# Quarterly Market Perspective

Fourth Quarter / 2022

Fidelity INVESTMENTS

The following pages provide greater detail into some of the themes discussed in the Quarterly Market Perspective video:

1. **MARKET SUMMARY:**
For the year, global stocks and bonds fell on slowing economic activity, persistently high inflation, and rapidly rising interest rates

2. **BUSINESS CYCLE:**
The U.S. economy is growing, but more slowly than before, while unemployment remains unusually low

3. **INVESTMENT STRATEGY:**
We continued to reduce allocations to stocks in both the U.S. and abroad, while adding to bonds to take advantage of higher yields

4. **DIVERSIFICATION:**
Stocks and bonds continue to experience elevated volatility, but bond yields have risen to levels that may provide investors with attractive, inflation-adjusted yields

5. **STAYING INVESTED:**
We believe that by sticking with their investment plan, investors will be best positioned to achieve their financial goals

# Despite rally in Q4, global stocks and bonds declined over the course of a volatile year

- Although global stocks and bonds experienced gains late in the year, concerns around persistently high inflation and slowing economic growth led to declines across most asset classes.
- International stocks outperformed U.S. stocks on the year, delivering some diversification benefit for investors.
- Although bonds had one of their worst performance years, bonds experienced gains late in the year as yields have risen to attractive levels.

**Uncertainty on the prospects for economic growth led to more volatility in stocks and bonds**

Hypothetical growth of $100,000


This chart illustrates the performance of a hypothetical $100,000 investment made in the indexes noted above. Index returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. This chart is not intended to imply any future performance of the investment product.

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Please see Important Information for index definitions. Source: Fidelity Investments, as of 12/31/2022. U.S. stocks—Dow Jones U.S. Total Stock Market Index; international stocks—MSCI All Country World Ex-U.S. Index (Net MA); bonds—Bloomberg U.S. Aggregate Bond Index.

# Inflation remains high but may have peaked, which may provide relief for stocks and bonds

- Persistently high inflation led the U.S. Federal Reserve and other global central banks to raise interest rates.
- This led to volatility for both stocks and bonds.
- With inflation showing signs of peaking, interest rates may not rise much more from their recent levels, which may provide some stability for stock and bond investors.

**Inflation finally appears to be heading lower, but may take time to decelerate**

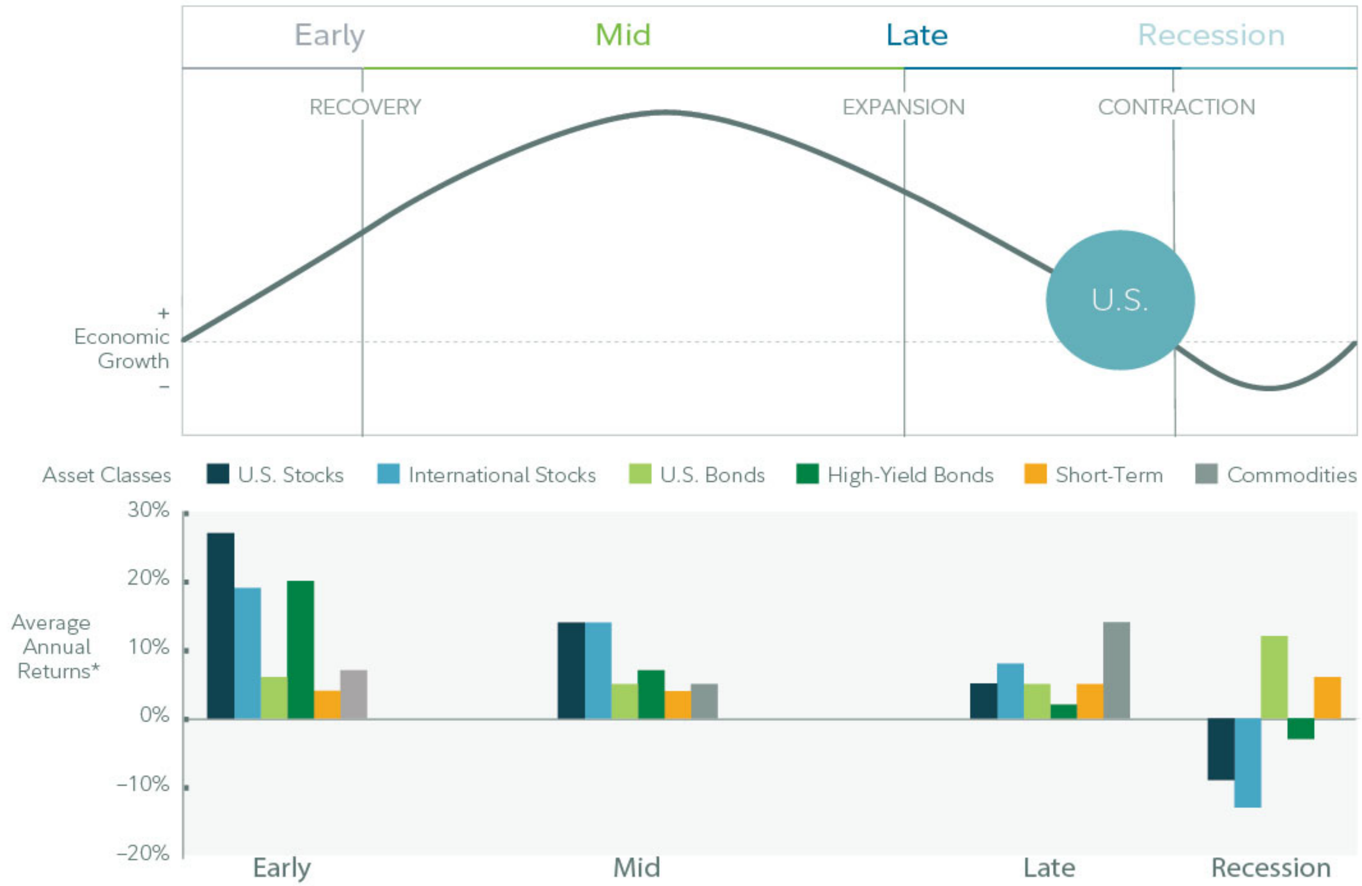
Core Consumer Price Index measures U.S. inflation without food and energy prices.


