, in particular, U.S. regional banks. Across the Atlantic, the near-failure of Credit Suisse further dampened investor confidence.
- The Fed raised its policy interest rate by 25 basis points at both its February and March meetings, ending the period with the Fed funds rate in a range of 4.75%–5.00%. In addition, the Fed asserted that it remains strongly committed to returning inflation to its 2% objective. The Bank of Canada increased its overnight rate by 25 basis points at its January meeting and held its policy rate steady at 4.50% at its March meeting. The Bank reaffirmed its intention of continuing quantitative tightening until the 2% inflation target is achieved and price stability is restored. Against this backdrop, ten of the eleven GICS sectors provided positive returns, led by information technology and materials, while energy lagged.
- Canadian investment-grade bonds, as measured by the FTSE Canada Universe Bond Index, returned 3.2% for the quarter. Global investment-grade bonds, as measured by the Bloomberg Global Aggregate Bond Index, returned 2.9% in local currency terms and 3.0% in Canadian dollar terms.

SERIES B (NET OF FEES) As at March 31, 2023	3 MTHS	1 YR	3 YRS	5 YRS	10 YRS	SINCE INCEPTION	INCEPTION DATE
Fidelity Income Portfolio	2.9	-2.0	4.5	2.7	4.0	3.7	Apr. 18, 2007
Fidelity Global Income Portfolio	3.2	-1.2	4.1	2.5	4.4	3.8	Apr. 18, 2007
Fidelity Balanced Portfolio	4.1	-1.9	8.0	4.4	5.8	4.4	Apr. 18, 2007
Fidelity Global Balanced Portfolio	4.5	-1.5	6.9	3.8	6.0	4.3	Apr. 18, 2007
Fidelity Growth Portfolio	5.2	-2.5	11.9	6.7	7.9	5.6	Apr. 18, 2007
Fidelity Global Growth Portfolio	5.9	-1.9	10.2	5.9	8.2	5.5	Apr. 18, 2007
Fidelity Global Equity Portfolio	5.5	-	-	-	-	5.8	May 18, 2022
Fidelity Conservative Managed Risk Portfolio	2.7	-2.7	2.0	2.2	-	2.4	Nov. 16, 2016
Fidelity Balanced Managed Risk Portfolio	2.7	-1.8	4.9	3.4	-	3.8	Nov. 16, 2016

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

Quarterly performance

- For the first quarter of 2023, Fidelity Managed Portfolios (Series B) posted returns ranging from 2.7% to 5.9%, net of fees and expenses.
- The Portfolios benefited primarily from investments in U.S. equities and higher-than-benchmark allocations to international equities. In fixed income, lower-than-benchmark allocations to Canadian investment-grade bonds contributed to relative performance.

Portfolio positioning

- At the end of the review period, Portfolio Managers David Wolf and David Tulk held a lower-than-benchmark allocation to equities, while continuing to maintain a commodities-related allocation that is held for its inflation resiliency.
- Among equities, the managers continue to allocate less than the benchmark to Canadian equities and hold a lower-than-benchmark allocation to U.S. equities. Part of that lower-than-benchmark weighting is used to fund a higher-than-benchmark allocation to international and emerging market equities, and to commodities-related equities, which offer inflation resiliency.
- Among fixed income securities, the managers have continued to hold lower-than-benchmark allocations to Canadian and global investment-grade bonds, given the rising-interest-rate environment. They have used those lower-than-benchmark allocations to fund exposure to inflation-resilient securities, such as inflation-protection bonds, including U.S. Treasury Inflation Protected Securities (TIPS) and floating rate debt. 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

- The managers note that the aggressive monetary policy tightening has pushed the global economy deeper into the late cycle, leading to increased recession risk. Tightening liquidity, persistent inflation risk, slowing growth momentum and greater monetary policy uncertainty raise the odds that market volatility will remain elevated in 2023. From a bottom-up perspective, they note that future earnings growth estimates have experienced a deterioration; however, corporate fundamentals have remained stable. The managers expect corporate fundamentals to soften as the wider economy cools and believe that valuations have further room to recede.
- The managers continue to believe that inflation risk remains more of a concern than market participants realize. While they expect headline inflation to continue to moderate, core inflation (excluding food and energy) will be harder to control, because service costs remain elevated. The managers also note that inflation will likely remain above the Fed's 2% target in the medium term.

- The managers believe the mismatch between the macroeconomic conditions and corporate fundamentals does not warrant pushing their defensive posture to the limits of their asset allocation bands. Against this backdrop, the managers aim to build portfolios that are resilient in a wide range of outcomes. They believe constructing portfolios that are well diversified across asset classes, styles and regions is the right way to both protect and grow capital over the long run.

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

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