

*Credit Conditions Tightening?
China Emerging from Hibernation?
Russia Breathing Fire?
Inflation and U.S. Economy Having Peaked?
Lead to...??*



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Or... What If?

- Hamas and Israel make up
- Ukraine and Moldova beat Russia
- Taiwan threat subsides
- Democrats and Republicans make up
- Trump drops out
- Inflation slows down gently and rates peak
- Finally, we get a soft-landing economy

How Do You Compare Investment Opportunities Around the World?



U.S.
Stock Markets

**Rising
Corporate
Earnings**

**Benign
Inflation/
Interest Rates
and Ample
Liquidity**

**Reasonable
Valuations**

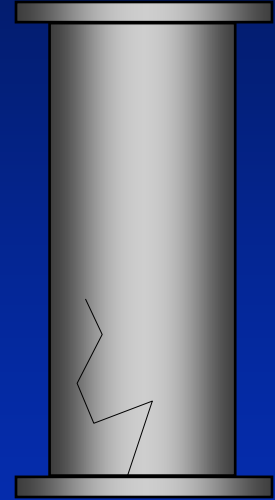
Rising Corporate Earnings

Tailwinds

U.S. Net Worth ≈ \$63T since GFC
Job Openings Still Strong
Lag Effect of Covid Spending
China Emerging??
PBoC to the Rescue

Headwinds

Sticky Inflation/Aggressive Fed?
Debt Everywhere
Demographics
Cyber Risk
Increasing Regulation
Credit Card/Mortgage Rates Skyrocketing
Yield Curve Inversion
Costly Move to EV
Bank Runs Tighten Credit



Consumer Being Belted

Credit Card Interest Rates



Source: Piper Sandler, as of 7/10/2023.

Monumental

U.S. 30-Year Fixed Mortgage Rate (%)



Monetary Tightening Slowing Growth amid Inflation

Global Short Rates



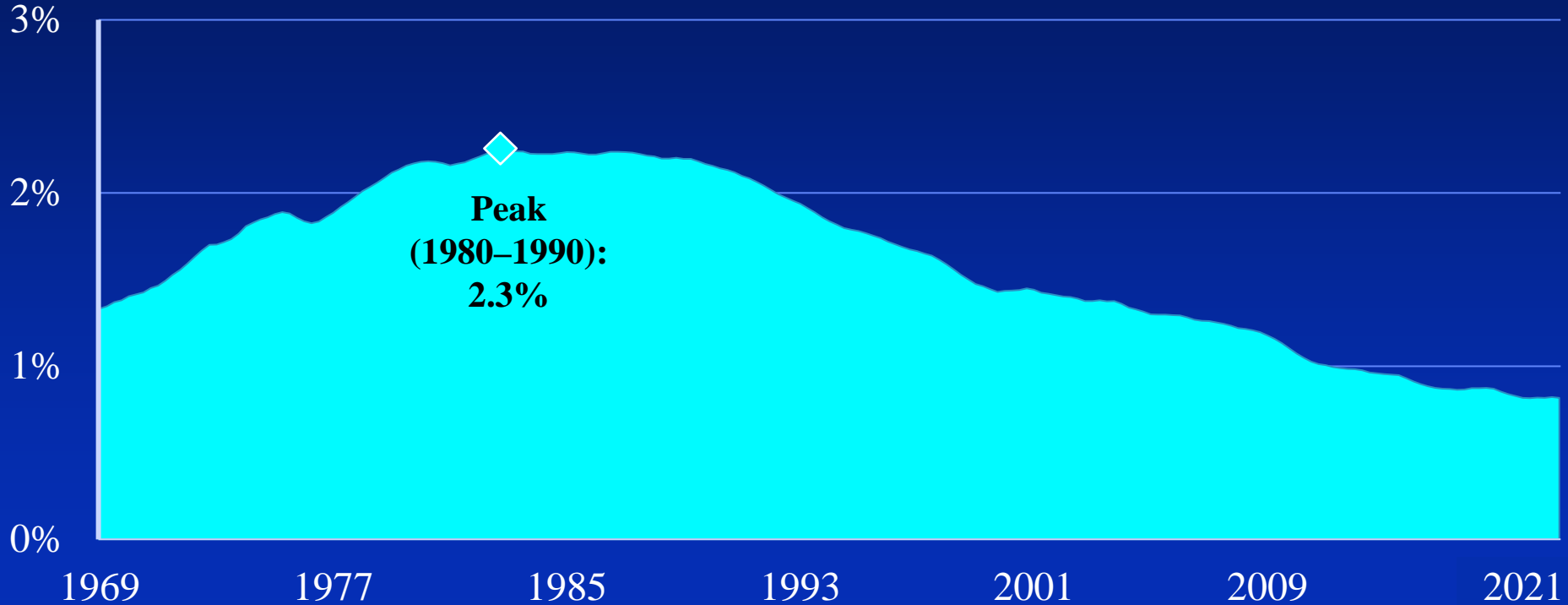
Liquidity at Risk

U.S. M2 (Year-over-Year Change, %)



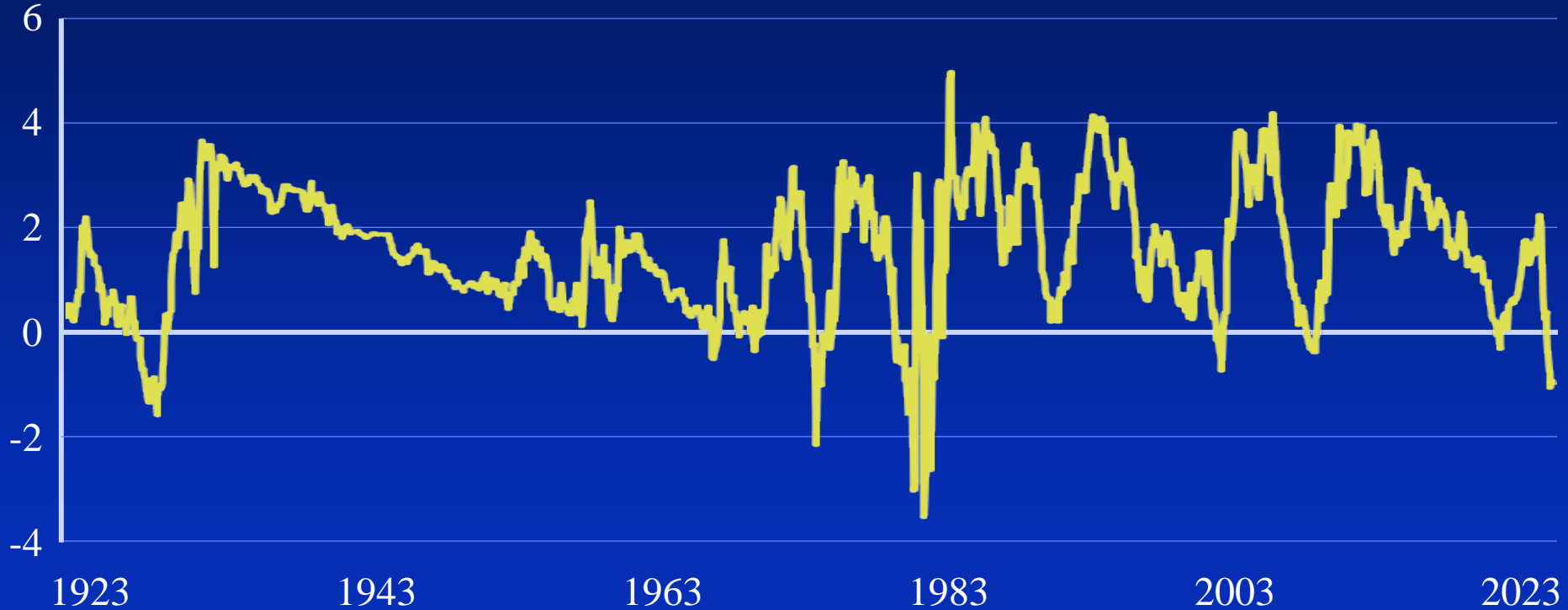
Slower U.S. Economic Growth Likely

Labor Force Contribution Peaked 40 Years Ago



Notice 1929

100 Years of the U.S. Yield Curve



Source: ASR Ltd/Refinitiv, as of 3/22/2023.

