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The big story

Excitement around artificial intelligence (AI) has helped drive a meaningful equity market rally year-to-date. This excitement has also spilled over into the bond market in the form of massive new-issue supply along with ample demand. The corporate bond market has absorbed nearly US\$200 billion tied to hyperscalers, AI-related capital expenditures and data-centre projects, while the securitized market has taken in nearly US\$30 billion more across AI-, data-centre-, and fibre-network-related issuance. The market has absorbed this supply with ease at alarmingly rich spreads. In the case of the recent US\$30 billion Meta deal, the order book reached a record-setting US\$125 billion at its peak.

"History shows that at some point the market will serve us a fat pitch."

Financing needs in this space look set to remain high for years to come as companies plan to outspend free cash flow, necessitating significant borrowing across multiple channels. While we don't see any systemic risk emerging from this elevated level of issuance, we do worry about the frothy valuations, the long-term ratings trajectory of some of these issuers (do they really need to be AA-rated?), the shift toward more capital-intensive business models, and the inherent risk of buying long-dated debt in ever-evolving tech companies (what will they look like in 30 years?). Unlike in equities, where earnings growth and multiples are theoretically uncapped, how much appreciation can we ultimately see in these bond issues with spreads already at record levels? As a result, we have opted to remain patient and have largely avoided these deals. History shows that at some point the market will serve us a fat pitch.

U.S. Federal Reserve (the Fed)

The division within the Fed is significant going into the December FOMC. Sticky inflation and a slightly soft labour market are creating tension between the hawks and doves. In addition, the critical November nonfarm payrolls and consumer price index (CPI) prints will not be released in time for the meeting. If Chair Powell is inclined to deliver one more insurance cut – as we think he is – he will have to live with the possibility of a few dissents.

European Central Bank (ECB)

ECB voting members still appear comfortable that the easing cycle has concluded, leaving the policy rate at 2% for the foreseeable future. While December ECB staff forecasts are likely to show a more persistent undershoot of the 2% CPI target than previously expected, policymakers at this meeting have already expressed a willingness to look through these projection concerns for now.

Bank of Canada (BoC)

The BoC is likely on an extended hold but continues to watch inflation and labour slack closely. The job market is stabilizing, GDP growth is slowing, and trade continues to be impacted by tariffs. Inflation is cooling to 2% but core prices remain firm with sideways movement.

Bank of Japan (BoJ)

Pressure is growing on the BoJ to calm markets – particularly at the long end of the Japanese government bond curve – by delivering a rate hike or at least a more hawkish stance on the path of policy rates. Prime Minister Sanae Takaichi's recently announced fiscal stimulus package has re-stoked the bond market's concerns around fiscal spending and inflation, pushing the yen lower and contributing to a stock-market sell-off.

Valuations

- **Leveraged loans:** We are modestly overweight. The floating-rate loan market boasts one of the highest current yields in fixed income and has delivered solid year-to-date total returns. However, the sector has lagged others for two reasons: a lack of duration in a falling interest-rate environment, and a large portion of the market is priced at or above par, which limits the upside of spread compression as loans may be called and reissued with lower coupons. Looking forward, as the Fed cuts short-term rates, the yield advantage in this sector may diminish over time, at which point loans could lose their appeal for unlevered portfolios.
- **High yield:** We are modestly overweight. We are not expecting near-term spread-widening given the strength of issuer balance sheets, but the sector is susceptible to exogenous shocks. With spreads once again close to historic lows, valuations do not justify increasing beta at this time. 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.
- **U.S. investment-grade corporates:** We are underweight. Earnings for large-cap companies are robust, balance sheets remain strong, and the appreciation in the equity market has increased the cushion beneath the debt in the capital structure, justifying current valuations. However, if fundamentals unexpectedly deteriorate, the sector may be vulnerable to significant underperformance, particularly if the technical backdrop weakens as the market digests extremely heavy AI- and data-centre-related supply.
- **International credit (hedged):** We are modestly overweight. This sector has underperformed primarily because sovereign base yields have lagged U.S. Treasuries. The spread advantage relative to U.S. credit that we saw earlier in the year is mostly gone, though there is still a carry advantage 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 names in Brazil, Colombia and Mexico. Broadly speaking, this sector has been the best-performing fixed income asset class year-to-date as long-duration investment-grade issuers and distressed/high-yield issuers both contributed. 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%.

