Commentary | Third Quarter 2020

Quarterly Market Update

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Fidelity INVESTMENTS

Stimulus and Reopening Hopes Spurred Market Rebound

The sharp recovery in prices for riskier assets reflected abundant liquidity and hopeful expectations about reopening after the global shutdown. Economic conditions sequentially improved from extremely low levels, but progress has been uneven and will largely depend on COVID-19's trajectory and on continued policy support. Uncertainty and volatility are likely to remain high, thus, a well-diversified portfolio may be as important as ever.

	MACRO	ASSET MARKETS
Q2 2020	• Global economy displayed sequential improvement as the re-opening phase began.	• Dramatic rebound in riskier asset prices.
OUTLOOK	• The worst of the recession is behind, but activity levels remain well below normal. • U.S. progress is tentative and uneven amid a pick-up in new virus cases. • China's recovery is ahead of the rest of the world, particularly its industrial activity. • The historic monetary and fiscal response remains supportive, but fiscal drag is a risk. • Policy actions address the near-term deflationary shock, but they might presage a long-term regime shift.	• Policy decisions are likely to have an increasingly large influence on asset returns. • Tentative signs of economic stabilization warrant a relatively neutral near-term asset allocation positioning. • Elevated market volatility is expected to continue due to uncertainty about the virus and economic outlook.

Diversification does not ensure a profit or guarantee against a loss.

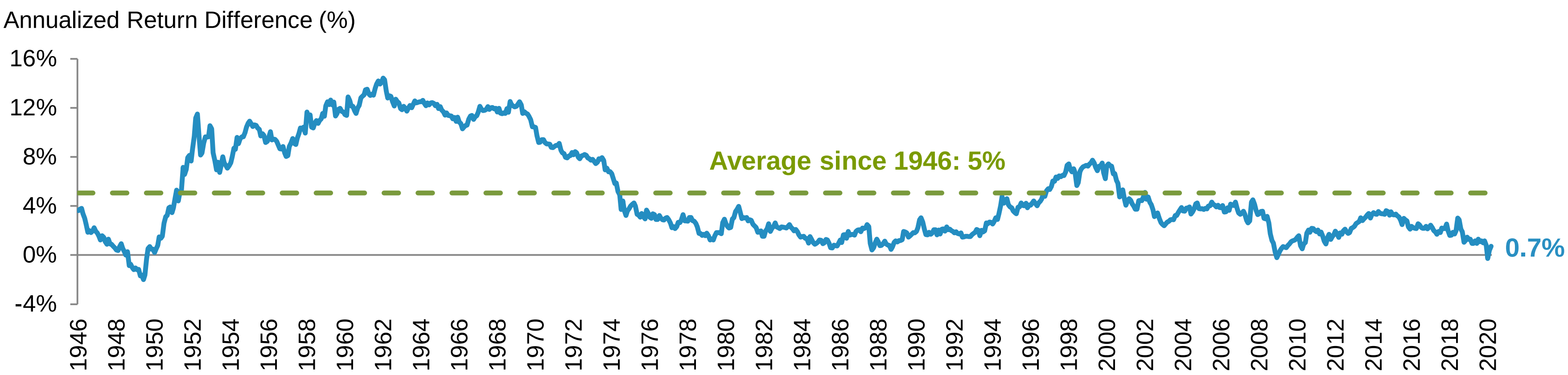
Dramatic Recovery in Riskier Assets

SUMMARY

U.S. stocks posted their best quarterly results in more than 20 years, spearheading a global rally in riskier assets that trimmed year-to-date losses from the Q1 sell-off. The decline in credit spreads boosted returns on corporate bonds, with longer-duration and higher-quality bonds posting the best year-to-date results. Gold benefited from negative real interest rates, but commodity prices overall remained laggards.

	Q2 2020 (%)	YTD (%)		Q2 2020 (%)	YTD (%)
U.S. Small Cap Stocks	25.4	-13.0	Real Estate Stocks	11.8	-18.7
U.S. Mid Cap Stocks	24.6	-9.1	Emerging-Market Bonds	11.2	-1.9
U.S. Large Cap Stocks	20.5	-3.1	High Yield Bonds	9.6	-4.8
Non-U.S. Small Cap Stocks	19.9	-13.1	U.S. Corporate Bonds	8.2	4.8
Emerging-Market Stocks	18.1	-9.8	Long Government & Credit Bonds	6.2	12.8
Non-U.S. Developed-Country Stocks	14.9	-11.3	Commodities	5.1	-19.4
Gold	12.9	17.4	Investment-Grade Bonds	2.9	6.1

20-Year U.S. Stock Returns Minus IG Bond Returns since 1946

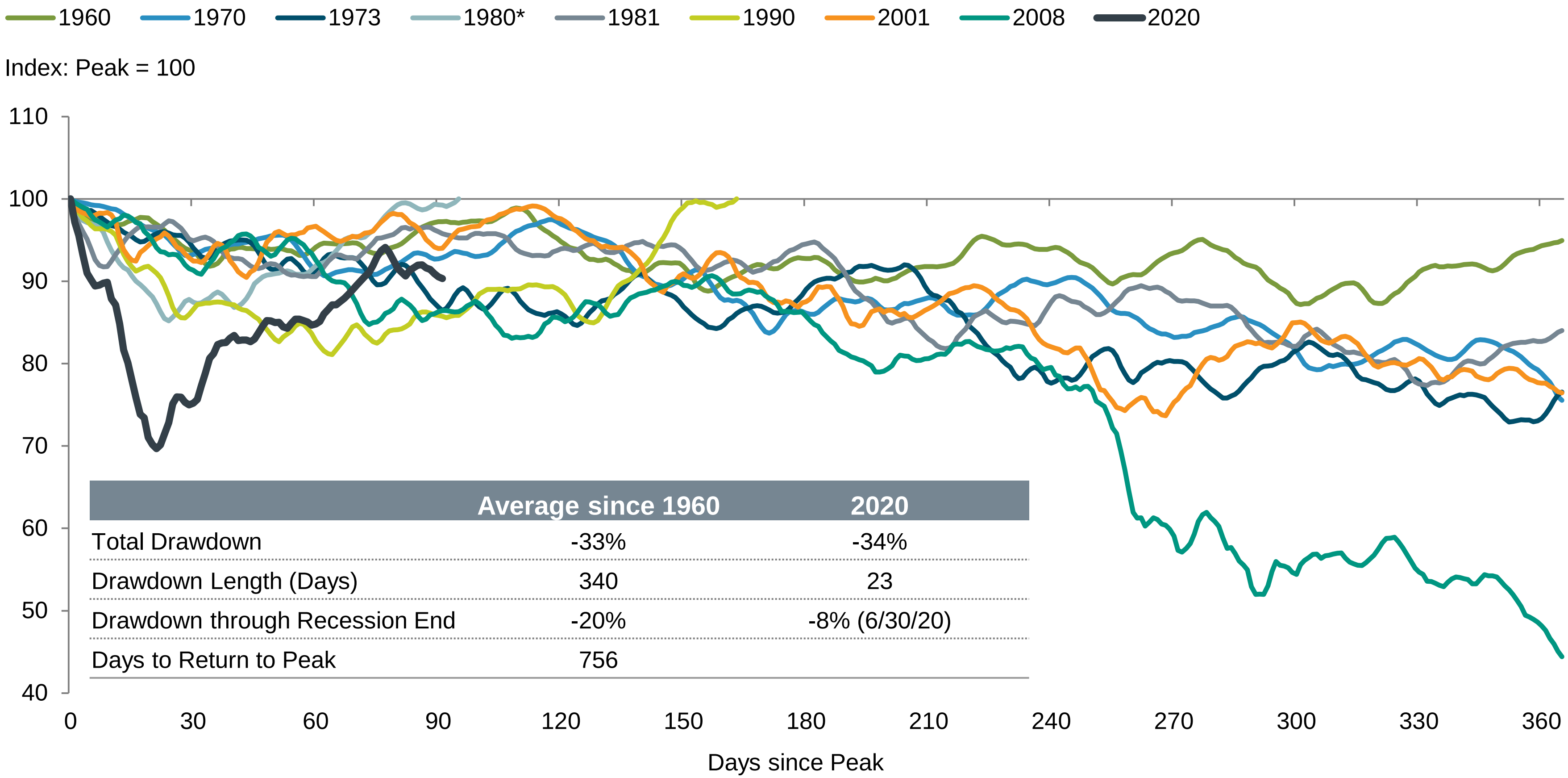


Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Assets represented by: Commodities—Bloomberg Commodity Index; Emerging-Market Bonds—JP Morgan EMBI Global Index; Emerging-Market Stocks—MSCI EM Index; Gold—Gold Bullion, LBMA PM Fix; High-Yield Bonds—ICE BofA High Yield Bond Index; Investment-Grade Bonds—Bloomberg Barclays U.S. Aggregate Bond Index; Non-U.S. Developed-Country Stocks—MSCI EAFE Index; Non-U.S. Small Cap Stocks—MSCI EAFE Small Cap Index; Real Estate Stocks—FTSE NAREIT Equity Index; U.S. Corporate Bonds—Bloomberg Barclays U.S. Credit Index; U.S. Large Cap Stocks—S&P 500® index; U.S. Mid Cap Stocks—Russell Midcap® Index; U.S. Small Cap Stocks—Russell 2000® Index; Long Government & Credit Bonds—Bloomberg Barclays Long Government & Credit Index. Source: Bloomberg Finance L.P., Haver Analytics, Fidelity Investments Asset Allocation Research Team (AART), as of 6/30/20.

Fast-Moving Stock Prices: Too Much Too Soon?

U.S. stocks have tended to peak before or during a recession, decline amid the recession, then bottom and stage a recovery sometime thereafter. Compared with other recessionary sell-offs in recent decades, 2020 marked the swiftest initial drop as well as the quickest, sharpest bounce-back. Stocks have recovered so much ground during this recession that they might be pulling forward gains typically earned during the early-cycle phase.

Stock Market Drawdowns during Recessions (1960–2020)



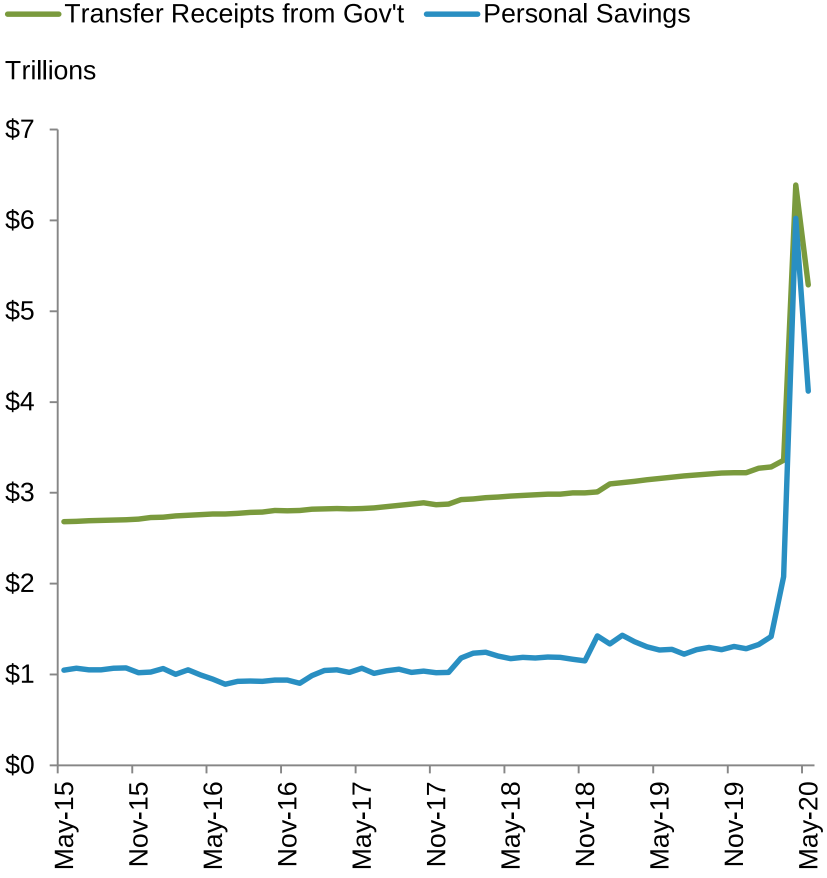
	Average since 1960	2020
Total Drawdown	-33%	-34%
Drawdown Length (Days)	340	23
Drawdown through Recession End	-20%	-8% (6/30/20)
Days to Return to Peak	756	

* Since the 1973 peak is not regained until after the 1980 recession, the 1980 line starts at its near term high on 2/20/1980. Index: S&P 500®.
Lines represent a 5 day moving average, table uses daily values, and 1973 recession not included in average for return to peak.
All indexes are unmanaged. You cannot invest directly in an index. **Past performance is no guarantee of future results**.
Source: Standard & Poor's, Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/20

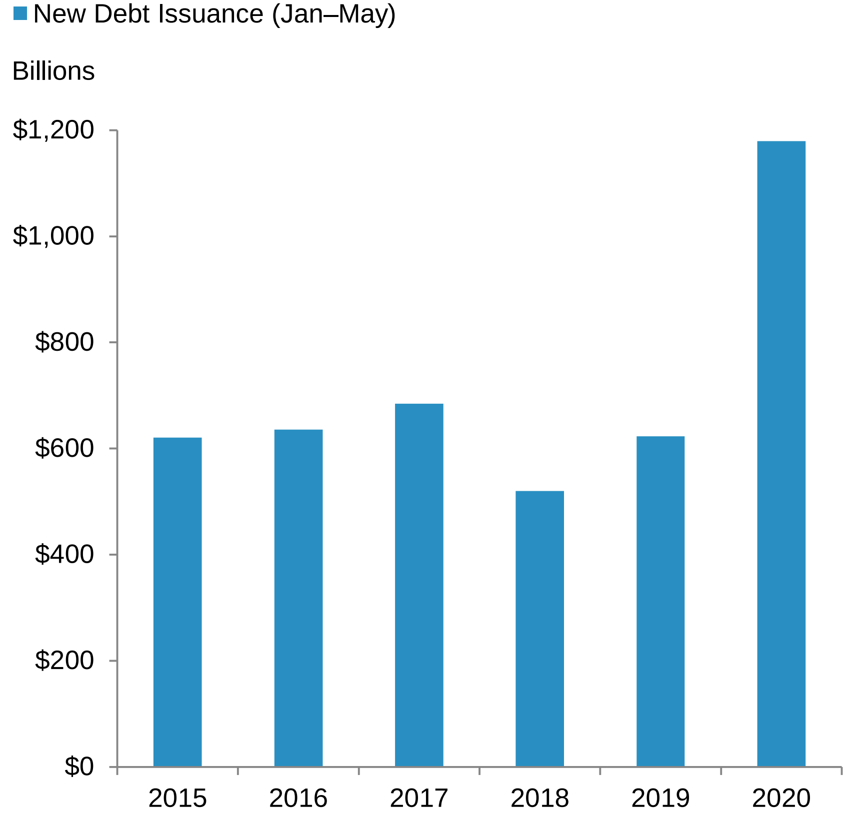
Monetary and Fiscal Stimulus Provided Boost to Technicals

Massive government spending—including checks to many households and enhanced unemployment benefits—helped the personal savings rate to skyrocket in April, at a time when many venues where money could be spent remained closed. This dynamic prompted a burst of retail-investor stock trading. New Federal Reserve facilities for buying corporate bonds served as a welcome sign for borrowers, resulting in a record level of new issuance.

Personal Savings and Government Stimulus



Corporate Bond New Issuance



LEFT: Source: Bureau of Economic Analysis. Haver Analytics, Fidelity Investments (AART) as of 5/31/20. **RIGHT:** Source: SIFMA, Fidelity Investments (AART), as of 5/31/20.