Slowdown Underway

Evercore Trucking Survey



0 = weak, 100 = strong. Source: Evercore ISI, as of 5/5/2023.

Industrial Slowing

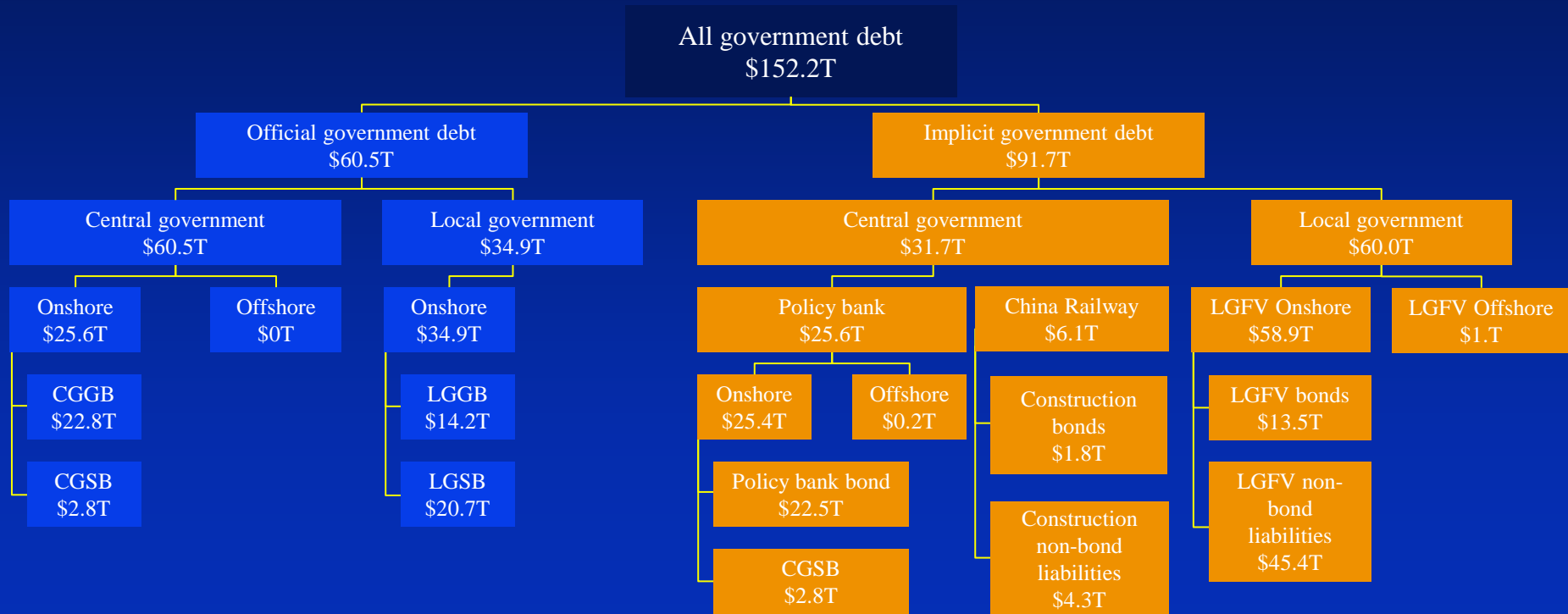
U.S. Manufacturing PMI



Source: Evercore ISI, as of 4/30/2023.

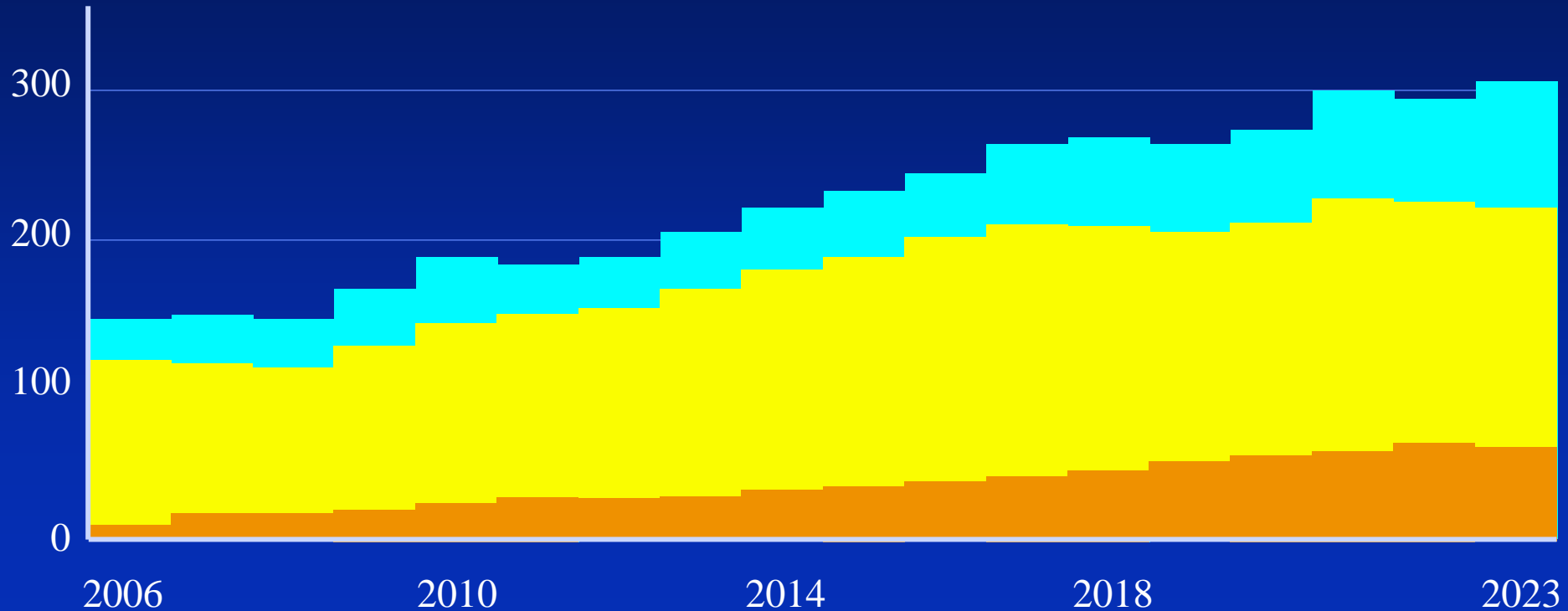
China ... Debt, Debt, and More Debt

Shadow government debt up tenfold since 2008



Explosion of Debt

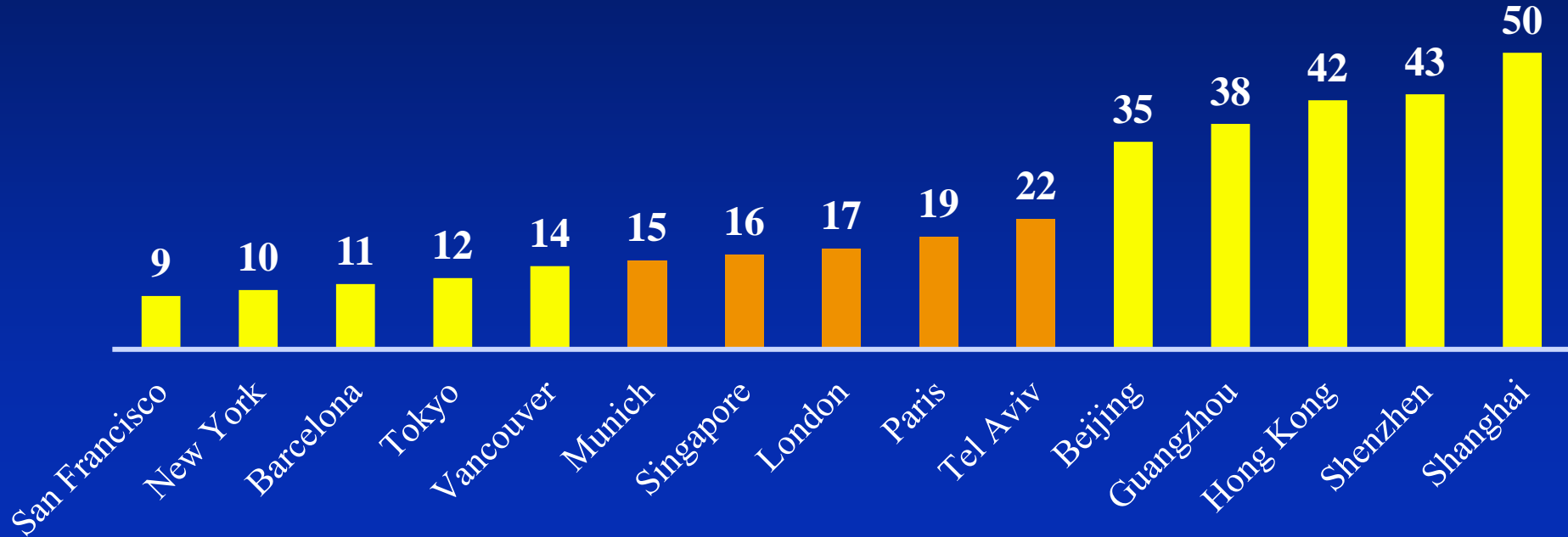
China: Household, Corporate, and Government Debt as % of GDP



Source: Bank for International Settlement, Empirical Research Partners Analysis as of 10/17/2023.

