

Conflict favours commodities and Canada

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We concluded our January paper with a brief note on burgeoning geopolitical risks. Regrettably, we pick up right where we left off, as the war in Iran roils global markets. Stocks and bonds have both fallen, oil prices have surged, and volatility has risen across asset classes.

The war may have been unexpected, but it didn't come out of nowhere. It has become evident that the United States, central to the establishment of what has been called the 'rules-based international order'¹, feels increasingly less restrained by it. We obviously can't know what the outcome of the war will be, but we can be reasonably certain that the dynamics that led to it will persist.

One dynamic particularly relevant to our work as asset allocators is what appears to be a 'scramble for

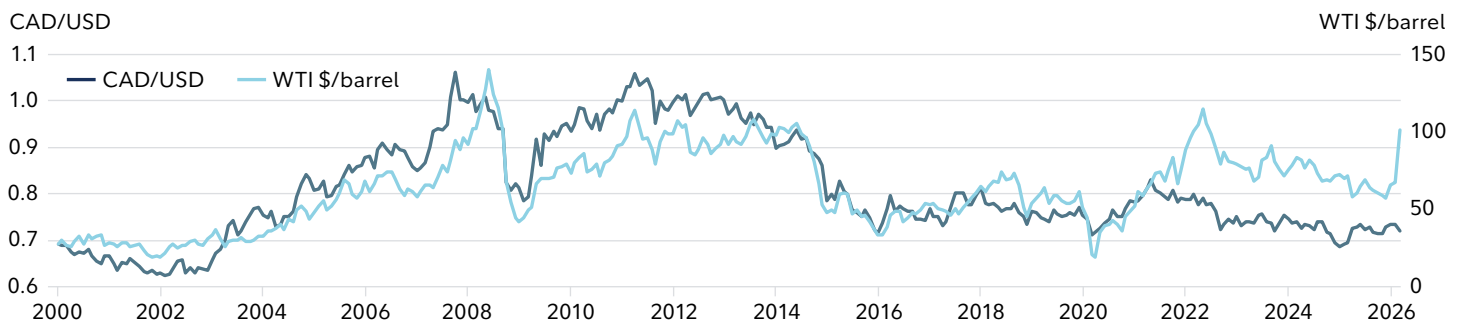
resources' globally. That makes commodities more valuable to investors as both a holding and a hedge. Below, we unpack the consequences for our positioning in the multi-asset funds for which we're responsible.

More Canada

Stronger demand for commodities amid concerns about supply favours reliable producers of those commodities. Canada is one (of not very many). We have been buying back into Canadian assets since early last year, and in recent months have moved to overweight Canadian equities and the Canadian dollar.

Higher commodity prices are clearly bullish for Canadian equities – materials and energy stocks make up 38% of the S&P TSX Composite as of March 31, 2026², more than quadruple the weighting in the rest of the

EXHIBIT 1: Since the pandemic, the Canadian dollar has decoupled from movements in WTI



Source: Bloomberg, as of March 31, 2026.

¹World Economic Forum – Davos 2026.