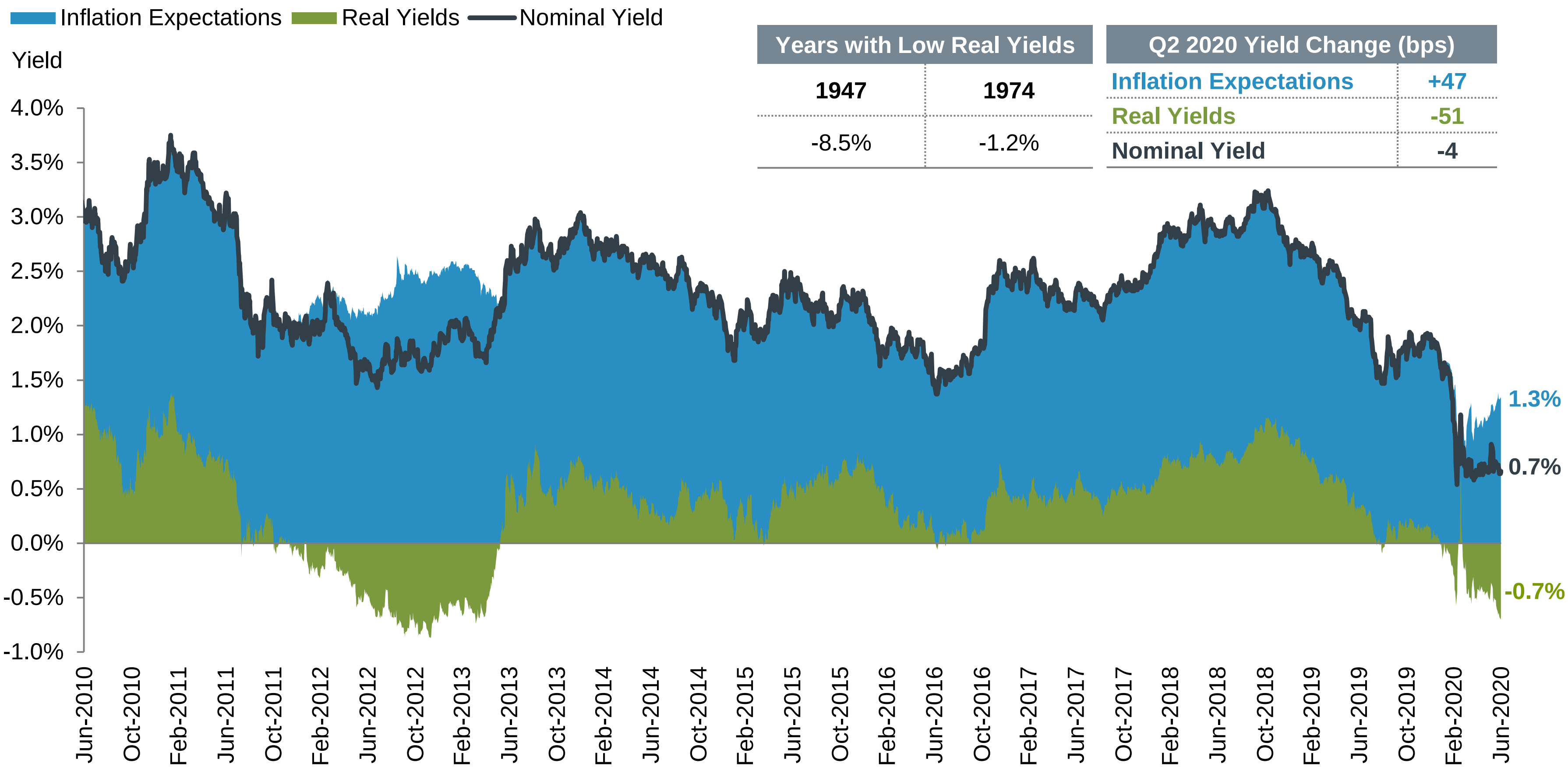
Real Yields Deeply Negative, Inflation Expectations Stabilize

U.S. 10-year Treasury yields remained near record lows, held in check by weak economic activity, quantitative easing, and a global low-yield environment. The real cost of borrowing fell deeper into the negative during Q2, offsetting a rise in inflation expectations from depressed levels. The most negative real yields in U.S. history occurred during periods of monetary accommodation and higher inflation in the late 1940s and mid-’70s.

10-Year U.S. Government Bond Yields

Years with Low Real Yields	
1947	**1974**
-8.5%	-1.2%

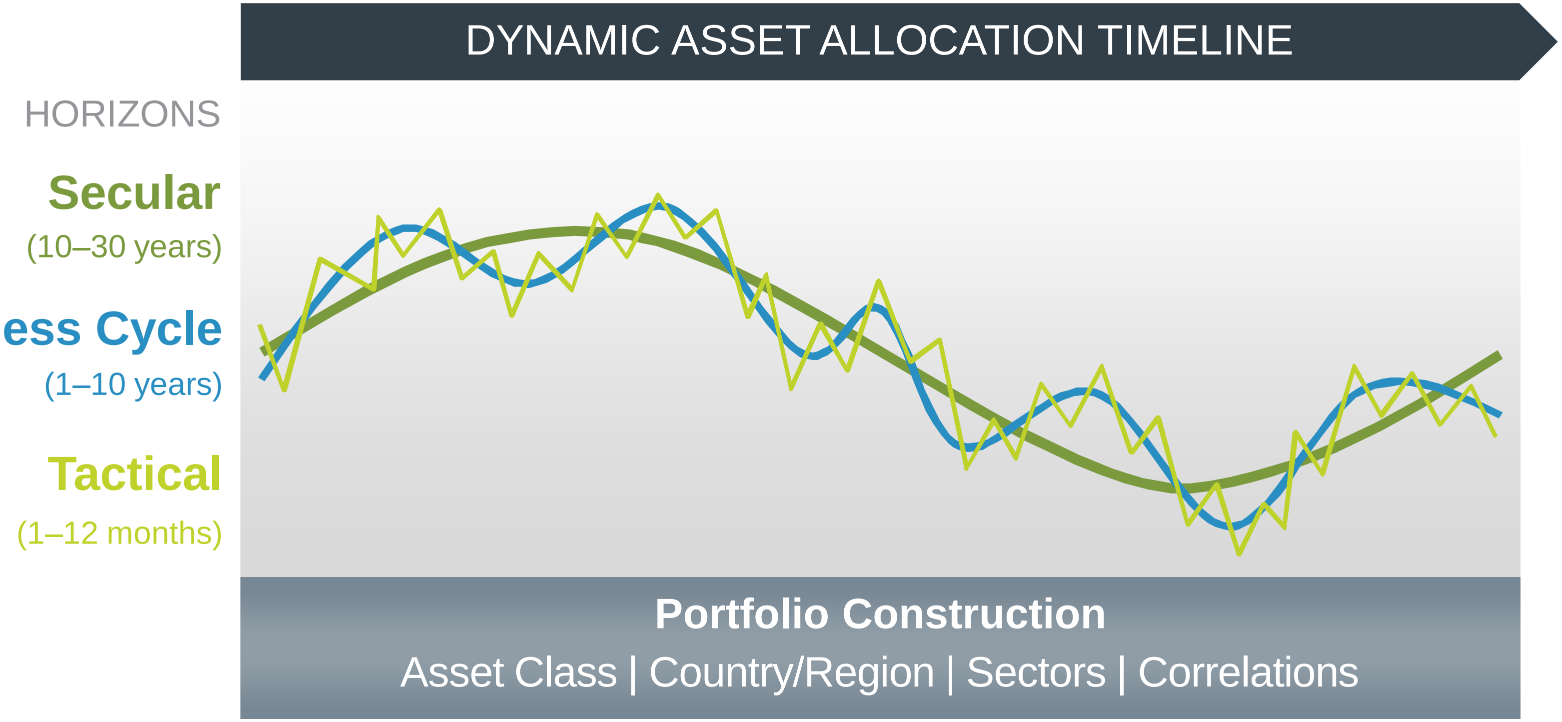
Q2 2020 Yield Change (bps)	
Inflation Expectations	**+47**
Real Yields	**-51**
Nominal Yield	**-4**



 Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/20.

Multi-Time-Horizon Asset Allocation Framework

Fidelity's Asset Allocation Research Team (AART) believes that asset-price fluctuations are driven by a confluence of various factors that evolve over different time horizons. As a result, we employ a framework that analyzes trends among three temporal segments: tactical (short term), business cycle (medium term), and secular (long term).



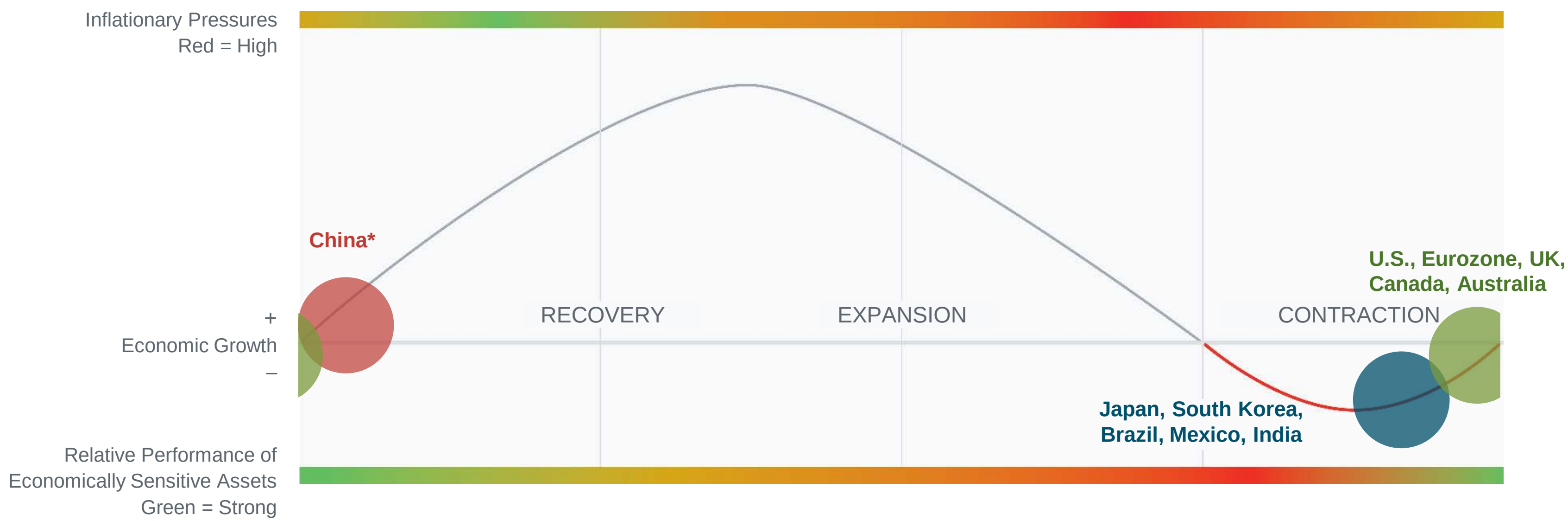
For illustrative purposes only. Source: Fidelity Investments (AART), as of 6/30/20.

Tentative Economic Stabilization after Historic Declines

Global activity shows early signs of improvement from extremely low levels. Near-term sequential progress is likely to continue as coronavirus-related restrictions on routine activities are lifted. China appears to be somewhat ahead of most major economies due to its earlier shutdown and reopening. While the worst of the recession appears to have passed for the U.S. and Europe as well, activity levels remain far below normal.

Business Cycle Framework

Cycle Phases	EARLY	MID	LATE	RECESSION
	• Activity rebounds (GDP, IP, employment, incomes) • Credit begins to grow • Profits grow rapidly • Policy still stimulative • Inventories low; sales improve	• Growth peaking • Credit growth strong • Profit growth peaks • Policy neutral • Inventories, sales grow; equilibrium reached	• Growth moderating • Credit tightens • Earnings under pressure • Policy contractionary • Inventories grow, sales growth falls	• Falling activity • Credit dries up • Profits decline • Policy eases • Inventories, sales fall



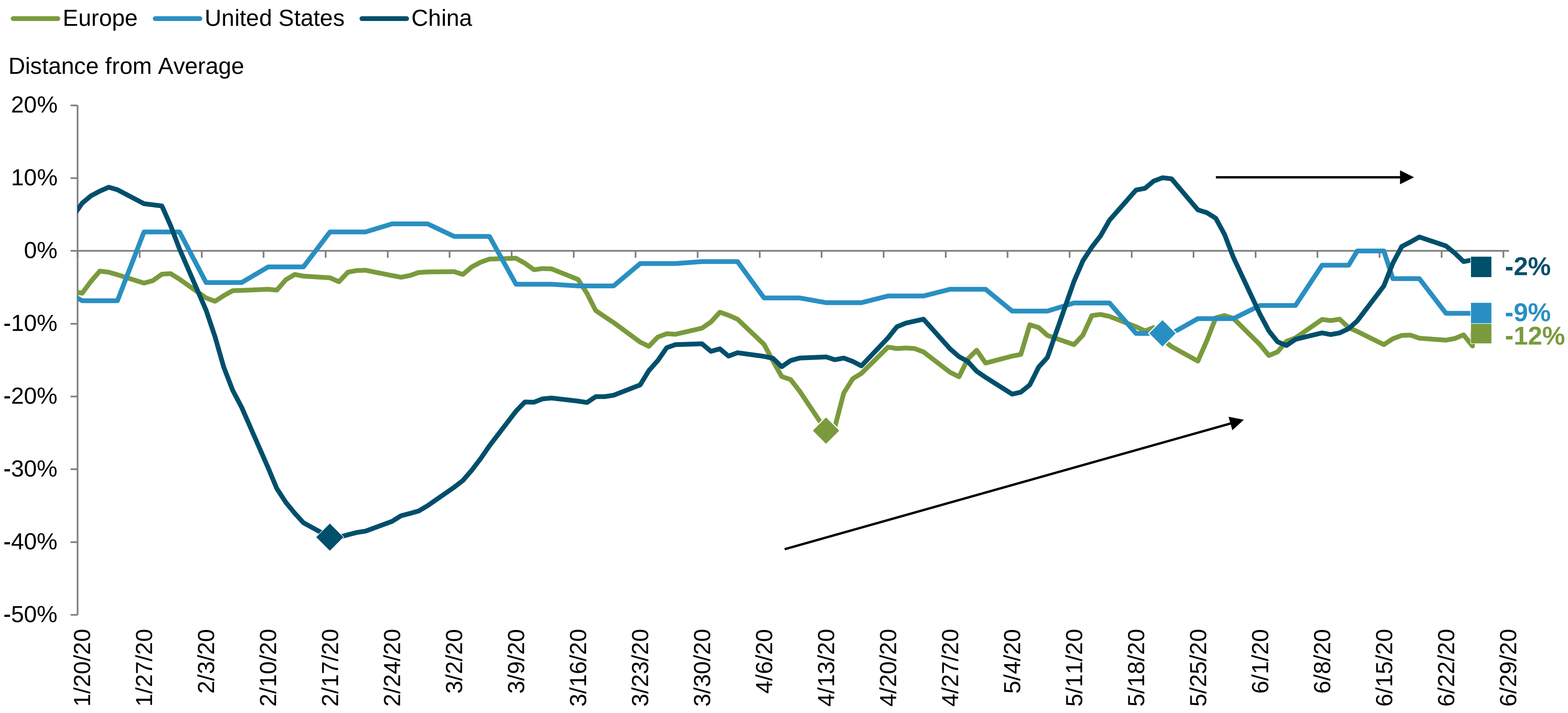
Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one.

* A growth recession is a significant decline in activity relative to a country's long-term economic potential. We use the "growth cycle" definition for most developing economies, such as China, because they tend to exhibit strong trend performance driven by rapid factor accumulation and increases in productivity, and the deviation from the trend tends to matter most for asset returns. We use the classic definition of recession, involving an outright contraction in economic activity, for developed economies. Source: Fidelity Investments (AART), as of 6/30/20.

High-Frequency Data Shows Uneven Progress

Since COVID-19 lockdowns sent power demand declining at double-digit rates, the path to reopening and recovery has been jagged and varied across countries. China experienced the sharpest declines amid the toughest lockdown, but has since seen material improvement. Europe's progress appears the most tentative, while the U.S. advance seemed to stall during June.

