Managing Risk through Late Cycle

Strategic Advisers LLC

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Key takeaways

In late cycle, the U.S. economy generally continues to grow at a more modest pace, and most investments have historically experienced positive returns.

Although volatility may increase, it's not uncommon to see rallies later into the cycle.

No matter where the U.S. economy resides in the business cycle, we believe that having a plan and remaining invested are two important drivers to long-term financial success.

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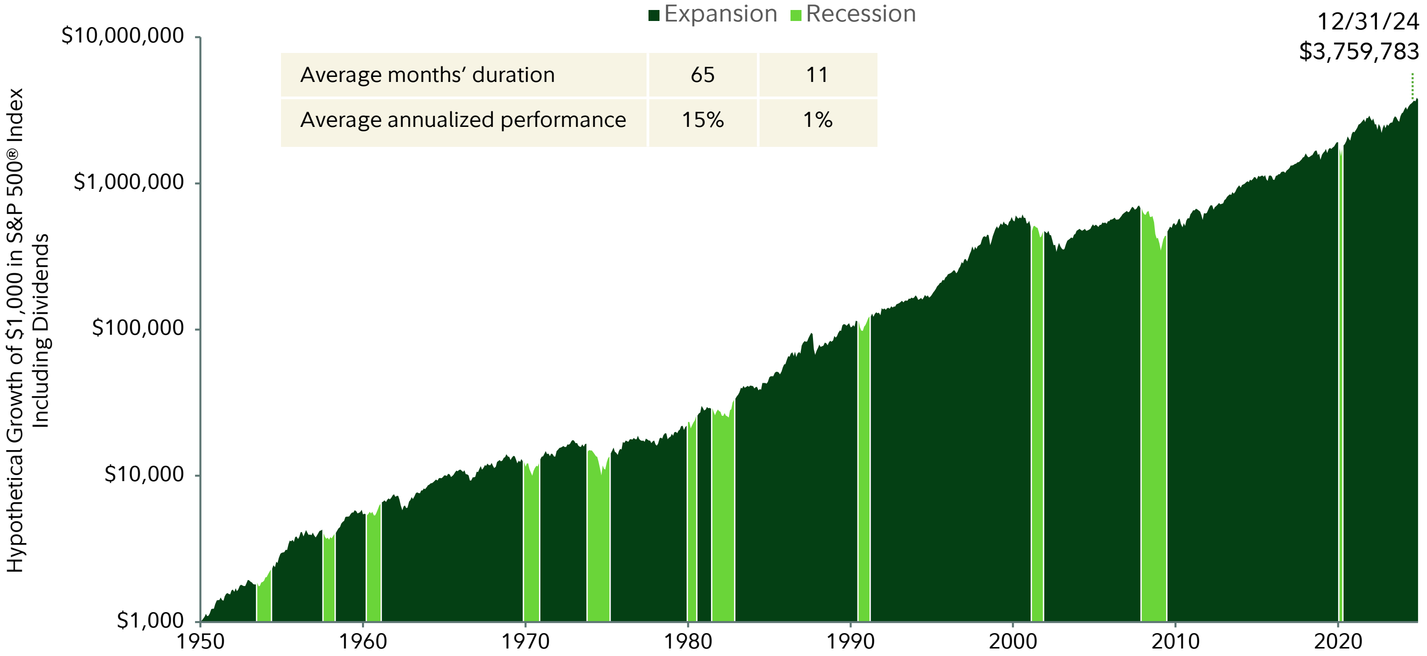
Over the long-term, stocks have grown through market volatility and recessions

Despite occasional market downturns, focusing on your long-term financial or retirement goals is vital.

- Stocks, which are an important growth engine, have historically been through many downturns, yet they have also shown tremendous growth over time.
- Each of the past recessions were challenging in the moment, but they pale in comparison with expansions when stocks experienced significant growth.
- As shown on the chart, market returns since 1950 on average have been positive. After every past recession, the markets and the economy have eventually stabilized and an expansion has followed.

Since 1950, stocks have grown through 11 business cycles
1950-2024



This chart illustrates the cumulative percentage return of a hypothetical investment made in the noted index during periods of economic expansions and recessions. 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. Source: Bloomberg, S&P 500 ® Index total return for 12/31/1949 to 12/31/2024; recession and expansion dates defined by the National Bureau of Economic Research (NBER). The S&P 500® Index was created in 1957; however, returns have been reported since 1926, and the index has been reconstructed for years prior to 1957. See Important information—index definitions.