Source: Strategic Advisers LLC, Bloomberg Finance, L.P. as of 12/31/2022.

# The U.S. economy remains in a late-cycle expansion, reflecting positive but slower economic growth

- The late-cycle phase of the business cycle has historically been good for stock market performance, but returns have been more muted, and bouts of volatility have been more common.
- Economic growth typically slows in late-cycle phase, as rising interest rates can lead to softer economic activity.
- Along with the U.S., other major economies around the world, particularly in Europe, are also seeing signs of slower economic growth.

**Four phases of an economy's business cycle**




*Asset class total returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg. Fidelity Investments source: a proprietary analysis of historical asset class performance, which is not indicative of future performance. From 1950–2022, as of 12/31/2022. Past performance is no guarantee of future results.

A growth recession is a significant decline in activity relative to a country's long-term economic potential. Note: The diagram above is a hypothetical illustration of the business cycle—the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. 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. Source: Fidelity Investments (AART), as of 1/06/2023.

Dow Jones U.S. Total Stock Market Index—U.S. stocks; MSCI All Country World Ex-U.S. Index (Net MA)—international stocks; Bloomberg U.S. Aggregate Bond Index—high-quality bonds; ICE BofA US High Yield Index—high-yield bonds; Bloomberg 3–6 Month U.S. Treasury Bill Index—short-term investments; Bloomberg U.S. Treasury U.S. TIPS Index—TIPS; Bloomberg Commodity Index Total Return Index—commodities.

# The late-cycle expansion in the U.S. is supported by consumer spending, but the pace of growth is likely slowing

- The Fed's interest rate hikes to reduce inflation are also leading to slower economic growth.
- U.S. corporate earnings are expected to rise this year but may be flat overseas.
- High inflation and interest rates may be impacting consumer spending, but a strong job market is a positive.

## Summary of business cycle indicators

As of December 31, 2022

Favorable Mixed Unfavorable

| Indicator | Current View | Notes |
|---|---|---|
| **Economic Growth** | Mixed | U.S. economy is in the late phase of the business cycle. |
| **Corporate Profits** | Mixed | Outlook still positive for U.S., but analysts are expecting overseas earnings to be nearly flat. |
| **Borrowing/Credit** | Mixed | Higher interest rates have reduced demand for loans and banks have started to tighten lending. |
| **Inventory** | Mixed ↓ | Inventory levels have risen in some areas of the economy, like retail, which we expect will become more widespread. |
| **Federal Reserve** | Unfavorable | The Fed may be getting closer to the end of the rate hikes but may keep interest rates elevated to lower inflation. |
| **Government Spending** | Mixed | Recently passed spending bill, but tightly divided congress likely to limit spending in 2023. |
| **Inflation** | Unfavorable | Inflation has fallen for a few months but may take several quarters to reach more typical levels. |
| **Consumer** | Favorable | Consumers are still spending but starting to slow among lower income families. |
| **Manufacturing Activity** | Mixed | Measures of manufacturing activity close to neutral. |
| **International Developed Markets** | Mixed ↑ | Mild winter thus far has reduced risks of an energy crisis in Europe, which could support growth. |
| **Emerging Markets** | Mixed | China is stimulating its economy and re-opening from COVID restrictions, which may bolster global economic growth. |

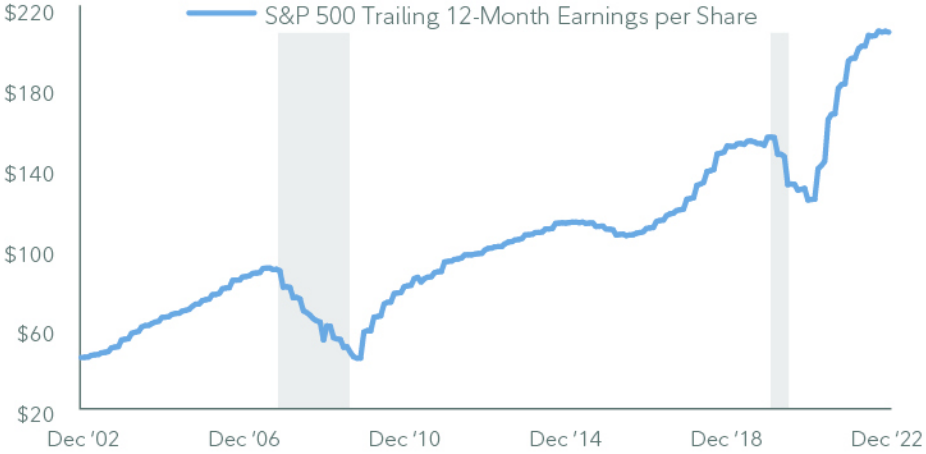
↑↓ **Represent directional change from last quarter**

Sources: Fidelity Investments (AART), Strategic Advisers LLC, Bloomberg Finance, L.P., as of 12/31/2022.