High-Frequency Energy Demand

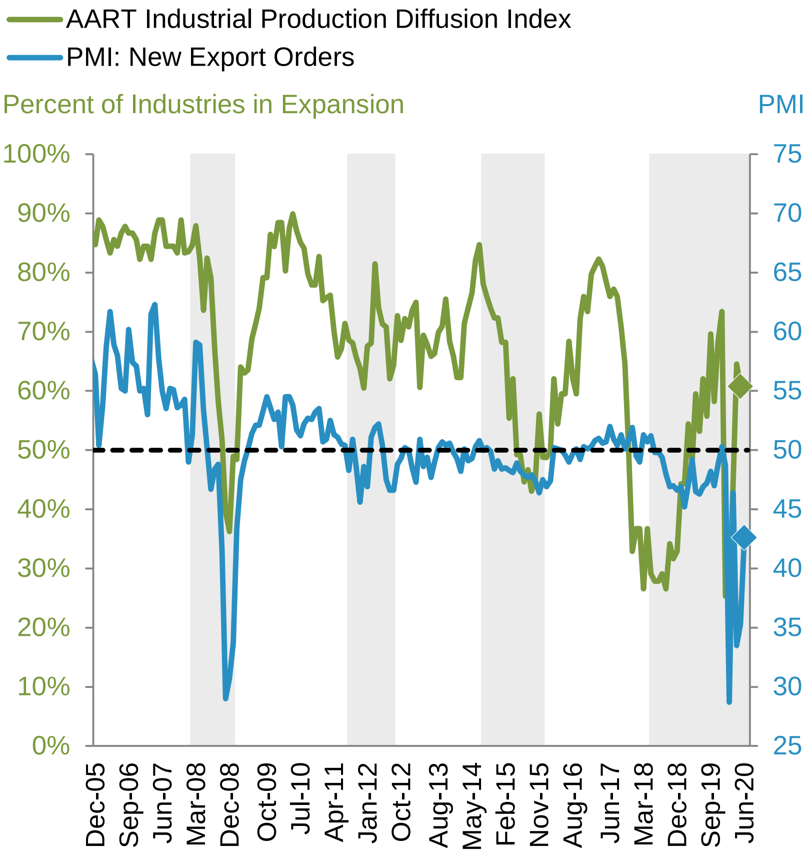


European energy demand is reflected by a five-day moving average of daily electric loads, Chinese energy demand is reflected by a seven-day moving average of daily coal consumption, and U.S. energy demand is reflected by weekly electric output. The distance from average for the U.S. and Europe is calculated as the current year's data as a percentage above or below the 2017–2019 weekly average. The distance from average for the China is calculated as the current year's data as a percentage above or below the 2017–2019 daily average indexed to the Chinese New Year. GDP-weighted countries in Europe include: Italy, Germany, United Kingdom, Spain, Austria, and France. Source: CCTD, European Network of Transmission System Operators for Electricity, Edison Electric Institute, Haver Analytics, Fidelity Investments (AART), as of 6/28/20.

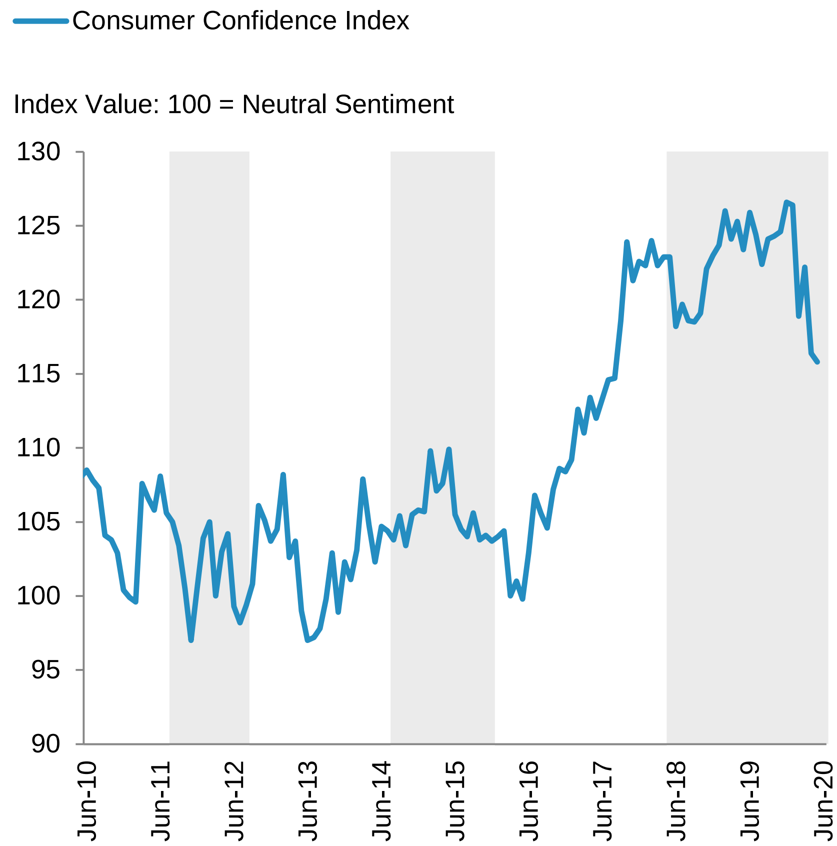
China: An Industry-Led Recovery

Boosted by government infrastructure stimulus and the move to reopen, China's industrial production has largely recovered, although export-oriented industries still face weak global demand. The consumer sector appears mixed, with a supportive housing market but an uncertain employment outlook. China's recovery is slowly gaining traction, but additional policy stimulus may be needed to sustain reacceleration.

China Industrial Activity



China Consumer Confidence Index

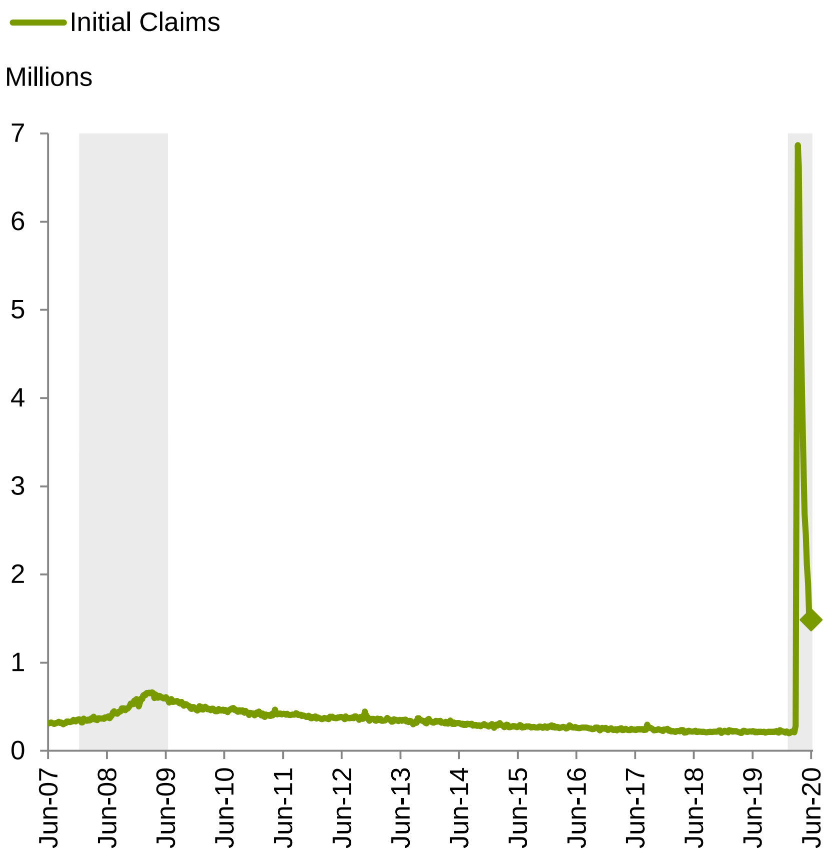


PMI: Purchasing Managers Index. A reading above 50 indicates the manufacturing economy is generally expanding; below 50 indicates it is generally contracting. AART Industrial Production Diffusion Index is a proprietary index based on industrial production data. Gray bars represent China growth recessions as defined by AART. **LEFT:** Source: China National Bureau of Statistics, Haver Analytics, Fidelity Investments (AART). AART Diffusion Index as of 5/31/20. PMI as of 6/30/2020. **RIGHT:** Index values above 100 denote optimism, values below 100 denote pessimism, and an index value of 100 denotes neutral sentiment. Source: China National Bureau of Statistics, Haver Analytics, Fidelity Investments (AART), as of 5/31/20.

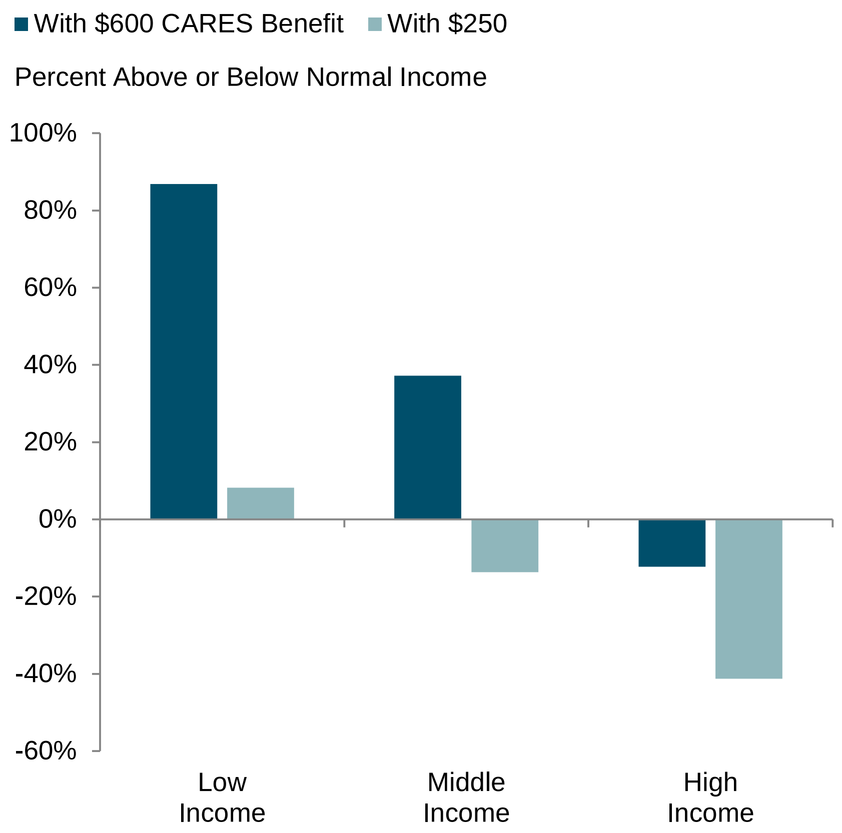
Unemployment Shock Followed by Improvement, Support

After hitting record levels in March, new unemployment claims slowed as the U.S. started to reopen. With weekly claims still above 1 million and unemployment above 11%, labor markets likely will take time to heal. The CARES fiscal package boosted unemployment benefits by $600 per week and raised average incomes for low- and middle-income workers above their pre-virus levels, but those extra benefits are set to expire in July.

U.S. Unemployment Claims



Weekly Earnings of Unemployed Individuals

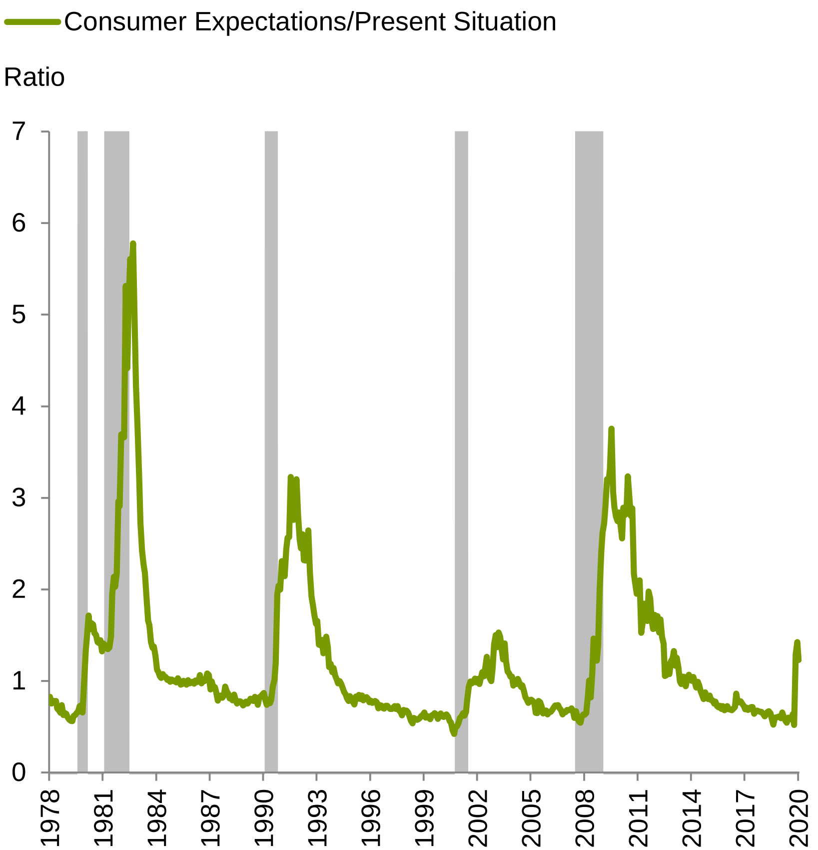


LEFT: Source: Census, Haver Analytics, Fidelity Investments (AART), as of 6/27/20. **RIGHT:** Workers receiving unemployment insurance. "With $250" is if extra benefit is reduced to that level after expiration of $600. Worker income cohorts are defined by percentiles: low Income (25th percentile), middle income (50th percentile), and high income (75th percentile). Working paper "U.S. Unemployment Insurance Replacement Rates During the Pandemic" by Ganong, Noel, and Vavra, Fidelity Investments (AART), as of 5/31/20.

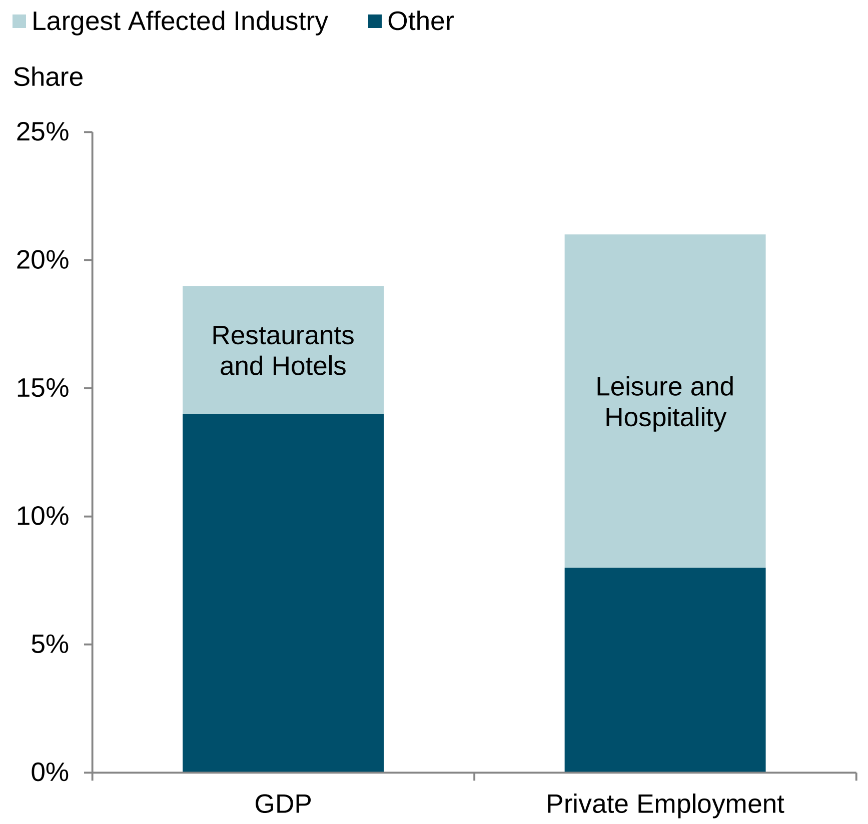
Consumers Expect Improvement, but Reopening Is Difficult

As the U.S. economy started to reopen during Q2, consumers' expectations relative to their assessment of then-current conditions improved significantly. This trend typically begins during recession and lasts into the early-cycle phase. Industries most directly impacted by the virus—such as travel, leisure, restaurants, and hotels—may be the most difficult to fully reopen, and they account for roughly 20% of U.S. jobs and economic output.

