

MARCH 2026

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## The big story

The focus in the fixed income market over the past few weeks has once again shifted to risks in private credit. Another “cockroach” emerged with Market Financial Solutions (MFS), where double-pledging of assets (fraud) once again stoked fears of loose underwriting, similar to earlier issues at First Brands and Tricolor. It’s also worth noting that banks were once again the main lenders to MFS. That said, the bigger concern for private credit is that artificial intelligence (AI) will render many traditional software solutions obsolete, making the companies that own the software vulnerable. This is a potential problem for private credit and broadly syndicated loan markets due to outsized exposure to the sector.

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Business development companies (BDCs) have been hit particularly hard, yet with relatively little leverage compared to banks, we have a hard time seeing a major systemic impact from potential realized losses originating in the sector. Still, that has not stopped reporters from writing alarmist stories targeting specific companies (e.g. Blue Owl) or the sector more broadly, as fear sells. The bigger concern, as is always the case for financials, is a crisis of confidence and ensuing “run on the bank.” To that extent, the private credit ecosystem is largely well insulated with locked-in capital in institutional drawdown funds.

However, a portion of recent growth has come from “evergreen” vehicles – including nontraded BDCs, which offer investors limited quarterly liquidity if the fund board approves. So far, non-traded BDC flows have been somewhat orderly (contrary to the reports) and credit spreads, albeit wider, are not sounding the alarm. Still, we continue to watch developments closely. An additional catalyst (e.g. geopolitical risk/Iran) on top of an already wobbly market could create some dislocation if the complacency, which has gripped the bond market for nearly a year, recedes.

## U.S. Federal Reserve (the Fed)

The Fed appears to be on pause for the foreseeable future. Recent improvements in labour data have renewed confidence in the economic reacceleration narrative, particularly with fiscal tailwinds before us and the ongoing AI capital spending. Furthermore, growth reacceleration is making committee members more nervous about inflation that is yet to return to the 2% target. Given the increased likelihood that the economy remains resilient, as well as a leadership transition expected in the early summer, Chair Powell will want to leave policy unchanged. We think the likelihood of Fed rate cuts by the end of the year is diminishing anew.

## European Central Bank (ECB)

ECB voting members had anticipated sub-2% consumer price index (CPI) prints during the first half of 2026 when setting monetary policy in recent quarters. Today’s hydrocarbon prices could lift Eurozone CPI towards or just above 2% in the coming months. Yet for now, this merely validates the ECB having not cut more previously and guiding to maintain a 2% policy rate in the months ahead.

## Bank of Canada (BoC)

The Bank of Canada is expected to continue holding its policy rate at 2.25% as disinflation continues and the labour market softens, with uneven growth and trade uncertainty reinforcing a cautious stance. Market pricing reflects only a small chance of a rate cut at the March meeting, signaling expectations for policy stability in the near term.

## Valuations

- **Leveraged loans:** We are modestly overweight. The asset class has underperformed given recent idiosyncratic credit issues and broader concerns that AI will supplant the software sector, a significant part of the broadly syndicated loan and private credit markets. Active management can be important during periods of dislocation within the asset class; unlike direct lending, broadly syndicated loans trade in the secondary market.
- **High yield:** We are modestly overweight. The recent Treasury rally has helped support bond prices, and, although spreads are slightly off historic lows, the sector remains susceptible to exogenous shocks. 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. 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:** We continue to own idiosyncratic risk through selective ownership of names in Brazil, Colombia and Mexico. Broadly speaking, this sector was the best-performing fixed income asset class last year as long-duration investment-grade issuers and distressed/high-yield issuers both contributed. Looking ahead, more aggressive U.S. foreign policy decisions (e.g. Venezuela and Iran) may lead to higher-than-recent spreads and foreign exchange volatility, perhaps compounded by elevated starting valuations.
- **U.S. Treasuries:** While we maintain a long-duration position at this historically high level of interest rates, we have slightly reduced duration after the large rally in February. U.S. Treasury exposure remains close to the highest level in the history of the strategy; it has been and will continue to 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 near term. Moreover, the Iran conflict has pushed oil prices higher, leading to an increase in inflation expectations over the near 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 20 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 commercial mortgage-backed securities 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 near 1%. Currency volatility is significantly higher than rate volatility – approximately three times higher. We own exposure in Brazil, with Brazilian local currency bonds currently yielding close to 14%.

