Quarterly Market Update

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## Table of Contents

1. Market Summary
2. Theme: Global Liquidity Poised to Tighten?
3. Economy/Macro Backdrop
4. U.S. Equity Markets
5. International Equity Markets & Global Assets
6. Fixed-income Markets
7. Asset Allocation Themes
## Overview: Low Inflation and Global Expansion Continued

The continued synchronized expansion in global activity provided a steady backdrop for asset markets, with flagging oil prices and muted inflation pressures mitigating any concerns about potential overheating. Changes to monetary policy will be critical to the outlook, as a broad directional move toward reducing accommodation raises the potential to provoke greater market volatility amid maturing business cycles in many major economies.

### Q2 2017 TRENDS

<table>
<thead>
<tr>
<th>MACRO</th>
<th>OUTLOOK</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Synchronized global expansion continued</td>
<td>• Global expansion on firm ground</td>
</tr>
<tr>
<td>– Solid global industrial and trade activity</td>
<td>– Low odds of recession in advanced economies, though business cycles are maturing</td>
</tr>
<tr>
<td>– Signs of peaking growth rates in China</td>
<td>– Eurozone solid activity and firming core inflation</td>
</tr>
<tr>
<td>– U.S. expansion a mix of mid and late cycles</td>
<td>– China’s upside constrained amid policy tightening</td>
</tr>
<tr>
<td>• Peaking inflation rates as oil prices dropped</td>
<td>• U.S. business cycle becoming more mature</td>
</tr>
<tr>
<td>– Core prices firm but overall inflation expectations waned</td>
<td>– Tighter labor markets imply pressure on profit margins; potential risks in autos and credit</td>
</tr>
<tr>
<td>• Global monetary policy still accommodative but incrementally less so</td>
<td>• Move toward global policy normalization raises market risks</td>
</tr>
<tr>
<td>– Fed hiked again and announced balance-sheet reduction</td>
<td>– Central bank balance sheets poised to stop expanding</td>
</tr>
<tr>
<td>• Still elevated global political uncertainty, but European concerns ebbed</td>
<td>– Markets concerned about Fed policy error</td>
</tr>
<tr>
<td>– Little legislative progress in U.S.</td>
<td></td>
</tr>
</tbody>
</table>

### MARKETS

| • Low volatility and broad rise in asset prices                     | • Smaller allocation tilts at this point in the cycle                   |
| • Reflation trades lost further steam; U.S. dollar and bond yields continued in weakening trend | • Favor international equities and inflation-resistant assets           |
|                                                                    | • Policy risks could boost market volatility                            |
Non-U.S. Equities Led Broad-based Q2 Gains

Non-U.S. equities spearheaded a global stock market rally for the second quarter in a row, bolstered by a weaker dollar and a solid economic backdrop. Falling commodity prices dampened inflation expectations and boosted longer-duration bonds. The yield curve flattened modestly as shorter-term interest rates rose, while tightening spreads again boosted the returns to corporate and other credit-bond categories.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Q2 2017 (%)</th>
<th>Year-to-Date (%)</th>
<th>Q2 2017 (%)</th>
<th>Year-to-Date (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-U.S. Small-Cap Stocks</td>
<td>8.3</td>
<td>17.0</td>
<td>U.S. Corporate Bonds</td>
<td>2.4</td>
</tr>
<tr>
<td>Emerging-Market Stocks</td>
<td>6.4</td>
<td>18.6</td>
<td>Real Estate Stocks</td>
<td>2.3</td>
</tr>
<tr>
<td>Non-U.S. Developed-Country Stocks</td>
<td>6.4</td>
<td>14.2</td>
<td>Emerging-Market Bonds</td>
<td>2.2</td>
</tr>
<tr>
<td>Long Government &amp; Credit Bonds</td>
<td>4.4</td>
<td>6.0</td>
<td>High-Yield Bonds</td>
<td>2.1</td>
</tr>
<tr>
<td>U.S. Large-Cap Stocks</td>
<td>3.1</td>
<td>9.3</td>
<td>Investment-Grade Bonds</td>
<td>1.4</td>
</tr>
<tr>
<td>U.S. Mid-Cap Stocks</td>
<td>2.7</td>
<td>8.0</td>
<td>Gold</td>
<td>-0.2</td>
</tr>
<tr>
<td>U.S. Small-Cap Stocks</td>
<td>2.5</td>
<td>5.0</td>
<td>Commodities</td>
<td>-3.2</td>
</tr>
</tbody>
</table>


