

A tug of war between labour and inflation: Investing through volatility

Risk Management Conference

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August 2023

Inflation 101: Why inflation matters

Impact on financial assets



Increased correlation between stocks and bonds



Potential for central banks to raise interest rates



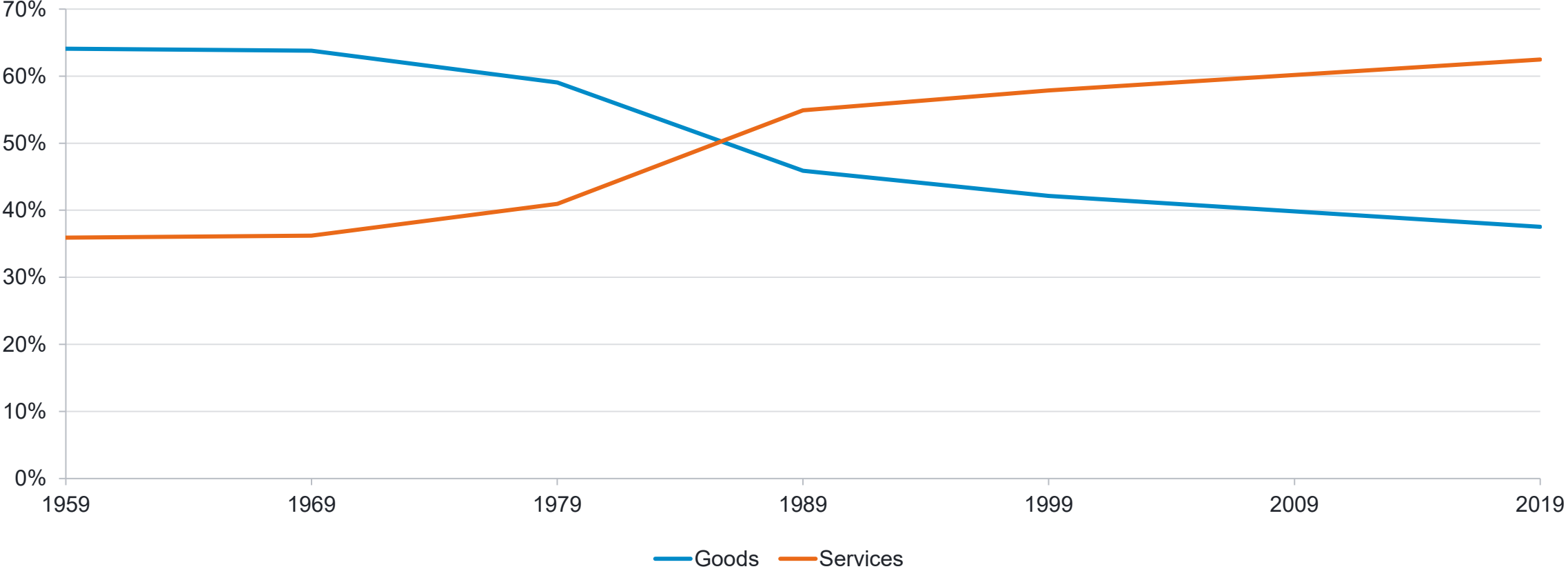
Higher market volatility



Traditional stocks and bonds can be negatively impacted

The composition of inflation has evolved in favour of services

Relative Weightings of Goods and Services in the Consumer Price Index, 1959-2019

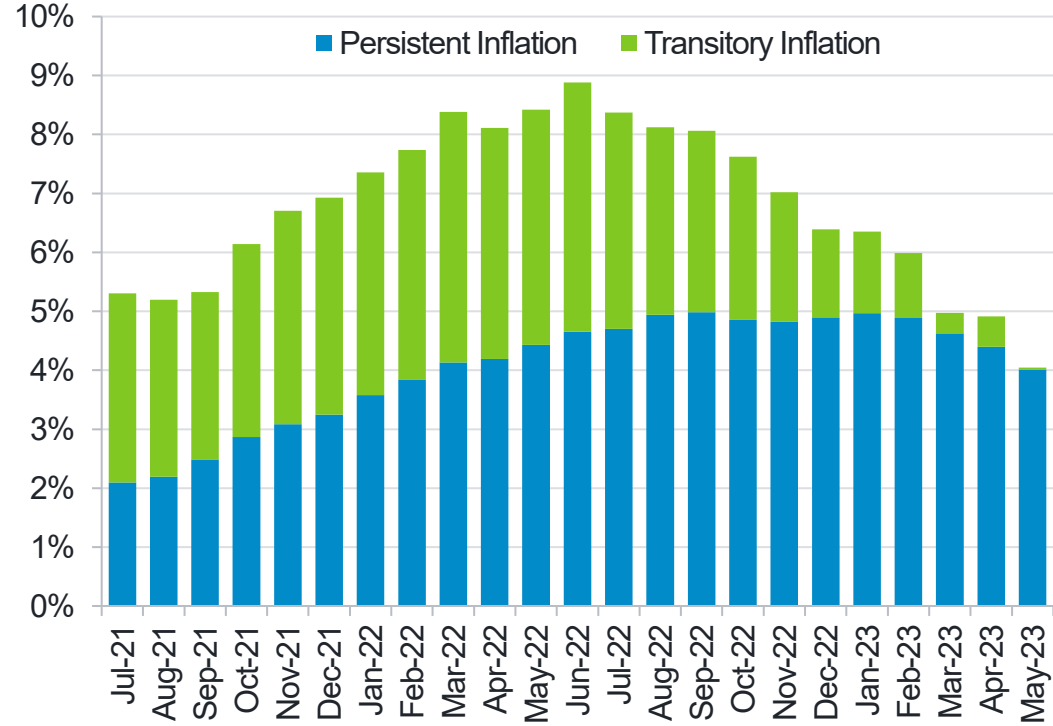


Source: Bureau of Labor Statistics, Fidelity Investments, data as of 12/31/20.