Chinese Real Estate Bubble?

Home-Price-to-Annual-Income Ratios



Smaller Chinese Cities Have Apartment Glut

Major supply of unsold apartments, worst since 2017

- 1/3 of all newly completed apartments 2022 remain unsold
- Likely to take 6 years for Beihai (a third-tier city) to absorb the excess
- Likely to damp household confidence

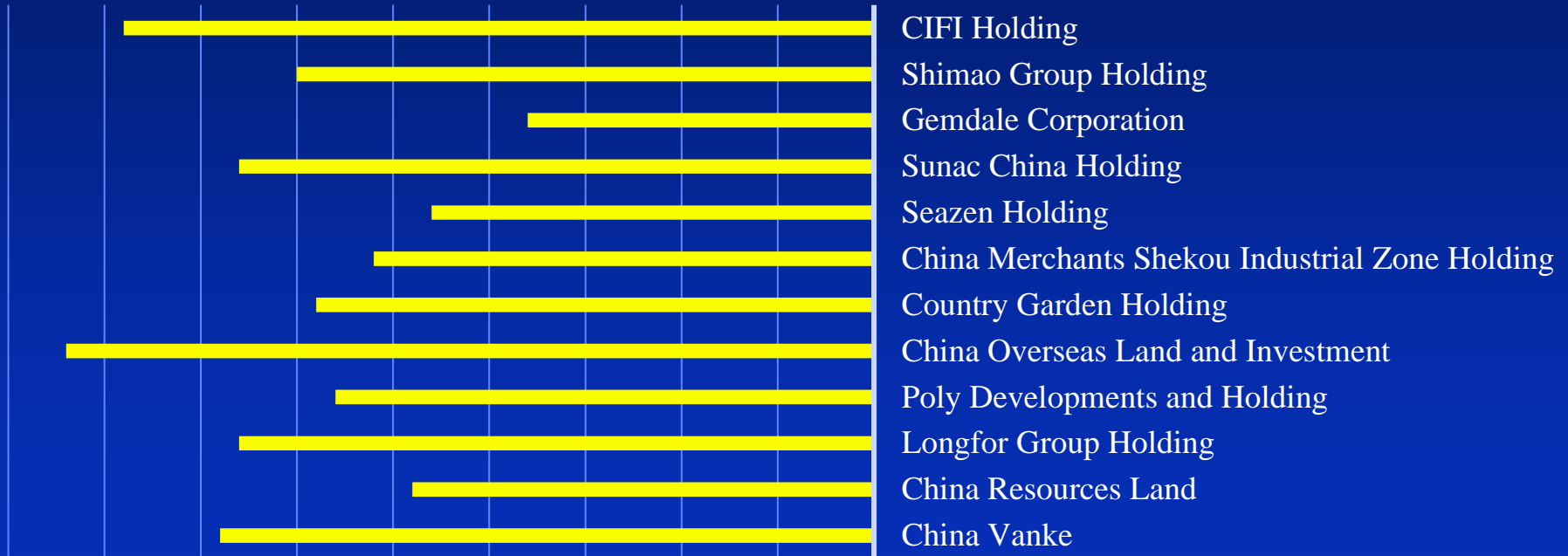
“Country Garden June real estate sales down 54% y/y”

“Overall home sales are down 28% vs. June 2022”

Real Estate Development Plunging

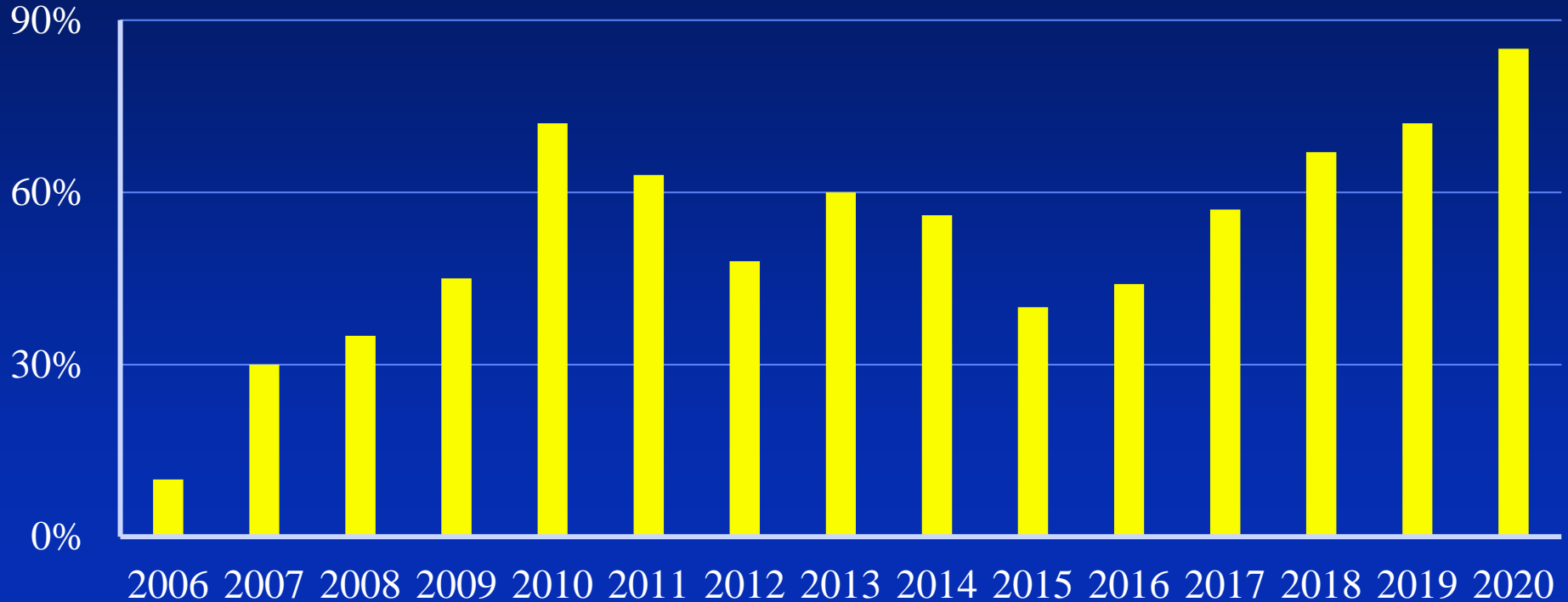
Chinese Development Companies, Year-over-Year Changes in Contract Sales

-45% -40% -35% -30% -25% -20% -15% -10% -5% 0%



Look at Where Cities Get Their Money

China Land Sales as a Share of Local Government Revenues



China Stifling Growth?