Consumer Sentiment



Sectors Most Impacted by COVID-19

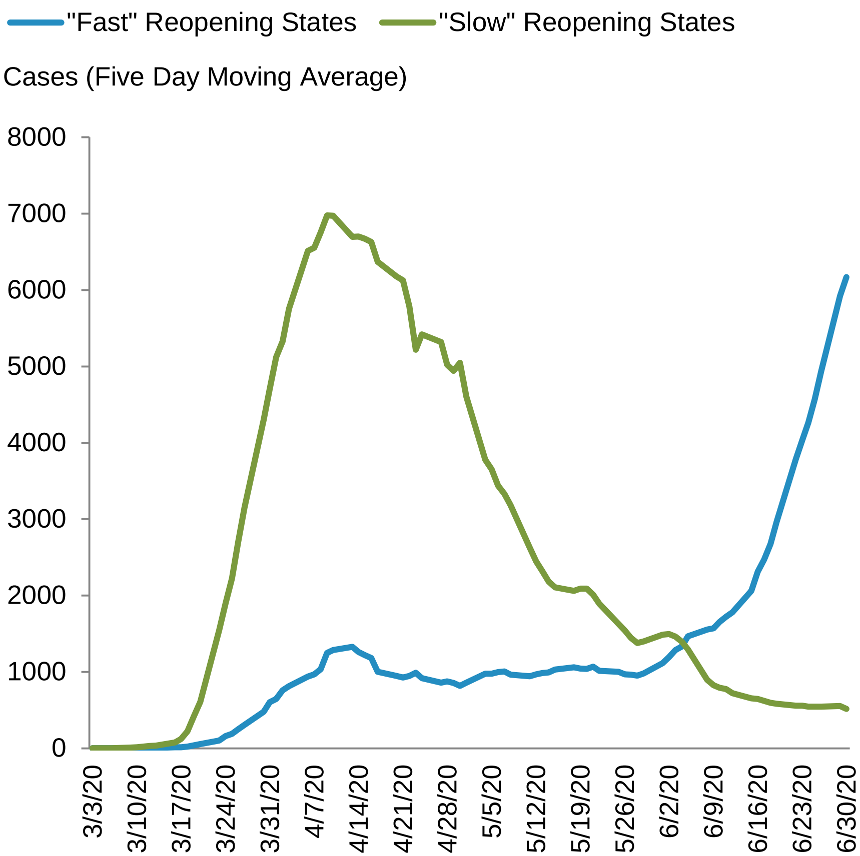


LEFT: Gray bars represent U.S. recessions as defined by NBER. Source: Conference Board, Haver Analytics, Fidelity Investments (AART), as of 6/30/20. **RIGHT:** Other industries most impacted shaded in blue include: For GDP: Recreation Services, Autos, Transportation Services, Recreation Goods, Clothing, Gasoline, Furnishings. For Employment: Retail, Transportation Source: Conference Board, NBER, Haver Analytics, Fidelity Investments (AART), as of 2/29/20.

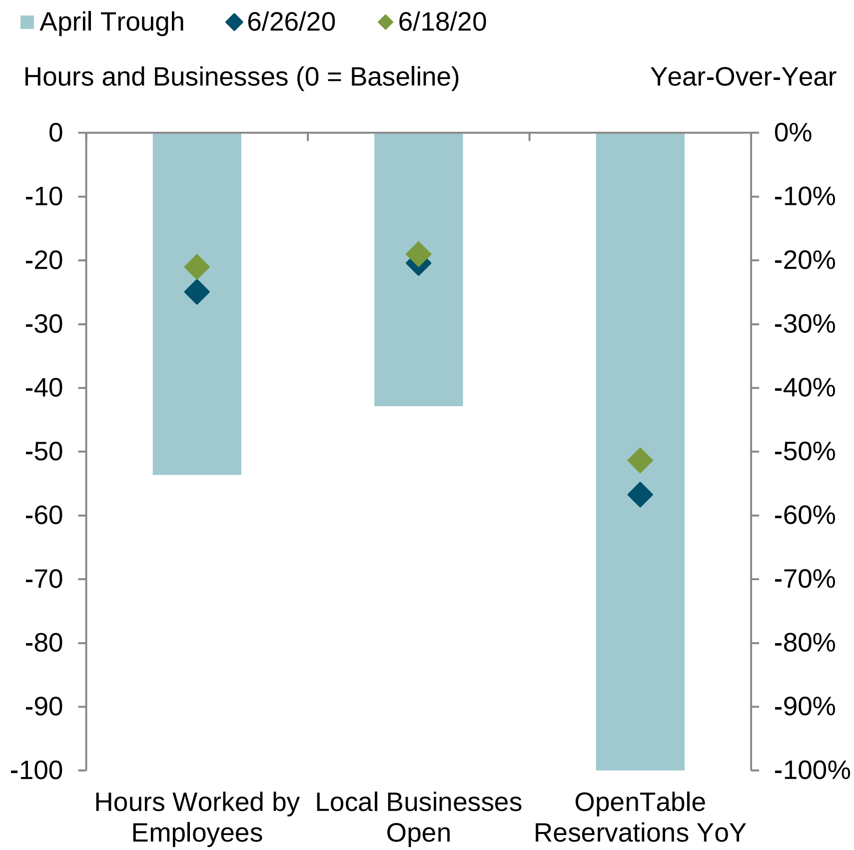
Among States, "Fast" Reopeners Stall U.S. Progress

In June, new COVID-19 cases climbed in states that had quickly relaxed social distancing measures, whereas formerly hard-hit states such as New York experienced a decline in new cases. High-frequency data—such as businesses reopened and employee hours worked—showed improvements in U.S. economic activity from historic lows. However, progress stalled among fast-reopening states and remains far below normal levels.

New COVID-19 Cases



Daily Data in "Fast" Reopening States

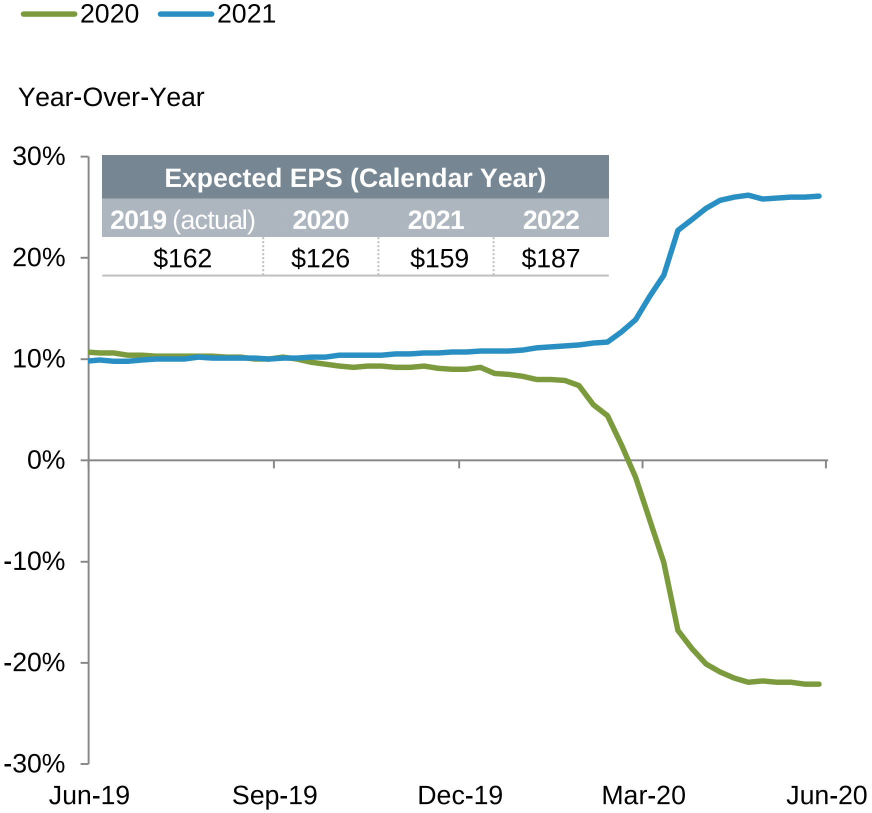


"Fast" reopening states include Arizona, Florida, Georgia, and Texas. "Slow" reopening states include Massachusetts, New York, and New Jersey. **LEFT:** Source: Johns Hopkins University, Haver Analytics, Fidelity Investments (AART), as of 7/3/20. **RIGHT:** Baseline is defined as the median for that day of the week during the period 1/4/20–1/31/20. Source: OpenTable, Homebase, Haver Analytics, Fidelity Investments (AART), as of 6/26/20.

Market Expects a Relatively Quick Earnings Recovery

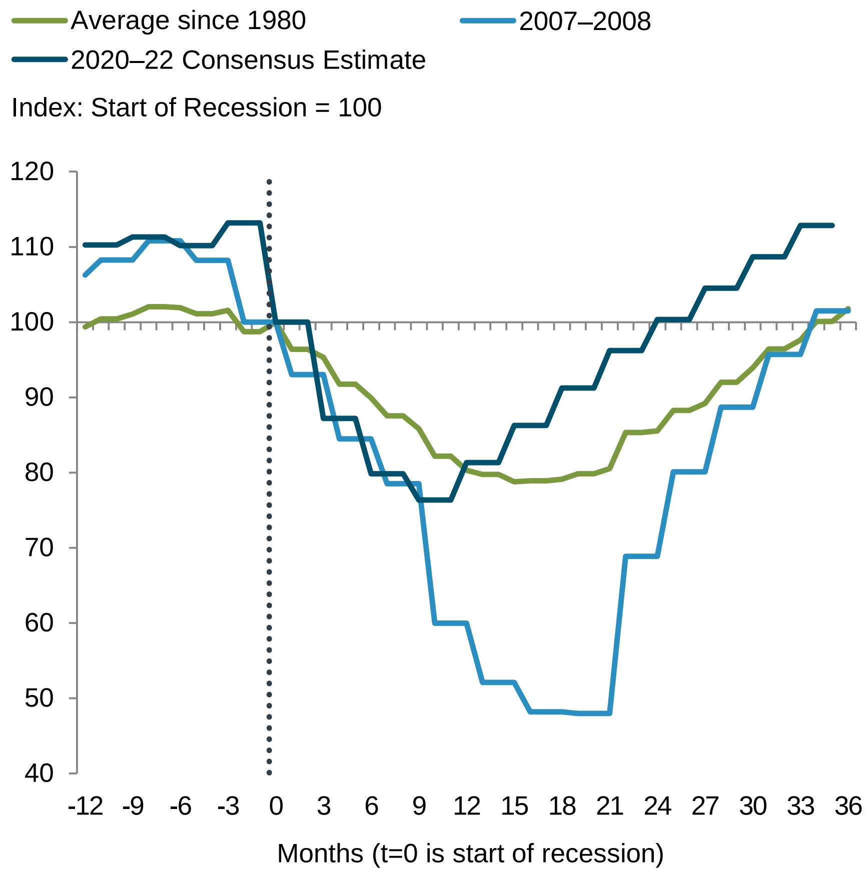
2020 earnings are expected to decline nearly 20%—about average for the previous five recessions. Consensus estimates are for S&P 500 EPS to return to pre-virus levels by the end of 2021—a much faster rate of recovery to pre-recession levels than the historical average of closer to three years. Considering the damage to the economy and uncertainty about the path of recovery, we believe profit growth may be slower than anticipated.

S&P 500 Earnings Growth Estimates



Expected EPS (Calendar Year)			
2019 (actual)	2020	2021	2022
$162	$126	$159	$187

S&P 500 EPS Progression in Recession

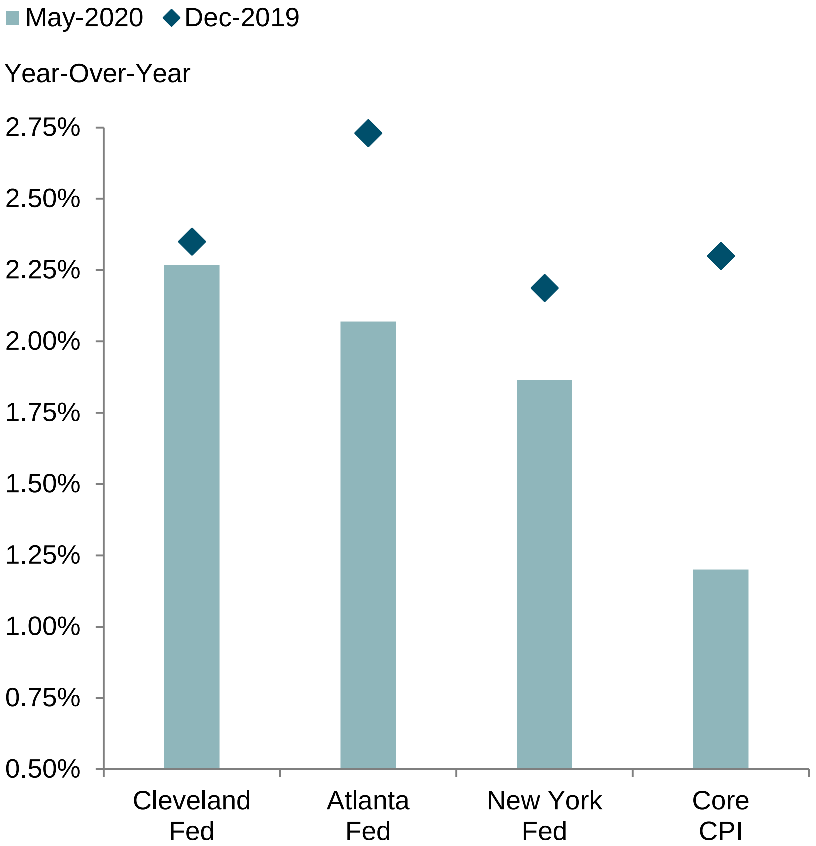


LEFT AND RIGHT: EPS: Earnings per share. Past performance is no guarantee of future results. Source: Bloomberg Finance L.P., Fidelity Investments (AART), Haver Analytics as of 6/25/20.

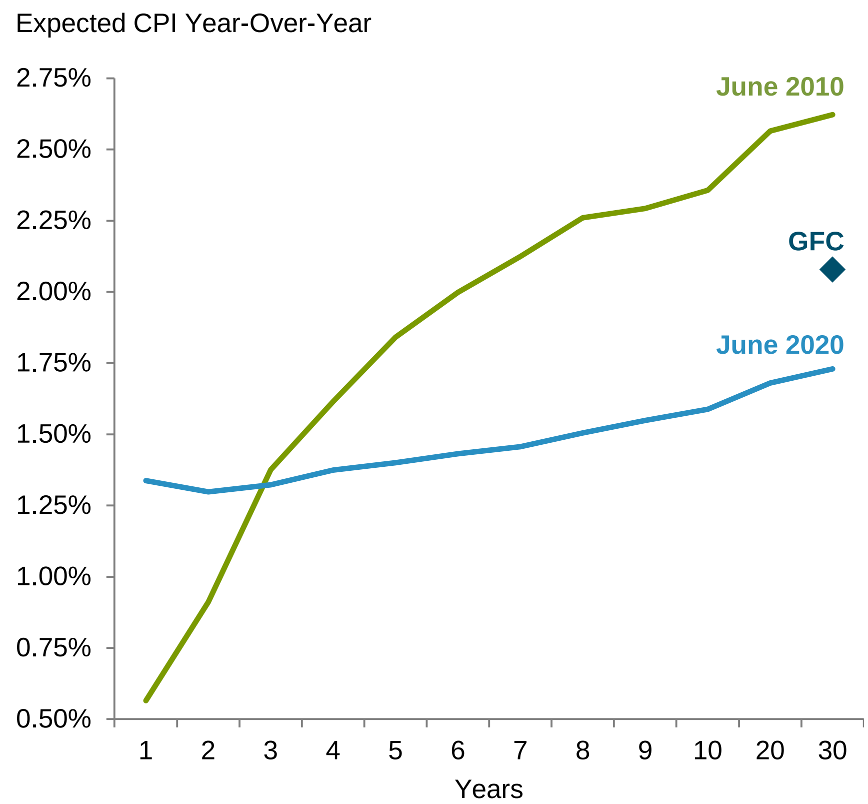
Inflation Drop Likely Short-Lived; Consensus Low for Long

Core CPI dropped by nearly half in recent months, but alternative inflation measures from regional Fed banks fell much less and suggested the biggest disinflation is behind us. We expect inflation to remain range-bound in the near term amid a weak economy, but longer-term inflation risks may be higher than anticipated—market expectations for long-term inflation are lower than they were during the deflationary GFC of 2008.

