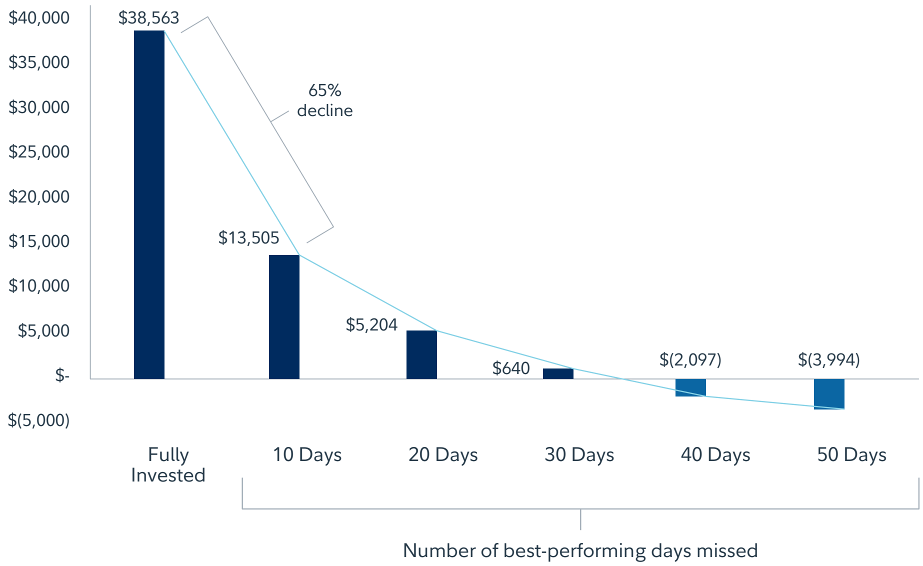
The power of staying invested

Time in the market

The second quarter of 2025 provides a meaningful example of how markets can react to news and the importance of staying invested through the volatility. "Liberation Day" tariffs announced by the U.S. in early April caused one of the most dramatic swings in market performance over the last two decades. Markets in Canada and the U.S. moved lower by over 10% to start the quarter, only to finish it at all-time highs. Often the best days for investors are clustered around the worst days in the market. In Canada for example, over the last 20 years, if you missed the best ten days of market returns, your portfolio would be worth less than half of a portfolio that remained invested (see chart below).*

Net return on $10,000 invested in S&P/TSX Capped Composite



*June 30, 2005, to June 30, 2025.
Source: Fidelity Investments Canada ULC

Global trade impacts

Meaningful change in global trade policy will take time. It will require innovation, efficiency and strategic alliances, rather than rerouting supply chains or stockpiling goods. While those who follow geopolitics may feel as though they are on a rollercoaster, the reality on the ground can often be less dramatic. Measured responses from businesses and governments around the globe account for a key contribution to the market's quick recovery. Still, momentum for change is building, and the second half of the year may offer greater clarity regarding what global trade will look like going forward.

KEY TAKEAWAYS

Equity markets posted one of the most remarkable recoveries after steep early declines.

Year-to-date, Canadian equities have outperformed their U.S. counterparts.

Tariffs and fiscal deficits are likely to remain central for market sentiment.

Despite headlines, history shows the power of staying invested. Missing even a few of the best market days can dramatically reduce portfolio value.

Canadian equities

Canadian equities continued to show strength, reinforcing investor confidence in domestic markets. The S&P/TSX Capped Composite Index delivered a robust 8.5% return in Canadian dollar terms, outperforming many global peers and, most notably, U.S. equities for the first half of the year. The information technology and consumer discretionary sectors led the rally this quarter, posting 15.0% and 13.7% gains, respectively. These two sectors rebounded from last quarter's losses thanks to renewed interest in AI-driven innovation and growing loyalty to national brands.

On the economic front, inflation trended lower to 1.7% in May, but the Bank of Canada continues to hold interest rates steady, citing the need to monitor effects of tariffs and upcoming policy changes. Meanwhile, the unemployment rate edged up to 7.0% in May, while household savings rates declined. Should these trends persist, the Bank may be compelled to introduce further rate cuts to support economic momentum. The new government has also accelerated its strategic agenda to stimulate growth, most notably through Bill C-5, which aims to dismantle interprovincial trade barriers and fast-track infrastructure development. Complementary initiatives in energy, AI innovation and external trade diversification also signal the proactive and encouraging policy stance that we pointed to last quarter.

U.S. equities

U.S. equities, as measured by the S&P 500 Index, posted a gain of 10.9% in U.S. dollar terms and 5.2% in Canadian dollar terms. Information technology and industrials led the comeback, with 23.7% and 13.0% returns, respectively, in U.S. dollar terms, reflecting renewed investor confidence in growth-oriented sectors. This momentum was supported by productive trade negotiations and the passage of the "One Big Beautiful Bill Act," which introduced a package of AI deregulation, tax relief and increased infrastructure and defence spending, all aimed at stimulating long-term economic growth. Despite ongoing uncertainty, the U.S. economy remained resilient, with inflation edging up modestly to 2.4% in May and the unemployment rate unexpectedly falling to 4.1% in June. Considering the stability of inflation and the job market, the U.S. Federal Reserve held interest rates steady, but emphasized its cautious stance, stating concerns that the full inflationary effects of tariffs may still be unfolding.