²Bloomberg

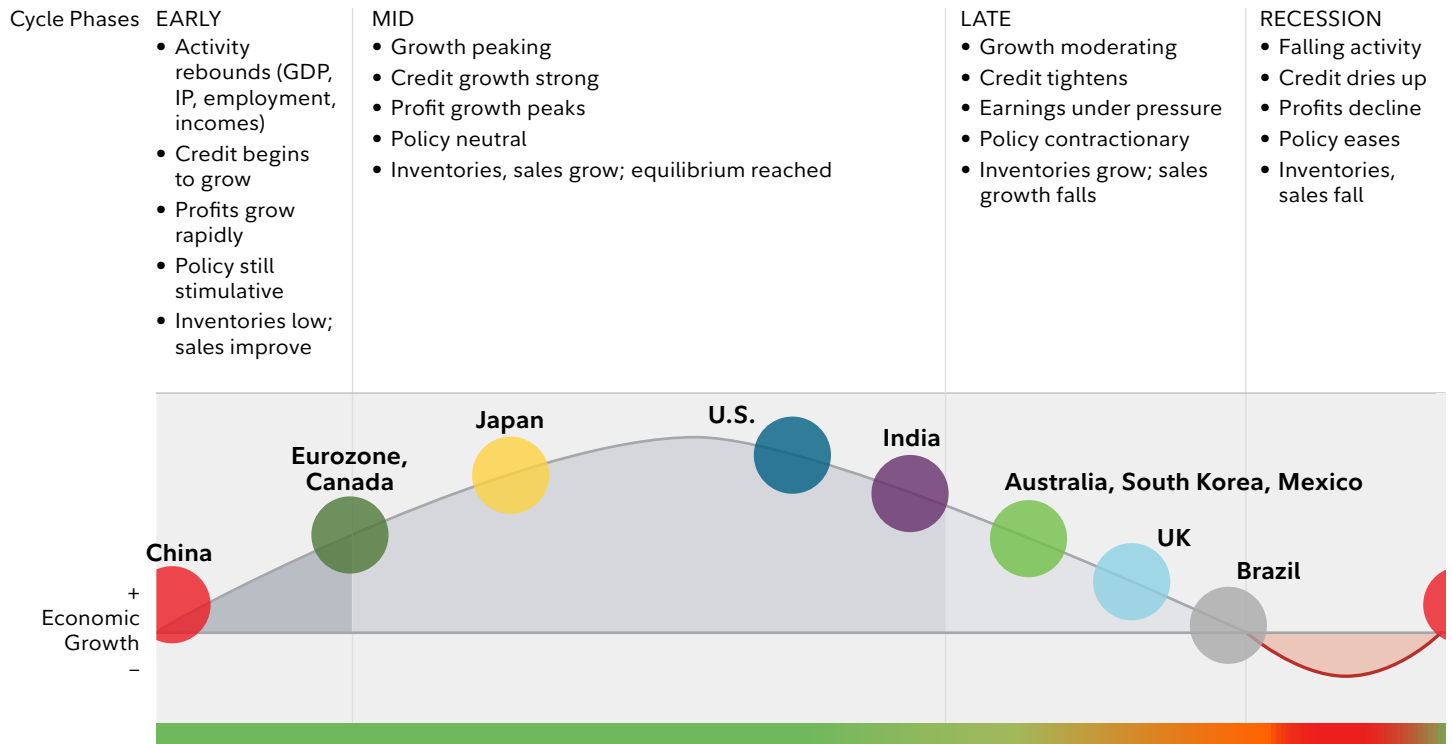
world. No matter what’s happening in the domestic economy in Canada, if commodities are rallying, Canadian equities will tend to do better (at least on a relative basis). Should commodity prices just stay at these elevated levels, our analysts estimate that many of the resource stocks, that have already run, would still be producing gobs of free cash flow, potentially underpinning further appreciation.

Higher commodity prices are less obviously bullish for the Canadian dollar, given the decline of the ‘petrodollar’ phenomenon in recent years (see Exhibit 1). But the breaking of that oil-CAD link largely reflected the failure of higher prices to spur domestic investment in the sector, which is the primary channel through which those prices affect the economy. Policy in Canada now appears to be friendlier to that growth-boosting investment.

Markets have begun to sniff this out, now anticipating that Canadian interest rates will rise this year even as US rates decline. In this context, the link between commodity prices and the value of the Canadian dollar can be expected to reemerge to a greater degree.

Domestic economic conditions in Canada remain weak, to be sure. But as we have argued, we believe we are passing the period of maximum pain for the domestic economy, with the interest rate reset shock to housing and the tariff shock to business likely to fade in the coming quarters. Higher investment spurred by stronger commodity prices and a more supportive structural environment should help further. In that context, our Asset Allocation Research Team sees Canada’s cyclical position as among the best of the world’s major economies (see Exhibit 2).