Measures of U.S. Inflation



U.S. Inflation Expectations

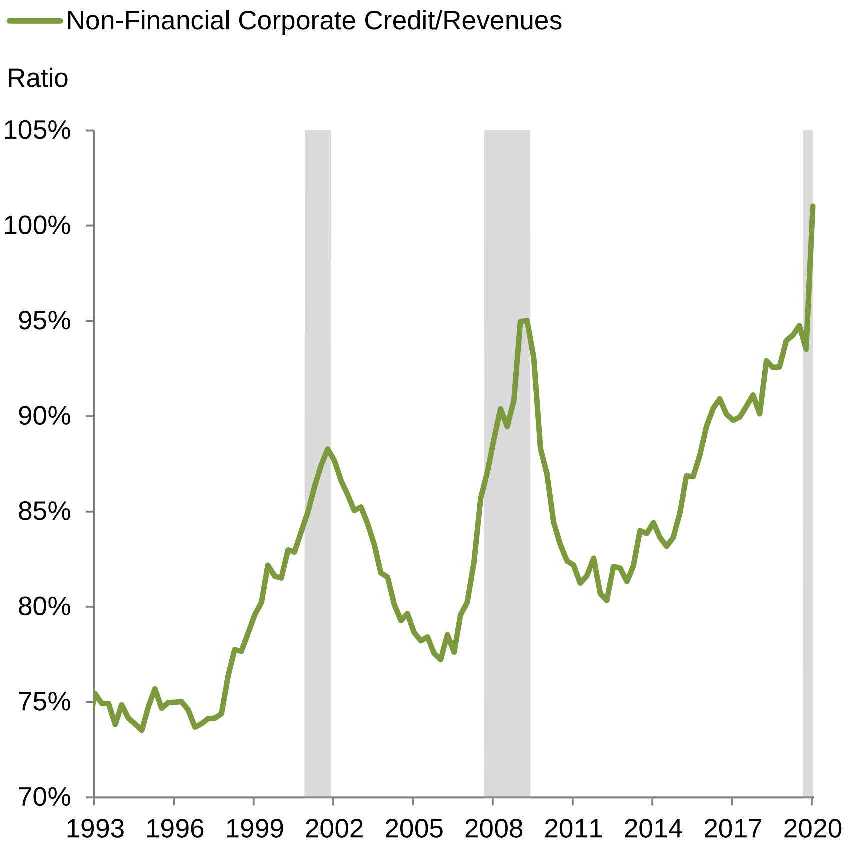


LEFT: CPI: Consumer Price Index. Core CPI excludes Food and Energy. Cleveland Fed: Cleveland 16% Trimmed Mean CPI, Atlanta Fed: Sticky CPI, New York Fed: Underlying Inflation Gauge. Source: Federal Reserve Board, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 5/31/20. **RIGHT:** GFC: Global Financial Crisis. Inflation curves derived from Inflation swaps. Source: Bloomberg Financial, Fidelity Investments (AART), as of 6/30/20.

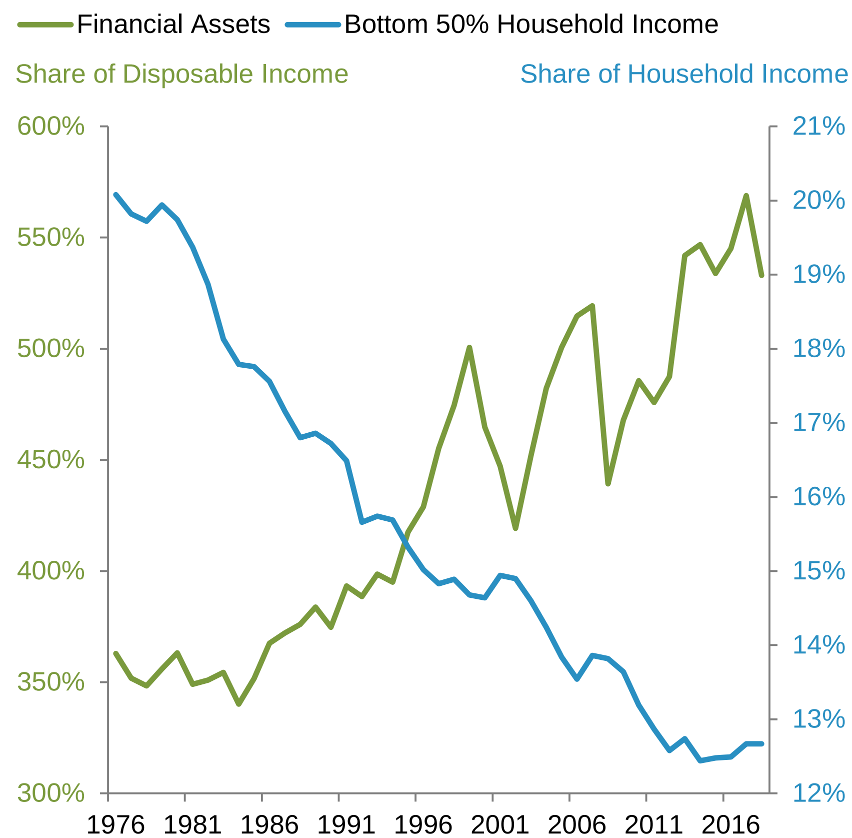
Response May Not Resolve Pre-Existing Vulnerabilities

While both the policy response and the market recovery have been dramatic, some of the near-term remedies may have exacerbated pre-COVID underlying weaknesses. The Fed's emergency lending facilities have driven corporate debt—already at record levels—even higher. In addition, gains in financial assets tend to benefit wealthier households but not lower-income tiers, which face greater economic distress.

U.S. Corporate Debt



Household Financial Assets and Income



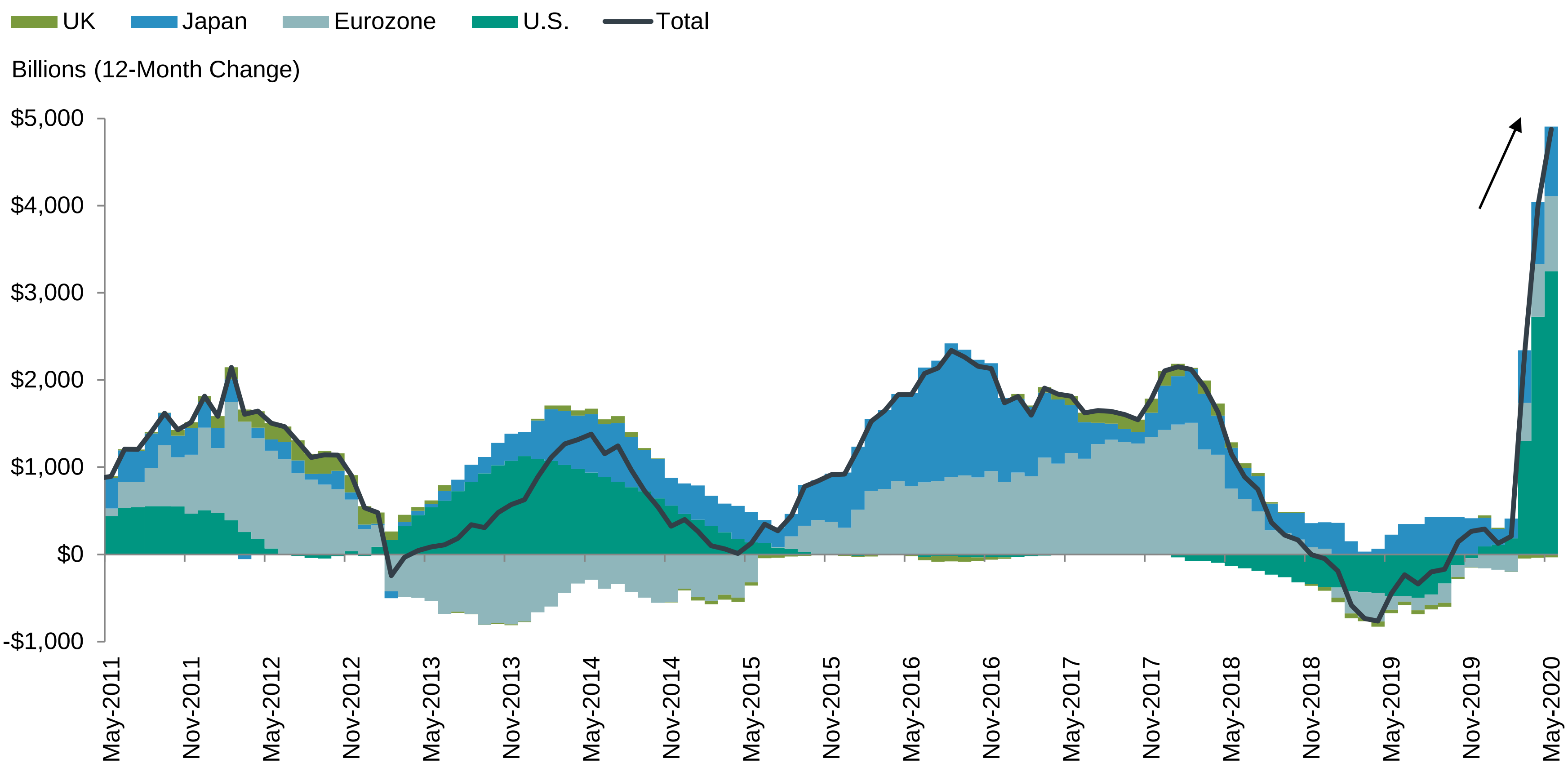
LEFT: Gray bars represent U.S. recessions as defined by NBER. Source: Federal Reserve Board, NBER, Bureau of Economic Analysis, Haver Analytics, Fidelity Investments (AART), as of 3/31/20. **RIGHT:** The 50% of households with the lowest incomes**.** Source: Federal Reserve Board, Bureau of Economic Analysis, World Inequality Data, Haver Analytics, Fidelity Investments (AART), as of 12/31/18

Fidelity INVESTMENTS

Liquidity Injections Exceed Previous Episodes of Easing

The Federal Reserve delivered massive monetary accommodation, pushing its balance sheet above $7 trillion by the end of Q2. The Fed ramped up purchases of Treasuries and MBS, bought municipal and corporate bonds through new facilities, and also provided support via other activities. Europe and Japan increased their QE programs, with global central banks injecting more than twice the liquidity of previous easing periods.

Central Bank Balance Sheets

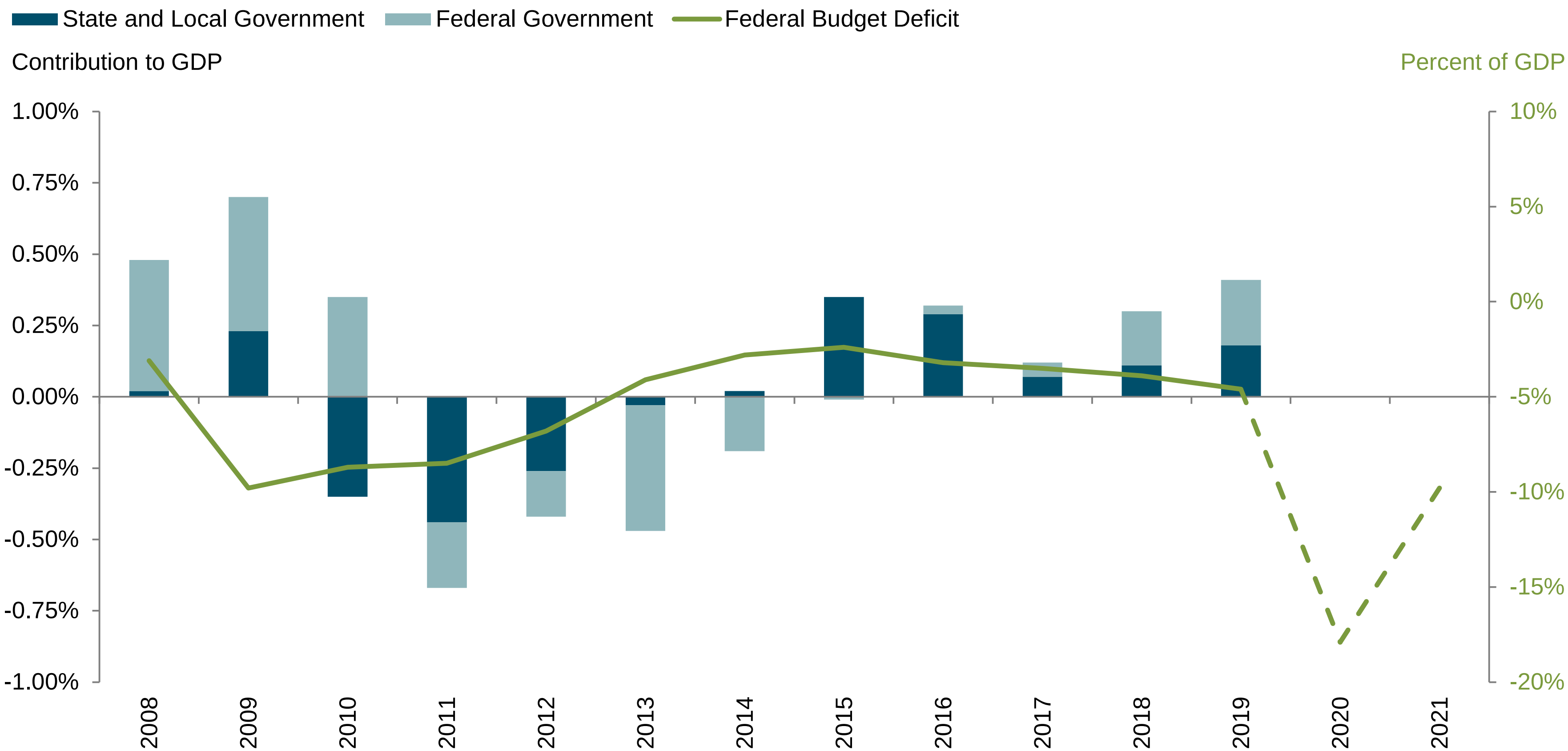


QE: Quantitative Easing. Source: Federal Reserve, Bank of Japan, European Central Bank, Bank of England, Haver Analytics, Fidelity Investments (AART), as of 5/31/20.

Unprecedented Fiscal Response Will Likely Need More

By May, the federal government had approved roughly $3 trillion of emergency funds, which provided a crucial bridge to economic activity during the shutdown but also ballooned the fiscal deficit to roughly 18% of GDP. Amid a slow reopening and severe budget shortfalls at the state and local government level, ongoing federal support may be needed to avoid a significant fiscal drag on the economy similar to the post-GFC expansion.

U.S. Federal Fiscal Deficit and Government Impact on GDP

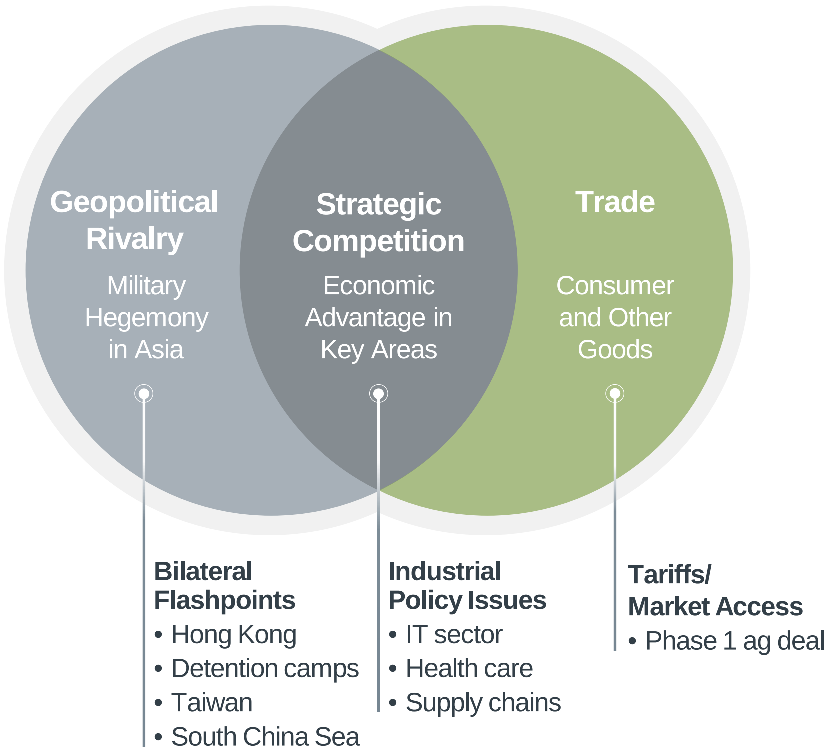


Source: CBO, BEA, Haver Analytics. 2020 and 2021 Budget Deficits are CBO projections (https://www.cbo.gov/system/files/2020-04/56344-CBO-presentation.pdf), Fidelity Investments (AART).

U.S.–China Tensions Spur De-Globalization Pressures

The deepening U.S.–China geopolitical rivalry makes broader agreement on bilateral commercial issues less tractable and raises the risk that flashpoints will lead to escalation. Policy actions in 2020 may be relatively contained, but the COVID-19 aftermath could lead to a medium-term rise in industrial policies aimed at self-sufficiency, more restrictive travel and immigration, and continued bipolarization of the global IT industry.

U.S.-China Relationship



Policy Tools of De-Globalization

	Policy Action Categories	Example
Broad Economic	**Tariff/Trade Barriers**	Raise tariffs to reduce imports
	Export and FDI Restrictions	Curtail high-tech exports
	Industrial Policies	Mandate supply chain onshoring
	Immigration/ Human Mobility	Tighter borders
	Financial Restrictions/ Penalties	U.S. sanctions; tax policies
	Info/Data Restrictions	China's firewall
	Portfolio Investment Restrictions	U.S. de-lists Chinese ADRs
Investment	**Politicized Debt Action**	Selective U.S. default

Ag: Agriculture. FDI: Foreign direct investment. ADR: American depositary receipt. Source: Fidelity Investments (AART), as of 6/30/20.