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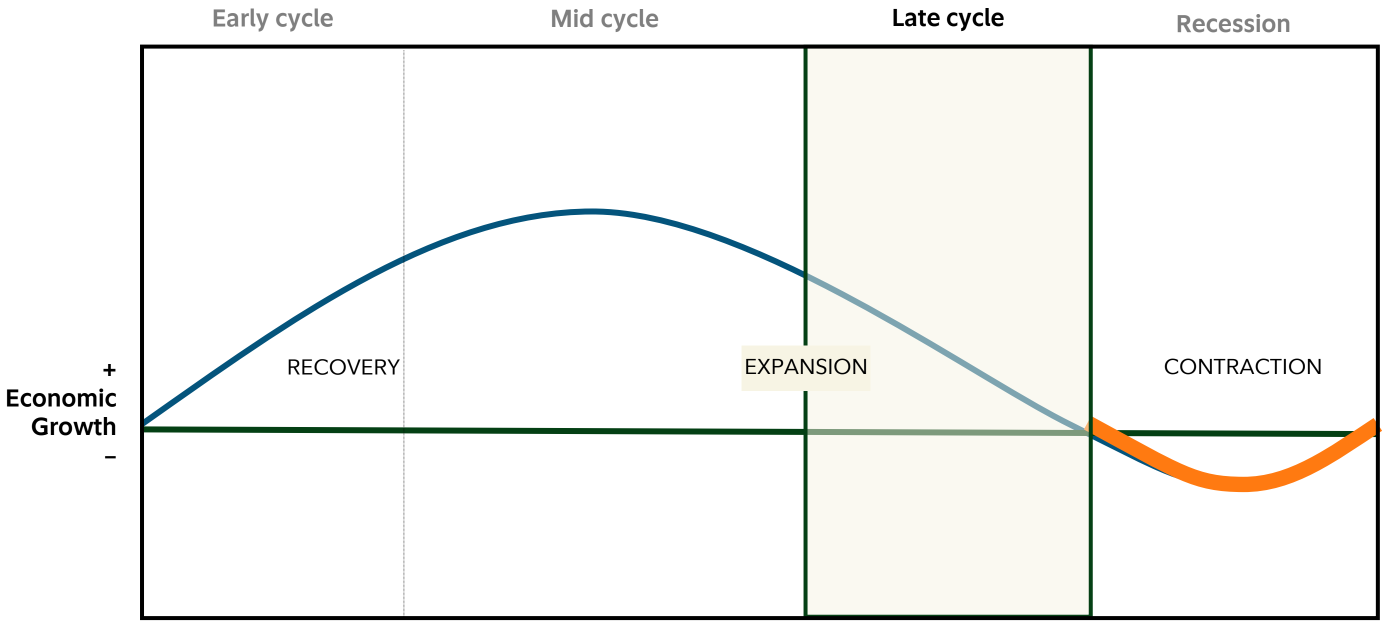
Late cycle is historically a period of continued growth, but at a more moderate pace

Late-cycle expansion is typically a time of moderating economic growth.

- In late cycle, signs of a tight labor market can lead to higher wages. This is good for consumers, but costly for businesses.
- At the same time, inflation and interest rates often move higher. Consumers may feel these impacts on mortgages, car loans, and potentially higher prices for consumer goods.
- Corporate earnings growth often moderates in late cycle.
- It's important to know that late cycle is not a recession, but rather a period of moderating growth. A recession is when the economy actually shrinks.

The late-cycle phase of the business cycle



Past performance is no guarantee of future results.
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 12/31/24. Please see Important Information for more about the business cycle.
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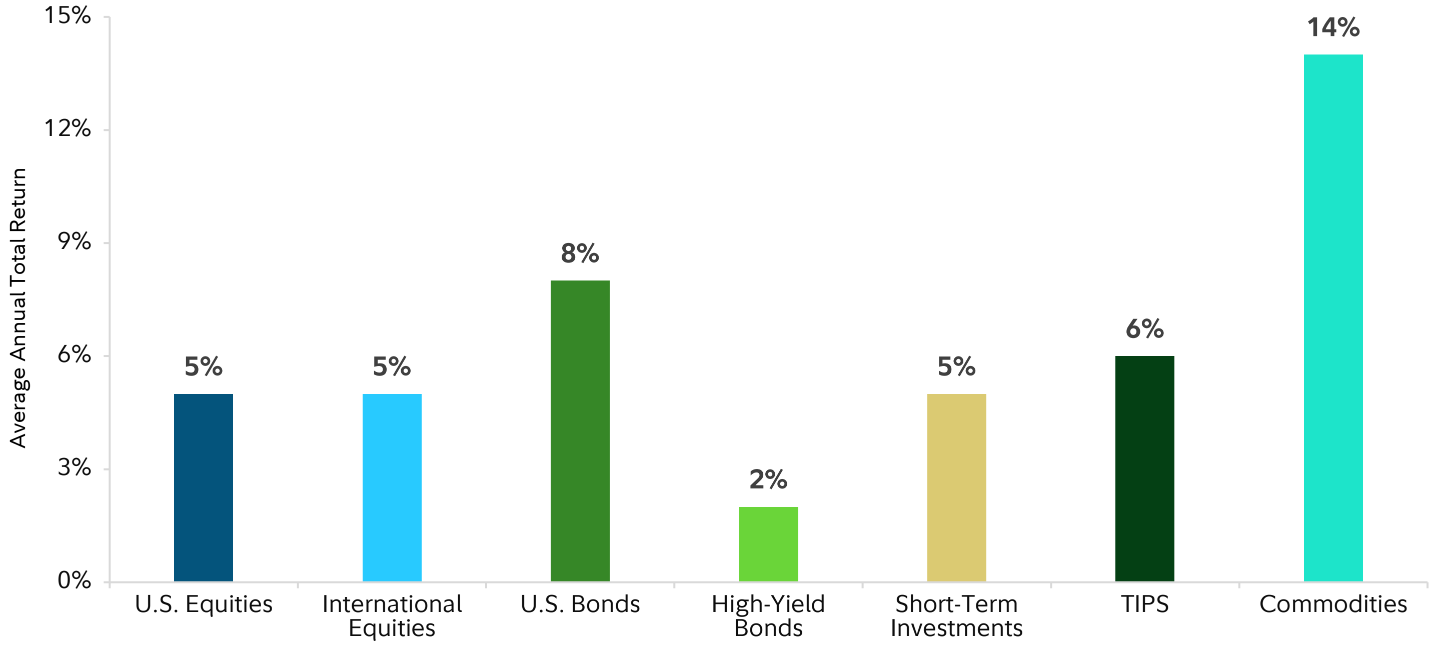
Historically, stocks and high yield bonds have experienced more volatility in late cycle

