

FIDELITY INSTITUTIONAL

Market Volatility Update

March 2, 2020

Speakers

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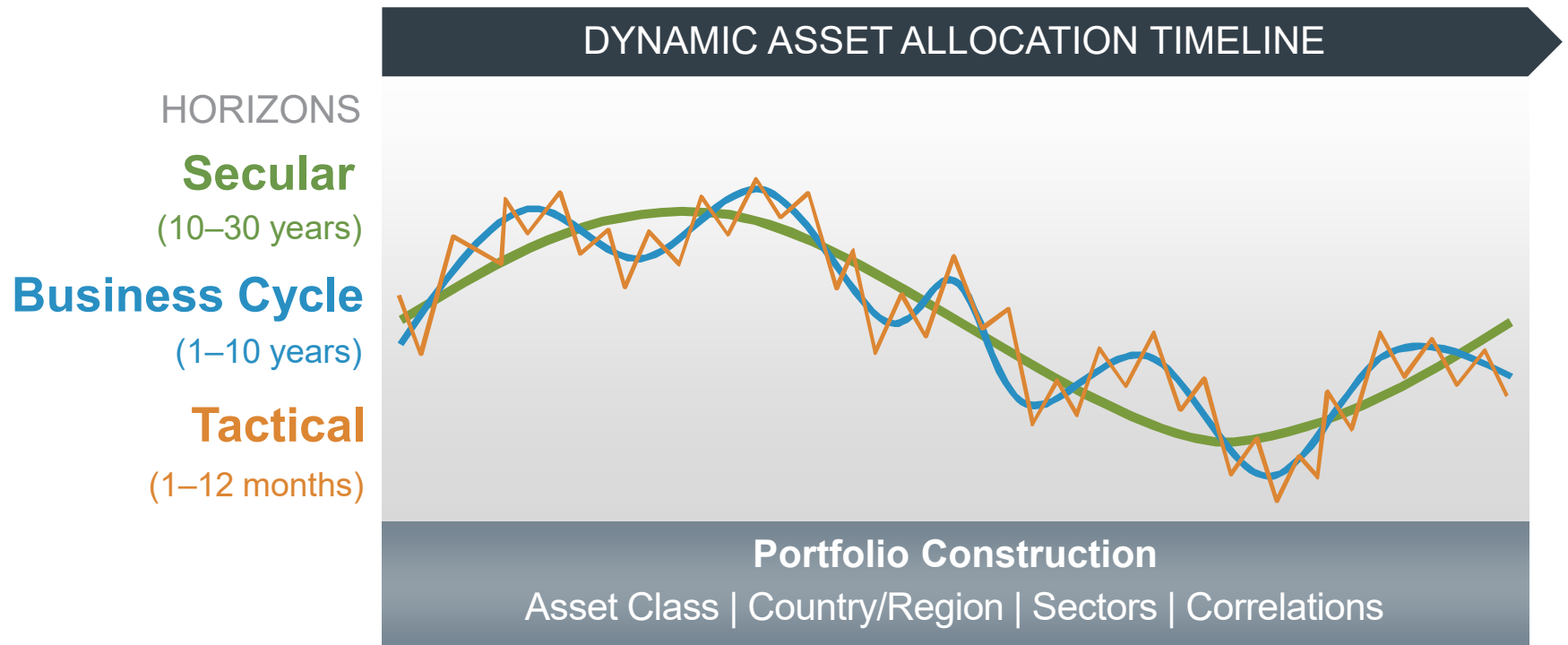
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Multi-Time-Horizon Asset Allocation Framework



For illustrative purposes only. Source: Fidelity Investments (AART), as of 12/31/19.

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February 2020 AART Business Cycle Update

Pre-Market Volatility

The U.S. is firmly in the late-cycle phase.

The coronavirus outbreak adds a significant near-term headwind.

We expect more volatility and a less favorable risk-return profile.

Asset-class patterns may become less reliable, warranting portfolio diversification.