- Xi's national security agenda (raids, investigations, detentions)
- “Common prosperity”
- “Do it for the Party”
- “De-emphasize profits”
- Anti-celebrity/anti-wealth/anti-monopoly
- Judiciary risk rising
- Developers credit risk HUGE
- Foreign direct investment in China \$20B June vs. \$100B June '22

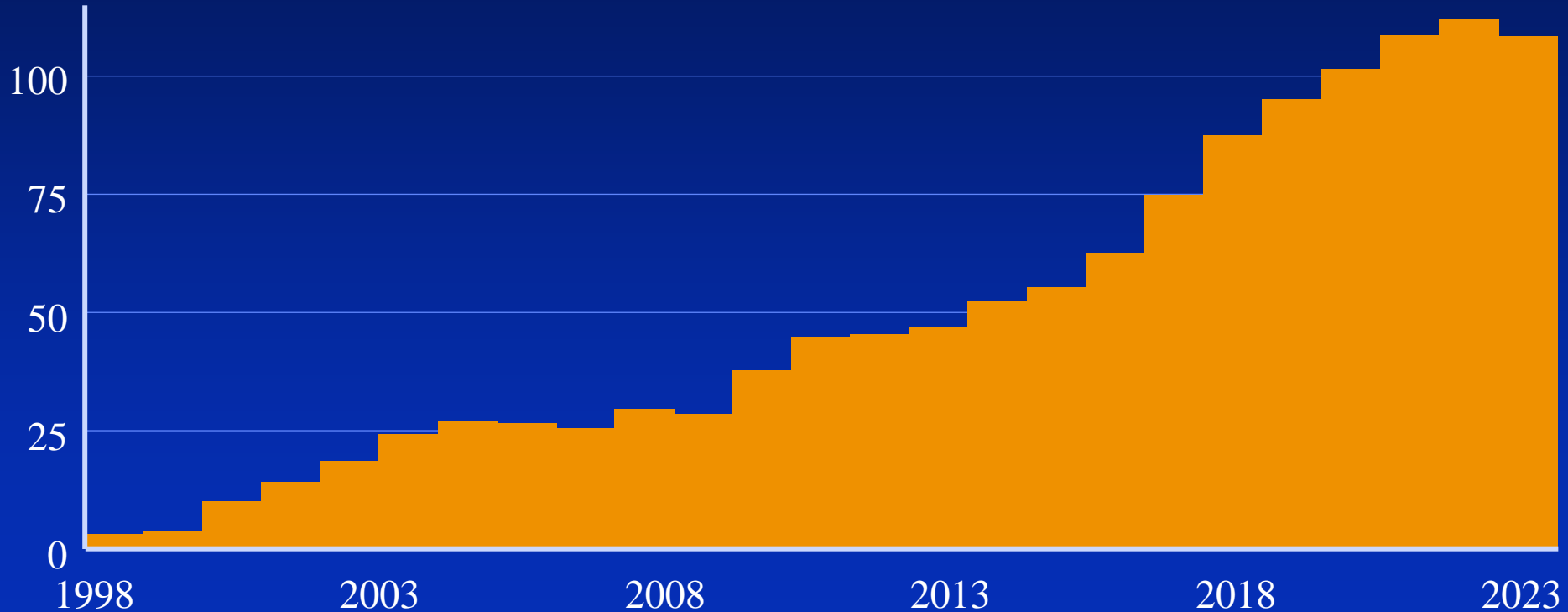
China Consumer Risks

Future growth slowdown very possible

- Household debt at 59% of GDP
- Household debt-to-income ratio of 130%
- Residential housing comprises three-quarters of Chinese household wealth
- Very poor pension plans (must increase retirement age)
- Population growth *finis*

China Consumer

Up to Eyeballs in Debt (Consumer Loans as % of Disposable Income)



Source: Wall Street Journal, as of 8/25/2023.

Precipitous Plunge

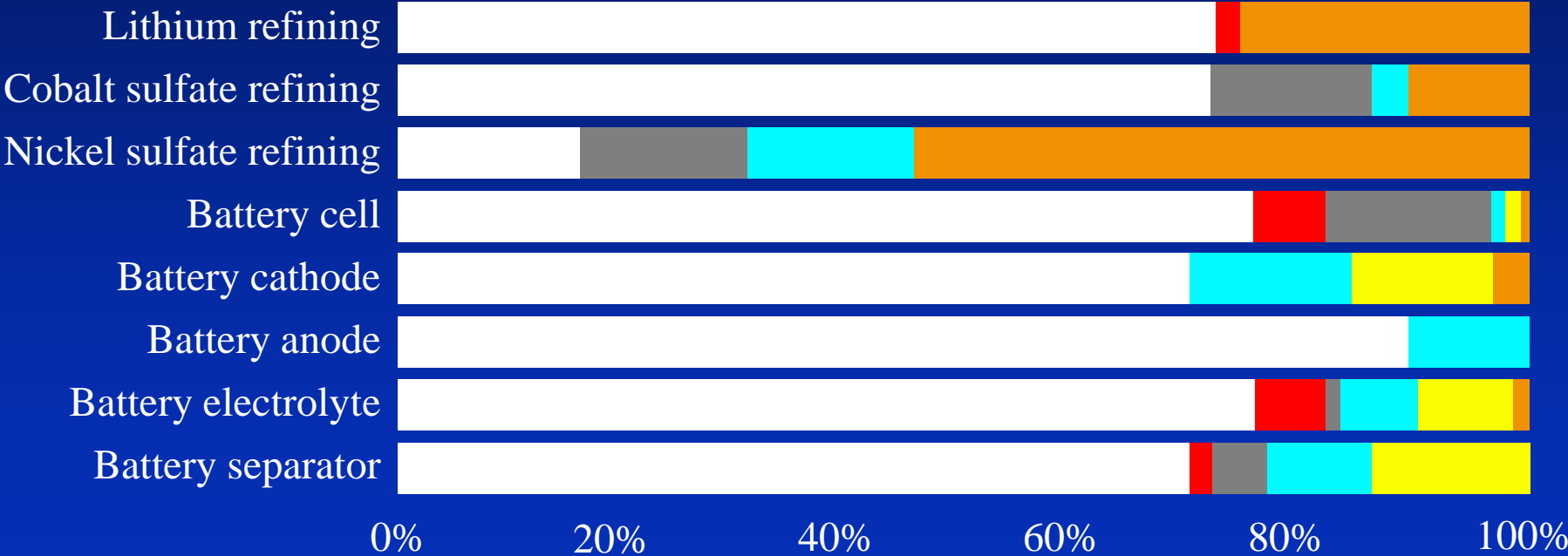
China Consumer Confidence Index



China Remains Formidable

China's Grip on the EV Supply Chain

< China < U.S. < Europe < Japan < South Korea < Rest of World



Source: BloombergNEF, as of 4/3/2023.

Foreign Minister Sergei Lavrov, pressed by an oligarch to explain how Mr. Putin could have planned such an invasion (of Ukraine) without his inner circle knowing, reportedly replied:

“He has three advisers: Ivan the Terrible, Peter the Great, and Catherine the Great.”

Earnings Growth: Typically 7%, Surged after Pandemic, and SLOWING Now



*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates.

Source: Yardeni, as of 11/20/2022.

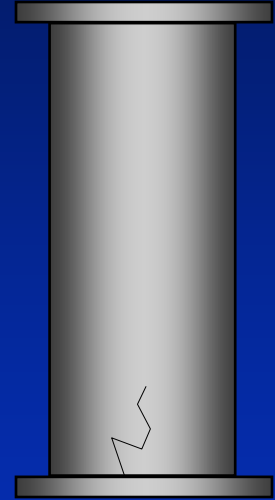
Benign Inflation / Interest Rates / Ample Liquidity

Positives

M2 Contracting
Inflation Rolling Over
QT Still Underway
Aging Demographics
Technology
Stronger Dollar
Earnings to Slow
Bank Crisis Effect
Yield Curve Inversion