In late cycle, exposure to both stocks and bonds may provide a smoother investment experience.

- Both U.S. and international stocks, as well as high-yield bonds have historically grown more modestly.
- Investment-grade bonds, commodities and TIPS have normally provided diversification benefits, as inflation often accelerates.*
- We use our understanding of where the U.S. economy resides in the business cycle and other in-depth market research to help guide investment decisions.

Asset-class returns during late cycle of the business cycle

1950-2024



*Commodities, High-Yield bonds, and TIPS are utilized when available in different types of client accounts. For participant accounts, in particular, Commodities, High-Yield bonds, and TIPS are utilized when available in plan line ups.

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 to 2024, as of 12/31/24.

Past performance is no guarantee of future results. This is for illustrative purposes only and not indicative of any investment. Indexes are unmanaged. It is not possible to invest directly in an index. Dow Jones U.S. Total Stock Market Index—U.S. stocks; MSCI All Country World Ex USA Index (Net MA)—international stocks; Bloomberg US Aggregate Bond Index—high-quality bonds; ICE BofA US High Yield Index—high-yield bonds; Bloomberg 3–6 Month US Treasury Bill Index—short-term investments; Bloomberg Commodity Index Total Return Index—commodities. Please see Important Information for index definitions.

Source: Fidelity Investments (AART), as of 12/31/24.

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As the U.S. economy matures, we seek to modify the mix of investments in your accounts

During late cycle, we will typically seek to reduce risk in your account, while providing protection from inflationary pressure.

- Based on our extensive research, we believe aligning accounts or portfolios closer to their long-term asset allocation mixes may help manage risk during this phase.
- We also continuously look for opportunities to rebalance accounts and portfolios, as needed, to help maintain the appropriate level of risk for your investments.
- The business cycle is just one of several inputs our investment team uses to manage risk. However, due to the wide range of historic outcomes in each phase of the business cycle, we believe it can be risky to try to time markets based on this research.

Asset allocation during late-cycle expansion

Emphasize more		Emphasize less	
Investment-grade bonds	↑	U.S. stocks	↓
TIPS*	↑	International stocks	↓
Commodities*	↑	High-yield bonds*	↓

We believe that the adjustments we make to accounts or portfolios may help keep clients and participants aligned to their long-term financial or retirement goals.

TIPS: Treasury Inflation-Protected Securities. **Past performance is no guarantee of future results.**

*Commodities, High-Yield bonds, and TIPS are utilized when available in different types of client accounts. For participant accounts, in particular, Commodities, High-Yield bonds, and TIPS are utilized when available in plan line ups.