Persistent factors continue to drive inflation pressures

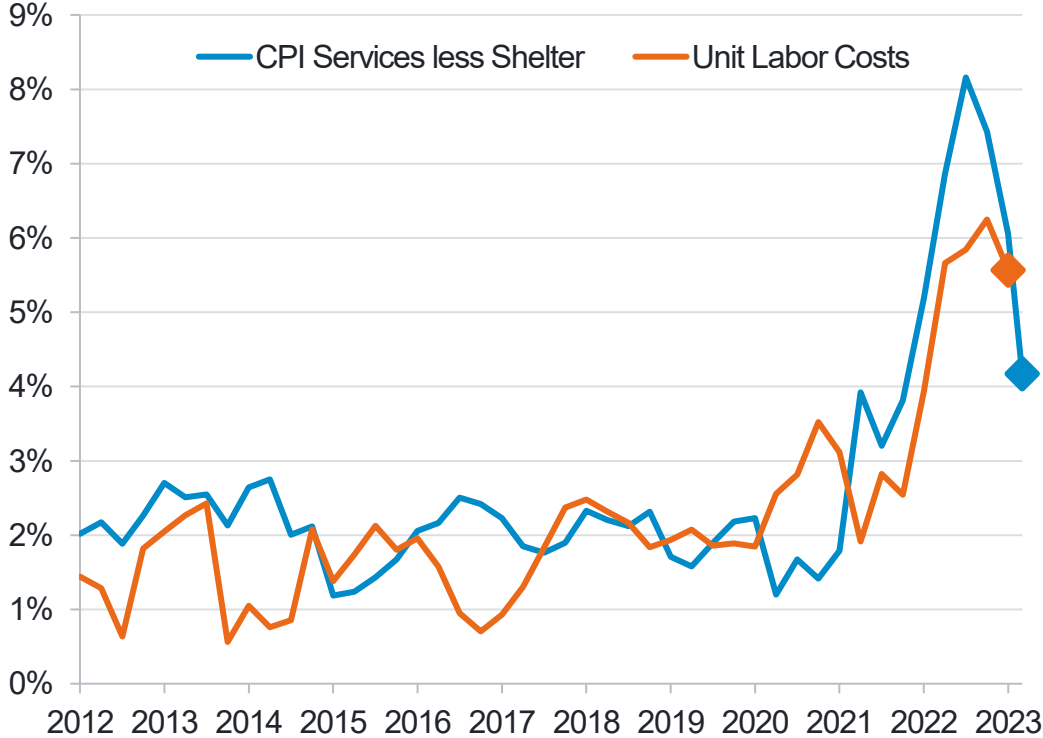
Persistent vs. Transitory Inflation

Year-over-Year



Services Inflation vs. Labor Costs

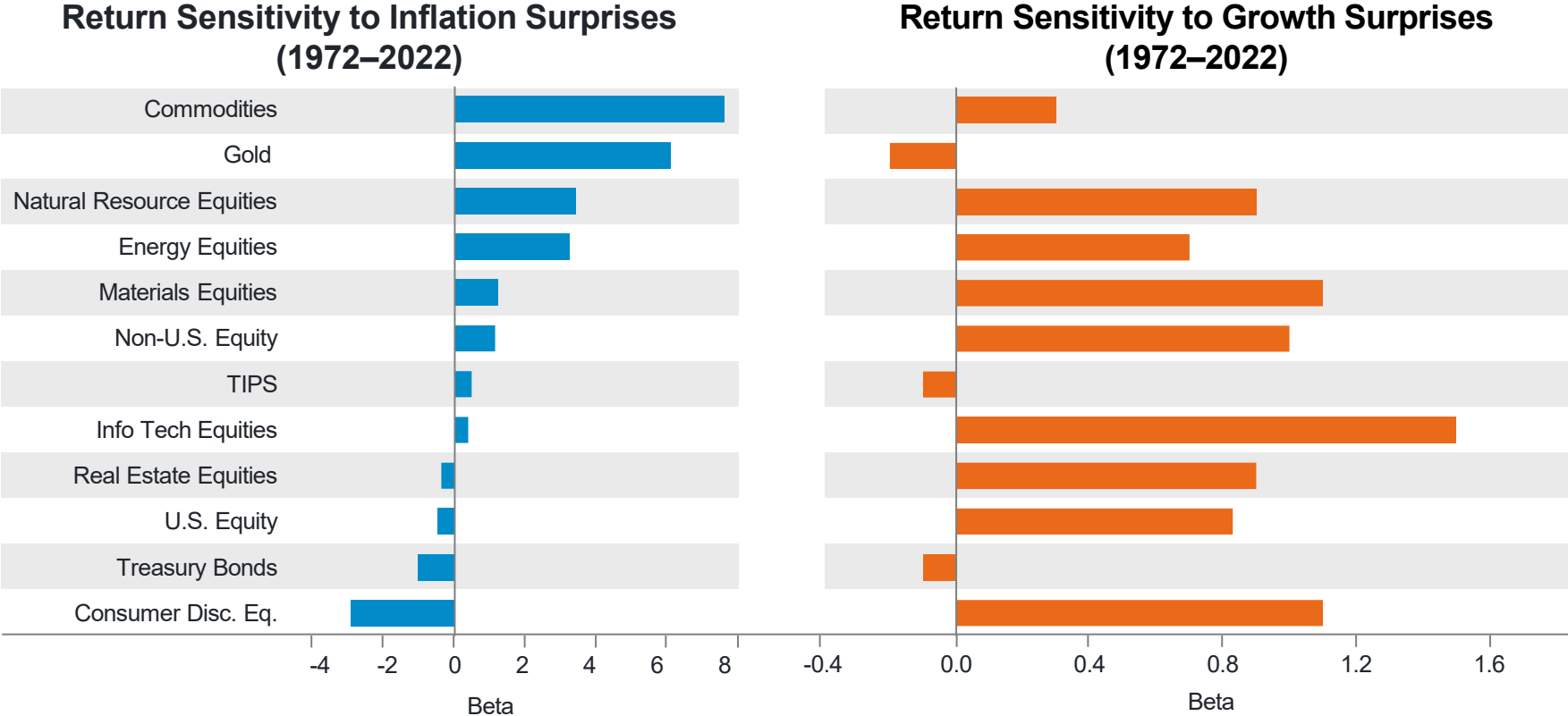
Year-over-Year



CPI: Consumer Price Index. LEFT: Indicates the contribution to Year-over-Year CPI over the past 12 months. Persistent Categories include areas where, historically, inflation has taken longer to dissipate, such as Housing and Food & Beverages. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 5/31/23. RIGHT: Unit Labor Costs measured as 4-quarter moving average. Diamonds depict the last chart points (as of 6/30/23). Source: Bureau of Labor Statistics, Haver Analytics, Bloomberg, Fidelity Investments (AART), as of 5/31/23.

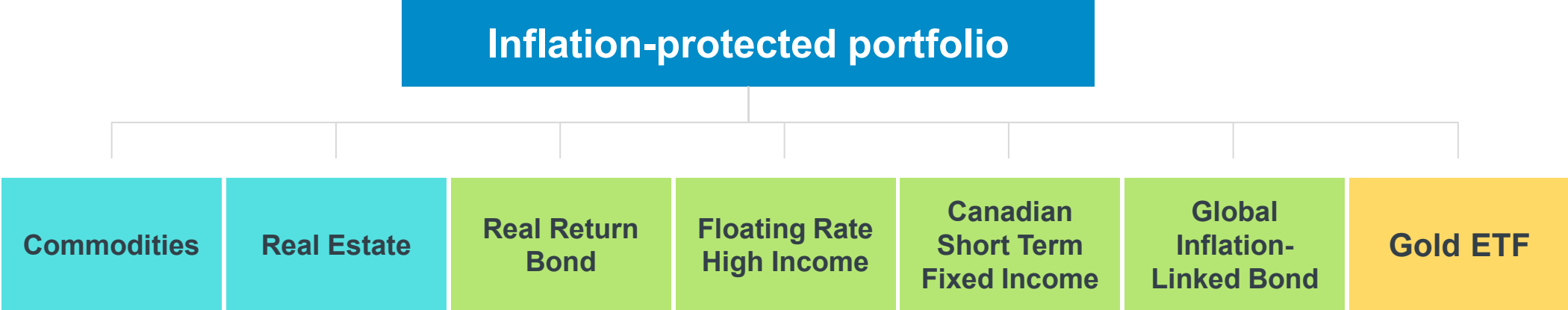
Inflation-sensitive assets can help provide diversification

The potential for higher inflation represents a risk factor for a multi-asset portfolio. Inflation-resistant assets, including commodities and commodity-producer equities, can help hedge against surprise increases in inflation while providing potential for capital appreciation in a higher nominal-growth environment. In fixed income, inflation-hedging assets such as TIPS have provided better diversification than Treasury bonds.



Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against loss. *TIPS are Treasury Inflation-Protected Securities. Inflation sensitivity measured relative to CPI, an index that tracks the percentage change in the price of a specified "basket" of consumer goods and services. Growth sensitivity measured relative to the Purchasing Manager's Index (PMI) that shows the prevailing trends in the manufacturing and service sectors. Beta is a measure of a variable's sensitivity (response) relative to changes (volatility) in a reference (benchmark), which has a beta of 1. Indexes: U.S. Equity—Dow Jones U.S. Total Stock Market IndexSM; Non-U.S. Equity (EM+DM)—MSCI ACWI ex USA Index; Commodities—Bloomberg Commodity Index Total ReturnSM. Commodity sectors represent categories within the Bloomberg Commodity Index Total ReturnSM. Equity sectors represent categories within MSCI as defined by the Global Industry Classification Standard (GICS[®]). Source: Bureau of Labor Statistics, Fidelity Investments; data 1/1/72 through 2/28/22.