International equities

International equities continued their upward trajectory as countries focused on strengthening their own economies while adjusting to changes in global trade. Developed markets, as measured by the MSCI EAFE Index, posted a 6.0% return in Canadian dollar terms, driven by European Central Bank rate cuts, fiscal stimulus and a weaker U.S. dollar. Meanwhile, Japanese equities, which have been long overlooked, are drawing renewed investor interest, due to enhanced corporate governance reforms, innovative business models and a stable macroeconomic backdrop. Emerging markets also gained, up 6.2% in Canadian dollar terms, driven by currency appreciation and strength in key commodities.

Fixed income

Fixed income markets softened during the quarter as rising long-term rates, driven by inflation concerns due to tariffs and government spending plans, pressured bond prices. The FTSE Canada Universe Bond Index declined by 0.6%, while the Bloomberg U.S. Aggregate Bond Index – Hedged CAD rose 0.7%, respectively, in Canadian dollar terms. On the domestic front, attention is turning to the upcoming renewal wave of mortgages: these pandemic-era loans initiated at historically low rates are now expected to reset at higher interest levels. Given that shelter accounts for nearly 30% of Canadian household consumption, these higher rates could add further strain on consumers' ability to spend.

South of the border, mounting concern about the ballooning U.S. fiscal deficit (now 6.2% of GDP) has weighed on sentiment. This is a key contributing factor to a 11.5% decline in the U.S. dollar year-to-date, its sharpest six-month drop on record.

Outlook

Is noise the new normal? Global markets enter the second half of the year on a solid footing provided by resilient economic data, but they remain focused intently on the evolving trade rhetoric coming from the U.S. While markets seem more resilient to the news cycle than ever before, they are still reacting in real time, generating more noise than we've seen in recent history. We are also concerned that current economic data could be skewed by companies that front-loaded their inventories ahead of tariff implementation, given that U.S. quarterly imports surged 41% in the first quarter. As stockpiling starts to unwind, we could see tariff-related impacts emerge both at home and aboard. For example, Canada has already begun experiencing its first trade deficits in over a decade. If inflation and higher prices from tariffs begin to weigh on U.S. consumers, we could again see a change in stance on trade policies from the U.S. administration.

Despite the shifting trade stances and news headlines, the past quarter provides a great reminder of the power of staying invested, and reinforces our focus on fundamentals and long-term structural trends rather than short-term disruptions.

Fidelity Private Wealth is a brand name for a business group within Fidelity Investments Canada ULC (FIC) providing private wealth management products and services. Not all services are offered by FIC. Custodial services are offered through Fidelity Canada Clearing ULC, an affiliate of FIC. For discretionary management services offered by Fidelity Private Wealth, FIC acts in its capacity as a portfolio manager.

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 statements contained herein are based on information believed to be reliable and are provided for information purposes only. Where such information is based in whole or in part on information provided by third parties, we cannot guarantee that it is accurate, complete or current at all times. It does not provide investment, tax or legal advice, and is not an offer or solicitation to buy. Graphs and charts are used for illustrative purposes only and do not reflect future values or returns on investment of any fund or portfolio. Particular investment strategies should be evaluated according to an investor's investment objectives and tolerance for risk. Fidelity Investments Canada ULC and its affiliates and related entities are not liable for any errors or omissions in the information or for any loss or damage suffered.

From time to time a manager, analyst or other Fidelity employee may express views regarding a particular company, security, and industry or market sector. The views expressed by any such person are the views of only that individual as of the time expressed and do not necessarily represent the views of Fidelity or any other person in the Fidelity organization. Any such views are subject to change at any time, based upon markets and other conditions, and Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity Fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity Fund.

Certain statements in this commentary may contain forward-looking statements ("FLS") that are predictive in nature and may include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar forward-looking expressions or negative versions thereof. FLS are based on current expectations and projections about future general economic, political and relevant market factors, such as interest, and assuming no changes to applicable tax or other laws or government regulation. Expectations and projections about future events are inherently subject to, among other things, risks and uncertainties, some of which may be unforeseeable and, accordingly, may prove to be incorrect at a future date. FLS are not guarantees of future performance, and actual events could differ materially from those expressed or implied in any FLS. A number of important factors can contribute to these digressions, including, but not limited to, general economic, political and market factors in North America and internationally, interest and foreign exchange rates, global equity and capital markets, business competition and catastrophic events. You should avoid placing any undue reliance on FLS. Further, there is no specific intention of updating any FLS, whether as a result of new information, future events or otherwise.

FIC-2864151 07/25 2871106-v2025711