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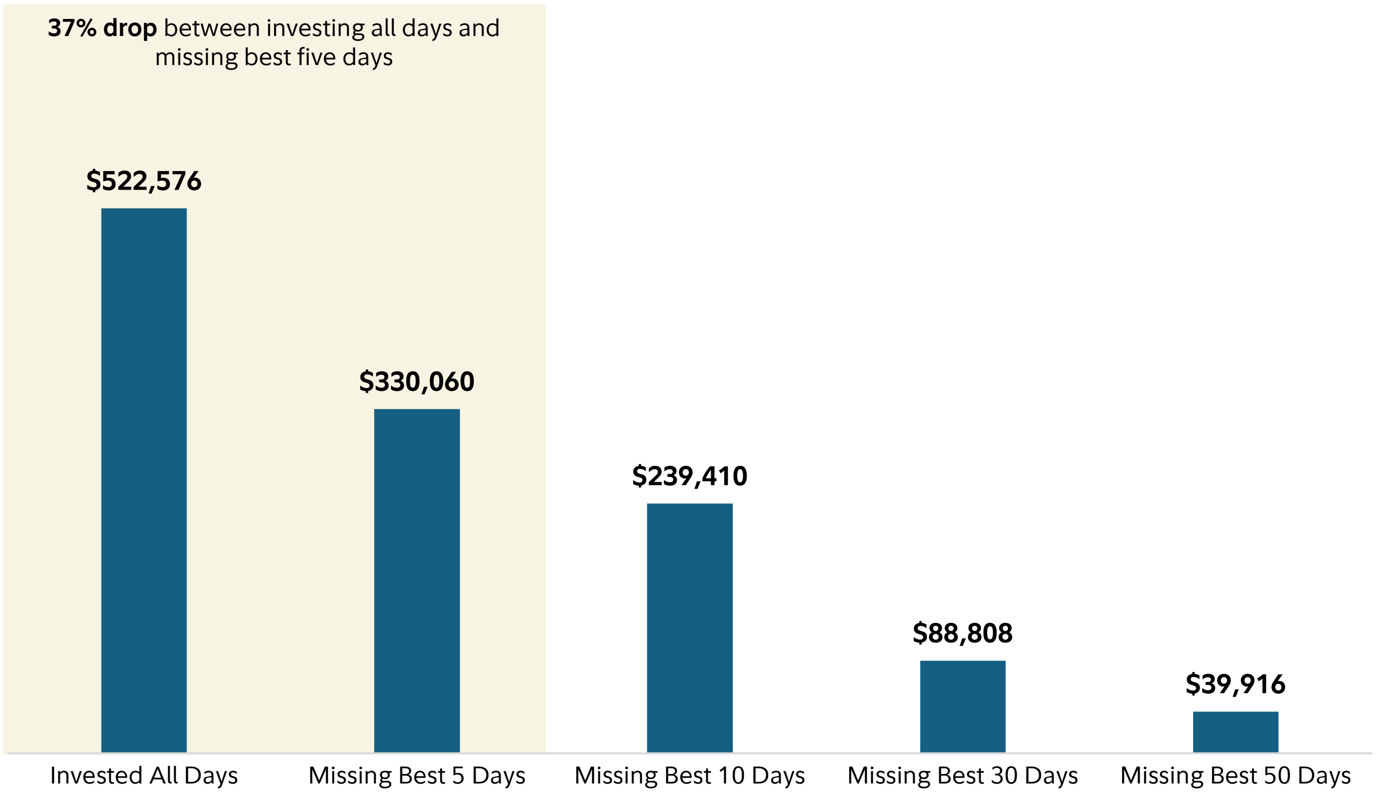
Missing out on the five best days can cost investors

Jumping in and out of the market can significantly reduce your portfolio value.

- When markets fall, we understand that it can feel stressful to see your investments lose value. In fact, some investors may be tempted to abandon their strategy when markets decline.
- As shown, an investment of $10,000 in the S&P 500® Index in 1988 would have grown to $522,576 by 2024. Missing out on even five of the best days over that period would have greatly reduced the portfolio's value.
- Backed by our deep research and experience, we remain patient and disciplined through periods of market stress.

Hypothetical growth of $10,000 invested in S&P 500® Index
January 1, 1988–December 31, 2024



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 ranking the one-day total returns for the S&P 500® 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. See important information for index definitions. Your own investment experience will differ, including the possibility of losing money.
Indexes are unmanaged. It is not possible to invest directly in an index. Please see Important Information for index definitions.
Source: Fidelity Investments, Bloomberg as of 12/31/24.
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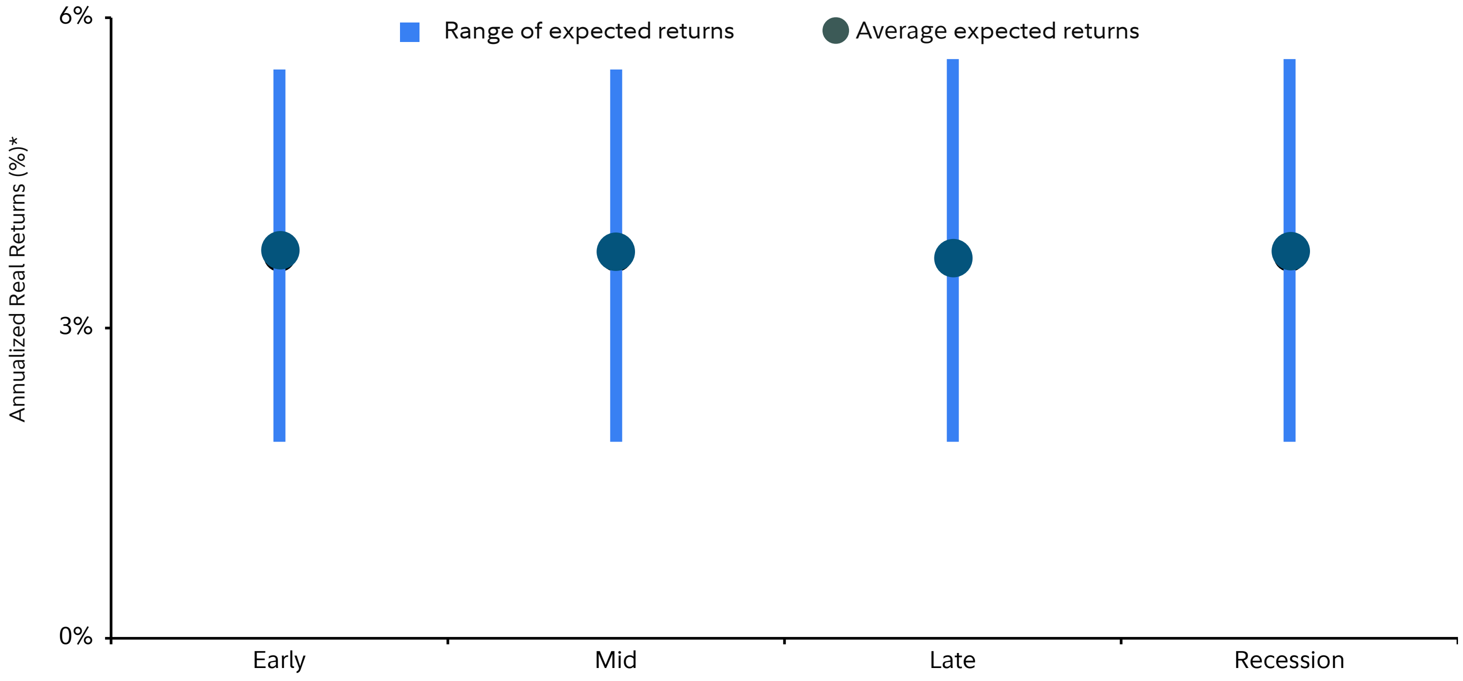
No matter when you start investing, outcomes can be similar over time