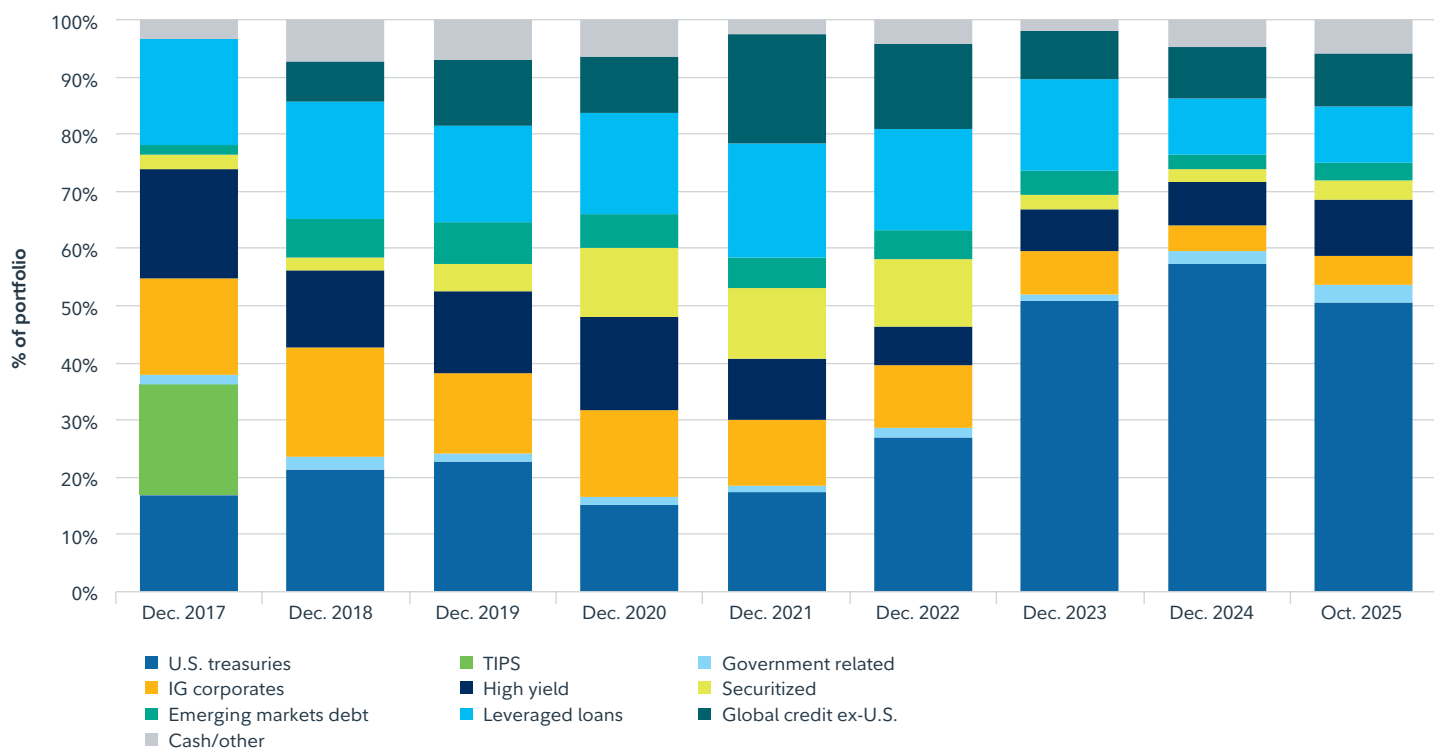
Performance (%)

As at November 30, 2025	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
Fidelity Multi-Sector Bond CN Fund – Sr. F	2.1	6.1	3.9	5.4	4.1	0.4	2.2
Fidelity Investment Grade Total Bond CN Fund – Sr. F	2.0	6.0	3.8	5.4	4.0	-0.1	1.7
Fidelity Global Core Plus Bond ETF	2.0	6.2	4.0	5.6	4.4	0.7	1.4
Fidelity Global Investment Grade Bond ETF	1.9	6.2	4.0	5.2	3.6	-0.4	0.4
Fidelity Tactical Credit Fund – Sr. F	1.5	4.7	3.7	6.1	6.2	–	3.3

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

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