Outlook: Market Assessment

Fidelity's Business Cycle Board, composed of portfolio managers responsible for a variety of global asset allocation strategies, believes that policy actions are playing a larger role in driving economic and market expectations than they have in the past. Board members hold a wide range of views, but they emphasize the need for a disciplined investment strategy, and some see opportunities within non-U.S. asset categories.

Business Cycle

U.S. is in process of emerging from a brief but sharp recession

Policymakers providing abundant support to markets and economy

Risks

The recovery remains highly uncertain given the size and exogenous nature of the COVID shock

Policy actions are playing a larger role in driving financial market performance than in past cycles

Asset Allocation Implications

Emphasize focus on diversified and disciplined investment strategies

Members hold a wide range of views, but see opportunities within asset classes

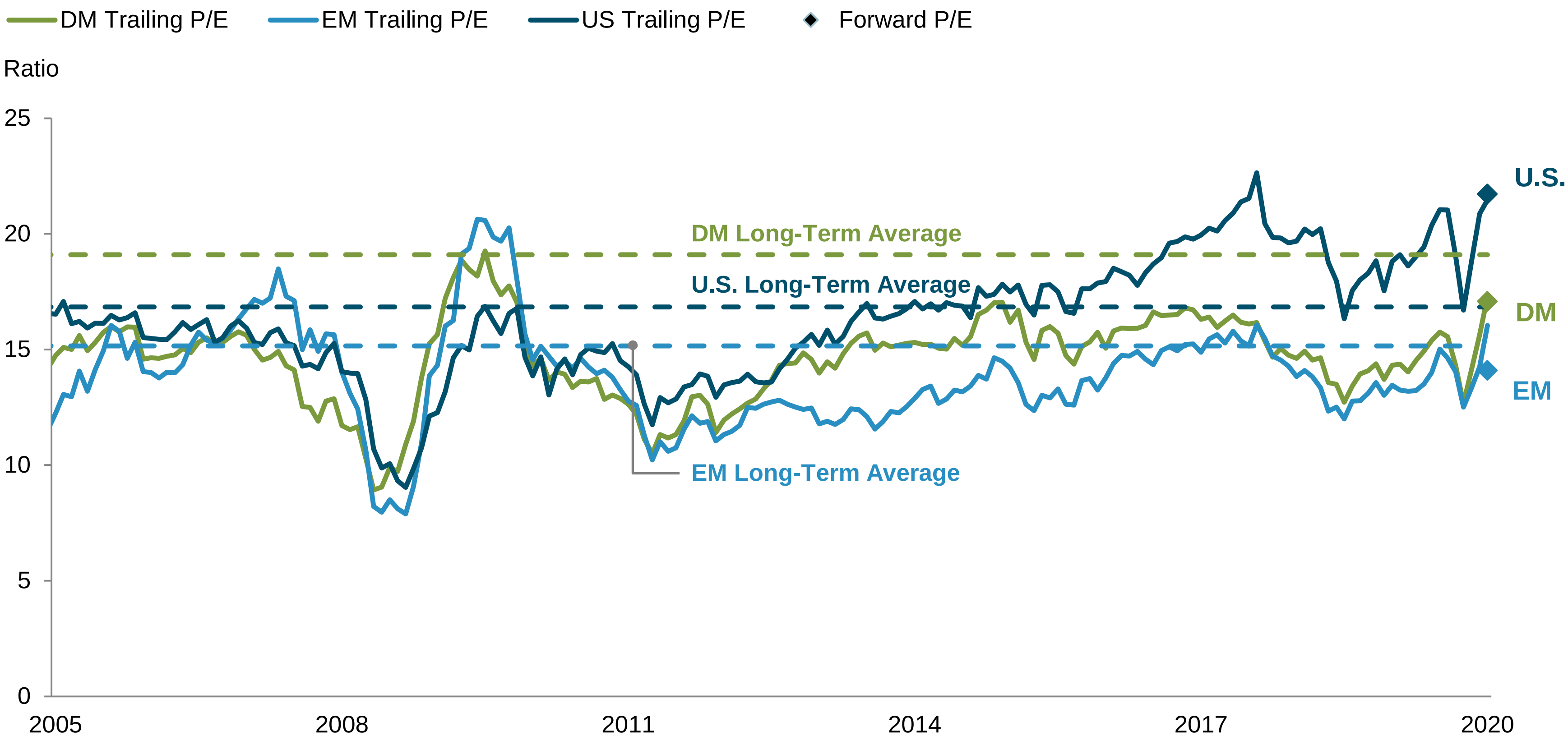
Opportunities include non-U.S. assets, U.S. small cap and value equities, TIPS, and gold

 For illustrative purposes only. Diversification does not ensure a profit or guarantee against a loss. Source: Fidelity Investments (AART), as of 6/30/20.

Equity Valuations Back to Pre-Pandemic Levels

The rally in stock prices and decline in earnings drove global equity valuations higher during Q2, back near their early 2020 levels. The rise in price-to-earnings (P/E) ratios was broad-based across regions, with the U.S. and emerging-market P/E ratios finishing the quarter above their long-term historical averages. U.S. forward P/E ratios also are elevated, but EM forward valuations remain below their long-term norm.

Global Stock Market P/E Ratios

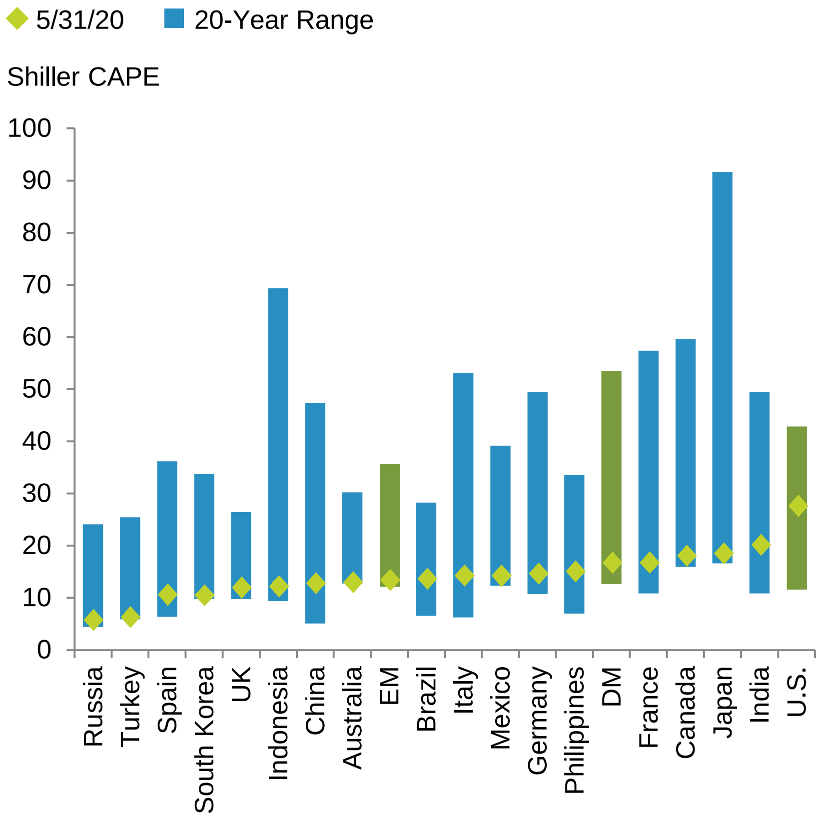


DM: Non-U.S. Developed Markets. EM: Emerging Markets. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Price-to-earnings ratio (P/E): stock price divided by earnings per share. Also known as the multiple, P/E gives investors an idea of how much they are paying for a company's earnings power. Long-term average P/E for Emerging Markets includes data for 1988–2017; for Non-U.S. Developed Markets, 1973–2016; for the United States, 1926–2017. Indexes: DM—MSCI EAFE Index; EM—MSCI EM Index; United States—S&P 500. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/20.

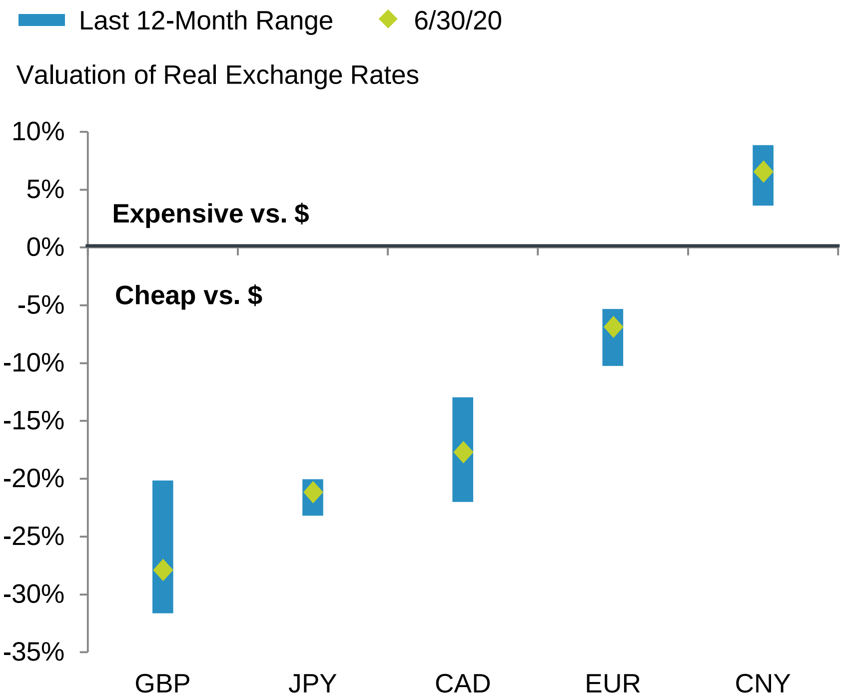
Non-U.S. Equity and Forex Valuations Relatively Attractive

Cyclically adjusted P/E (CAPE) ratios for international developed-market and emerging-market equities remained below U.S. valuations, providing a relatively favorable long-term backdrop for non-U.S. stocks. In Q2, the U.S. dollar depreciated against many of the world's major currencies; nevertheless, U.S. dollar valuations remain relatively expensive overall.

Cyclically Adjusted P/Es



Valuation of Major Currencies vs. USD



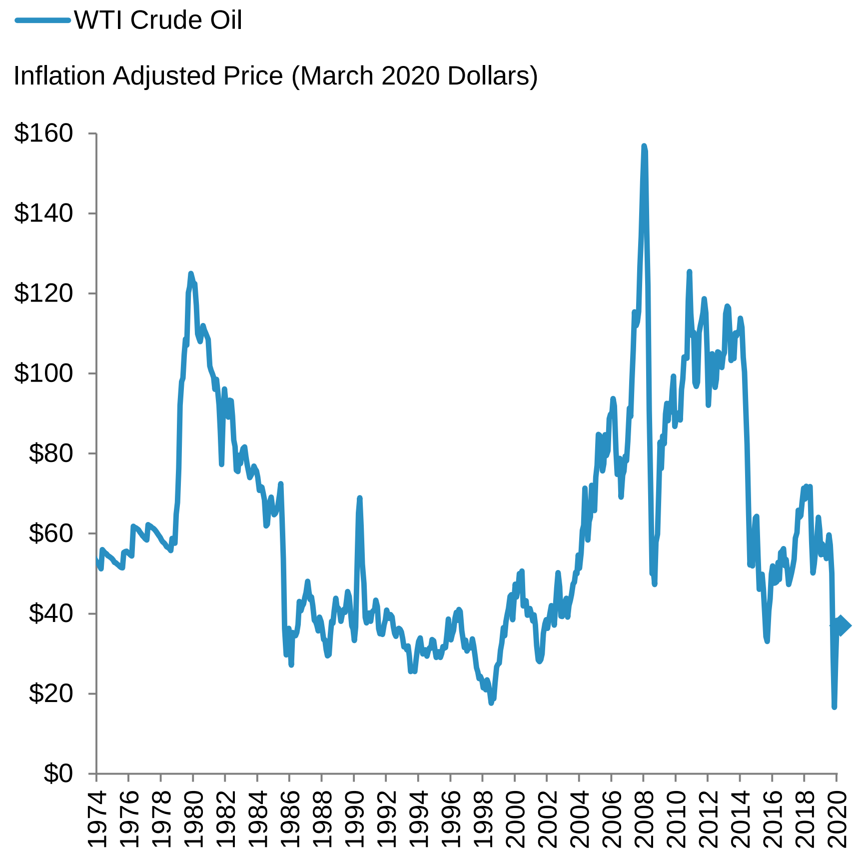
DM: Developed Markets. EM: Emerging Markets. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. **LEFT:** Price-to-earnings (P/E) ratio (or multiple): stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. Cyclically adjusted earnings are 10-year averages adjusted for inflation. Source: FactSet, countries' statistical organizations, Haver Analytics, Fidelity Investments (AART), as of 5/31/20. **RIGHT:** GBP—British pound; JPY—Japanese yen; CAD—Canadian dollar; EUR—euro; CNY—Chinese yuan. Source: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), as of 6/30/20.

Inflation Protection Remains Inexpensive

Market expectations for inflation—represented by breakeven rates for TIPS—climbed from decade-low levels but remain at the low end of their historical range. Oil prices recovered during Q2 but remain below pre-virus levels and also, on an inflation-adjusted basis, low relative to history. Unlike valuations for many other asset classes, prices among inflation-resistant asset categories remain relatively inexpensive.

U.S. Treasury Breakeven Inflation Rates

Real Oil Price

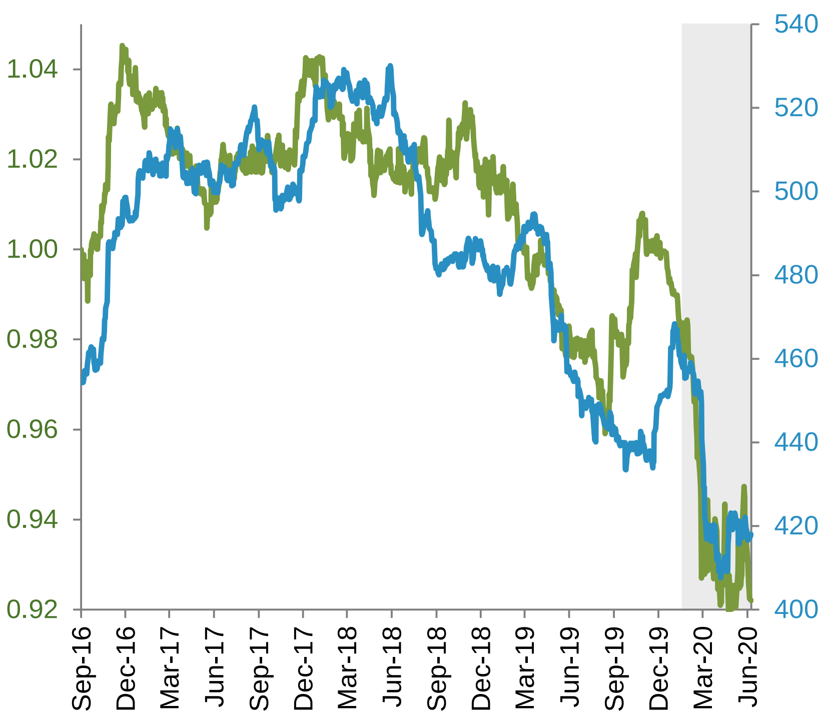


LEFT: TIPS: Treasury Inflation-Protected Securities. SOURCE: Haver Analytics, Fidelity Investments (AART), as of 6/30/20. **RIGHT:** Source: CME, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 6/30/20.