Our research shows that when account is funded your account matters over a longer timeframe.

- The difference in average annual returns can be very small over time, regardless of which phase of the business cycle clients and participants start investing in.
- Therefore, choosing when to enter the market based on where we believe the U.S. economy resides in the business cycle is unlikely to dramatically affect your returns.
- Instead, we believe that remaining disciplined and sticking to an investment strategy may be a more reliable way to achieve long-term financial or retirement goals.

20-year expected portfolio returns starting in each cycle phase
2004-2023



*Real return is the total return of an investment less the rate of inflation.
Past performance is no guarantee of future results. For illustrative purposes only. It is not possible to invest directly in an index. All indexes are unmanaged. Sample Portfolio: 36% Domestic Equity, 24%, International Equity, 40% Investment-Grade Bonds. Portfolio based on Dow Jones U.S. Total Stock Market Index, MSCI ACWI ex-US Index, Bloomberg US Aggregate Bond Index, as of 12/31/23. Please see disclosures at the end of the presentation for important index information. This historical analysis is based on Monte Carlo analysis based on historical index returns. 'Range of expected returns' illustrates simulations between the 25th and 75th percentile. The simulations represent an 85% confidence interval. Actual returns could potentially be higher or lower.
Source: Fidelity Investments (AART)
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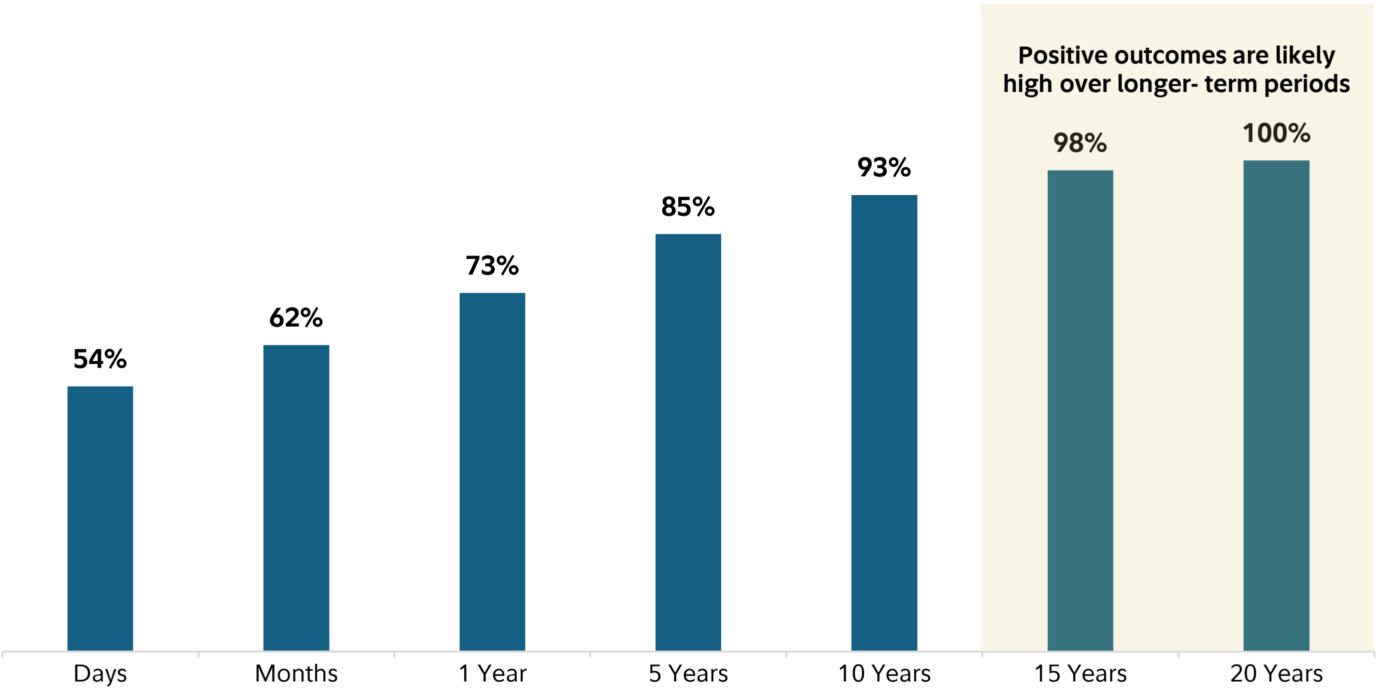
Patience has been rewarded over the long term

Investors who have stayed in the stock market longer have been more likely to see gains.