Widespread Low Volatility Across Financial Markets

Most asset markets experienced unusually low volatility during Q2, even compared to the relatively calm levels of the past five years. The steady economic backdrop combined with ample global monetary accommodation supported a relatively tranquil environment, but our expectation is that a maturing business cycle and greater monetary and economic policy uncertainty may provoke higher volatility in the future.

Volatility Percentiles

Percentile vs. 5-Year History

Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 7/3/17.
Bond Yields Sagged Amid Muted Inflation Expectations

Unlike during the second half of 2016 when reflationary hopes pushed up both real yields and inflation expectations, real long-term yields have remained relatively steady while inflation expectations flagged during Q2. A major question for the markets going forward is whether the growth and inflation backdrop will remain firm enough for global monetary policymakers to move toward normalization.

U.S. 10-Year Treasury Bond Yield

Change in Yields

<table>
<thead>
<tr>
<th>Period</th>
<th>Real Yields</th>
<th>Inflation Expectations</th>
</tr>
</thead>
<tbody>
<tr>
<td>2H 2016</td>
<td>+44 bps</td>
<td>+53 bps</td>
</tr>
<tr>
<td>Q1 2017</td>
<td>-7 bps</td>
<td>+1 bps</td>
</tr>
<tr>
<td>Q2 2017</td>
<td>+9 bps</td>
<td>-23 bps</td>
</tr>
</tbody>
</table>

Source: Federal Reserve, Haver Analytics, Fidelity Investments (AART), as of 6/30/17.
Theme: Global Liquidity Poised to Tighten?
Extraordinary Monetary Expansion a Boost for Assets

The balance sheets of the four major advanced-economy central banks have more than quadrupled since the global financial crisis. The trillions of dollars of quantitative-easing asset purchases have helped push down government-bond yields and generally boosted global liquidity and asset prices around the world.

Central Bank Balance Sheets

<table>
<thead>
<tr>
<th>Year</th>
<th>Federal Reserve</th>
<th>BOE</th>
<th>ECB</th>
<th>BOJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2006</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2007</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2008</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>2009</td>
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<td>2011</td>
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<td>2012</td>
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<tr>
<td>2013</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>2014</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>2015</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
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<tr>
<td>2016</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>2017</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
</tbody>
</table>

10-Year Sovereign Yields (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.</td>
<td>2.30</td>
</tr>
<tr>
<td>U.K.</td>
<td>1.26</td>
</tr>
<tr>
<td>Germany</td>
<td>0.47</td>
</tr>
<tr>
<td>Japan</td>
<td>0.09</td>
</tr>
</tbody>
</table>

Directional Movement Toward Policy Normalization

Firming inflation and global growth have given the Federal Reserve confidence to continue gradually hiking its short-term policy rate, although both are weaker than during prior periods of Fed tightening. Europe’s progress toward policy normalization may occur sooner than the markets anticipate, with short-term yields implying negative yields for nearly five years and a slower pace of normalization relative to the U.S.

Global Growth and Inflation 100bps into Fed Tightening

Headline CPI

Initial Hike (Dec-2015)

Current

1983

1987

2000

2004


Interest Rate Differential (U.S. vs. Germany)

U.S. Minus Germany 2-Year Gov't Bond Yields

Percentage Points


RIGHT: Data post-6/30/2017 from futures market.

