

Five Questions into 2026

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Annual market returns in 2025 looked much like they did in 2024 – stocks returned a lot, bonds returned a little and gold beat them all. But the journey was different, including some breathtaking volatility (Liberation Day apparently forgiven but not forgotten) and a sharp reversal downwards in the US dollar. Through it all, we have remained faithful to our process in managing Fidelity's multi-asset class funds for Canadian investors, layering active asset allocation and security selection over thoughtfully diversified structures to drive risk-adjusted returns. Our largest fund, the Global Balanced Portfolio, returned 13.9% (net of Series F fees) in 2025, the third straight year of double-digit gains, beating 99% of peers over that period.** We can't promise that the market will offer us such strong returns indefinitely (it almost certainly won't), but we can promise that our proven approach will not change.

As 2026 dawns, the questions we hear most from you match what's top of mind for us as investors. We provide brief thoughts on five of those topics below.

1. Is AI a bubble?

This is the question that will probably most determine overall market direction in 2026. If AI is truly transformative, equities will likely keep rising, led by the top end of the US market. If AI is a bubble that pops, the reverse will be true.

In our view, it's simply too early to tell whether this is the opportunity of a lifetime or the latest in a long line of historical manias. The potential for AI to transform the economy is clearly there, but we won't know for years whether it is fulfilled, and even if it is, whether the market is betting right on the ultimate beneficiaries.

Nonetheless, we have to make asset allocation decisions amid this uncertainty. We approach the decisions, as always, anchored in our four-pillar process. Three of those pillars look collectively shaky – sentiment seems fairly balanced, but the macro isn't great and valuations are very expensive. But the fourth pillar, the bottom up, looks solid. Our equity analysts and building block portfolio managers continue to tell us that the market is underestimating the earnings power of these companies over the visible horizon – a view that our asset allocation team believes is plausible from a top-down perspective (see Exhibit 1).

'Stocks follow earnings' is a core tenet at Fidelity. As such, so long as these companies keep outearning market expectations, it is hard to envisage a sustained move lower in equities. In this context, we have taken the following three actions in the multi-asset funds for which we're responsible:

One, we are keeping plenty of capital with growth managers like Mark Schmehl who we believe are better

EXHIBIT 1: Will AI indeed usher in a new era for earnings?

U.S. corporate profits as a % of GDP, including projection to 2030*



* 2025-30 projected using discounted cash flow model based on current market valuations.

Source: Bureau of Economic Analysis, Haver Analytics, FMR Co calculations. As of June 30, 2025, July 1, 2025 to December 31, 2030 based on FMR Co calculations.

positioned to take advantage of the AI trade, while shorting out equity futures in select areas to ensure that our overall risk posture is controlled. This leaves us moderately overweight equities on net.

Two, we are remaining diversified, with significant capital in areas not dependent on the AI trade – markets like EAFE and EM equities where valuations remain more reasonable, defensive-seeking managers like Dan Dupont, and a wide range of fixed income, commodity and alternatives exposures that we expect can provide both stability and income.

Three, we are staying in close contact with our equity colleagues who know these companies best. If and when their confidence in the earnings outlook begins to deteriorate, we will adjust our positioning, potentially by a lot. When the facts change, we change too, guided as always by the discipline of our active asset allocation process.

2. What are your concerns around the U.S.?

The AI boom and associated capital flows have been sustaining not only US stocks but also the value of the dollar. Without this dynamic, we believe the currency would be even weaker than it has been, reflecting shifts in US government policy that could threaten the dollar's status as the global safe haven.

The most acute risk is increasing political interference with the Federal Reserve, which threatens its independence and credibility. Other actions are also worrisome – from the ongoing trade war to attacks on statistical agencies – and taken together are observationally equivalent to a policy of currency debasement, designed to weaken the U.S. dollar and inflate away the country's enormous and growing debt burden. This is fundamentally unfriendly to foreign creditors and suggests that investors could begin demanding a higher risk premium to hold U.S. assets, challenging the dollar's long-standing status as the world's reserve currency.

In response to this new regime, we acted. The most significant move was the elimination of our long-standing overweight to the U.S. dollar early last year, a position that had been in place for over a decade (see Exhibit 2). The proceeds were used to diversify into other global currencies like the euro and yen, and to increase our exposure to gold, which we see as a direct hedge against dollar debasement. Furthermore, reflecting our view that the U.S. government is acting in a less creditor-friendly manner, we have sold our direct holdings of U.S. Treasuries. While we maintain exposure to U.S. equities through skilled active managers who can pick the winners, we have reduced our overall regional allocation and are finding more attractive opportunities in other parts of the world, including our renewed focus on Canada.