- For instance, since the start of 1928 stocks have had a positive outcome just over half of the days.
- However, from 1928 to 2024, stocks have had positive outcomes more than 98% of the time over 15- and 20-year periods (based on calendar year returns).
- We believe that staying invested over the long run can improve the chances of a positive outcome and help investors reach their long-term financial or retirement goals.

Percent of time U.S. stocks, represented by the S&P 500® Index, have been positive over various time periods
1928–2024



Past performance is no guarantee of future results. U.S. stocks are represented by S&P 500 returns. This is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index. All indexes are unmanaged. Please see Important Information for index definitions. The S&P 500 Index was created in 1957; however, returns have been reported since 1926, and the index has been reconstructed for years prior to 1957.
Source: Bloomberg, as of 12/31/24.
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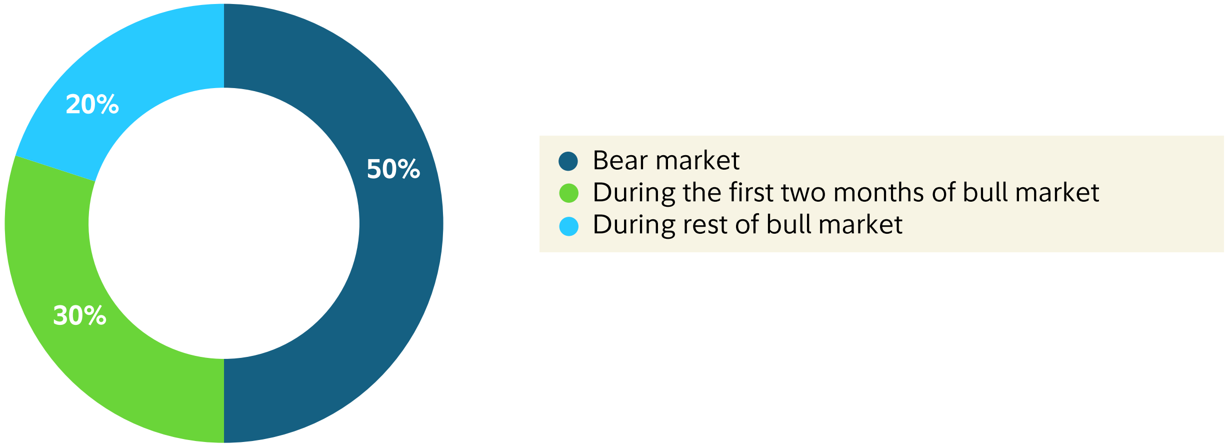
What history tells us:
Transitioning from late cycle to recession

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

We believe that it is impossible to predict the magnitude or timing of stock market returns.

- Long-term investors may be more likely to experience better long-term returns if they maintain their exposure to stocks through periods of market volatility or bear markets.
- 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 half of the best days occurred during bear markets, which typically is a time in which investors are less confident that stocks will rise.

Top 50 days with the highest returns, represented by the S&P 500® Index
January 1980 to December 2024