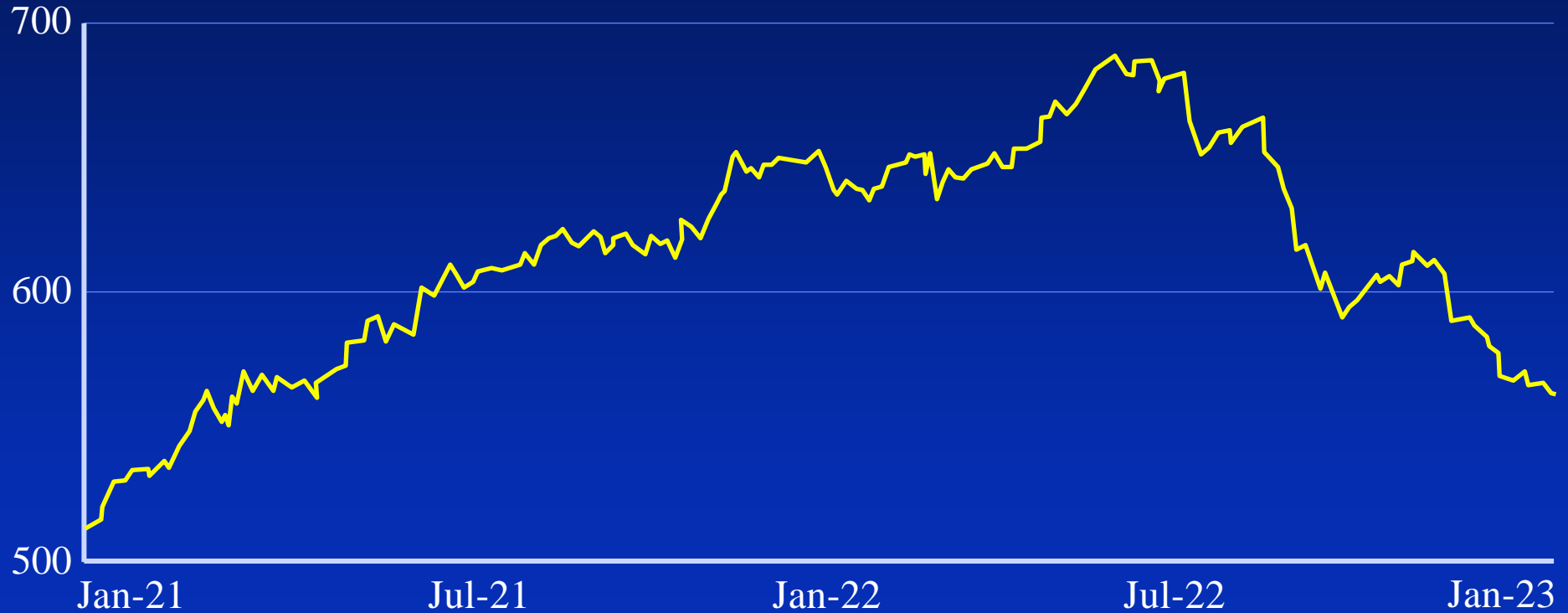
Risks

War Restricting Commodities
Slowdown in Globalization
Colossus of Printed Money
Huge Budget Deficits
Illinois Debt Near Junk-Bond Status
Huge Debt Levels
Risk of Structurally Elevated Inflation



Inflation Cooling

CRB Raw Industrials Index



Source: Evercore ISI, as of 5/3/2023.

Rents Rolling Over

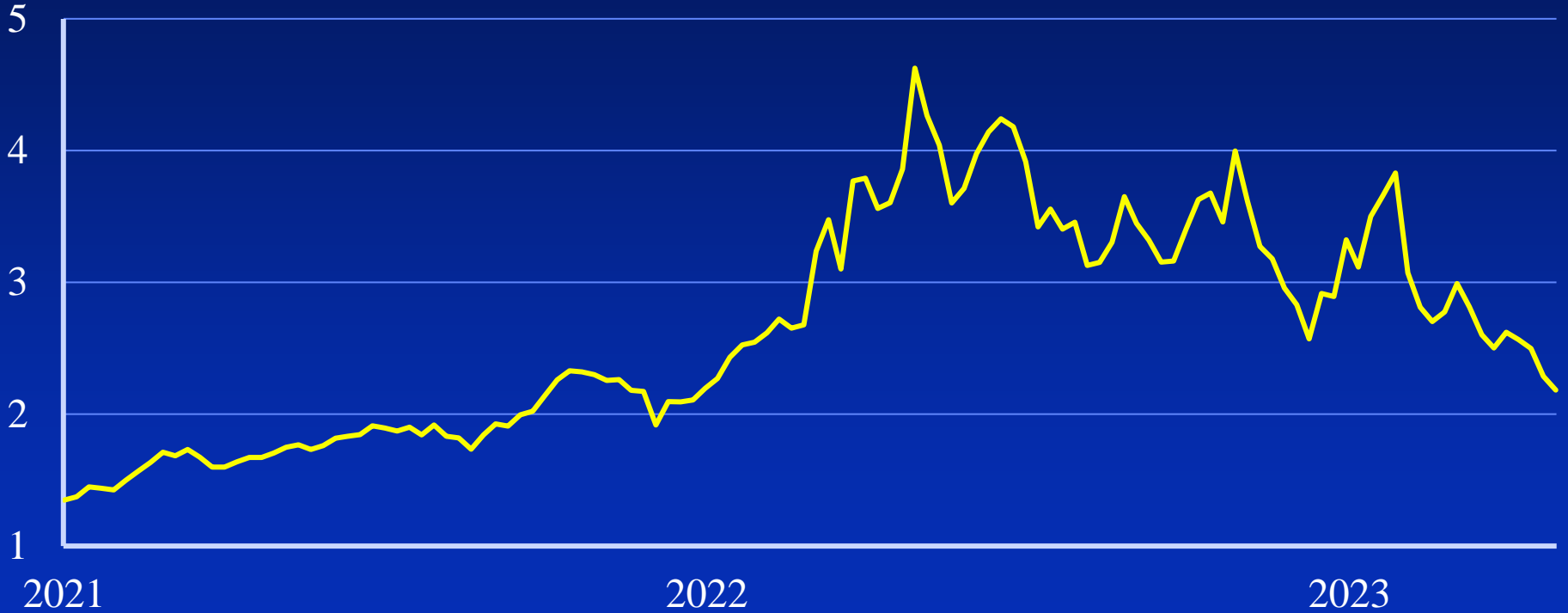
Rents post first annual decline since start of pandemic



Source: Redfin, as of 7/14/2023.

Prices Plunging

Price of Jet Fuel



Spot price, kerosene-type fuel. Source: Evercore ISI, as of 4/26/2023.

Inflation Rolling Over?

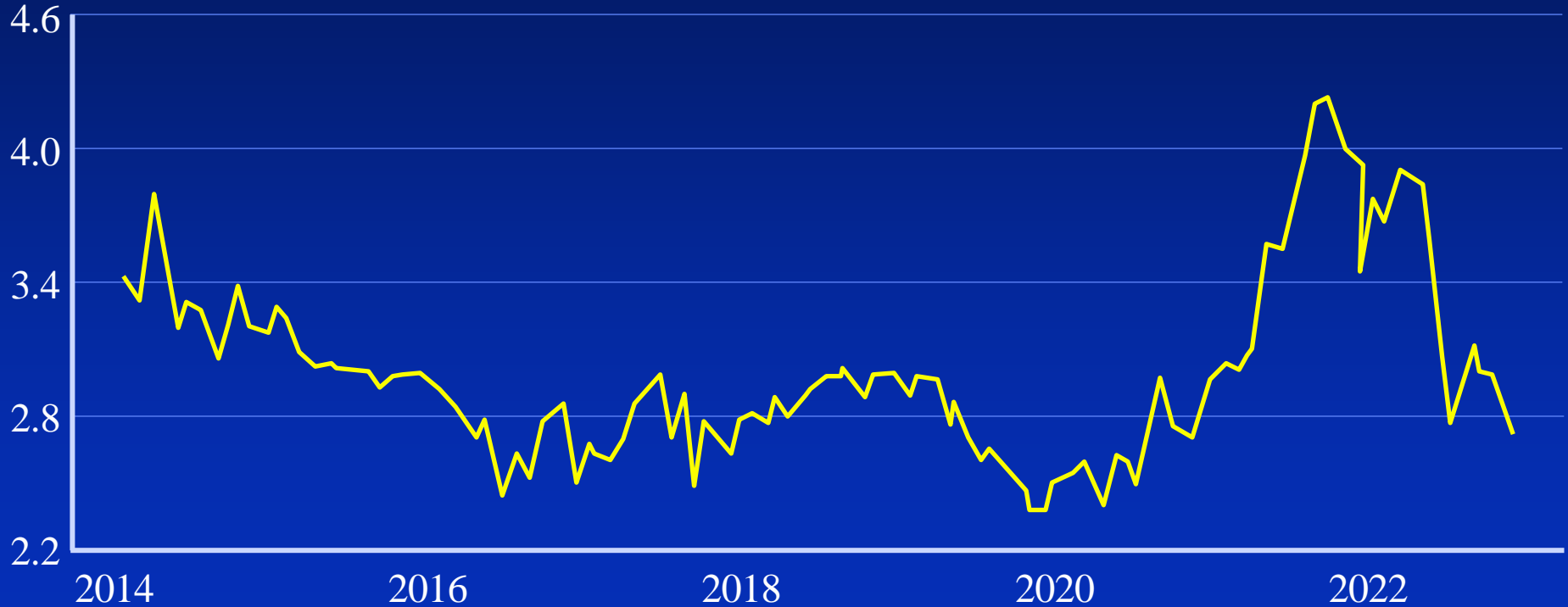
U.S. CPI Year-over-Year



Source: Strategas Research Partners, as of 10/13/2023.