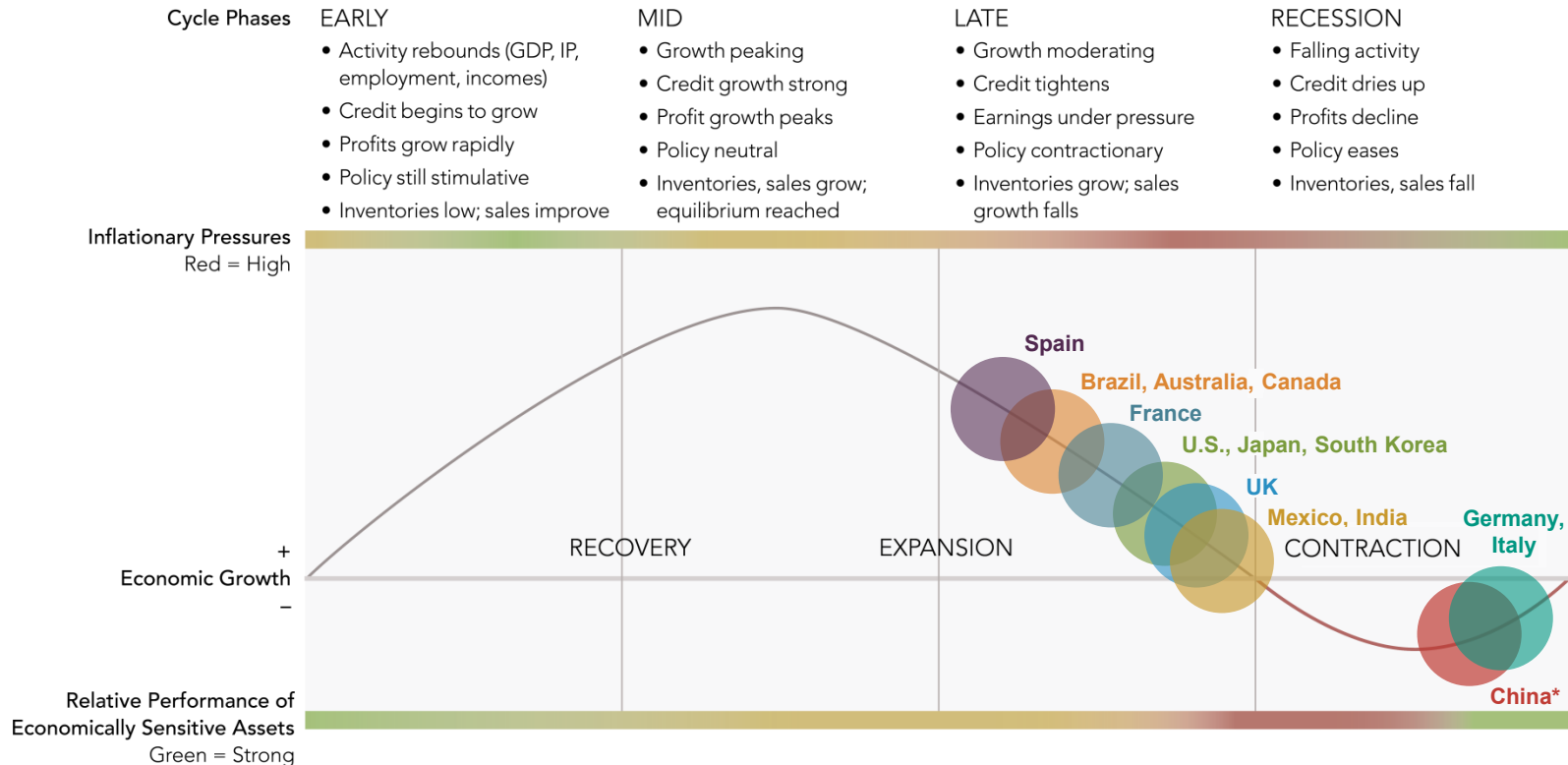
Diversification does not ensure a profit or guarantee against a loss.

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Mature but Less Synchronized Global Business Cycle






Business Cycle Framework



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 1/31/20.