# Key economic indicators are showing signs of slower growth, but not recession

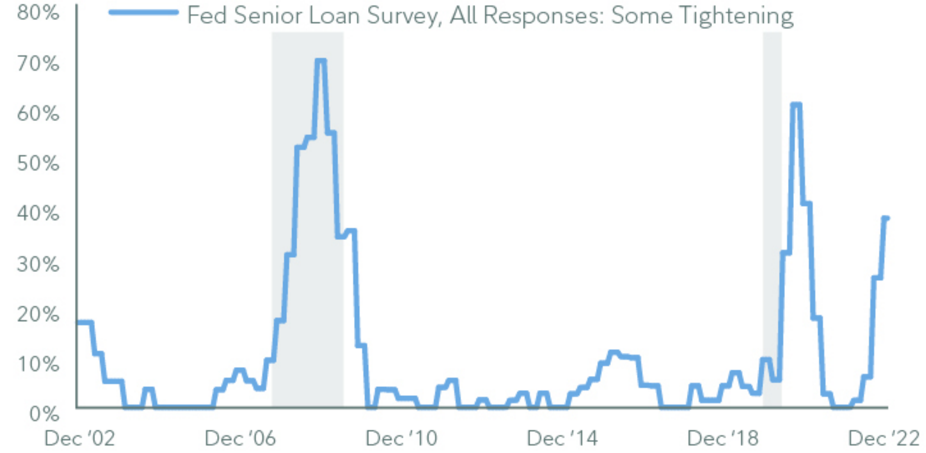
### Corporate Profits: Rising but pace of growth slowing

Rising corporate profits generally reflect positive economic growth




### Borrowing/Credit: Banks less willing to lend

Tightening conditions indicate banks less willing to issue loans




### Inventory: Levels remain low, reflecting strong demand for goods

Lower levels reflect strong demand, while rising inventories reflect falling demand