Expectations Diminishing

U.S. Inflation Expectations (Three Years Ahead)



Mindboggling Federal Spending

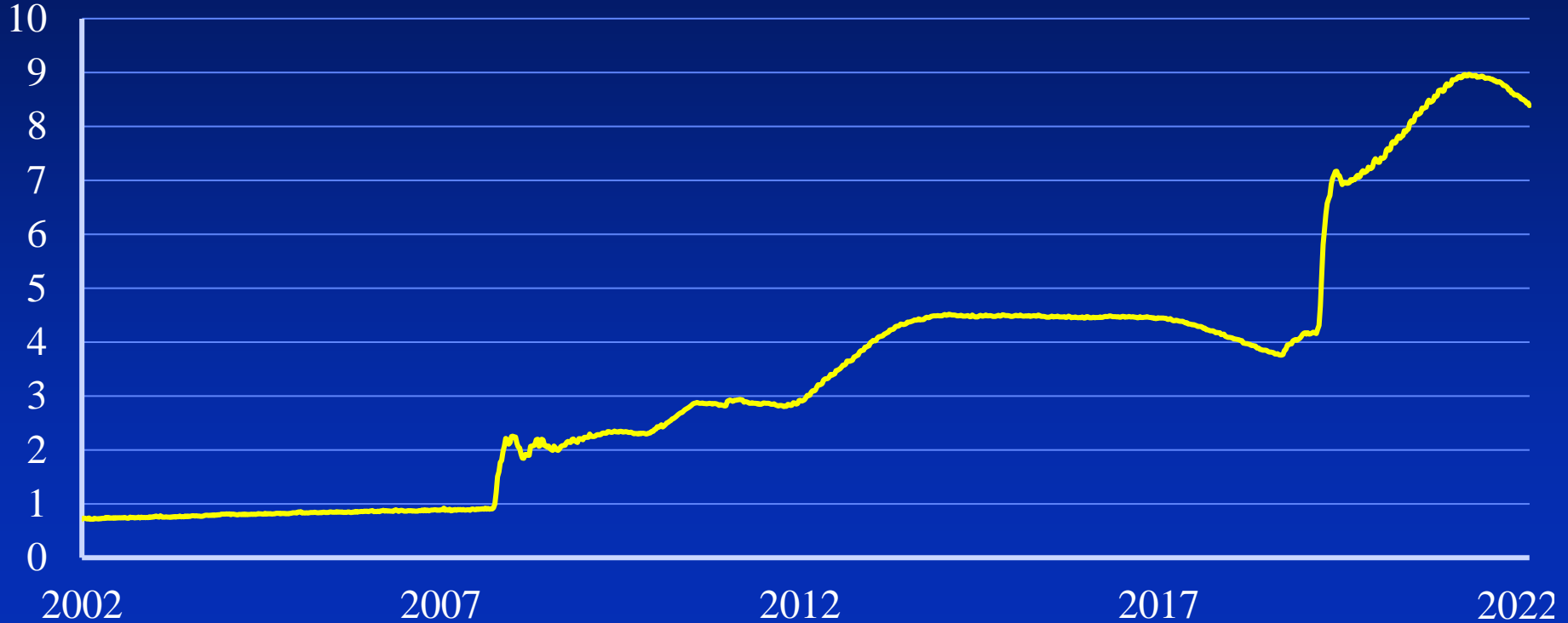
Federal Government Outlays (Year-over-Year % Change)



Six-month moving average. Source: Free Market Inc., as of 7/14/2023.

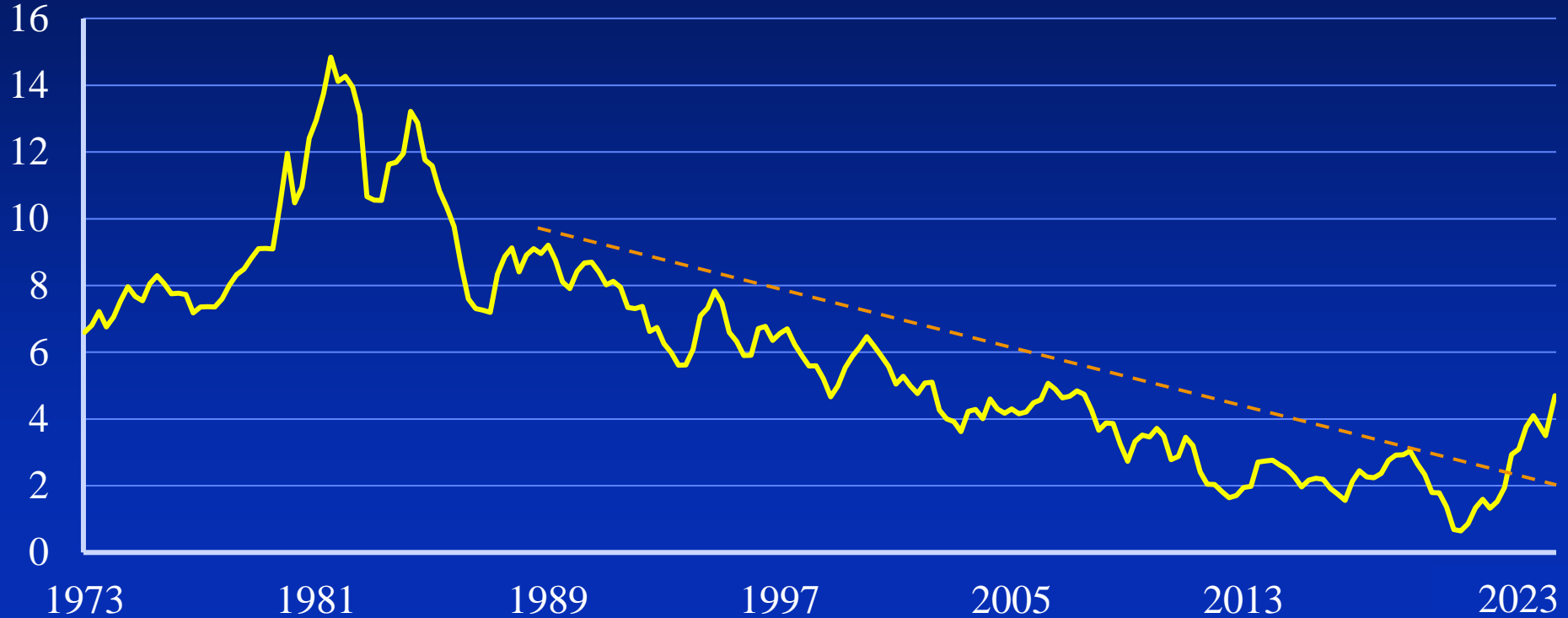
Legacy of Liquidity (Money Printing)

Fed Balance Sheet (\$T)



40-Year Reversal

10-Year U.S. Treasury Yields (%)