3. Things don't feel great in Canada. Why do you sound optimistic?

A core tenet of our investment philosophy is to be drawn to markets where improving fundamentals have yet to be fully reflected in valuations or in the opinion of other

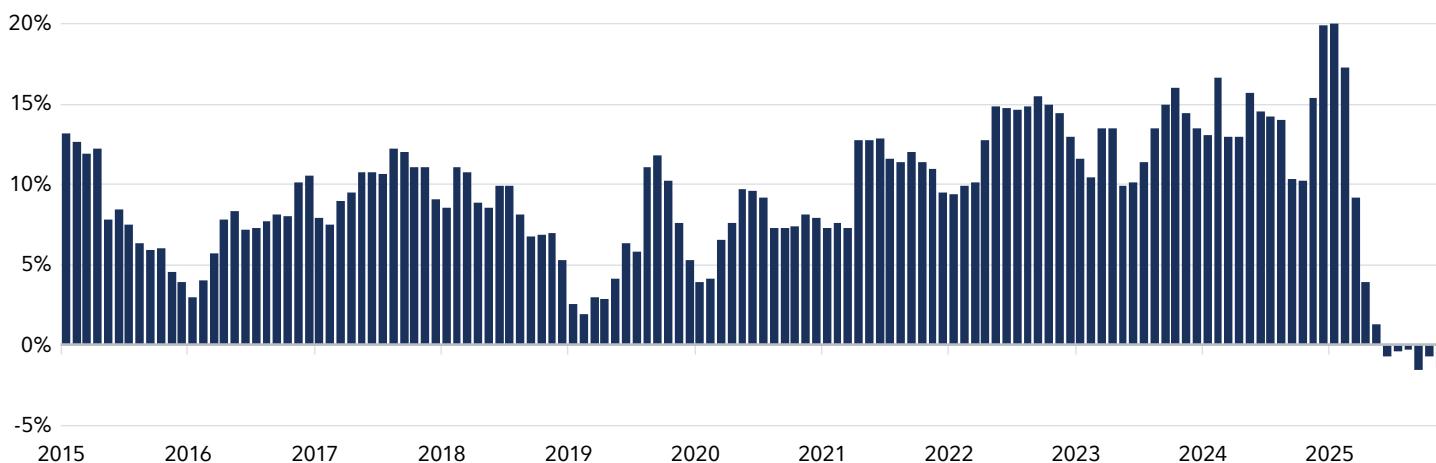
investors. We believe that Canada continues to be an example of this kind of market.

In our Q4 Thought Leadership paper, we made the case that the passage of time and positive policy developments would help lessen some of the headwinds restraining the Canadian economy. And while not that much time has passed since that paper, recent economic data has improved markedly. Real GDP growth rebounded strongly in the third quarter and the unemployment rate fell to its lowest level since the middle of last year. Business surveys have also shown renewed optimism and an increased willingness to invest and hire. This is not to say we are fully out of the woods. We still expect the continued deleveraging of household balance sheets and uncertainty surrounding the scheduled renegotiation of CUSMA to weigh on growth. Nevertheless, improving fundamentals give us confidence that 2025Q2 will be the trough in economic activity this cycle.

Another encouraging development is the recent release of the Federal Budget. The document revealed a clear

EXHIBIT 2: Goodbye Greenback

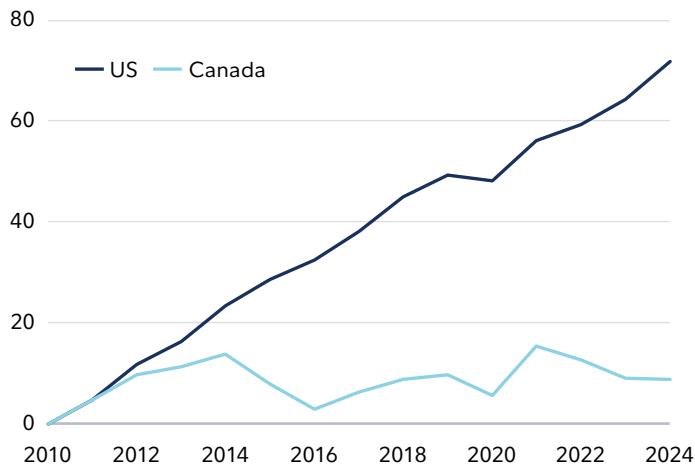
Benchmark relative US dollar exposure, Fidelity Global Balanced Portfolio, positive values reflect an overweight allocation.



Source: Fidelity Investments, Bloomberg. As of November 28, 2025.

EXHIBIT 3: This needs to go up if Canada is to thrive

Cumulative % increase in total real gross fixed capital formation



Source: OECD, Haver Analytics. As of December 31, 2024.

focus on increasing investment spending and improving productivity, which has been the primary factor holding the Canadian economy back over the past decade (see Exhibit 3). The burden now shifts to the effective execution of the policies outlined, which is not without risk and will inevitably take time. But we expect that planned fiscal spending and greater interprovincial cooperation will reinforce the positive trend expected in the wider economy.

As our outlook for the Canadian economy brightened last year, we filled in nearly all of the underweight we have long held in Canadian assets. This portfolio shift helped to capture the recent outperformance of Canadian assets, which is also a sign that the market is beginning to catch up to our more constructive assessment. An additional allocation to Canadian assets this year will depend on the prevailing direction of the dynamics outlined above.