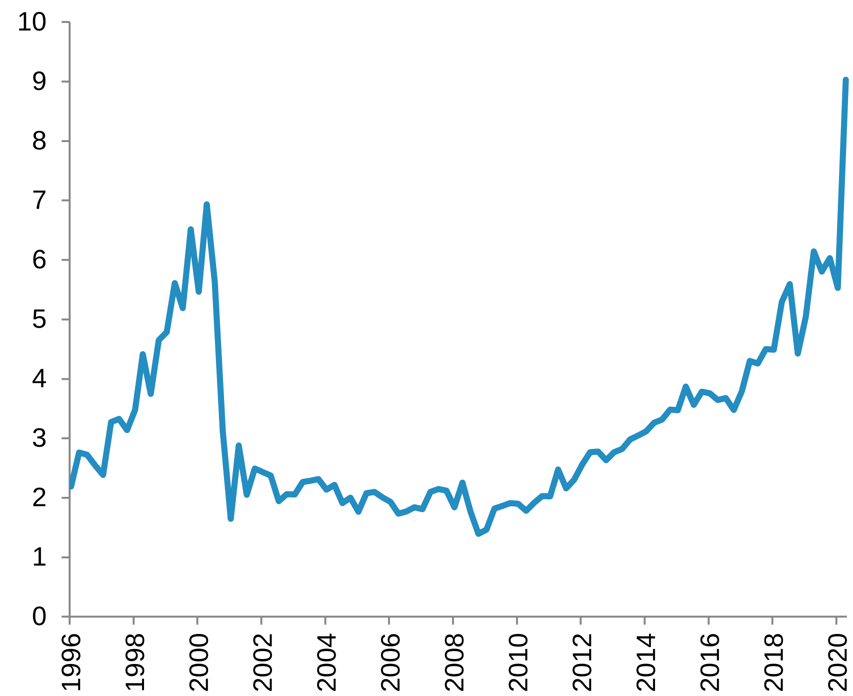
Value Equity More Attractive after Long Underperformance

On a cyclical basis, the relative performance of value stocks has tended to correlate generally with the direction of the global economy and, in particular, with commodity prices, which may be bottoming after the worldwide COVID-19 shutdown. Meanwhile, after a decade of trailing other leading factors and styles, value's relative valuations are at their most attractive in roughly 20 years.

Value Relative Performance vs. Commodity Prices



Price-to-Book Valuation Spreads



LEFT: Gray bars represent U.S. recessions as defined by NBER. Asset classes represented by Value: Fidelity Value ETF; Growth: Russell 1000® Growth Index; Commodity Prices: CRB Raw Industrials Index. Source: Federal Reserve Board, NBER, Haver Analytics, Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/20. **RIGHT**: Asset classes represented by Growth: Russell 1000® Growth Index; Value: Russell 1000® Value Index. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/20. **Past performance is no guarantee of future results.** All indexes are unmanaged. You cannot invest directly in an index. Unlike mutual funds, ETF shares are bought and sold at market price, which may be higher or lower than their NAV, and are not individually redeemed from the fund.

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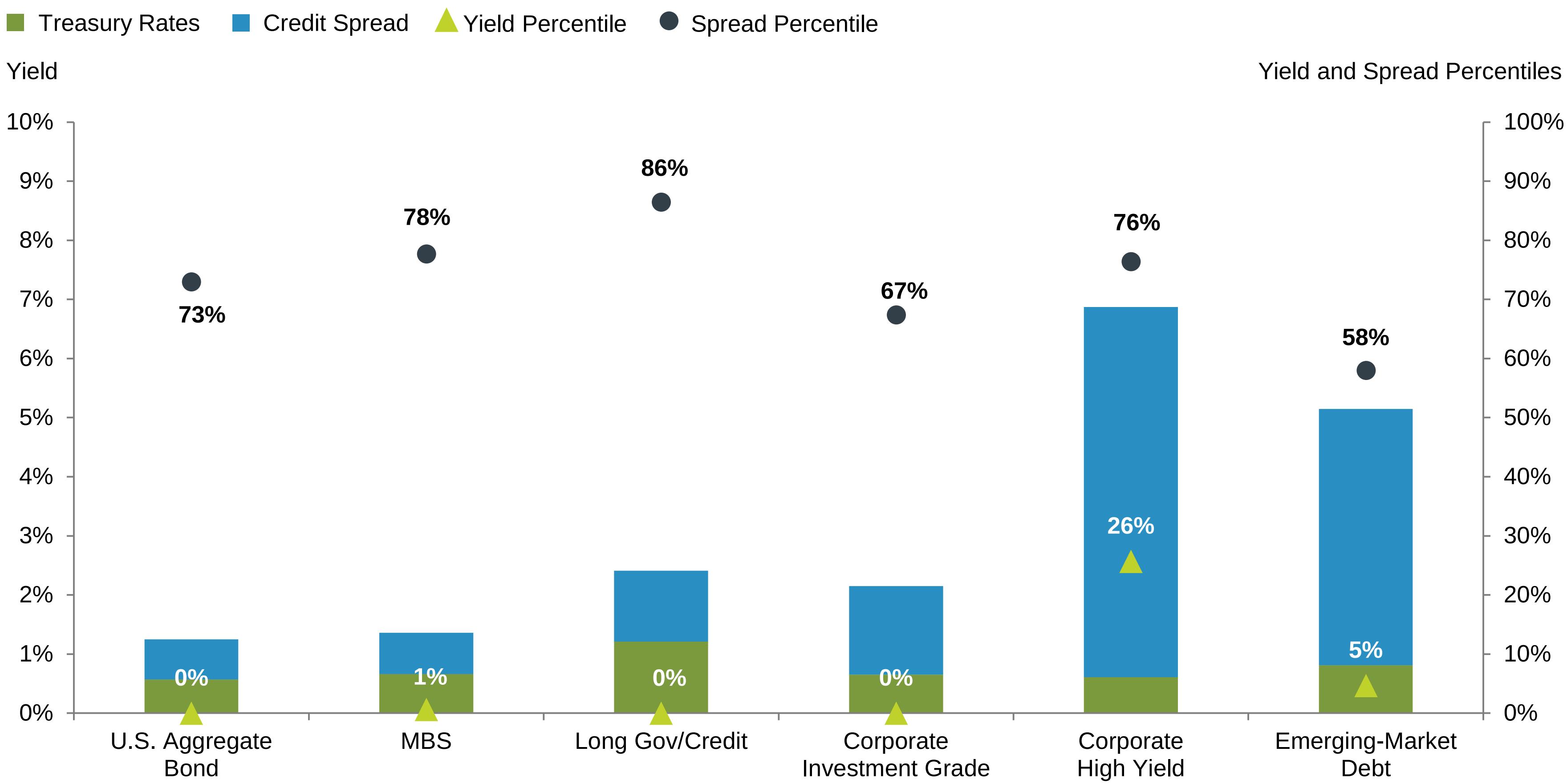
Tighter Spreads Pushed Bond Yields to Record Lows

After a steep rise last quarter, credit spreads tightened during Q2, but remained elevated relative to their long-term averages. Massive central bank accommodation in both the Treasury and credit markets put downward pressure on both rates and spreads, helping push bond yields in high-quality debt categories down to their lowest levels on record.

Fixed Income Yields and Spreads (1993–2020)



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Percentile ranks of yields and spreads based on historical period from 1993 to 2020. MBS: mortgage-backed securities. Source: Bloomberg Barclays, Bank of America Merrill Lynch, JP Morgan, Fidelity Investments (AART), as of 6/30/20.

Secular: Rising Policy and Political Risk

We believe the longstanding global regime of relatively stable and investment-friendly policies, politics, and regulation is nearing an end. Rising populism, geopolitical destabilization, and de-globalization pressures are key drivers of this change. We expect greater government intervention may inhibit corporate profitability, distort market signals, and lead to higher political risk in investment decisions throughout the world.

Regime Shift Driven by Powerful Underlying Dynamics

- Rising Populist Demands
- Geopolitical Instability
- Anti-Globalization Pressure
- Widespread Aging Demographics
- Unprecedented Accumulation of Debt

Policy Dynamic	Expected Shift
Monetary	• Increased political influence on decisions • Sustained financial repression • More active role in financial markets • More permissive of inflation
Globalization	• Trade, capital, and labor flows more restricted • Weaponized economic measures for geopolitical ends
Fiscal	• More permissive of large deficits and rising debt levels
Regulatory	• Trend toward greater interventionism
Political risk	• More commonplace in economic and commercial affairs

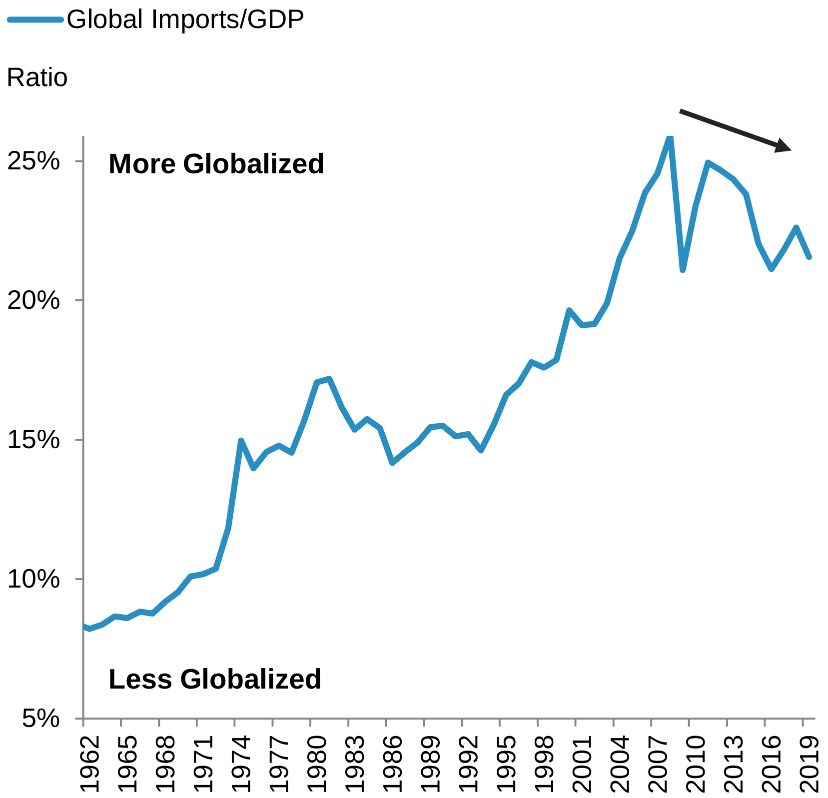
 Source: Fidelity Investments (AART), as of 6/30/20.

Secular Trend: De-Globalization

After decades of rapid global integration, economic openness stalled in recent years amid geopolitical shifts and domestic political pressures in many advanced economies. This poses risks for countries, industries, and companies that benefited most from the rise of a rules-based global order. The more that domestic politics and location matter, the greater the benefits and active opportunities from global asset diversification may be.

LONG-TERM

Trade Globalization



Secular Trends for Asset Markets

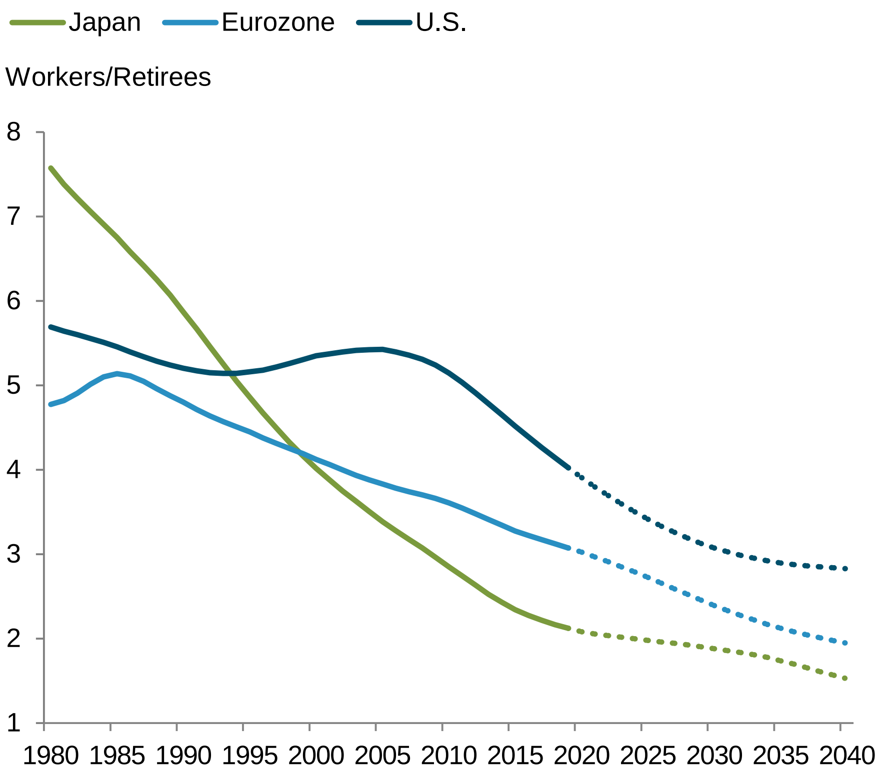
- Less rules-based and less market-oriented global system
- Pressure on corporate profit margins
- Inflationary pressures
- Lower global asset price correlations
- Active opportunities—location and politics matter more

 Source: International Monetary Fund (IMF), World Bank, Haver Analytics, Fidelity Investments (AART), as of 12/31/19.

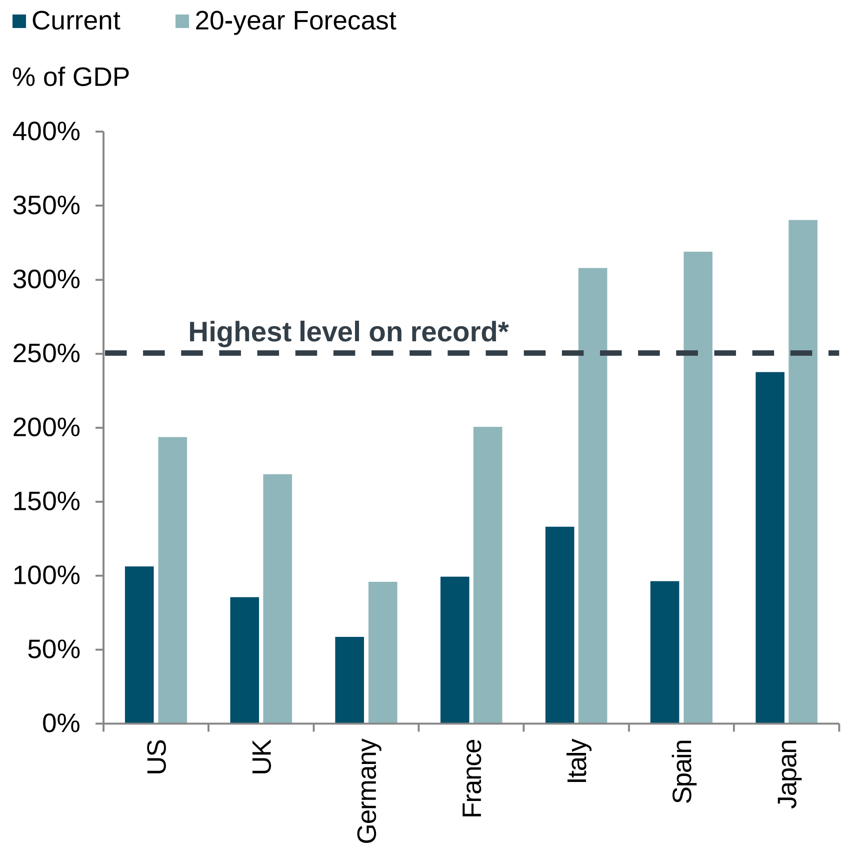
Demographic Deterioration Exacerbates Fiscal Pressures

For most advanced economies, deteriorating demographic trends will only get worse in coming decades, with fewer new workers to support a growing number of retirees. This creates even greater fiscal pressure due to rising spending on pensions and health care. The already elevated levels of government debt/GDP are likely to rise much further, with some major economies on pace to surpass the highest debt levels ever recorded.