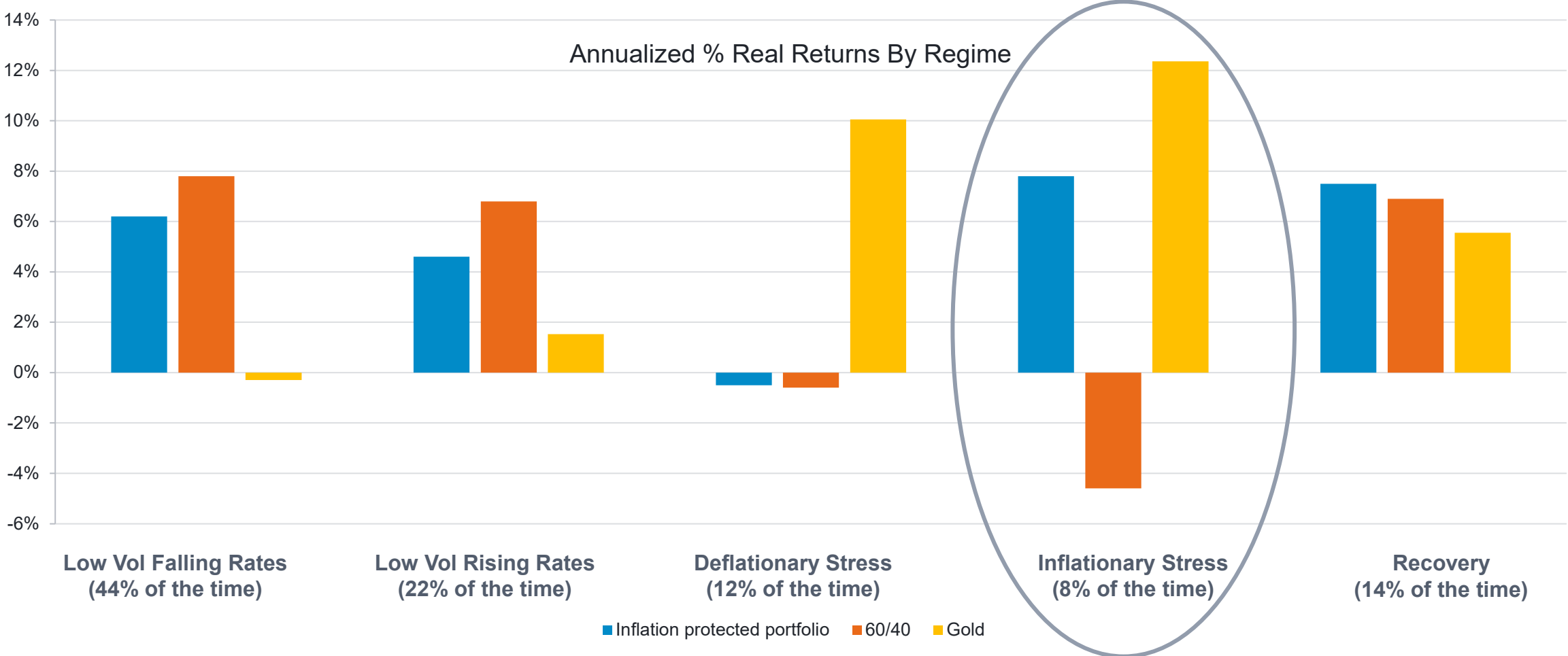
In practice: Inflation protection



Neutral mix of 42% equities, 50% fixed income and 8% commodities with the ability to overweight and underweight asset classes based on market opportunity.

For illustrative purposes only

Protecting against an inflation shock¹

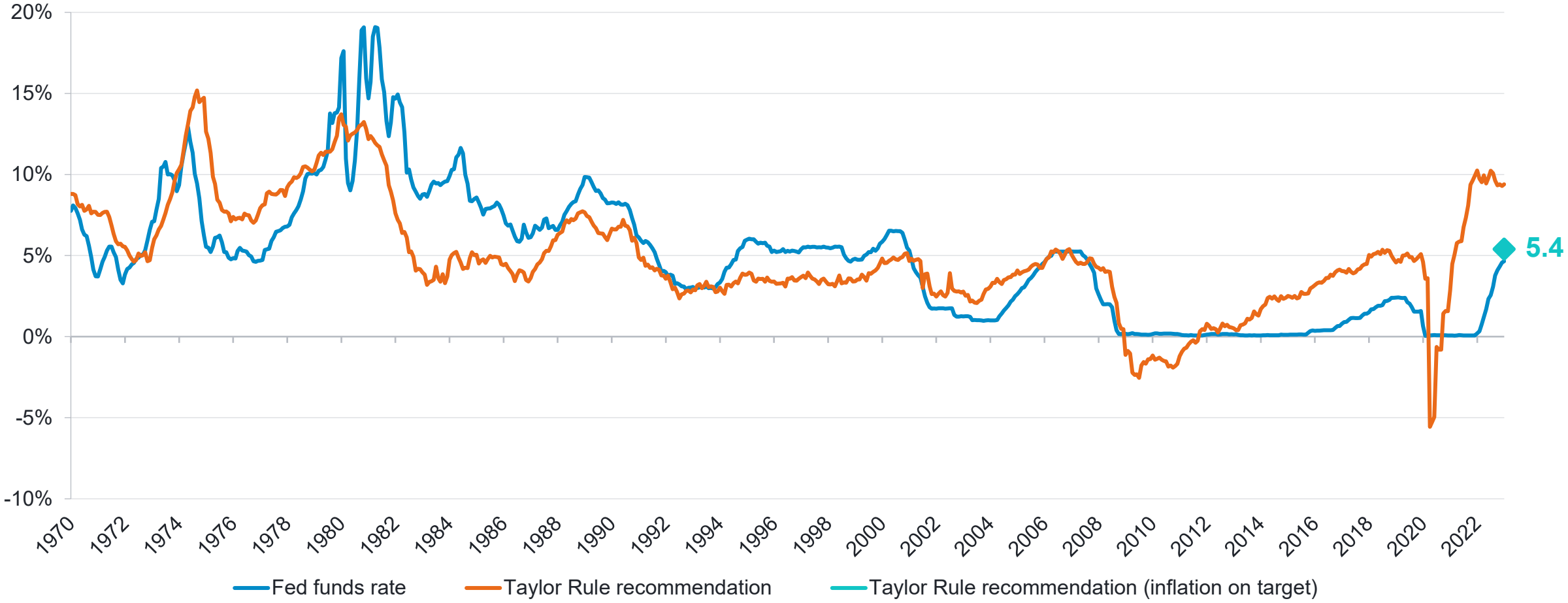


Past performance is no guarantee of future results. Index performance is not meant to represent that of any Fidelity fund. You can not invest directly in an index.
¹Duration percentages have been rounded to the nearest percentage and are through August 31, 2019. Research utilizes a Hidden Markov Model (HMM) with Gaussian Mixtures framework (part of Fidelity’s proprietary artificial intelligence and machine learning methodology for identification of data-driven market regimes), which assumes there are five structural states or market environments, that are more consistent given historical realized asset class returns data. Returns represent real returns.

Questions?