EXHIBIT 2: Business cycle framework suggests Canada is favourably positioned



Source: Fidelity, as of February 28, 2026

We had been underweight Canada throughout a decade of underperformance in Canadian assets. Our move to overweight Canada should not be seen as a signal that we expect a decade of outperformance. We will, as always, adjust our positioning as the outlook evolves. But right now, we see conditions as the most conducive in memory to drive positive relative performance of Canadian assets versus the rest of the world.

Broader diversification

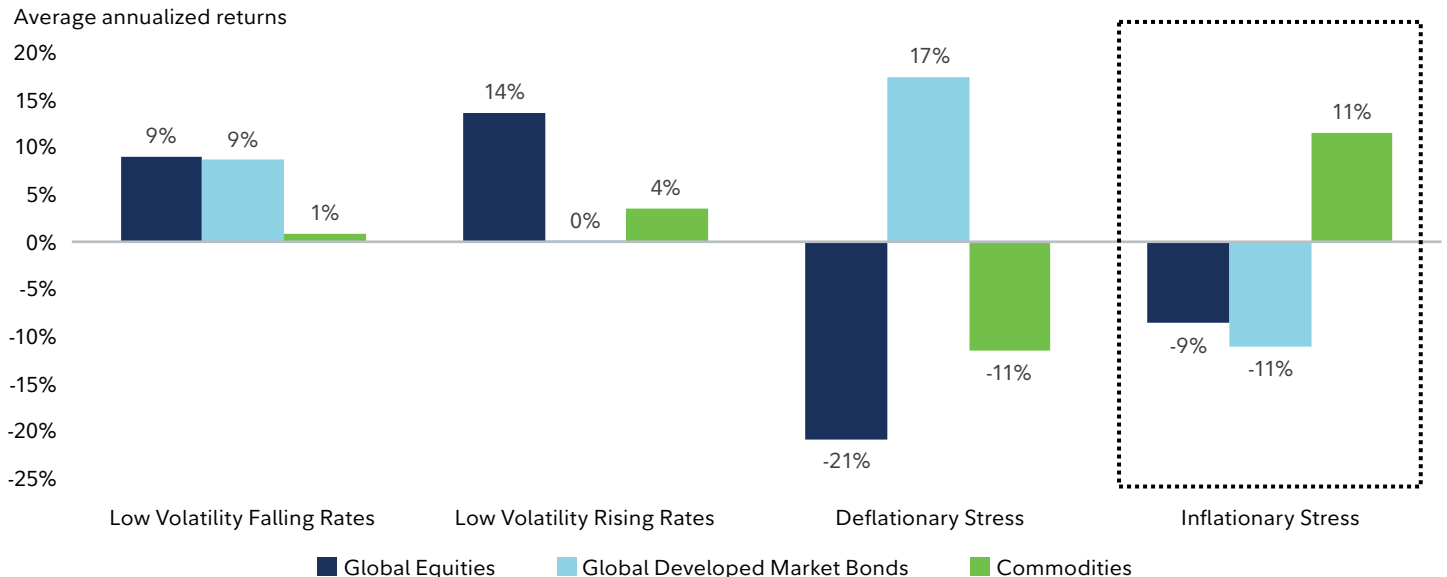
In a more uncertain world where hard assets become more valuable relative to future promises, commodities become more useful as a portfolio hedge.

The market reaction to the Iran conflict, with stocks and bonds both falling while commodity prices rise, is typical of an inflationary shock (see Exhibit 3). We had virtually

none of these shocks for a generation, as inflation remained persistently low and stable, meaning that the economic shocks that impacted markets were dominantly growth shocks. Growth shocks push stocks and bonds in opposite directions – a stronger economy boosts stocks via higher earnings but hurts bonds via higher interest rates, and vice versa. This is why the 60/40 portfolio construct worked so well for so long, with bonds cushioning equity declines upon negative growth shocks.