Demographic Support Ratio



Gross Government Debt

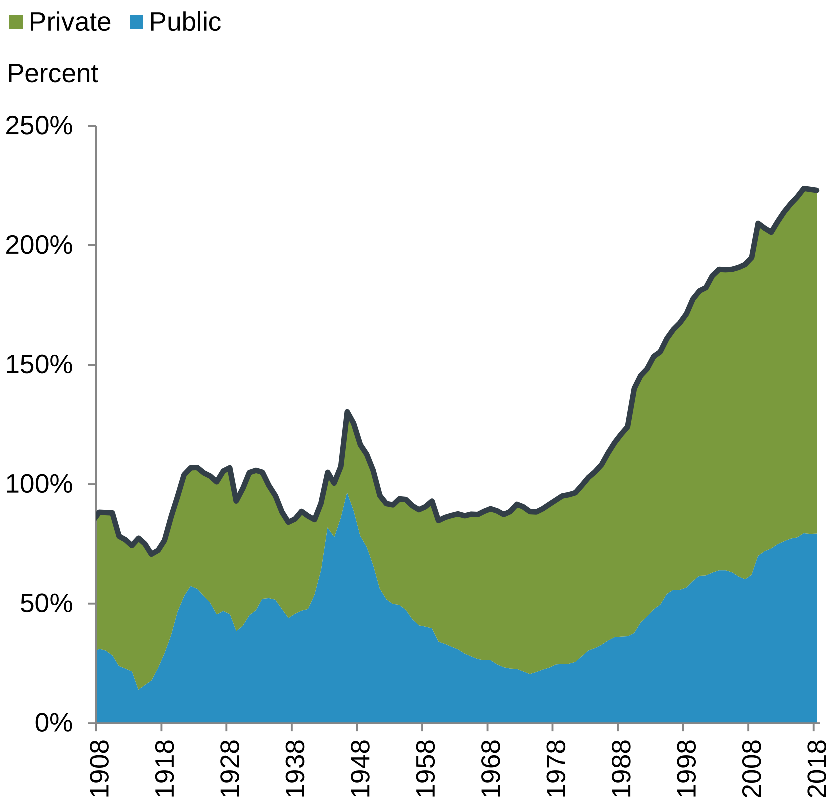


LEFT: The demographic support ratio is calculated as the number of workers (15-64 years old)/The number of retirees (65 and older). Source: United Nations, Haver Analytics, Fidelity Investments (AART), as of 10/31/19. **RIGHT:** *This level attained by the UK (1821), Netherlands (1834), France (1944), and Japan (1945). Forecasts by Fidelity Investments (AART). Source: International Monetary Fund, United Nations, Fidelity Investments (AART), as of 5/31/20.

Rising Debt: Will Policy Response Be Inflationary?

The dramatic worldwide rise in public and private debt in recent decades is a reflection of monetary and fiscal policymakers' proclivity to use low interest rates and government support to attempt to boost growth rates. While technology and other factors have kept inflation in check, we believe greater policy experimentation and "peak globalization" trends will eventually cause long-term inflation to rise faster than expected.

Global Debt as a Share of GDP



Possible Secular Impacts to Inflation

Secular Factors	Possible Developments	Risks to Inflation
Policy	Fed targets higher inflation	↑
	More stimulative fiscal policy	↑
Aging Demographics	Elderly people:	
	• Spend less (reducing demand)	↓
	• Work less (reducing supply)	↑
Peak Globalization	More expensive goods/labor	↑
Technological Progress	More robots, Amazon effect	↓

LEFT: Source: Bank of International Settlements, International Monetary Fund, Maddison Project, Fidelity Investments (AART), and the Jordà-Schularick-Taylor Macrohistory Database, compiled by Oscar Jordà, Moritz Schularick, and Alan M. Taylor. Accessed through www.macrohistory.net, as of 12/31/18. **RIGHT:** Source: Fidelity Investments (AART), as of 3/31/20.

Appendix: Important Information

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

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Fidelity does not provide legal or tax advice and the information provided herein is general in nature and should not be considered legal or tax advice. Consult with an attorney or a tax professional regarding your specific legal or tax situation.

Past performance and dividend rates are historical and do not guarantee future results.

Investing involves risk, including risk of loss.

Diversification does not ensure a profit or guarantee against loss.

Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Indexes are unmanaged. It is not possible to invest directly in an index.

Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rates rise, bond prices usually fall, and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments.

Additionally, bonds and short-term investments entail greater inflation risk—or the risk that the return of an investment will not keep up with increases in the prices of goods and services—than stocks. Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Stock markets, especially non-U.S. markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

The securities of smaller, less well-known companies can be more volatile than those of larger companies.

Growth stocks can perform differently from the market as a whole and from other types of stocks, and can be more volatile than other types of stocks. Value stocks can perform differently from other types of stocks and can continue to be undervalued by the market for long periods of time.

Lower-quality debt securities generally offer higher yields but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

Floating rate loans generally are subject to restrictions on resale, and sometimes trade infrequently in the secondary market; as a result, they may be more difficult to value, buy, or sell. A floating rate loan may not be fully collateralized and therefore may decline significantly in value.

The municipal market can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. Interest income generated by municipal bonds is generally expected to be exempt from federal income taxes and, if the bonds are held by an investor resident in the state of issuance, from state and local income taxes. Such interest income may be subject to federal and/or state alternative minimum taxes. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets. Generally, tax-exempt municipal securities are not appropriate holdings for tax-advantaged accounts such as IRAs and 401(k)s.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

The gold industry can be significantly affected by international monetary and political developments, such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

Leverage can magnify the impact that adverse issuer, political, regulatory, market, or economic developments have on a company. In the event of bankruptcy, a company's creditors take precedence over the company's stockholders.

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Appendix: Important Information

Market Indexes

Index returns on slide 25 represented by: Growth—Russell 3000® Growth Index; Large Caps—S&P 500® index; Mid Caps—Russell Midcap® Index; Small Caps—Russell 2000® Index; Value—Russell 3000® Value Index; ACWI ex USA—MSCI All Country World Index (ACWI); Canada—MSCI Canada Index; Commodities—Bloomberg Commodity Index; EAFE—MSCI EAFE (Europe, Australasia, Far East) Index; EAFE Small Cap—MSCI EAFE Small Cap Index; EM Asia—MSCI Emerging Markets Asia Index; EMEA (Europe, Middle East, and Africa)—MSCI EM EMEA Index; Emerging Markets (EM)—MSCI EM Index; Europe—MSCI Europe Index; Gold—Gold Bullion Price, LBMA PM Fix; Japan—MSCI Japan Index; Latin America—MSCI EM Latin America Index; ABS (Asset-Backed Securities)—Bloomberg Barclays ABS Index; Agency—Bloomberg Barclays U.S. Agency Index; Aggregate—Bloomberg Barclays U.S. Aggregate Bond Index; CMBS (Commercial Mortgage-Backed Securities)—Bloomberg Barclays Investment-Grade CMBS Index; Credit—Bloomberg Barclays U.S. Credit Bond Index; EM Debt (Emerging-Market Debt)—JP Morgan EMBI Global Index; High Yield—ICE BofA U.S. High Yield Index; Leveraged Loan—S&P/LSTA Leveraged Loan Index; Long Government & Credit (Investment-Grade)—Bloomberg Barclays Long Government & Credit Index; MBS (Mortgage-Backed Securities)—Bloomberg Barclays MBS Index; Municipal—Bloomberg Barclays Municipal Bond Index; TIPS (Treasury Inflation-Protected Securities)—Bloomberg Barclays U.S. TIPS Index; Treasuries—Bloomberg Barclays U.S. Treasury Index; Low Volatility—Fidelity U.S. Low Volatility Factor Index; Value—Fidelity U.S. Value Factor Index; Quality—Fidelity U.S. Quality Factor Index; Size—Fidelity Small-Mid Factor Index; Momentum—Fidelity U.S. Momentum Factor Index TR; Yield—Fidelity High Dividend Index.

Bloomberg Barclays ABS Index is a market value-weighted index that covers fixed-rate asset-backed securities with average lives greater than or equal to one year and that are part of a public deal; the index covers the following collateral types: credit cards, autos, home equity loans, stranded-cost utility (rate-reduction bonds), and manufactured housing.

Bloomberg Barclays CMBS Index is designed to mirror commercial mortgage-backed securities of investment-grade quality (Baa3/BBB-/BBB- or above) using Moody's, S&P, and Fitch, respectively, with maturities of at least one year. **Bloomberg Barclays Long U.S. Government Credit Index** includes all publicly issued U.S. government and corporate securities that have a remaining maturity of 10 or more years, are rated investment-grade, and have $250 million or more of outstanding face value.

Bloomberg Barclays Municipal Bond Index is a market value-weighted index of investment-grade municipal bonds with maturities of one year or more. **Bloomberg Barclays U.S. Agency Bond Index** is a market value-weighted index of U.S. Agency government and investment-grade corporate fixed-rate debt issues. **Bloomberg Barclays U.S. Aggregate Bond** is a broad-based, market value-weighted benchmark that measures the performance of the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. **Bloomberg Barclays U.S. Credit Bond Index** is a market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

Bloomberg Barclays U.S. MBS Index is a market value-weighted index of fixed-rate securities that represent interests in pools of mortgage loans, including balloon mortgages, with original terms of 15 and 30 years that are issued by the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA), and the Federal Home Loan Mortgage Corp. (FHLMC).

Bloomberg Barclays U.S. Treasury Inflation-Protected Securities (TIPS) Index (Series-L) is a market value-weighted index that measures the performance of inflation-protected securities issued by the U.S. Treasury. **Bloomberg Barclays U.S. Treasury Bond Index** is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more. **Bloomberg Commodity Index** measures the performance of the commodities market. It consists of exchange traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

Bloomberg Barclays U.S. Corporate High Yield Bond Index is a market value-weighted index covering the universe of dollar-denominated, fixed-rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets are excluded.

Dow Jones U.S. Total Stock Market Index℠ is a full market capitalization-weighted index of all equity securities of U.S.-headquartered companies with readily available price data.

Fidelity U.S. Low Volatility Factor Index is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies with lower volatility than the broader market. **Fidelity U.S. Value Factor Index** is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies that have attractive valuations. **Fidelity U.S. Quality Factor Index** is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies with a higher quality profile than the broader market. **Fidelity Small-Mid Factor Index** is designed to reflect the performance of stocks of small and mid-capitalization U.S. companies with attractive valuations, high quality profiles, positive momentum signals, and lower volatility than the broader market. **Fidelity U.S. Momentum Factor Index** is designed to reflect the performance of stocks of large and mid-capitalization U.S. companies that exhibit positive momentum signals. **Fidelity High Dividend Index** is designed to reflect the performance of stocks of large and mid-capitalization dividend-paying companies that are expected to continue to pay and grow their dividends.

FTSE® National Association of Real Estate Investment Trusts (NAREIT®) All REITs Index is a market capitalization-weighted index that is designed to measure the performance of all tax-qualified REITs listed on the NYSE, the American Stock Exchange, or the NASDAQ National Market List. **FTSE® NAREIT® Equity REIT** Index is an unmanaged market value-weighted index based on the last closing price of the month for tax-qualified REITs listed on the New York Stock Exchange (NYSE).

ICE BofA U.S. High Yield Index is a market capitalization-weighted index of U.S. dollar-denominated, below-investment-grade corporate debt publicly issued in the U.S. market.

JPM® EMBI Global Index, and its country sub-indexes, tracks total returns for the U.S. dollar-denominated debt instruments issued by emerging-market sovereign and quasi-sovereign entities, such as Brady bonds, loans, and Eurobonds.

MSCI All Country World Index (ACWI) is a market capitalization-weighted index designed to measure the investable equity market performance for global investors of developed and emerging markets. **MSCI ACWI (All Country World Index) ex USA Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors of large and mid cap stocks in developed and emerging markets, excluding the United States.

Appendix: Important Information

Market Indexes (continued)

MSCI Emerging Markets (EM) Index is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in emerging markets. **MSCI EM Asia Index** is a market capitalization-weighted index designed to measure equity market performance of EM countries of Asia. **MSCI EM Europe, Middle East, and Africa Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in the EM countries of Europe, the Middle East, and Africa. **MSCI EM Latin America Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in Latin America.

MSCI World ex USA Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed markets outside the United States. **MSCI Europe, Australasia, Far East Index (EAFE)** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. and Canada. **MSCI EAFE Small Cap Index** is a market capitalization-weighted index designed to measure the investable equity market performance of small cap stocks for global investors in developed markets, excluding the U.S. and Canada.

MSCI USA Index is a market capitalization-weighted index designed to measure the performance of the large- and mid-cap segments of the U.S. equity market. **MSCI USA Value Index** is a market capitalization-weighted index designed to measure the performance of the large- and mid-cap segments of the U.S. equity market exhibiting overall value style characteristics. **MSCI USA Growth Index** is a market capitalization-weighted index designed to measure the performance of the large- and mid-cap segments of the U.S. equity market exhibiting overall growth style characteristics.

MSCI Europe Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of the developed markets in Europe. **MSCI Canada Index** is a market capitalization-weighted index designed to measure equity market performance in Canada. **MSCI Japan Index** is a market capitalization-weighted index designed to measure equity market performance in Japan.

Russell 1000 Index is a market capitalization-weighted index designed to measure the performance of the large-cap segment of the U.S. equity market. **Russell 1000 Growth Index** is a market-capitalization-weighted index designed to measure the performance of the large-cap growth segment of the U.S. equity market. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth rates. **Russell 1000 Value Index** is a market-capitalization-weighted index designed to measure the performance of the large-cap value segment of the U.S. equity market. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth rates. **Russell 2000® Index** is a market capitalization-weighted index designed to measure the performance of the small cap segment of the U.S. equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index. **Russell 3000® Index** is a market capitalization-weighted index designed to measure the performance of the 3,000 largest companies in the U.S. equity market.

Russell 3000 Growth Index is a market capitalization-weighted index designed to measure the performance of the broad growth segment of the U.S. equity market. It includes those Russell 3000 Index companies with higher price-to-book ratios and higher forecasted growth rates. **Russell 3000 Value Index** is a market capitalization-weighted index designed to measure the performance of the small to mid cap value segment of the U.S. equity market. It includes those Russell 3000 Index companies with lower price-to-book ratios and lower forecasted growth rates. **Russell Midcap® Index** is a market capitalization-weighted index designed to measure the performance of the mid cap segment of the U.S. equity market. It contains approximately 800 of the smallest securities in the Russell 1000 Index.

S&P 500® is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

Sectors and **Industries** are defined by Global Industry Classification Standards (GICS®), except where noted otherwise. **S&P 500 sectors** are defined as follows: Consumer Discretionary—companies that tend to be the most sensitive to economic cycles. Consumer Staples—companies whose businesses are less sensitive to economic cycles. Energy—companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, and other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. Financials—companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and mortgage real estate investment trusts (REITs). Health Care—companies in two main industry groups: health care equipment suppliers, manufacturers, and providers of health care services; and companies involved in research, development, production, and marketing of pharmaceuticals and biotechnology products. Industrials—companies that manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. Information Technology— companies in technology software and services and technology hardware and equipment. Materials—companies that engage in a wide range of commodity-related manufacturing. Real Estate—companies in real estate development, operations, and related services, as well as equity REITs. Communication Services—companies that facilitate communication and offer related content through various media; it includes media companies moved from Consumer Discretionary and internet services companies moved from Information Technology. Utilities—companies considered electric, gas, or water utilities, or that operate as independent producers and/or distributors of power.

Standard & Poor's/Loan Syndications and Trading Association (S&P/LSTA) Leveraged Performing Loan Index is a market value-weighted index designed to represent the performance of U.S. dollar-denominated institutional leveraged performing loan portfolios (excluding loans in payment default) using current market weightings, spreads, and interest payments.

Appendix: Important Information

Other Indexes

Commodity Research Bureau (CRB) Raw Industrials Index is a sub-index of 13 markets: burlap, copper scrap, cotton, hides, lead scrap, print cloth, rosin, rubber, steel scrap, tallow, tin, wool tops, and zinc.

Consumer Price Index (CPI) is a monthly inflation indicator that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.

London Bullion Market Association (LBMA) publishes the international benchmark price of gold in USD, twice daily. **LBMA Gold price** auction takes place by ICE Benchmark Administration (IBA) at 10:30 and 15:00 with the price set in USD per fine troy ounce.

VIX® is the Chicago Board Options Exchange Volatility Index®, a weighted average of prices on S&P 500 options with a constant maturity of 30 days to expiration. It is designed to measure the market's expectation of near-term stock market volatility.

ICE BofA MOVE (Merrill Option Volatility Estimate) Index is a measure of U.S. interest rate volatility that tracks the movement in U.S. Treasury yield volatility implied by current prices of one-month over-the-counter options on 2-year, 5-year, 10-year and 30-year Treasuries.

JP Morgan Global FX Volatility Index is a benchmark for implied volatility across the global foreign-exchange (FX) market; the index tracks options on currencies of major and developing nations by following aggregate volatility in currencies based on three-month at-the-money forward options of 23 USD-based currency pairs.

Definitions

Correlation coefficient measures the interdependencies of two random variables that range in value from −1 to +1, indicating perfect negative correlation at −1, absence of correlation at 0, and perfect positive correlation at +1.

Price-to-Earnings (P/E) ratio is the ratio of a company's current share price to its current earnings, typically trailing 12-months earnings per share. A Forward P/E calculation will typically use an average of analysts' published estimates of earnings for the next 12 months in the denominator.

Excess return is the amount by which a portfolio's performance exceeds its benchmark, net (in the case of the analysis in this article) or gross of operating expenses, in percentage points.

Option-Adjusted Spread (OAS) is the measurement of the spread between a fixed-income security's rate and the risk-free rate of return, which is adjusted to take into account any embedded options.

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