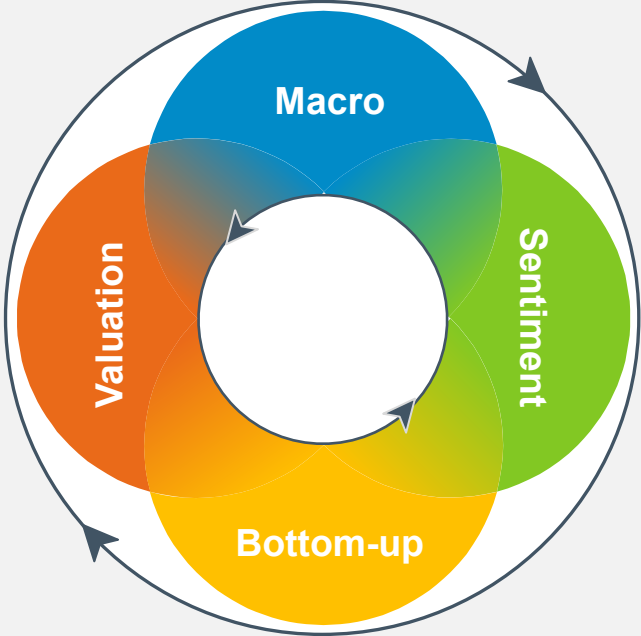
Appendix

Taylor Rule would have called for much tighter monetary policy



Source: Bloomberg and FMRCo. As at March 31, 2023.

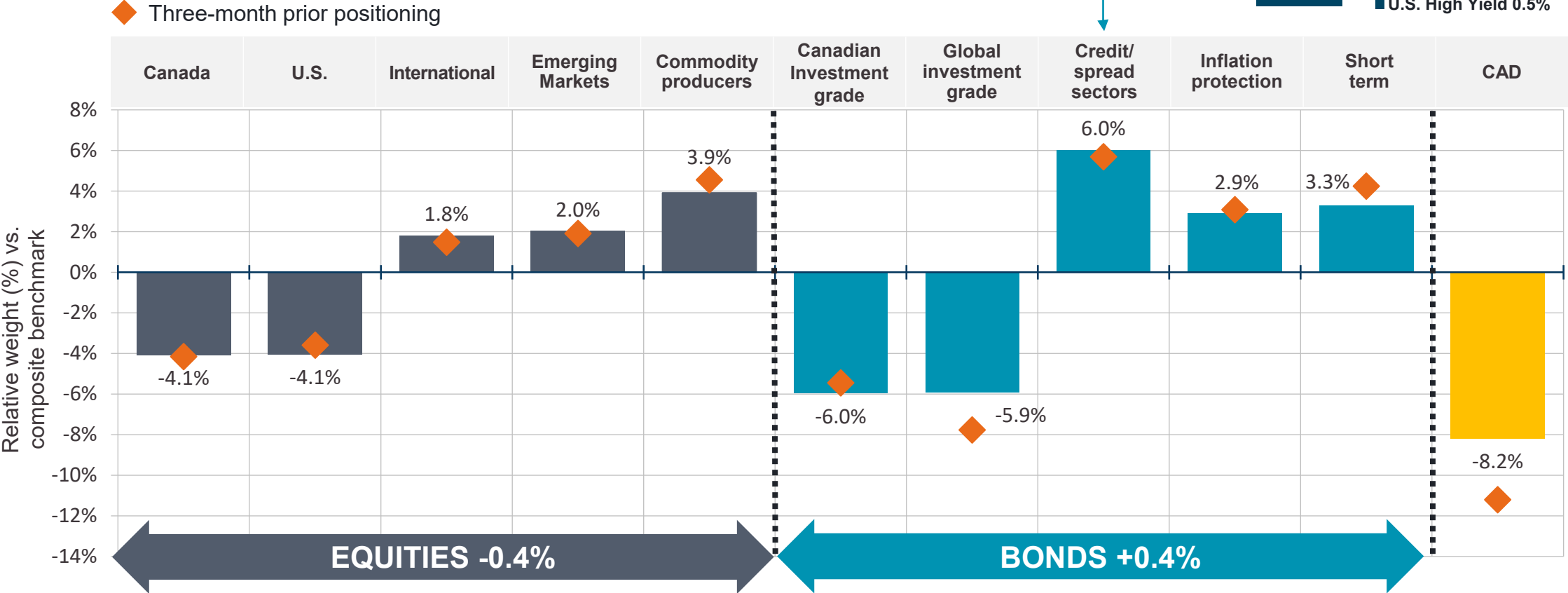
Research-driven asset allocation framework

Research resources	Research framework	Portfolio construction	Active decisions
<p>Proprietary GAA research</p> <ul style="list-style-type: none"> • Business cycle • Quantitative analysis <p>Fidelity asset class PMs research</p> <p>PM fundamental expertise</p> <p>Third-party research</p>		<p>Directional views</p> <p>Conviction level</p> <p>Risk characteristics</p> <p>Liquidity constraints</p>	<p>Decisions and implementation</p>
<p>What do we think and why do we think it? What are markets discounting and why will they make a mistake?</p>		<p>How will markets respond? How do we position to take advantage?</p>	

For illustrative purposes only.
 Source: Fidelity Investments Canada ULC.