### Jobless Claims: Still low, indicating a strong labor market

Claims typically rise during recessions

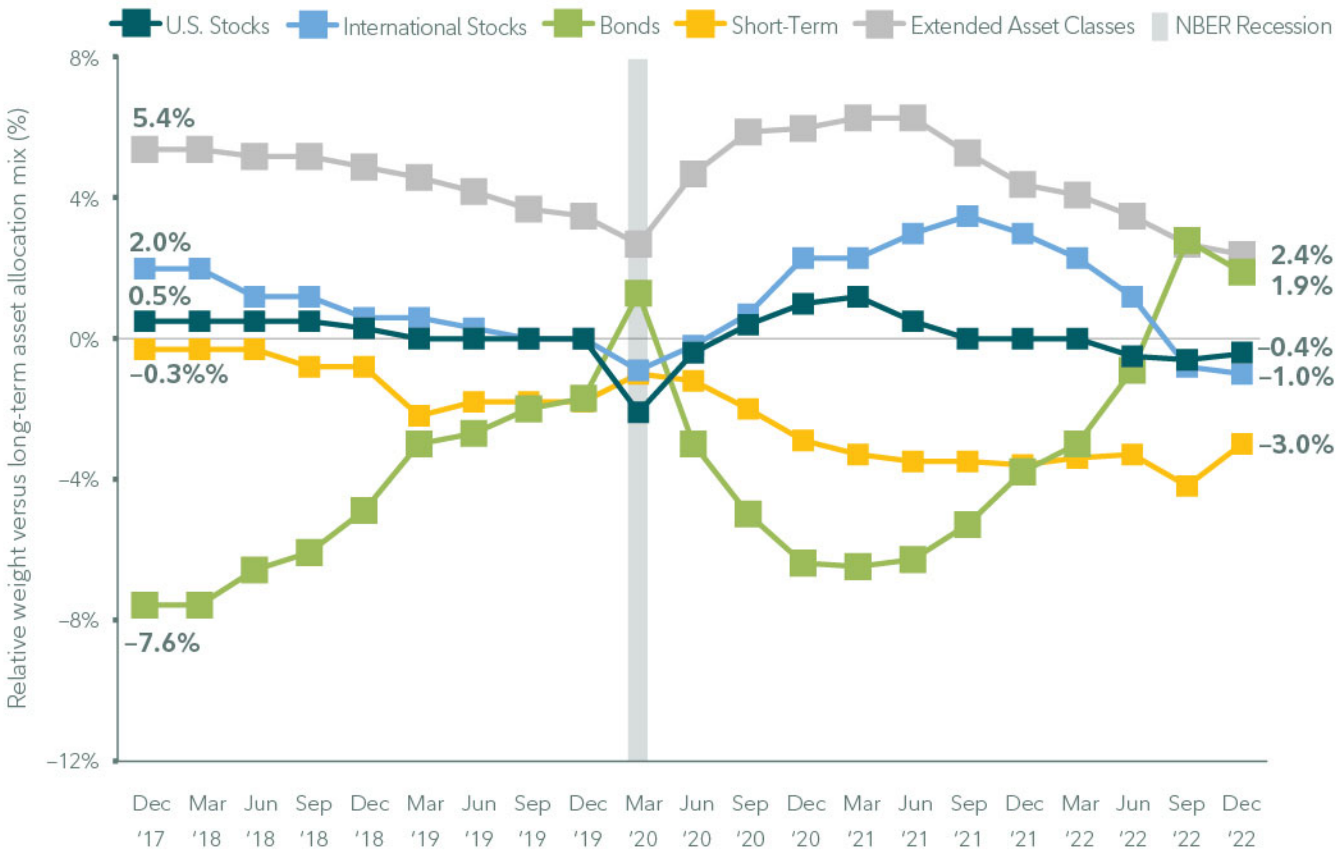

Source: Bloomberg Finance L.P., U.S. Federal Reserve, Institute for Supply Management, U.S. Department of Labor, as of 12/31/2022. Gray columns represent National Bureau of Economic Research (NBER) recession dates.

# We reduced risk within client accounts, keeping stock allocations below long-term targets

- We reduced exposure to high-yield bonds and long duration Treasuries, and increased our exposure to short-term investments, given that the late-cycle phase has often seen more frequent bouts of market volatility.
- Within extended asset classes, we trimmed but maintained a position in commodities, which have historically performed well during periods of high inflation but sold out of real estate stocks, as those can experience volatility as the business cycle matures.
- We believe our positioning can help protect client accounts from market volatility, but also allow them to participate in late-cycle rallies, like the one we experienced in Q4 2022.

**Asset class positioning for Total Return approach, September 2017 through December 2022**

Relative weight versus long-term asset allocation mix




Diversification does not ensure a profit or guarantee against loss. This chart represents the relative asset class weights over time versus the long-term asset allocation mix of a PAS Total Return Growth with Income Blended preference. Stocks reference both U.S. and international stock allocations. Bonds represent investment-grade bond allocations. Short-term investments include money market funds and short-duration bond fund allocations. Extended asset classes refer to allocations to funds not within traditional stock, investment-grade bond, and short-term investment categories, including high-yield bond, commodity, and alternative investment allocations. The Growth with Income strategy has a long-term asset allocation mix of 42% U.S. stock (Dow Jones U.S. Total Stock Market Index), 18% international stock [MSCI All Country World Ex-U.S. Index (Net MA)], 35% bonds (Bloomberg U.S. Aggregate Bond Index), and 5% short-term investments (Bloomberg U.S. 3–6 Month Treasury Bill Index), as of 12/31/2022. Current composition may differ, perhaps significantly.

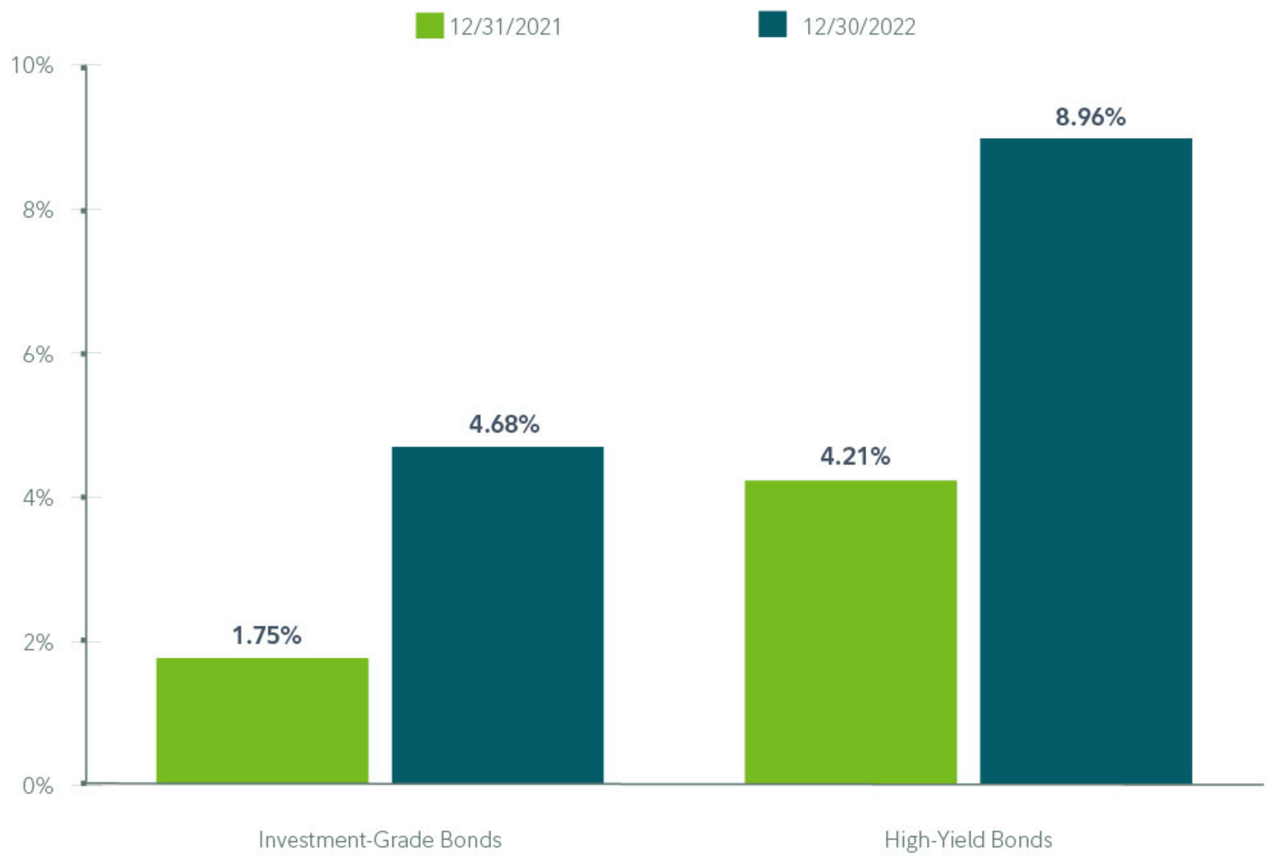
Recession time frame from March 2020 to April 2020. Source: National Bureau of Economic Research (NBER) recession.

