On our way home

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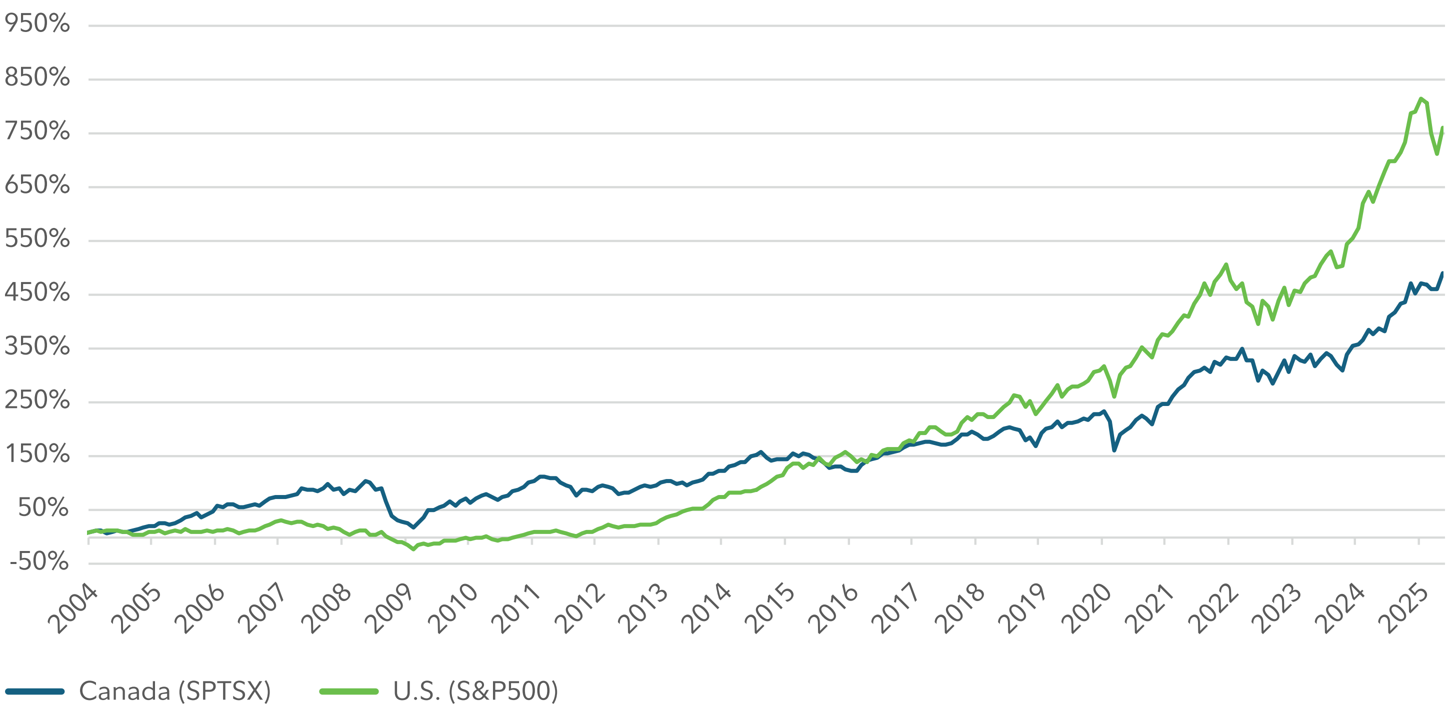
This is our Canadian asset allocation team's 45th Thought Leadership paper. The very first, over a decade ago, was entitled "Leaving Home." In it, we explained the rationale for tilting our funds away from Canadian assets towards U.S. and other foreign exposures. This was somewhat controversial at the time, coming as it did after a decade of Canadian outperformance, where the domestic market rode a generational commodity boom while escaping the worst of the Global Financial Crisis.

We argued that Canadian assets had become expensive, particularly against the backdrop of looming domestic economic challenges. This positioning proved to be beneficial to our investors. Returns on U.S. equities more than doubled those on Canadian equities between 2015 and 2024 (see exhibit 1). Our Fidelity Global Balanced Portfolio returned 7.6% on a compound annual basis over that period (net of Series F fees) and beat 92% of peers over that period* due in no small part to that tilt abroad.