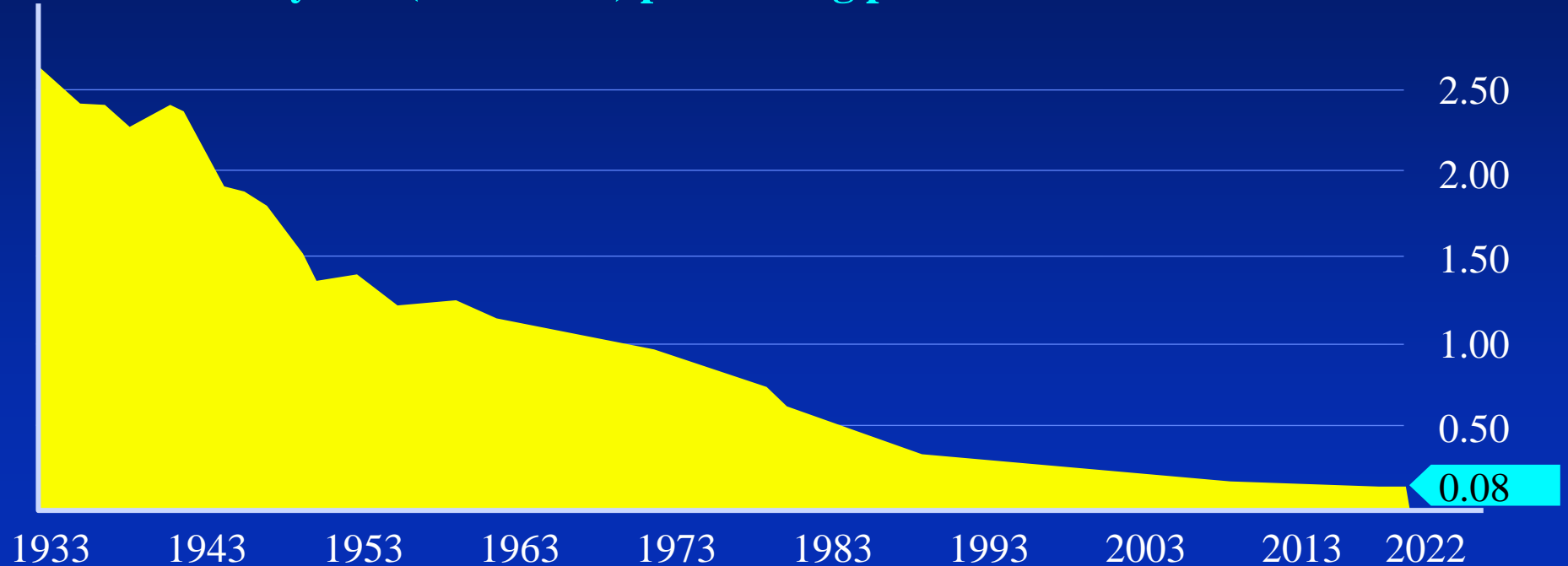


Source: St. Louis Fed (FRED), as of 10/13/2023.

From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2022)

89 years (1933-2022) purchasing power of USD down 97%



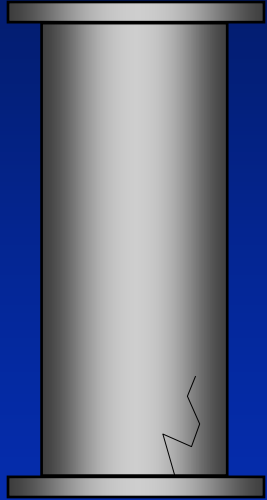
Reasonable Valuations

Positives

Net Worth/Savings Still Big
Margin Improvement Good
Fed Pivot???

Risks

Israel/Hamas/Hezbollah
Russian Invasion
Politics
Stocks Not Cheap
Interest Rates High
Yield Curve Inversion
Recession?
World Event Risk



Free Cash Flow Generation Has Been the Story Behind the Market for Two Decades...

Large-Cap Stocks Free Cash Flow Margins, 1952–2023



Source: Empirical Research Partners, as of 7/14/2023.

Let's Look at the Numbers...

Then & Now: August 1982 vs. October 2023

| | August '82 | Current |
|------------------------|-------------------|----------------|
| Fed Funds Rate | 10.25% | 5.4% |
| 10 Year UST Yield | 13.6% | 4.7% |
| Trailing S&P 500 P/E | 8.8 x | 19.5 x |
| Price to Book | 1.0 x | 2.9 x |
| Dividend Yield | 6.6% | 1.65% |
| Top Marginal Tax Rate | 50% | 37% |
| Capital Gains Tax Rate | 20% | 23.8% |

Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP



Russia Exodus

Everybody wants outta town

- Airports Swamped
- IT Workers Hunting
- Labor Shortages Increasing
- Passports Confiscated

Socialism Momentum

Growth AND Valuations at Risk

- Venezuela an example
- Innovation depends on respect for creativity and wealth
- Socialism targets the values, rights, and assets of successful entrepreneurs
- Government imposition of price/loan rate/rent/exchange controls always has caused shortages and economic decline

Authoritarian Expansion via Nationalism/Surveillance/ Repression of Dissent/Manipulation

(Control/Stability/Security vs. Democracy/Privacy)

Countries with Autocratic Leadership

| | | | |
|--------------|----------------|-------------------|--------------------------|
| Russia | India? | Nicaragua | Ethiopia |
| China | Philippines | Guatemala | Libya |
| Iran | Austria | Mozambique | Togo |
| Saudi Arabia | Moldova | Uganda | Zimbabwe |
| Hungary | Romania | Lebanon | Central African Republic |
| Poland | Czech Republic | Egypt | Kuwait |
| Turkey | Kazakhstan | Malaysia? | United Arab Emirates |
| Afghanistan | Singapore? | Myanmar | Morocco |
| Cambodia | Tanzania | Nigeria | Belarus |
| Thailand | Venezuela | Sudan | Uzbekistan |
| Brazil | Cuba | South Sudan | Azerbaijan |
| North Korea | Laos | Equatorial Guinea | Tajikistan |
| Syria | Paraguay | Eritrea | |

The Union Heaven of Illinois

Permanent Pension Liabilities

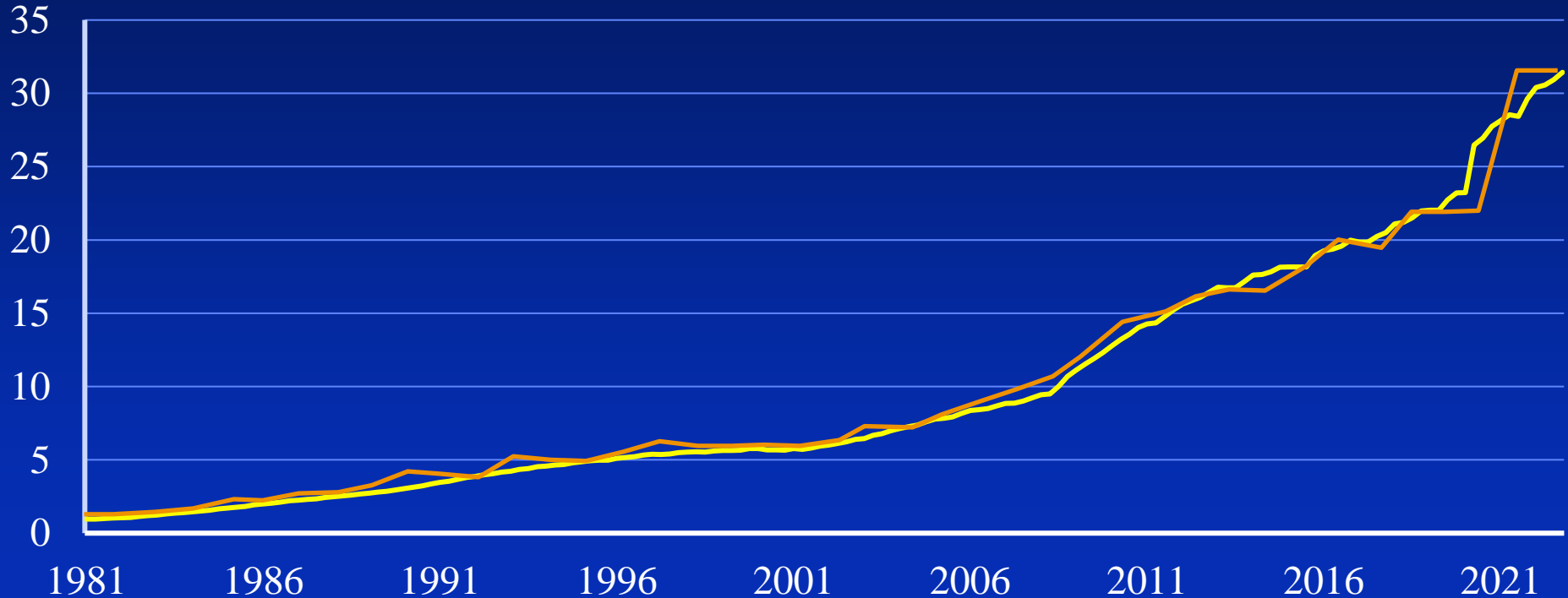
- Pensions are 21% funded
- \$535 billion unfunded
- Amended constitution extending the permanency of Illinois' pension liabilities to the entirety of public sector compensation