# After a painful 2022, bond yields have risen to highest levels in nearly 15 years, improving the outlook for bond investors

- As the U.S. Federal Reserve aggressively raised interest rates to fight inflation, bonds experienced unusually high volatility.
- However, bond yields are now near levels investors have not seen in nearly 15 years.
- These higher yields are likely to provide healthy income for investors, as well as providing some stability against stock market volatility, as bonds generally tend to be less volatile than stocks.

**Fed rate hikes led to bond market volatility, but attractive yields on bonds**

Yield to Worst




**Past performance is no guarantee of future results.** Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting (Investopedia). Investment-grade bonds: US Bloomberg Aggregate Bond index; High-yield bonds: Bloomberg US Corporate High Yield index.

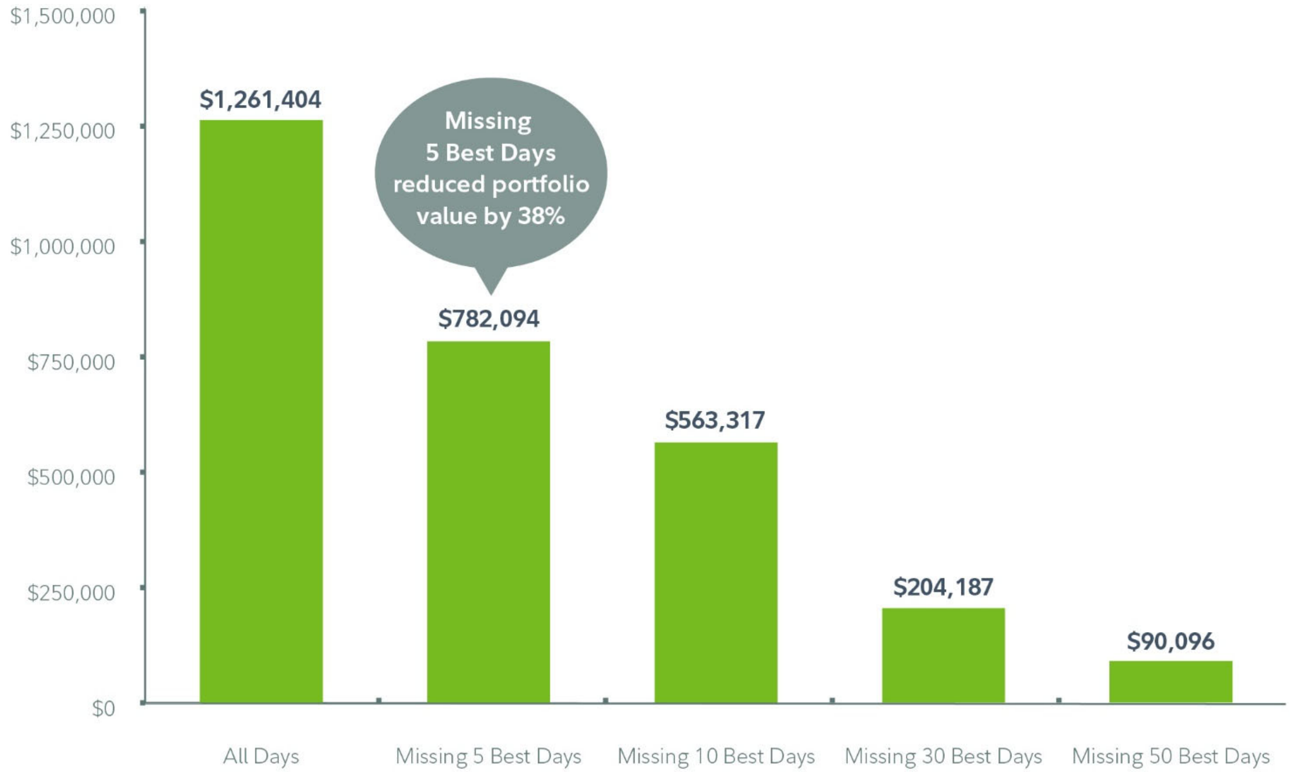
Source: Monthly data from Bloomberg Finance, L.P. 12/31/2022.