And now, more than a decade later, we're on our way home.

Exhibit 1: U.S. outperformance may be done

Total return in Canadian and U.S. Stock Indexes in CAD



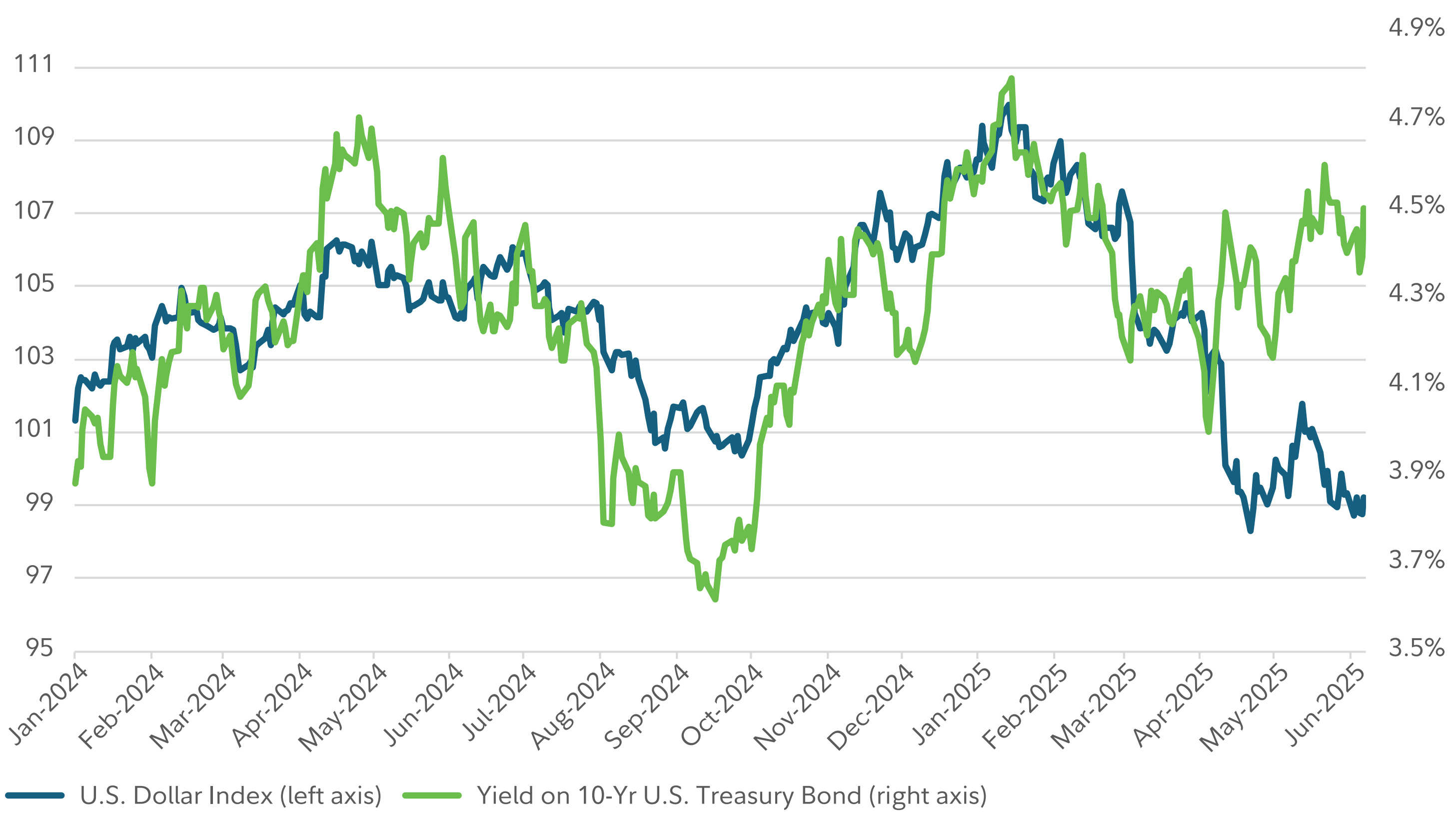
Source: Bloomberg. Data as of May 30, 2025