4. How are you thinking about alternative asset classes and evolving the 60/40 portfolio?

We believe in diversification and have long been proponents of evolving allocations and introducing new exposures into the funds as the market backdrop evolves. Over the last few years, with the return of inflation and inflation uncertainty, we have observed the efficiency of stock/bond portfolios diminish as their correlation increased (see Exhibit 4). As a result, we have selectively introduced diversifying and return enhancing alternatives into our clients' portfolios.

Alternatives can be classified into two broad groups, liquid and illiquid. Generally, liquid alternatives are trading strategies that take positions in traditional asset classes like stocks, bonds, currencies and commodities to create exposures that are complementary to long-only stock and bond portfolios. Illiquid alternatives are

EXHIBIT 4: Stocks and bonds now moving together

Correlation between S&P 500 and U.S. Treasury Bond Index



Source: Bloomberg, rolling 40-month correlation of S&P 500 and Bloomberg U.S. Treasury Index. As of November 2025.

strategies that invest in the equity or credit of private investments such as real estate, equities and debt. Through extensive research we have identified exposures which we believe can help improve outcomes for our clients' portfolios. On the liquid side we have invested in stock selection strategies that leverage the edge of some of the best investors in Canada aiming to generate returns with low correlation to other equity investments. On the illiquid side we have partnered with Brookfield to acquire and manage Canadian commercial real estate assets for our clients.

Our research agenda for 2026 remains full as we evaluate additional liquid and illiquid alternative asset classes. We are looking for strategies with attractive long-term returns that provide diversification to the asset classes that currently make up our funds. Our ultimate objective is to evolve our portfolios to ensure we have the best tools to add value through time and help our clients reach their investment goals.

5. How are you approaching the recent rise in geopolitical risk?

Geopolitical risks have flared up as we write early in the new year. These may intensify, or not. They may be relevant to markets, or not. We simply don't know at this stage. But as always, we will adhere to our disciplined active asset allocation process. In our analysis we focus on policy rather than politics, evaluating the implications of events on the economy and financial markets. And in our funds, we remain focused on risk management,

including holding gold as a hedge against geopolitical uncertainty. As always, we stand ready to adjust our positioning (potentially quickly and materially) if conditions warrant. Taken together, our framework allows us to act decidedly and with conviction, even amid uncertainty.

David Wolf, David Tulk, Ilan Kolet, Bruno Crocco and Jon Knowles

January 9, 2026



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****Standard period returns (%)**

December 31, 2025	1-year	3-year	5-year	10-year
Fidelity Global Balanced Portfolio	13.9	15.2	8.3	7.8
Blended benchmark	13.9	14.4	8.3	7.9
Peers Beaten (%)	92%	99%	89%	91%

Source: Fidelity Investments Canada ULC and Morningstar Direct. Data shown in Canadian dollars and are net of Series F fees. Performance greater than one year has been annualized. Past performance is no guarantee of future performance. Morningstar ratings reflect performance as at December 31, 2025, and are subject to change monthly. Morningstar Global Neutral Balanced Category: one-year (1,644 funds); three-year (1,539 funds); five-year (1,299 funds); and ten-year (827 funds).

The blended benchmark for Fidelity Global Balanced Portfolio consists of 21% S&P/TSX Capped Composite Index, 39% MSCI All Country World ex Canada Index, 23% Bloomberg Global Aggregate Bond Index, 12% FTSE Canada Universe Bond Index and 5% FTSE Canada 91-Day T-Bill Index.

Authors

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David Wolf is a Portfolio Manager for Fidelity Investments. He is the co-manager of Fidelity Managed Portfolios, Fidelity Global Equity+ Fund, Fidelity Global Equity + Balanced Fund, Fidelity Canadian Asset Allocation Fund, Fidelity Canadian Balanced Fund, Fidelity Monthly Income Fund, Fidelity U.S. Monthly Income Fund, Fidelity Global Monthly Income Fund, Fidelity Global Dividend Fund, Fidelity Income Allocation Fund, Fidelity American Balanced Fund, Fidelity Conservative Income Fund, Fidelity NorthStar®, Fidelity NorthStar® Balanced Fund, Fidelity CanAm Opportunities Class, Fidelity Inflation-Focused Fund, Fidelity Canadian Monthly High Income ETF Fund, Fidelity Global Monthly High Income ETF Fund and Fidelity Tactical Global Dividend ETF Fund. He is also portfolio co-manager of Fidelity Conservative Income Private Pool, Fidelity Asset Allocation Private Pool, Fidelity Balanced Private Pool, Fidelity Balanced Income Private Pool, Fidelity U.S. Growth and Income Private Pool, Fidelity Global Asset Allocation Private Pool and Fidelity Global Asset Allocation Currency Neutral Private Pool.

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Ilan Kolet is an Institutional Portfolio Manager for Fidelity Investments. In this role, Mr. Kolet serves as a member of the investment management team, maintaining a deep knowledge of portfolio philosophy, process and construction. He assists portfolio managers and their CIOs in ensuring portfolios are managed in accordance with client expectations.

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