U.S. Economy in Late Cycle, but Credit Not Yet Tighter

INDICATOR	TYPICAL LATE-CYCLE TREND	THIS CYCLE
 Employment/Wages	Tighter labor markets, higher wages	✓
 Monetary Policy	Tighter	✓
 Yield Curve	Flatter then inverted	✓
 Credit	Tighter lending standards and wider credit spreads	✗
 Corporate Profits	Margins decline, slower earnings growth	✓

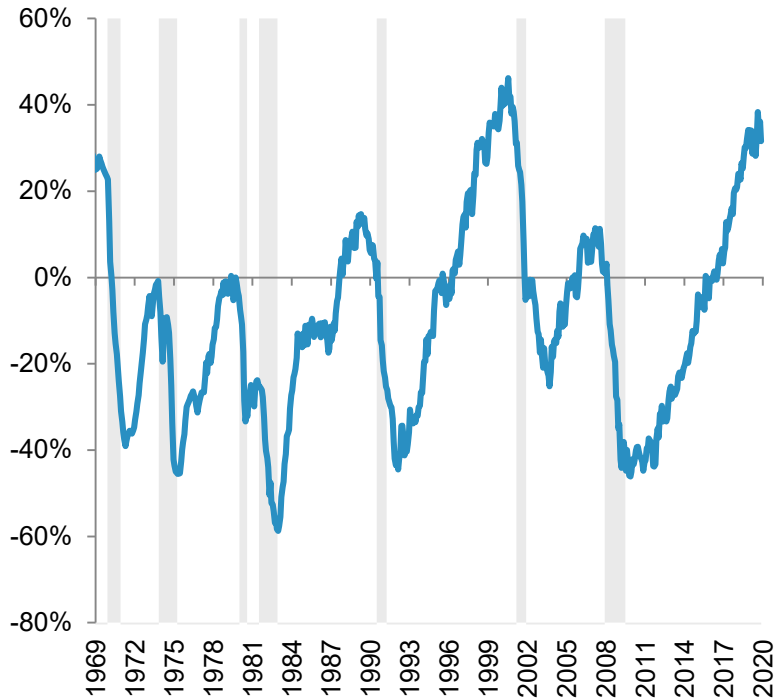
Source: Fidelity Investments (AART), as of 12/31/19.