To be fair, the shift we've made back into Canadian assets has more to do with what's happening in the U.S. than anything specifically to do with Canada. By taxing foreign products (i.e. tariffs) and potentially capital flows as well, the U.S. government seems to be actively discouraging trade with and investment in the U.S. In so doing, the U.S. is undermining its centrality in the global economic and financial system. That centrality took decades to entrench, founded as it has been on stability and trust even more than on size and growth. Trust is hard to gain and easy to lose. As a result, we see the push away from the U.S. as more likely a durable shift rather than a transitory phenomenon, potentially ushering in a new global investment regime.

What will this new regime look like? It's hard to say in real time, other than 'different than what we've been used to.' The economic regime of the past 20-30 years has generally been characterized by increased globalization, tamer business cycles, and low and stable inflation. The consequences for financial markets have been a strong U.S. dollar, rising stock prices, falling interest rates, and the negative correlation between movements in stocks and bonds that underpinned the effectiveness of balanced funds through this period. But as we have seen in recent years, some of these dynamics have already changed. Questions about all of them will likely occupy us asset allocators for years to come.

But it seems pretty clear at this point that an element of the potential new regime is a change in the behaviour of the U.S. dollar. The greenback is now falling, and it fell particularly hard during the market stress earlier this year. Notably, yields on U.S. Treasuries also rose through

Exhibit 2: Signs of a new regime beginning to emerge



Source: Bloomberg. Data as of June, 2025 this period, suggesting that investors are demanding a larger risk premium on the U.S. more generally (see exhibit 2).

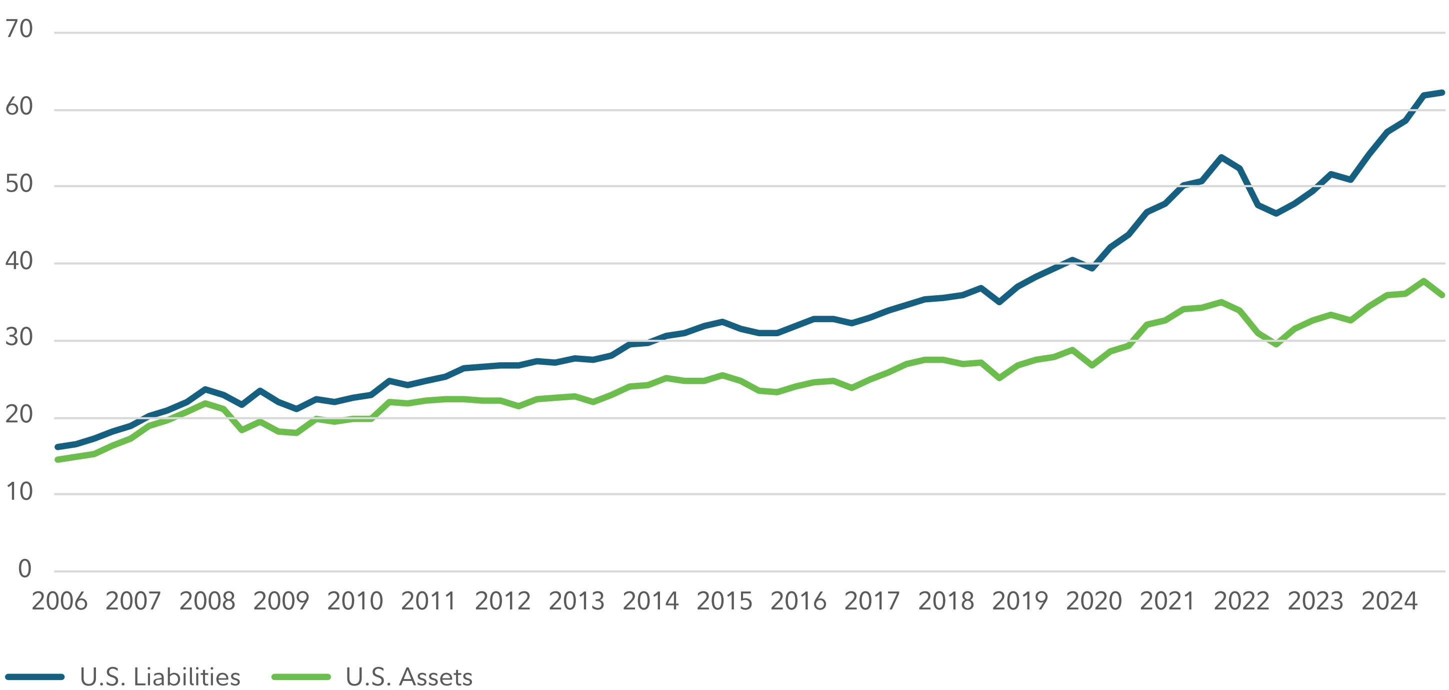
This makes sense in a world where the U.S. is no longer seen as the safe haven of choice for investors. This also has important consequences for us as Canadian asset allocators. It means our U.S. dollar holdings can no longer be expected to provide either a tailwind to returns or a hedge to the equity risk that dominates our portfolios.