A bear market is defined as a 20% drop in the S&P 500® Index from a previous high.
Past performance is no guarantee of future results. Stocks are represented by the S&P 500® Index . This is for illustrative purposes only and not indicative of any investment. It is not possible to invest directly in an index. All indexes are unmanaged. Please Important Information for index definitions. Measures the 50 best one-day returns of the S&P 500® Index from 01/01/1980 to 12/31/2024.
Source: Fidelity Investments, Bloomberg Finance, LP,
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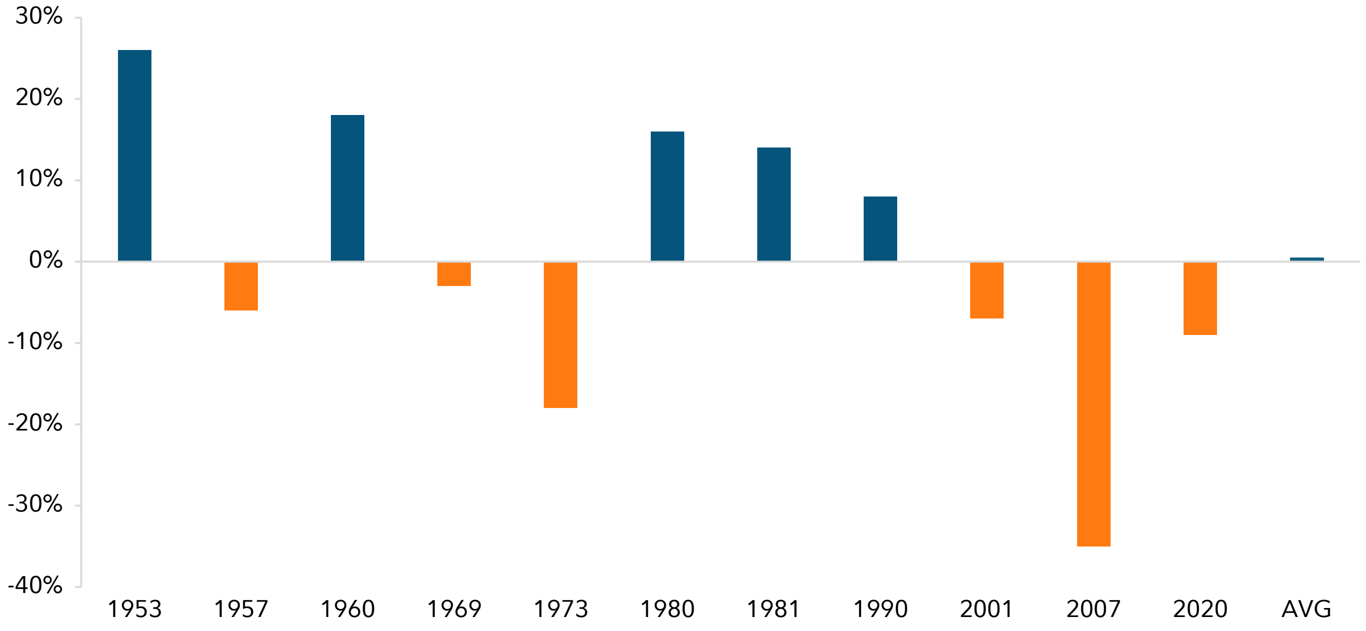
Stocks have gained value or experienced modest negative returns during most recessions

Stocks historically anticipate economic recoveries before they actually occur.

- Many clients and participants may only recall recessions when stocks fell sharply.
- But 5 of the last 11 recessions have led to positive returns.
- That's one of the reasons we believe clients and participants may benefit from some exposure to stocks through recessions, as markets can rally sharply and unexpectedly during a recession.

S&P 500® Index has not always experienced significant volatility during recessions
1950-2024



Past performance is no guarantee of future results. Recession dates by the National Bureau of Economic Research (NBER).
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Source: Bloomberg Finance, LP, from 1950 to 2024.
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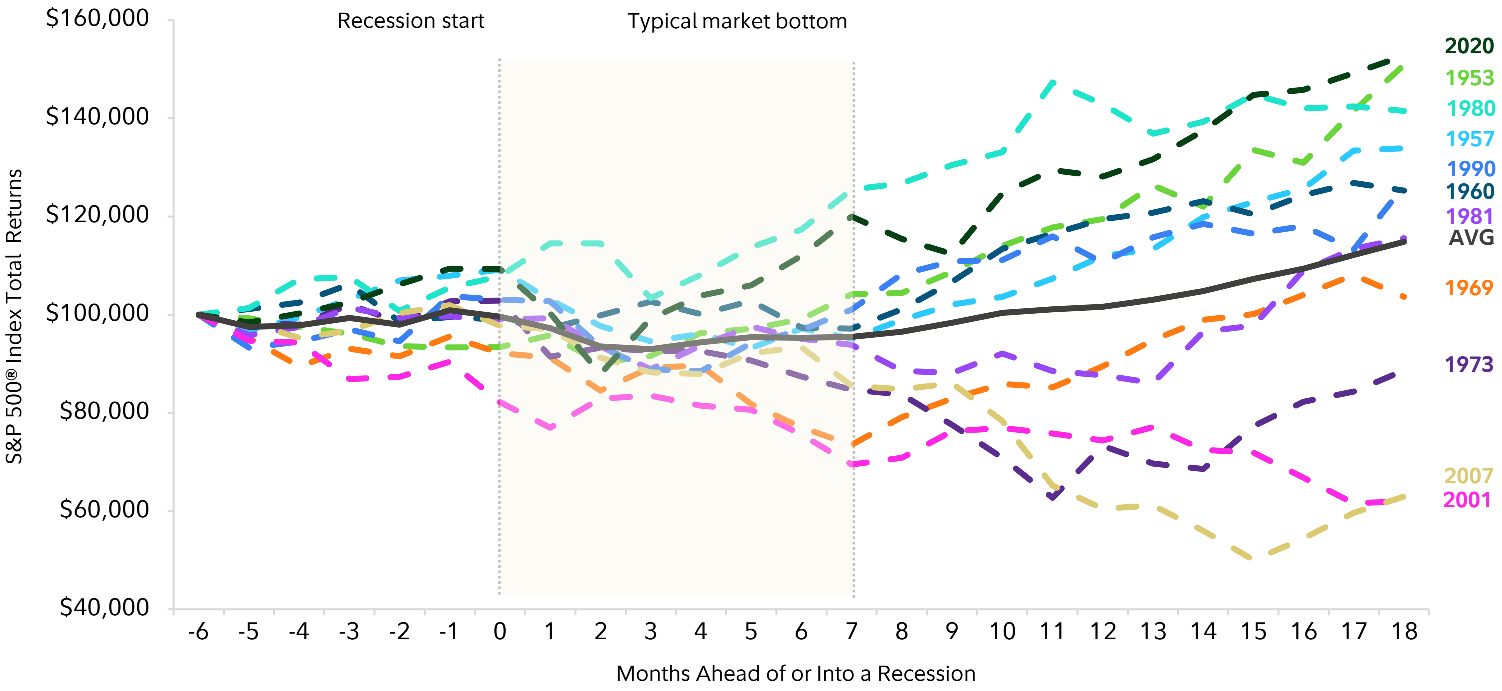
Stocks have historically experienced just a few months of volatility around recessions before starting to recover