What to Watch: U.S. Consumers, Employment

Consumer Assessment of Labor Market

— Conference Board Survey

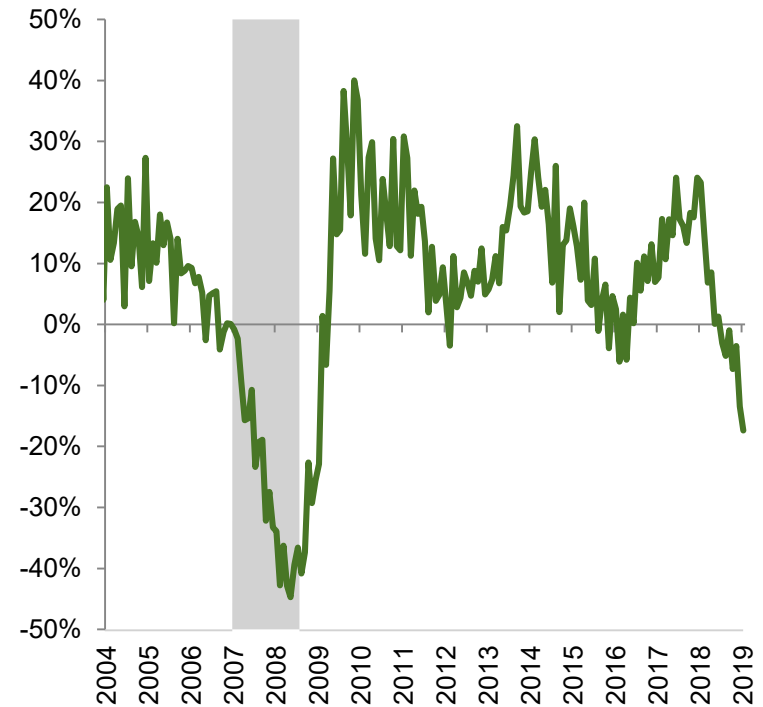
Jobs: Plentiful Minus Hard to Get



U.S. Labor Market

— Job Openings

Year-Over-Year



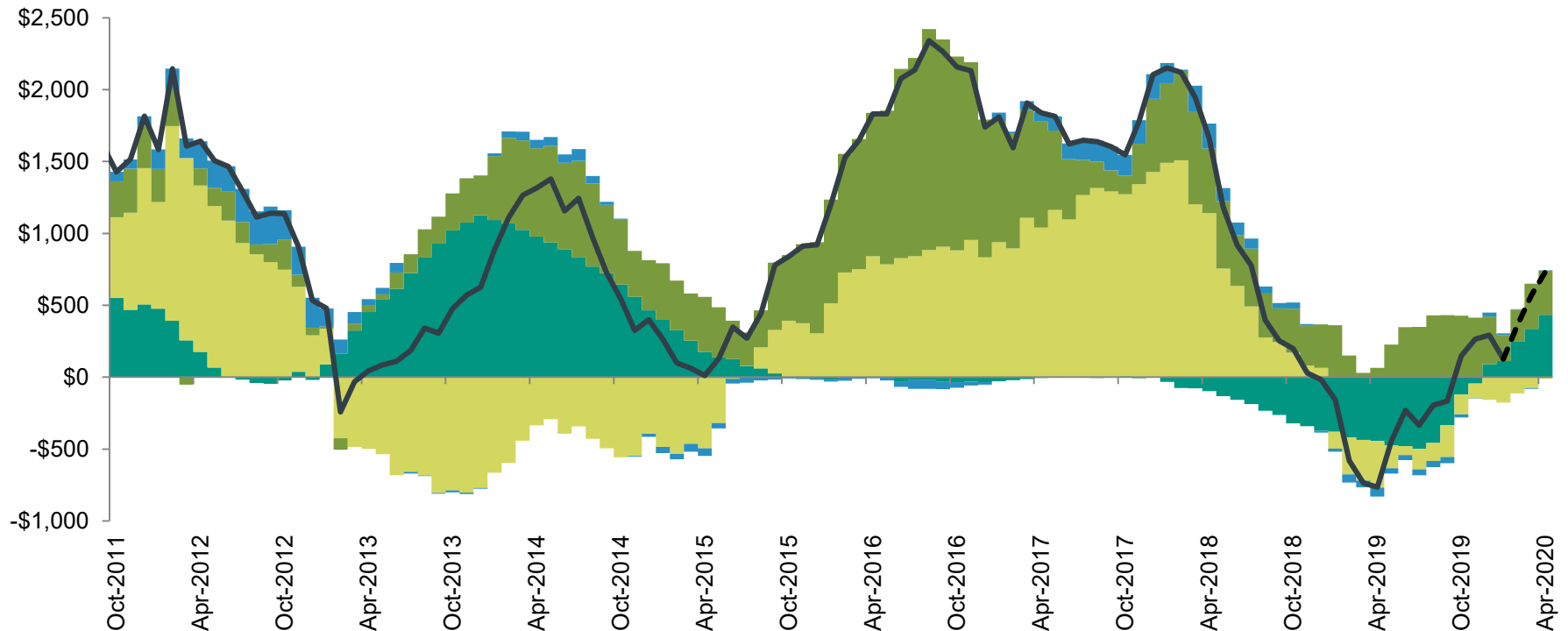
Shading represents U.S. economic recession as defined by the National Bureau of Economic Research (NBER). Source: Conference Board, NBER, Haver Analytics, Fidelity Investments (AART), as of 02/27/2020.