As a result, we have acted. Our overweight to the U.S. dollar, which stood near 20% at the beginning of the year in our Fidelity Global Balanced Portfolio, has now been essentially eliminated.

Much of the proceeds of this shift have gone into global currencies, such as the euro and yen. These areas stand to benefit both from the reinvigoration of their domestic economies necessitated by U.S. economic withdrawal, and from the potential repatriation of funds from U.S. markets. The U.S. owes $62 trillion to the rest of the world, taking together U.S. government borrowing abroad and foreign holdings of other U.S. assets (see exhibit 3). Not much of that has to come back to Europe and Asia to provide a meaningful uplift to their currencies and associated asset markets.

We have also moved in size back into Canadian dollar assets. We're not (yet) overweight, as the direct economic fallout to Canada from shifting U.S. policy is an order of magnitude greater than just about anywhere else. Challenges, both foreign and domestic, still lie ahead. But we are increasingly encouraged that the right things are being done to stand the Canadian economy in greater stead over the longer term. In particular, policy seems to be reorienting towards trying to address the productivity challenges that have long held the domestic

Exhibit 3: The U.S. owes a record amount to foreigners
(U.S. International Investment Position, In trillions of USD)



Source: Bureau of Labor Statistics, Haver Analytics. Data as of December, 2024 market back. Our move back into Canadian assets will be significantly guided by success on this front.

In all of this, to be clear, we're not abandoning the U.S. market. Our mandate as asset allocators is to construct diversified portfolios that maximize returns while managing risk. A portfolio without U.S. assets — still by far the biggest market in the world — is not diversified.

But that doesn't mean we are helpless in the face of potential underperformance in that segment of our portfolios. We have active equity managers whose job it is to invest in the still-rich vein of profitable and growing U.S. companies. We can hedge out the currency if needed. And we can give more money to our managers finding an enhanced opportunity set in the rest of the world. We have done all of this. And we will continue to adjust our positioning, as warranted, as this apparent new regime unfolds.

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

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***Standard period returns (%) 31-May-2025**

	1-year	3-year	5-year	10-year
Fidelity Global Balanced Portfolio	10.7	10.8	8.4	6.9
Blended Benchmark**	12.9	10.1	8.1	6.9
Peers Beaten (%)	75%	97%	88%	92%

Source: Fidelity Investments Canada. Data shown for Series F, net of fees, and in Canadian dollars. Periods greater than one year have been annualized. Past performance is no guarantee of future performance. **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. Morningstar Global Neutral Balanced Category: one-year (1,691 funds); three-year (1,564 funds); five-year (1,307 funds); and ten-year (795 funds). The index returns are shown for comparative purposes only. Indexes are unmanaged, and their returns do not include any sales charges or fees, as such costs would lower performance. It is not possible to invest directly in an index. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is not a guarantee of future results.

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