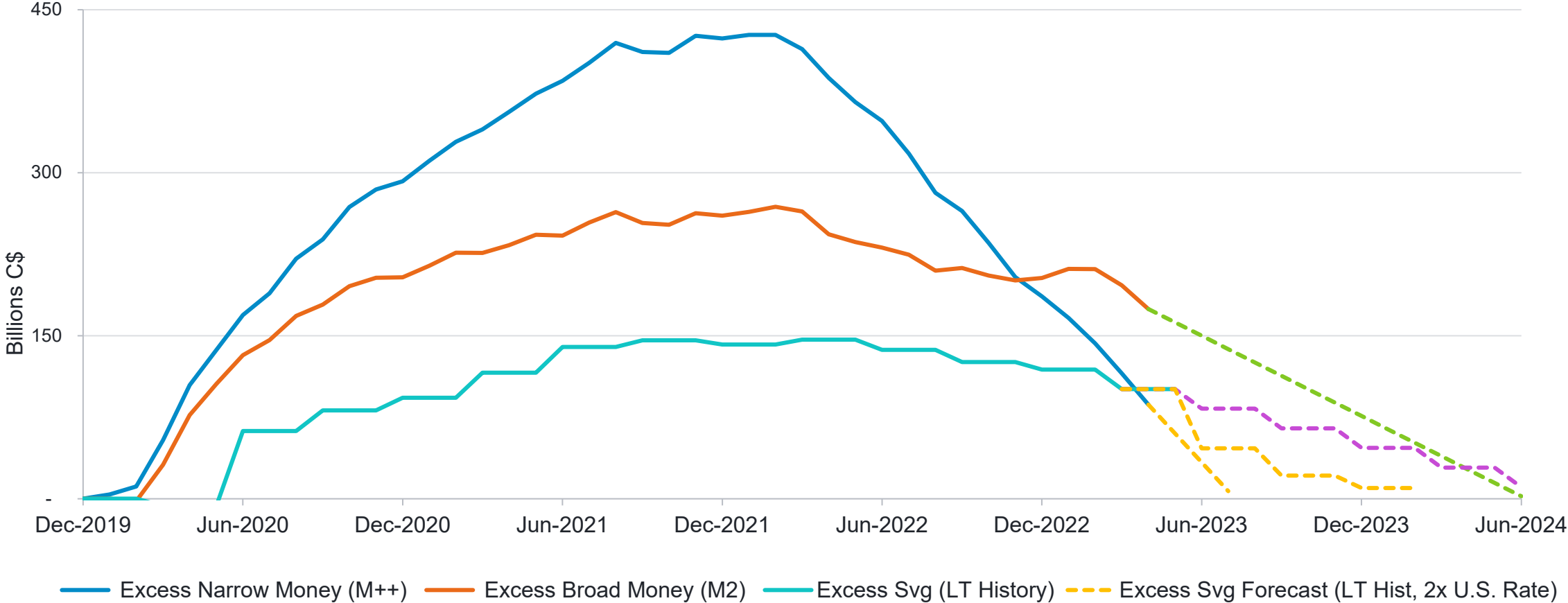
Active portfolio positioning

60/40 portfolio positioning as at June 30, 2023



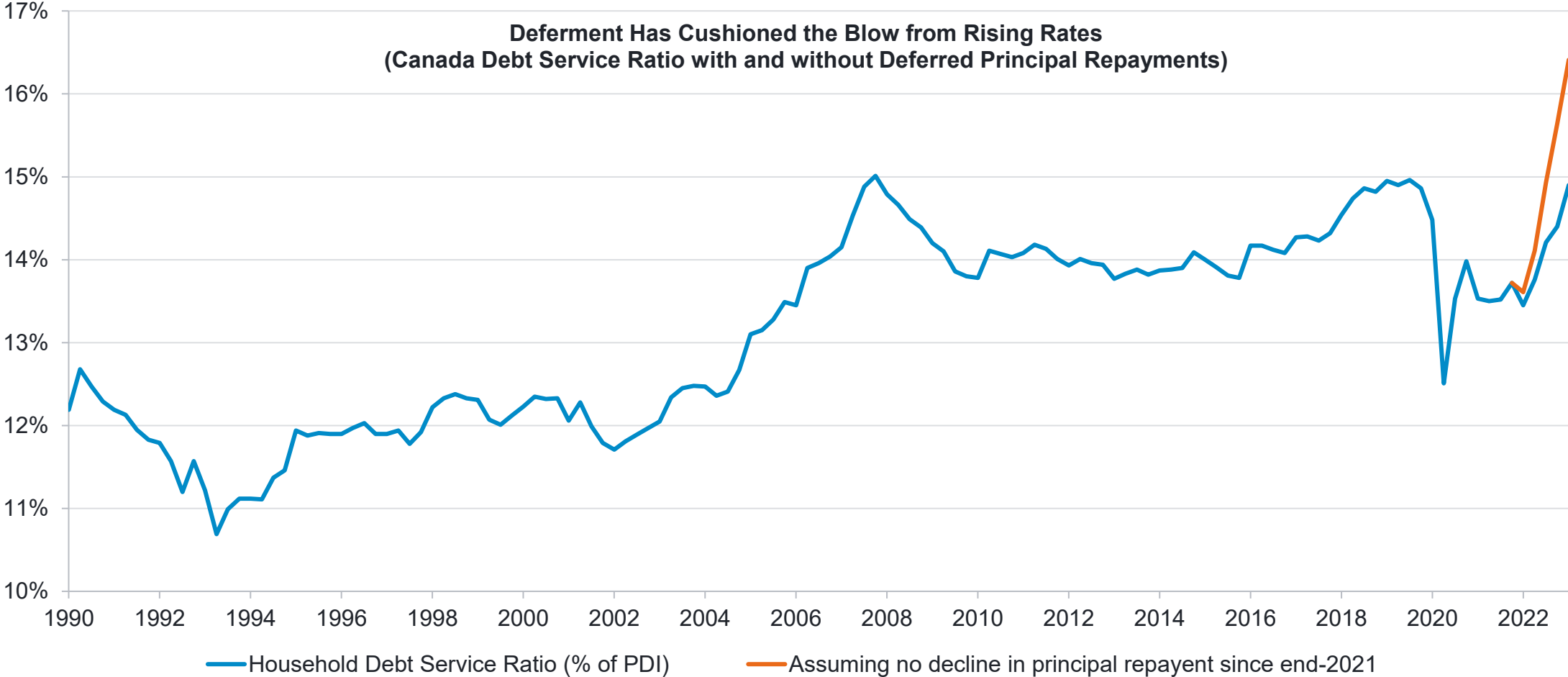
Source: Fidelity Investments Canada ULC. Fidelity's 60/40 portfolio's blended benchmark consists of 21% S&P/TSX Capped Composite Index, 39% MSCI All Country World ex Canada Index, 23% Bloomberg Global Aggregate Bond Index, 12% FTSE Canada Universe Bond Index and 5% FTSE Canada 91-Day T-Bill Index. Positioning is as at the date noted and is subject to change.