# Investors who missed just a handful of the market's best-returning days experienced significantly lower returns

- While high volatility and negative, near-term stock returns may cause some investors to question their investment plan, having a patient, long-term focus has yielded compelling results.
- $10,000 invested in the S&P 500 42 years ago would have grown to a value of over $1.25 million, but missing just five of the best days reduces that value by almost 40%.
- The best-returning days can happen at any time, so we believe that simply staying invested is the optimal strategy for most investors to achieve their financial goals.

**Hypothetical growth of $10,000 invested in the S&P 500 Index, January 1, 1980 to March 31, 2022**

Core Personal Consumption Expenditures, Fed Funds Overnight Rate, and the two-year U.S. Treasury bond rate, June 2010–June 2022

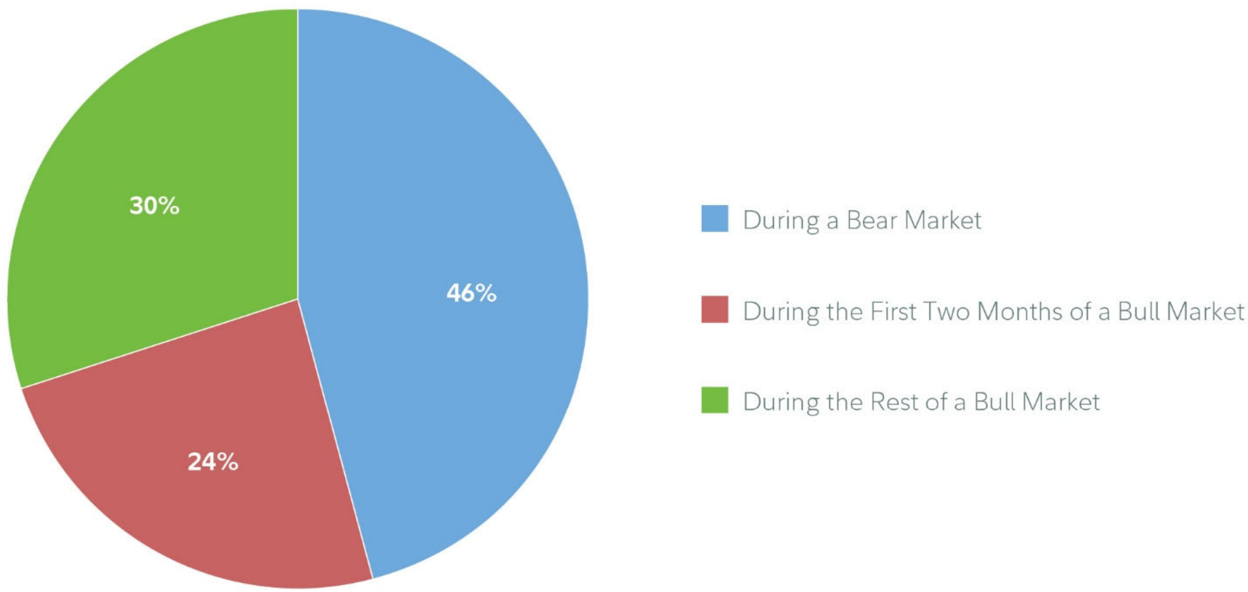



Past performance is not a guarantee of future results. The hypothetical example assumes an investment that tracks the returns of a S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. "Best days" were determined by using the one-day total returns for the S&P Index within this time period and ranking them from highest to lowest. There is volatility in the market and a sale at any point in time could result in a gain or loss. Your own investment experience will differ, including the possibility of losing money. Source: Fidelity, Asset Allocation Research Team, as of 3/31/22.

# The best-return days can happen at any time but often occur during a "bear market" or early in a "bull market"

- Bull markets are periods in which stocks rise 20% for an extended period of time; almost a quarter of the 50 best-returning days happen at the very beginning of bull markets.
- But almost half of the best days occurred during bear markets, which typically is a time in which investors are less confident that stocks will rise.
- We believe that it is impossible to predict the magnitude or timing of stock market returns, and so long-term investors are likely to experience better long-term returns if they maintain their exposure to stocks through bear markets.