Central Bank Response is Critical

Central Bank Balance Sheets

UK Japan Eurozone U.S. Total

Billions (12-Month Change)



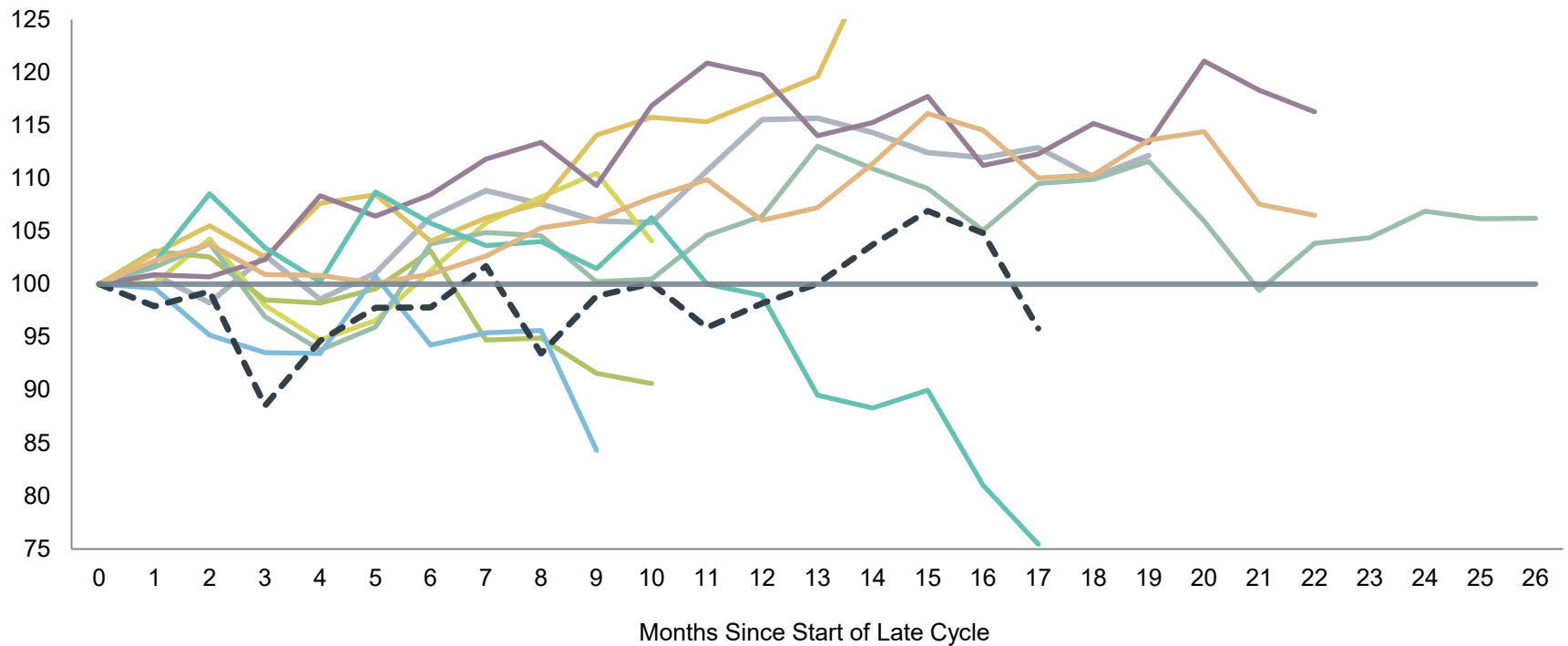
Dotted line estimates future central bank assets: Federal Reserve to purchase \$60B of Treasury bills per month in 2020 Q1, European Central Bank (ECB) to purchase €20B per month in Q1, Bank of England to maintain constant balance sheet, Bank of Japan to purchase at annualized rate of average purchases over last 12 months. Source: Haver Analytics, Fidelity Investments (AART), as of 1/31/20.