Excess savings estimates



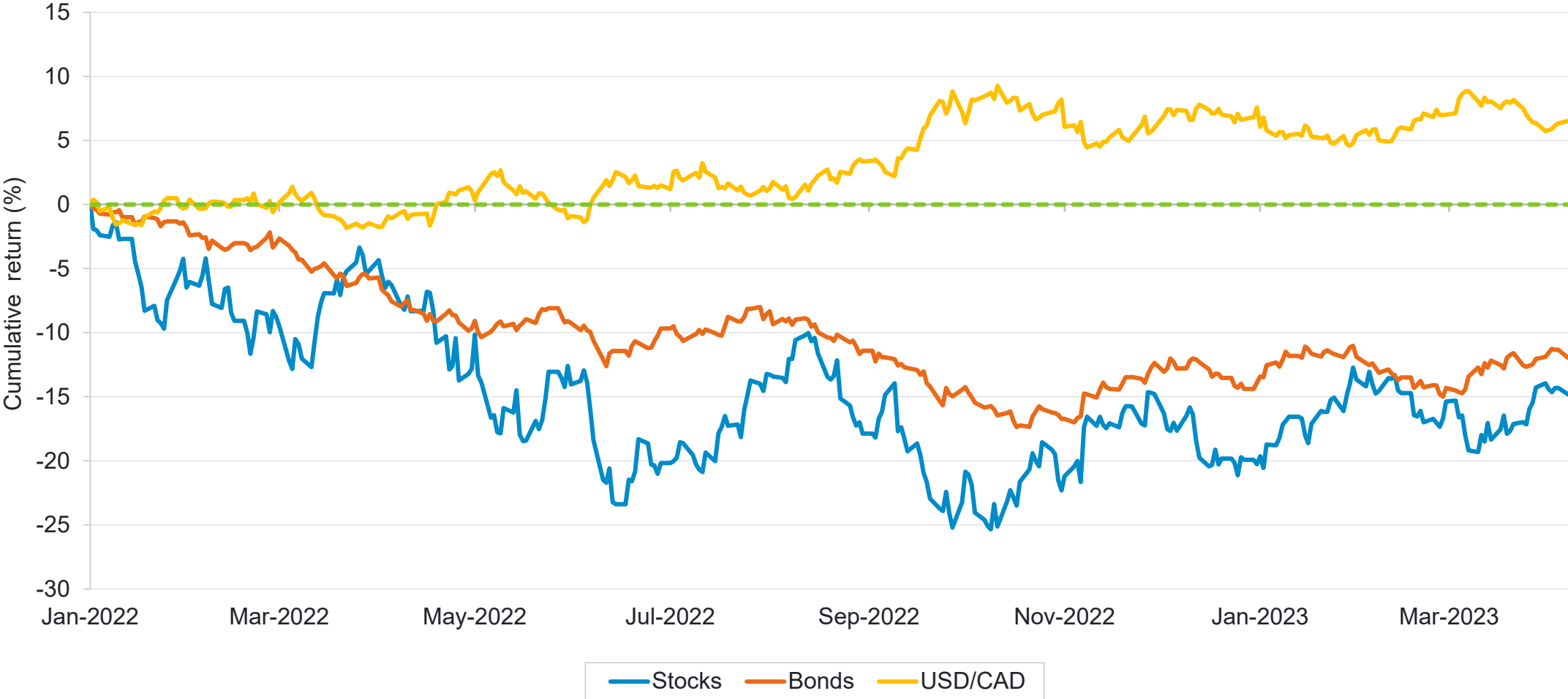
Source: Statistics Canada, Fidelity Investments Asset Allocation Research Team (AART). Forecasts assume last 3-month run rate continues.