**Top 50 days with the highest returns in the S&P 500 Index, January 1980 to December 2021**



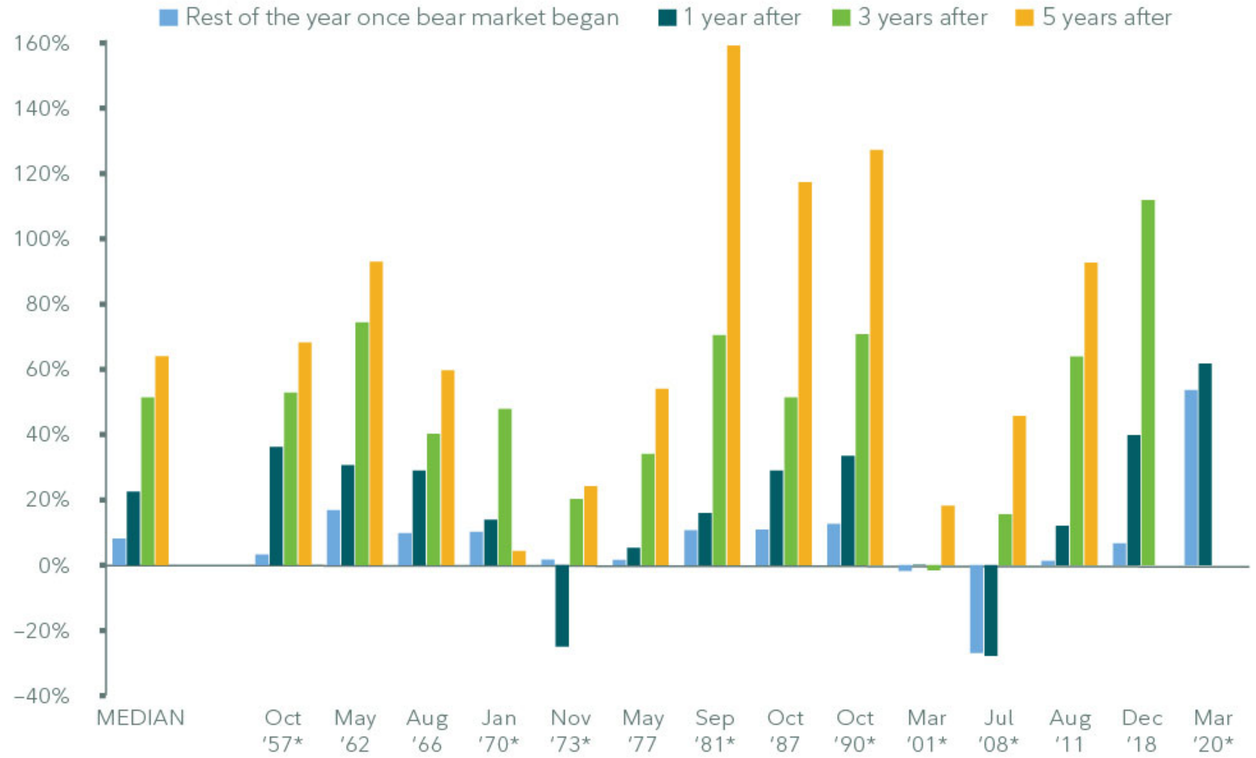

Past performance is no guarantee of future results. Measures the 50 best days of returns of the S&P 500 Index from 1/1/1980–12/31/2021, as of 9/30/2022. Bear market is defined as a 20% drop in S&P from a previous high.

# Stocks have recovered from previous significant market declines, rewarding those who stayed invested

- When stocks decline by –20% or more (often called a "bear market"), some investors may feel the urge to abandon or avoid exposure to stocks.
- However, since 1950, stocks have experienced healthy returns after entering bear markets.
- Therefore, it is likely that patient investors who stayed the course after stock market declines were better positioned to benefit from eventual stock market recoveries.

**Patient investors have experienced recoveries following bear markets (declines of –20% or more)**

S&P 500 Index total cumulative returns after bear market began, 1950–2021




| | Rest of the year once bear market began | 1 year after | 3 years after | 5 years after |
|---|---|---|---|---|
| MEDIAN | 8% | 22% | 51% | 64% |
| RECESSION | 7% | 15% | 48% | 46% |
| NON-RECESSION | 8% | 29% | 58% | 93% |

Past performance is no guarantee of future results. Source: Strategic Advisers LLC, Bloomberg Finance, L.P.

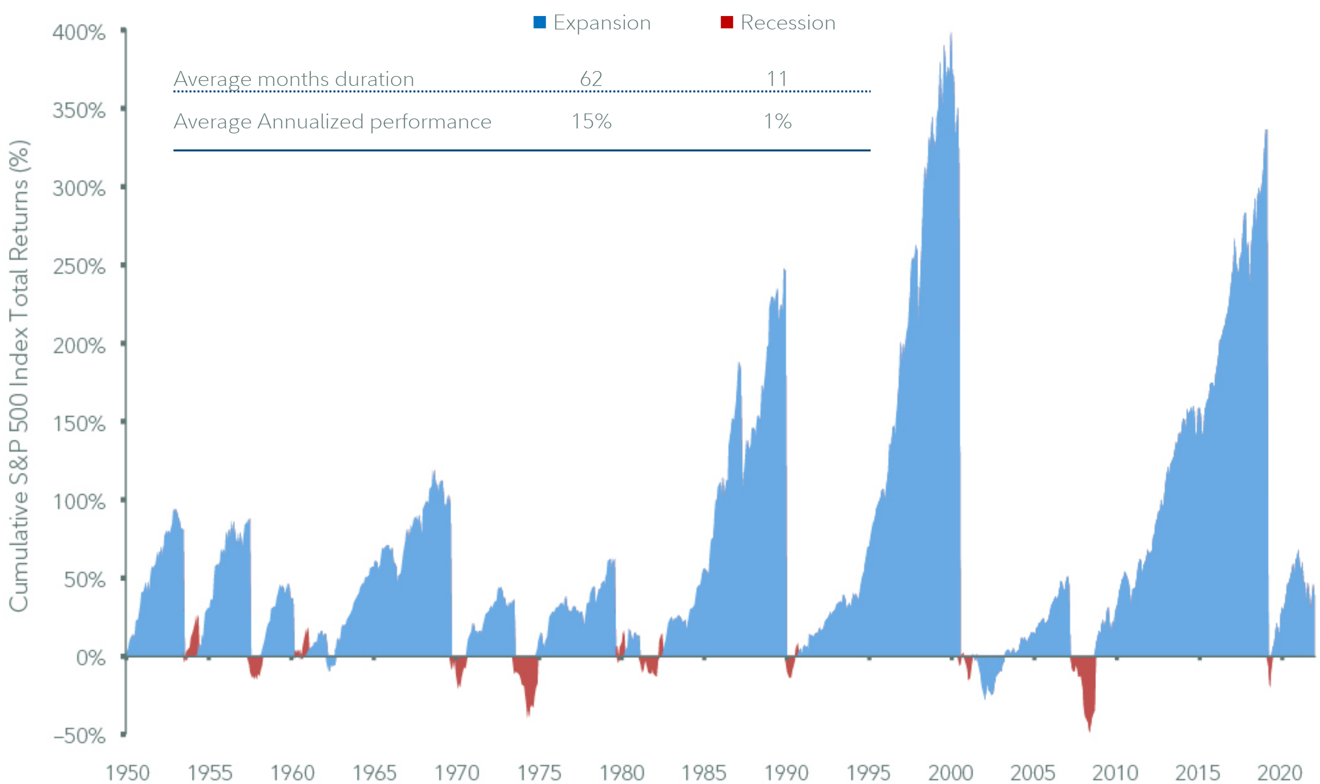
*Year recession occurred, as defined by the National Bureau of Economic Research (NBER), as of 12/31/2022.