Stocks typically start to recover before a recession is over.

- Stocks have on average experienced about seven months of negative returns from the start of a recession to a typical market bottom, before starting to recover during a recession.
- In some instances, stocks have gained in value from the start to the end of a recession.
- News headlines have often been grim throughout a recession, even after the market has started to recover, which may lead some investors to miss out on some of the strong recovery after a recession.

Stocks returns, represented by the S&P 500® Index, have varied around recessions
1950–2024



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Source: Recession dates: NBER. S&P 500® total return: Bloomberg Finance, LP.
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Markets have typically experienced volatility as recessions began, before staging a strong recovery

Our research shows that market volatility occurs with some frequency, but positive outcomes have been more likely over time.

- Stocks have historically experienced volatility as recessions begin.
- However, recessions have often been short and infrequent; while recoveries have usually been strong and lasting.
- We believe that remaining disciplined and sticking to your long-term plan may be a more reliable way to achieve your long-term financial or retirement goal than trying to time the market.

Market history of NBER recession dates

1950–2024

11 Months
Average recession length

Shortest: 3 months
Longest: 19 months

11 Months
Average months for market to recover to pre-recession levels

Shortest: 1 month
Longest: 38 months

7 Months
Average months to market bottom

Shortest: 2 months
Longest: 15 months

38%
Average S&P 500® return 12 months after bottom

Low: -20%*
High: 59%

*After the 2001 recession, stocks continued to decline for 12 months as stocks returned to more typical valuation levels following 'the tech bubble'.

Past performance is no guarantee of future results. NBER recession dates and monthly S&P 500® total returns over the periods 1950–2024. This is for illustrative purposes only and not indicative of any investment. Indexes are unmanaged. It is not possible to invest directly in an index. Please Important Information for index definitions. The S&P 500® Index was created in 1957; however, returns have been reported since 1926, and the index has been reconstructed for years prior to 1957.

Source: Recession dates: NBER. S&P 500® total return: Bloomberg Finance, LP.

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As the U.S. economy shifts, we seek to modify the mix of investments in your accounts

We may reduce risk at the onset of recession but increase exposure to stocks as the economic backdrop improves.

- Based on our extensive research, we believe reducing exposure to stocks may help manage risk as this phase begins, but adding to stocks as this phase ends may bolster returns.
- We also continuously monitor and look for opportunities to rebalance accounts and portfolios, as needed, to help maintain the appropriate level of risk for your investments.
- The business cycle is just one of several inputs our investment team uses to manage risk. However, due to the wide range of historic outcomes in each phase of the business cycle, we believe it can be risky to try to time markets based on this research.

Asset allocation at recession onset

Emphasize more	Emphasize less
Investment-grade bonds ↑	U.S. stocks ↓
TIPS* ↑	International stocks ↓
	High-yield bonds* ↓
	Commodities* ↓

Asset allocation later in recession

Emphasize more	Emphasize less
U.S stocks ↑	Investment-grade bonds ↓
International stocks ↑	TIPS* ↓
High-yield bonds* ↑	Commodities* ↓

We believe that the adjustments we make to accounts or portfolios may help keep clients and participants aligned to their long-term financial or retirement goals.

TIPS: Treasury Inflation-Protected Securities. **Past performance is no guarantee of future results.**

*Commodities, High-Yield bonds, and TIPS are utilized when available in different types of client accounts. For participant accounts, in particular, Commodities, High-Yield bonds, and TIPS are utilized when available in plan line ups.

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Important Information

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

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Past performance does not guarantee future results.

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The S&P 500® Index is an unmanaged, market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to present U.S. equity performance.

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.

The MSCI ACWI ex USA Index (Net MA) captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries.

Bloomberg U.S. 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.

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. 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 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 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.

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Talk with a Fidelity Representative.

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Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. This material is provided for informational purposes only and should not be used or construed as a recommendation for any security.

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. Interest rate increases can cause the price of a debt security to decrease. Increase in real interest rates can cause the price of inflation-protected debt securities to decrease. Interest payments on inflation-protected debt securities can be unpredictable.

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

Regarding the business cycle chart, The Typical Business Cycle depicts the general pattern of economic cycles throughout history, though each cycle is different. In general, the typical business cycle demonstrates the following:

- During the typical early-cycle phase, the economy bottoms and picks up steam until it exits recession and 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 during the early-cycle phase.

- 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.

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