Stock Performance Less Consistent During Late Cycle

U.S. Equity Less IG Debt Cumulative Performance in Late Cycle (1950–2019)

--- Current Cycle

Index Level (Start of Late Cycle = 100)



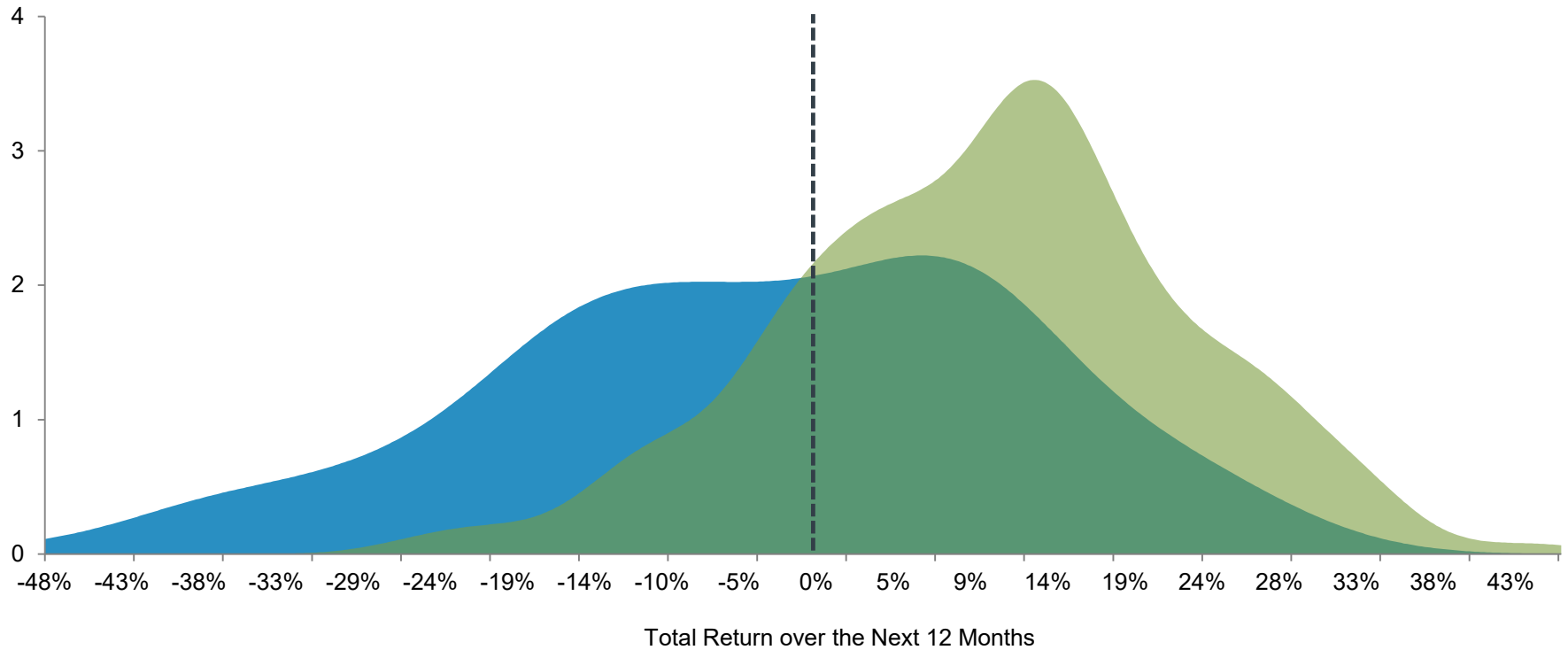
Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Indexes: U.S. Equity—S&P 500 Index; Investment-Grade (IG) Debt—Bloomberg Barclays U.S. Aggregate Bond Index. Colored lines represent prior late cycle relative performance. Source: Haver Analytics, Fidelity Investments (AART), as of 02/27/20.

Should Investors Consider Buying the Dip?