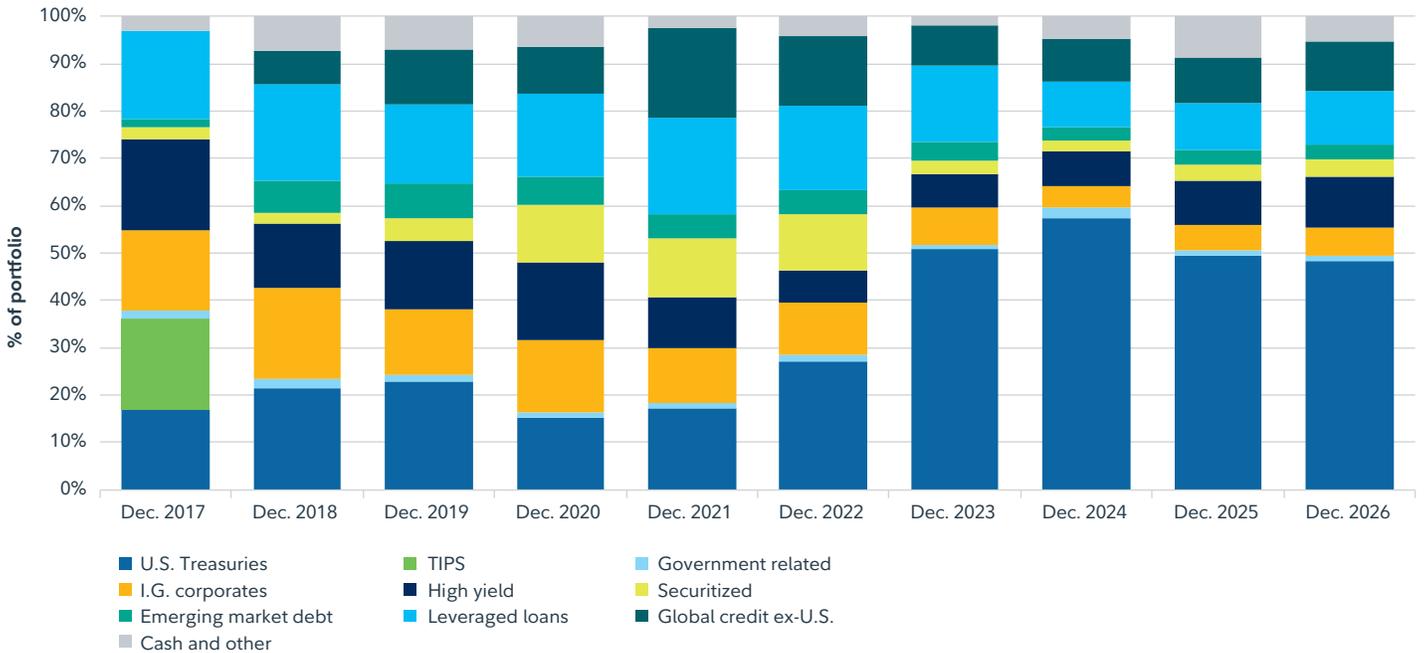
Performance (%)

As at February 28, 2026	3-month	YTD	1-year	2-year	3-year	5-year	Since inception*
<b>Fidelity Multi-Sector Bond CN Fund – Sr. F</b>	0.9	1.7	4.3	4.4	4.0	0.8	2.2
<b>Fidelity Investment Grade Total Bond CN Fund – Sr. F</b>	1.1	1.8	4.3	4.6	4.0	0.3	1.8
<b>Fidelity Global Core Plus Bond ETF</b>	1.0	1.8	4.4	4.7	4.2	1.1	1.5
<b>Fidelity Global Investment Grade Bond ETF</b>	1.1	1.9	4.5	4.6	3.8	0.2	0.5
<b>Fidelity Tactical Credit Fund – Sr. F</b>	0.7	0.6	3.9	4.9	5.8	–	3.3

Source: Fidelity Investments Canada ULC. Performance shows annual compounded returns as at February 28, 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 January 31, 2026. Benchmark: Bloomberg U.S. Aggregate Bond Index..

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