Sources: Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/2017.
Market Expectations Assume Fed Will Be Less Hawkish

After converging on the 2017 outlook over the past year, investor expectations for Fed tightening have once again diverged materially from the Fed’s forecasts for the next 12 to 18 months. Markets are anticipating the Fed will hike rates only twice through December 2018 instead of the four times the Fed projects. The Fed also announced the outlines of a plan to begin shrinking its balance sheet that would imply additional tightening.

FOMC vs. Market Expectations of Fed Tightening Cycle

Fed Fund Futures Market  
FOMC

Expected Fed Funds Rate

Fed Treasury and MBS Holdings (Billions)

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maturing Securities</td>
<td>$709</td>
<td>$567</td>
<td>$384</td>
</tr>
<tr>
<td>Fed’s Roll-off Cap of Reinvestments</td>
<td>$420</td>
<td>$600</td>
<td>$600</td>
</tr>
</tbody>
</table>

Yield Curve Still Steep but Flattening Pressures Are Rising

The yield curve flattened during Q2 as inflation expectations waned. Historically, the curve typically flattens as the Fed hikes rates and the business cycle matures, with inversions occurring prior to each of the last seven recessions. However, the yield curve remains relatively steep, and a move toward global monetary normalization might boost longer-term rates more than usual at this point in the cycle.


- **Yield Curve**
- **Percentage Points**

**Yield Curve Still Steep but Flattening Pressures Are Rising**

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**Drivers of U.S. Yield Curve**

<table>
<thead>
<tr>
<th></th>
<th>Our View</th>
<th>Impact to Yield Curve</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fundamentals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fed Funds Rate</td>
<td>Continued gradual hikes</td>
<td>Boosts short rates</td>
</tr>
<tr>
<td>Growth</td>
<td>Maturing expansion</td>
<td>Limits upside to long rates</td>
</tr>
<tr>
<td>Inflation</td>
<td>Positive, steady</td>
<td></td>
</tr>
<tr>
<td><strong>Technicals</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply &amp; Demand</td>
<td>Fed tapers reinvestment</td>
<td>Boosts Long-rates</td>
</tr>
<tr>
<td></td>
<td>Tightening global liquidity</td>
<td></td>
</tr>
</tbody>
</table>

Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/17.
Economy/Macro Backdrop
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).
Most Synchronized Global Expansion in Years

The global economy is experiencing a relatively steady, synchronized expansion. Broadly speaking, most developed economies are in more mature (mid-to-late) stages of the business cycle, with the eurozone not as far along as the United States. Recession risks remain low globally, although less accommodative policy in several countries, including China, may constrain any upside to growth going forward.

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. Source: Fidelity Investments (AART), as of 6/30/17.
Trade Rebound Continued to Bolster Global Economy

The global expansion has been underpinned by a turnaround in export-oriented sectors and manufacturing activity. Nearly 90% of countries are reporting higher new export orders, and global trade growth has risen to its highest level since 2011. China’s reacceleration supported these trends, and the cyclical trajectory of the Chinese economy will also influence the near-term outlook for global trade.

Global Trade Growth and New Export Orders

- Share of Countries with New Export Order PMIs >50
- Global Trade Growth (USD-Adjusted)

New Export Orders PMI

<table>
<thead>
<tr>
<th></th>
<th>1 Year Ago</th>
<th>Latest</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM</td>
<td>48.5</td>
<td>51.3</td>
</tr>
<tr>
<td>Japan</td>
<td>44.8</td>
<td>53.4</td>
</tr>
<tr>
<td>Euro Area</td>
<td>52.8</td>
<td>57.4</td>
</tr>
</tbody>
</table>

Blue line includes 32 countries. Trade series has been adjusted for changes in the value of the U.S. dollar. Source: Markit, Haver Analytics, Fidelity Investments (AART), as of 6/30/17.
China Steady, but Activity Peaking Alongside Tightening

Chinese economic activity has rebounded to multiyear highs, supported by broad policy easing during the 2015 growth recession. However, late in 2016 policymakers began to take their feet off the gas, raising interbank rates and imposing restrictions on the property market. China’s economy remains broadly steady, but signs of slowing momentum in industrial activity and housing suggest most of the upside has already occurred.