Subsequent Stock Market Returns Given Business Cycle Phase (1952–2019)

■ Late ■ Mid

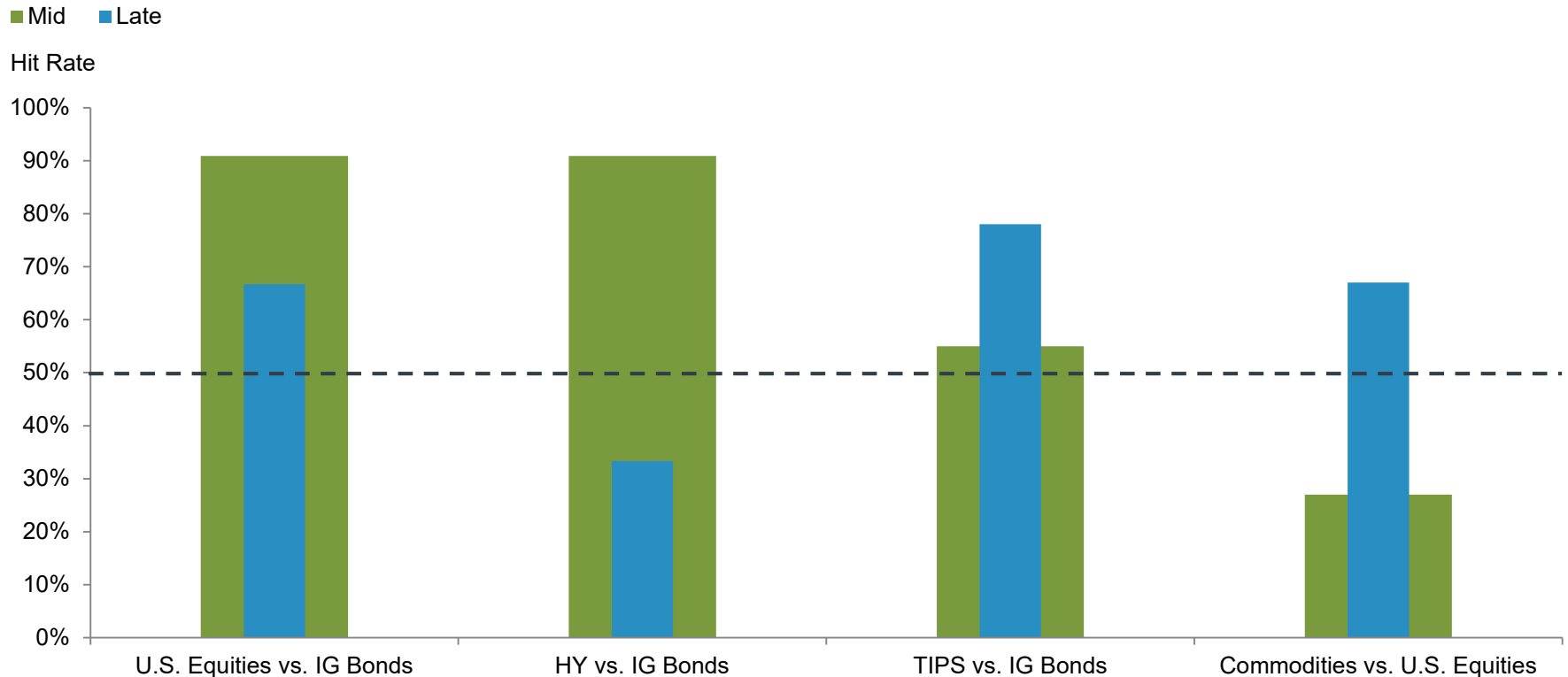
Frequency



Past performance is no guarantee of future results. The above charts are density plots generated from the 12-month forward returns of a U.S. Equity Index sourced from Fidelity Investments. Source: Standard & Poor's, Fidelity Investments (AART), as of 9/30/19.

Late Cycle: Less Reliable Performance Patterns

Relative Asset Performance by Cycle Phase (1950–2015)



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. TIPS: Treasury Inflation-Protected Securities. IG: Investment Grade. Hit Rate: frequency of one asset class outperforming another. Results are the difference between total returns of the respective periods represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg Barclays. Fidelity Investments source: proprietary analysis of historical asset class performance, which is not indicative of future performance, as of 12/31/19.

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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.

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Bloomberg Barclays US Aggregate Bond Index 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. Sectors in the index include Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.

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