# Lasting economic expansions have powered investors through relatively infrequent recessions

- Swift and severe market declines and recessions are stressful, but contractions are often much shorter than expansions.
- Each of the past recessions (red areas) on the chart were challenging in the moment, but they pale in comparison to expansions (blue areas), which show significant growth during those multiyear periods.
- After every past recession, the markets and the economy eventually stabilized, and an expansion followed.

**Stocks have experienced significant gains during economic expansions**

Recessions have been moderate detractors from performance




**Past performance is no guarantee of future results.** This chart illustrates the cumulative percentage return of a hypothetical investment made in the S&P 500 Index during periods of economic expansion and recession. Index returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. This chart is not intended to imply any future performance of an investment product. It is not possible to invest directly in an index. All indexes are unmanaged. Please see Important Information for index definitions. Source: Bloomberg, S&P 500 Index total annual return, 1/1/1950–12/31/2022; recession and expansion dates defined by the National Bureau of Economic Research (NBER).

1. Global stocks and bonds experienced declines last year as persistent inflation and rising interest rates led to uncertainty on economic growth.

2. The U.S. economy remained in a late-cycle expansion—a phase of the business cycle that has historically led to modestly positive stock market returns but with more frequent bouts of volatility.

3. The level of risk within client accounts is slightly below their long-term target, as we reduced exposure to stocks and increased exposure to bonds over the course of the year.

For more information, please call your Fidelity associate

at **800-544-3455** or visit **Fidelity.com**.

# Important Information

The Business Cycle Framework depicts the general pattern of economic cycles throughout history, though each cycle is different; specific commentary on the current stage is provided in the main body of the text. In general, the typical business cycle demonstrates the following: During the typical early-cycle phase, the economy bottoms out and picks up steam until it exits recession, then begins the recovery as activity accelerates. Inflationary pressures are typically low, monetary policy is accommodative, and the yield curve is steep. Economically sensitive asset classes, such as stocks, tend to experience their best performance of the cycle. During the typical mid-cycle phase, the economy exits recovery and enters into expansion, characterized by broader and more self-sustaining economic momentum but a more moderate pace of growth. Inflationary pressures typically begin to rise, monetary policy becomes tighter, and the yield curve experiences some flattening. Economically sensitive asset classes tend to continue benefiting from a growing economy, but their relative advantage narrows. During the typical late-cycle phase, the economic expansion matures, inflationary pressures continue to rise, and the yield curve may eventually become flat or inverted. Eventually, the economy contracts and enters recession, with monetary policy shifting from tightening to easing. Less economically sensitive asset categories tend to hold up better, particularly right before and upon entering recession.

Neither asset allocation nor diversification assures a profit or protects against a loss.

Past performance does not guarantee future results.

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Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible.

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

# Important Information

## Index Definitions

The Dow Jones U.S. Total Stock Market Index is an all-inclusive measure composed of all U.S. equity securities with readily available prices. This broad index is sliced according to stock-size segment, style, and sector to create distinct sub-indexes that track every major segment of the market.

ICE BofA US High Yield Index is market capitalization weighted and is designed to measure the performance of U.S. dollar denominated below investment grade (commonly referred to as "junk") corporate debt publicly issued in the U.S. domestic market.

The Bloomberg U.S. Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar–denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-back securities (agency fixed-rate pass-throughs), asset-backed securities, and collateralized mortgage-backed securities (agency and non-agency).

The Bloomberg U.S. 3–6 Month Treasury Bill Index is a market capitalization–weighted index of investment-grade, fixed-rate public obligations of the U.S. Treasury with remaining maturities from three up to (but not including) six months, excluding zero-coupon STRIPS.

The Bloomberg Commodity Index Total Return 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.

The Bloomberg 1–3 Month U.S. Treasury Bill Index measures the performance of public obligations of the U.S. Treasury that have a remaining maturity of greater than or equal to one month and less than three months.

The Bloomberg U.S. Treasury U.S. TIPS Index measures the performance of rules-based, market value–weighted, inflation-protected securities issued by the U.S. Treasury.

The MSCI All Country World Ex-U.S. Index (Net MA) 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.

The S&P 500® Index 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.

# Important Information

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