Would You Feel Comfortable and Confident Running a Country at Age 70?

| | | | | | |
|----------------|-----------|----|-----------------|---------|----|
| • Cameroon | Biya | 90 | • Brazil | Lula | 78 |
| • Palestinians | Abbas | 88 | • U.S. | Trump | 77 |
| • Vatican | Francis | 87 | • India | Modi | 73 |
| • Kuwait | Al-Sabah | 86 | • Russia | Putin | 71 |
| • Iran | Khamenei | 84 | • Bank of Japan | Ueda | 71 |
| • Ireland | Higgins | 82 | • China | Xi | 70 |
| • U.S. | McConnell | 81 | • Mexico | Obrador | 70 |
| • U.S. | Biden | 81 | • Turkey | Erdogan | 69 |

Cataclysm?

Debt Ceiling and Public Debt (\$T, 1981-2023)



World Event Risk

Potential Disasters

Hamas / Hezbollah / Israel
Russia / Ukraine / Moldova
China / Trade / Taiwan / Hong Kong / Hegemony
Sino-Russian Entente
Iran / Syria / Lebanon / Iraq / Kurdistan / Afghanistan
Cyber Warfare
Iran Deal / Nuclear Proliferation
North Korea / South Korea
Turkey / Syria / Treaties
Pakistan / India
Weaponization of Space / AI Robots, Drones, Balloons / Laser Weaponry
Thailand
Venezuela / Chile / Bolivia / Peru
Europe / Brexit / Catalonia / Grexit?
Biden Transition / Divided Government
Democracies Regressing / Socialism Advancing?
Mexico Cartel Battles
Saudi Succession / Autocracy
Egypt / Tunisia / Libya / Yemen / Ethiopia / Kenya / Congo / Nigeria
ISIS / Taliban
Environmental: CO2 / Water Levels / Garbage / Fires

Possible Successes

Vaccines
Trade Breakthrough
Tech Breakthrough / Energy Renaissance
South Asia?
Eurozone / Brexit
Japan?
North Korea
India / Pakistan / China
Charles / Camilla
William / Kate
Thorium / Graphene / Vanadium
Ireland Reunification?
Middle East Democracy
Immunotherapies
Israel / Sunni Relations

How to Cope?

Income & Growth

- Fidelity Capital & Income Fund
- Fidelity New Markets Income Fund
- Fidelity Convertible Securities Fund
- Fidelity High Income Fund
- Fidelity Floating Rate High Income Fund
- Fidelity Money Market Funds
- Financials?
- Global E/I
- Option Writing?
- Small Cap Value
- Preferred Stocks

Growth

- Blockchain Tech?
- Home Workspaces / Telehealth
- Quantum Computing
- Sensors / Actuators
- Fidelity Int'l Small Cap Opps Fund
- EV Infrastructure / Solar / Batteries
- AI / Cyber Security / Drones
- Video Production
- Genome / DNA / CRISPR / mRNA
- Fidelity Small Cap Discovery Fund
- Fidelity Emerging Market Discovery Fund
- Waste Management

Other

- Commodities
- Quality Closed End
- ESG
- Japan?
- Europe?
- Natural Resources?
- Water Sustainability Fund
- North Korea
- Crypto
- Uranium, copper, lithium, nickel, cobalt
- Silver?
- Oil service
- Defense

Global Breadth Means Identifying Better Opportunities

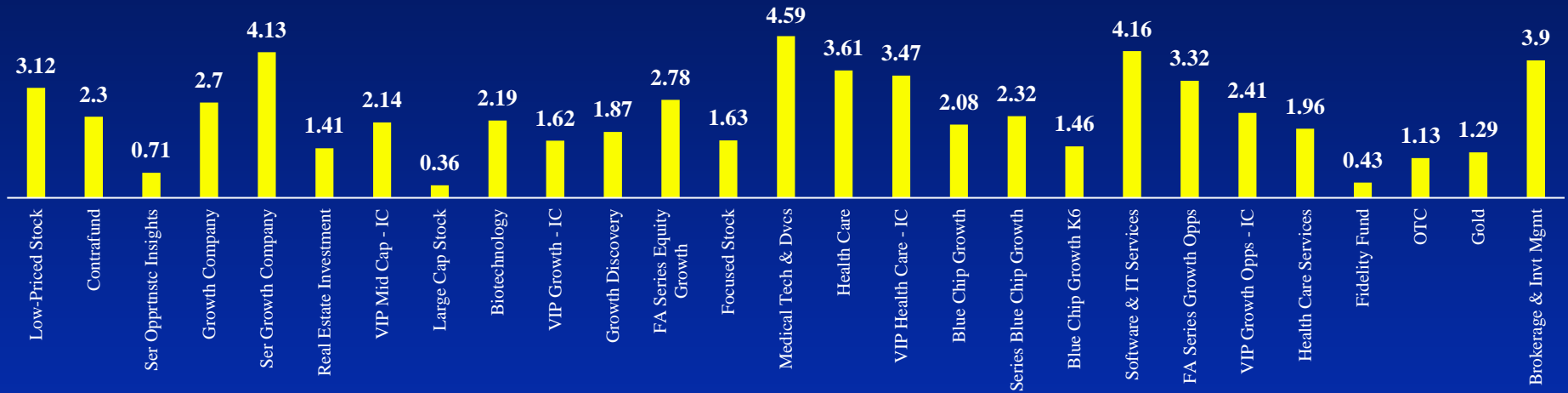
Leveraging the work of nearly 400 research professionals around the globe*



* Research professionals include both research analysts and associates. Source: Fidelity Investments as of 12/31/2022. Data is unaudited. These figures reflect the resources of Fidelity Management & Research Company, a U.S. company, and its subsidiaries.

Fidelity's Actively Managed Equity Mutual Funds Have Outperformed!

Funds with PMs with >4 Years of Fund Tenure That Have Beaten the S&P 500 by 30bps or More, Annualized Over PM Tenure



| | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------|--------|-------|--------|-------|--------|------|--------|--------|------|-------|------|--------|----------|------|-----|---------|--------------|---|---|---|---|---|---|---|
| Tilling hast | Danoff | Wymer | Buller | Allen | Fruhan | Kaul | Weiner | Dufour | Yoon | Kalra | Khan | Weaver | Segalini | Park | Lin | Calhoun | Acker man | | | | | | | |
| 33 | 32 | 10 | 26 | 9 | 24 | 22 | 18 | 17 | 16 | 16 | 16 | 14 | 14 | 14 | 9 | 6 | 9 | 7 | 7 | 7 | 6 | 5 | 4 | 4 |

Average annual outperformance, excess return percent against the S&P 500, 27 Equity Funds with at least 30 bps (0.30%) of annual active return over current PM tenure. Minimum tenure of 4 years shown. If multiple managers run a fund, lead manager name is shown, unless the fund is team-run, in which case the team's name is shown.

Source: FMR Co., as of 12/31/2022. Includes changes in share price and reinvestment of dividends and capital gains. Analysis excludes funds with sales charges.

Current performance may be higher or lower than that quoted. Visit [i.fidelity.com](https://www.fidelity.com) or call your investment professional for most recent month-end performance. Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold.

Don't Short the United States

(America the Beautiful / Social Capital Huge)

- Work Ethic/Resilience/Flexibility/Choice/Mobility
- Innovation/Ingenuity/Risk profile (think Silicon Valley)
- Capitalistic system fosters competition
- Intellectual and financial magnet
- Competitiveness (deep/liquid capital markets, rule of law, property rights)
- Rehabilitation, not liquidation (via Chapter 11)
- Superior infrastructure (shipping, inventory costs)
- Accounting transparency
- Universities
- Lots of natural gas/fresh water/geographically removed/river network
- Freedoms (ideas, suffrage, religion, immigrants)

Patience!



Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

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