Deferment has cushioned the blow from rising rates



Source: Canada: National Balance Sheet Statistics, StatCan, Quarterly

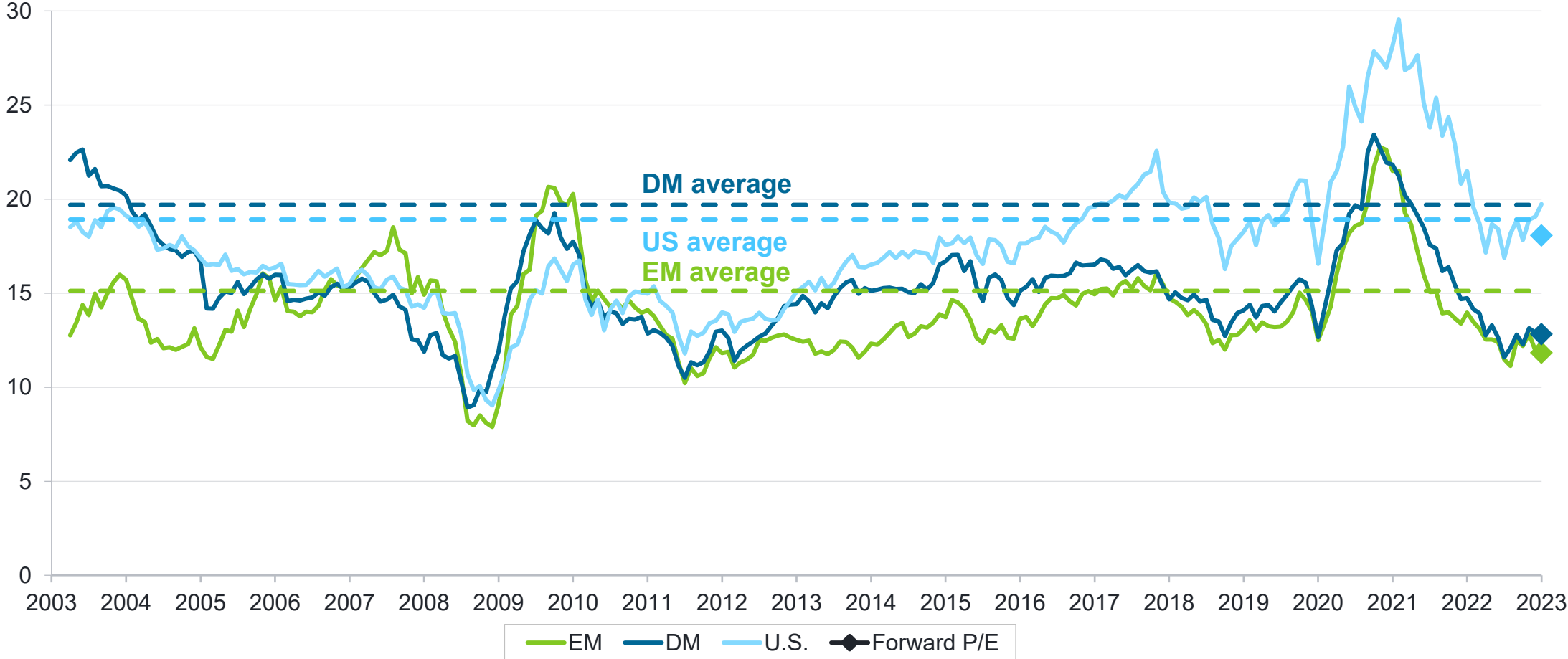
The U.S. dollar has been a reliable diversifier



Source: Bloomberg. Stocks are U.S. S&P 500 Index, bonds are the U.S. Aggregate Bond Index. As at April 10, 2023.

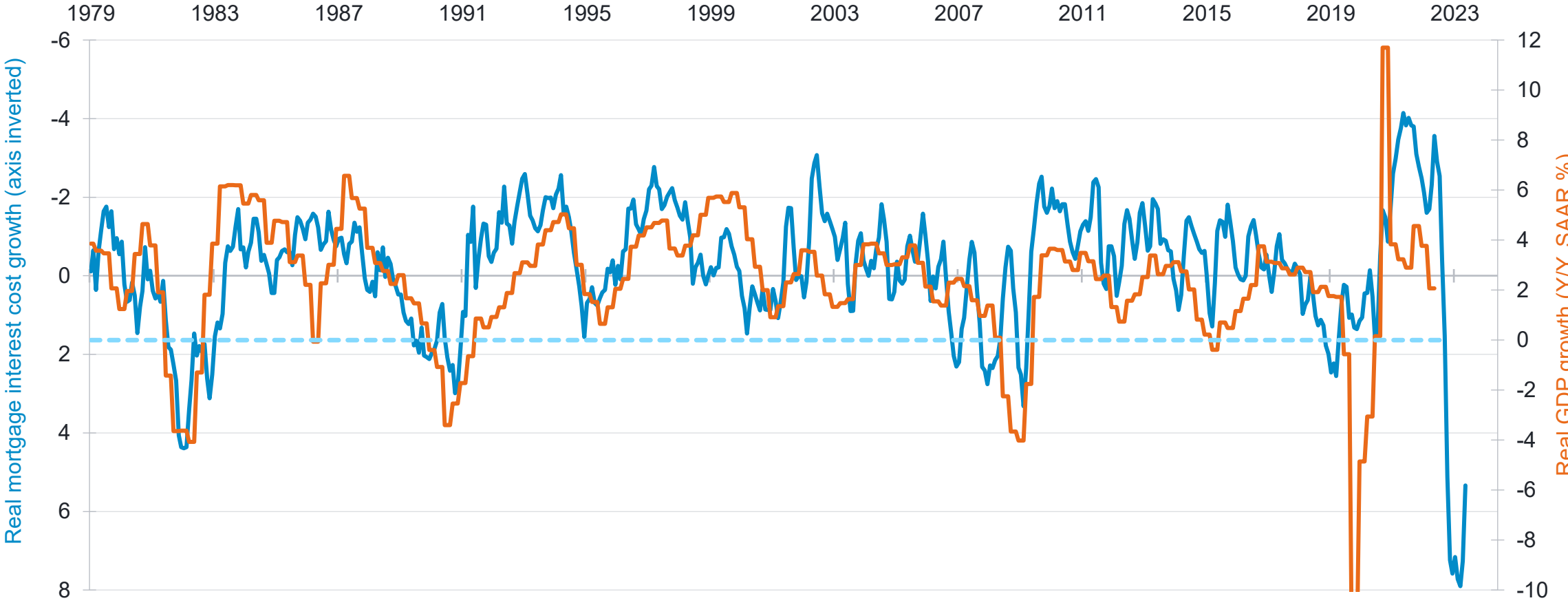
EM and EAFE valuations are more attractive

Global stock market P/E ratios



DM: Non-U.S. developed markets. EM: Emerging markets. Chart includes trailing 12-month P/Es. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Price-to-earnings (P/E) ratio (or multiple): stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. Long-term average P/E includes data from 9/30/95 to 9/30/22. Indexes: DM—MSCI EAFE Index; EM—MSCI Emerging Markets Index; U.S.—S&P 500. Source: Factset, Bloomberg Finance L.P. and Fidelity Investments (AART).

Ominous



Real mortgage interest cost growth is the three-month growth rate of mortgage interest cost deflated by total inflation, lagged nine months.
Source: Statistics Canada. FMR calculations.

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