We had a major inflationary shock in 2022, sending stocks and bonds both markedly lower, in what was one of the worst years for balanced strategies in decades. It appears we have another such shock on our hands, at least directionally. And with globalization in retreat and underlying inflation having shaken loose

EXHIBIT 3: Real returns in distinct market environments



Source: Global Equities is a blend of 25% Canada Equity, 37.5% U.S. Equity, and 37.5% Global ex U.S. and Canadian equity; Canadian Equity – Canada S&P/TSX-300 Total Return Index (1950–2022); U.S. Equity – Fidelity Top 3000 Stock Index (1950–1970), Dow Jones U.S. Total Stock Market Index (1970–2022); Global ex U.S. and Canadian equity – GFD (Global Financial Data) World ex USA Return Index (1950–1972), MSCI EAFE Index (1972–1988), 67% MSCI EAFE Index + 33% MSCI Emerging Markets Index (1988–2022). Global Developed Markets Bonds (ex Canada) – Global Asset Allocation custom data. Commodities – Bloomberg Commodity Index Total Return (1950–2022).

from its anchor, we may face more inflationary shocks in the years ahead.

As we've written about many times, if bonds are going to be less reliable as a hedge to the equity risk that dominates our multi asset portfolios, we need to be more creative in our diversification. Commodities are part of that strategy – if we're worried about the vulnerability of 60/40 portfolios to inflationary shocks, it's useful to own the thing that is part of the inflationary shock. Our decision to diversify into gold years ago was made in this context, and it has been a material driver of risk-adjusted returns (see Exhibit 4). More recently, we have launched a commodity futures strategy offering exposure to a broad basket of commodities which, like gold, stands to benefit from an environment of heightened inflation and uncertainty. Additionally, in 2021 we introduced the Fidelity Inflation-Focused Fund, which we use as a building block in a number of our funds and is available publicly. This was designed as a multi asset fund incorporating real assets that can be expected to be more resilient to inflationary shocks; indeed, net of series F fees, the fund returned 8.3% in the first quarter of 2026, compared to a 1.6% return

in Fidelity Global Balanced Portfolio, series F.** The S&P 500 Index dropped 4.4% (in U.S. dollars) during the quarter.

There is a limit to how much a diversified portfolio should hold in the way of commodities, however – they are highly volatile and don't produce cash flows, meaning their risk-adjusted returns as a stand-alone investment tend not to be very good. As a result, we have long taken a broader approach to diversification in our multi asset funds – incorporating currency positions, extended asset classes (e.g. inflation protected bonds, emerging market debt) and alternatives alongside commodities. But to the extent that commodities and related assets can go up when very little else is going up amid an inflationary shock, they can be an important part of the strategy.

Risk management

Markets have been impressively resilient to shocks in recent years, mostly notably around Liberation Day last April, when a 15% drawdown in the S&P 500 was unwound within a few weeks. Markets may prove similarly resilient to the Iran shock. But we cannot

EXHIBIT 4: An environment where gold shines brightest

Gold – inflation-adjusted, 2026 U.S. dollar per ounce



Source: Bloomberg, as of March 31, 2026. March Consumer Price Index data is unavailable, estimate derived from the last 12-months of data.

take that for granted, and in that context, took the opportunity of equity market strength through the first two months of the year to trim our risk. We remain modestly overweight equities as we write – encouraged in particular by the strength of corporate earnings, fading some of the more recent pessimism around AI and its potential impact on labour markets, and trying not to take a view on the unforecastable outcome of the Iran conflict in the shorter-term. As ever, we will continue to adjust our positioning in line with our

active asset allocation process, seeking to drive return while controlling risk in the multi asset funds for which we’re responsible.

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

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

	3-month	1-year	3-year	5-year	10-year	Since Inception
Fidelity Global Balanced Portfolio	1.6	14.7	14.0	8.5	8.3	6.8*
Fidelity Inflation-Focused Fund	8.3	15.0	9.9	–	–	7.4*

Source: Fidelity Investments Canada. As at March 31, 2026. Data shown in Canadian dollars and are net of Series F fees. Periods greater than one year have been annualized. Past performance is no guarantee of future performance.

* Since inception date for Fidelity Global Balanced Portfolio is April 18, 2007. Since inception date for Fidelity Inflation-Focused Fund is September 28, 2021.

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