Chinese Industrial Activity

Chinese Interbank Rates and Property Prices

Firm Growth and Inflation in Europe, Political Risks Ebb

The eurozone is on a cyclical upswing, enjoying a reasonably synchronized mid-cycle expansion across both its core and its periphery. Consumer and industrial-sector confidence are at multiyear highs, and deflationary pressures have abated amid a steady rebound in core inflation. Favorable election results in France and other core countries imply that political uncertainty is ebbing and near-term risks have dissipated.

**Eurozone Business and Consumer Sentiment**

- Industrial Sector Confidence
- Consumer Confidence

**Eurozone Core Inflation**

Grey bars refer to Eurozone recessions. **LEFT:** Source: European Commission, Haver Analytics, Fidelity Investments (AART), as of 6/30/17. **RIGHT:** Source: Statistical Office of the European Communities, Haver Analytics, Fidelity Investments (AART), as of 5/31/17. Fidelity Business Cycle Update, “European Growth on Upswing after Years of Struggle” (June 2017).
Steady U.S. Expansion Boosted by Global Improvement

The U.S. economy remains in a mature expansion, but it has continued to exhibit some healthy flavors of mid-cycle growth on the back of the synchronized global expansion. Manufacturing activity has reaccelerated and become more broad-based over the past year, boosted by strengthening global demand and improved sales activity in the foreign sector.

**Manufacturing New Orders**

- ISM New Orders
- Median Regional New Orders

**Survey of Companies’ Sales**

- Foreign Sales
- Domestic Sales

*LEFT: Source: Institute of Supply Management, Haver Analytics, Fidelity Investments (AART), as of 6/30/17. RIGHT: ISI, Haver Analytics, Fidelity Investments (AART) as of 5/31/17.*
U.S. Late-Cycle Dynamics Continue to Emerge

A number of late-cycle trends have appeared as the U.S. business cycle matures. Banks have tightened their lending standards for potentially overextended segments of the economy, such as commercial real estate and autos. After a period of strong growth, signs of weakening in the auto sector could have broader implications for U.S. manufacturing, as auto-related industries amount to around one-fifth of U.S. industrial production.

Federal Reserve Senior Loan Officer Survey

Share of Banks Reporting Tightening Standards

U.S. Industrial Production Weights

Share of Industrial Production

LEFT: Source: Federal Reserve, Haver Analytics, Fidelity Investments (AART), as of 5/8/17. RIGHT: Auto-related industries are industries that have a correlation with auto industrial production of 0.7 or higher. Source: Federal Reserve, Fidelity Investments (AART), as of 6/15/17.
Tighter Labor Markets Support Wage Growth, Consumers

With the unemployment rate falling to a cycle low of 4.3% in Q2, tightening labor markets continue to boost consumers and keep U.S. recession risk low. Extra labor market slack, measured by workers who leave the labor market or are forced into part-time work, still remains high relative to long-term history. However, this slack has declined and continued to gradually push up wage growth, which we expect to continue.

U.S. Phillips Curve: Extra Labor Market Slack vs. Wage Inflation

Change (Year-over-Year)

Wage inflation: Atlanta Fed Wage Tracker. Unemployment rate gap is the difference between U-6 and U-3 unemployment and captures the number of workers who are either working part-time due to economic reasons or are discouraged and have left the labor force. Source: Federal Reserve, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 5/30/17.
Wage Inflation Sufficient to Pressure Profit Margins

Even today’s modest pace of wage growth is enough to crimp corporate profits, given that top-line revenue growth has been even more subdued. This dynamic has historically been typical during late-cycle phases, when earnings growth tends to come under pressure.

Gap Between Nonfinancial Corporate Revenue Growth and Wages & Salaries Growth

Year-over-Year Change (4-Quarter Average)

Shading represents U.S. economic recessions as defined by the National Bureau of Economic Research (NBER). Source: NBER, Bureau of Economic Analysis, Haver Analytics, Fidelity Investments (AART), as of 3/31/17.
U.S. Core Inflation Likely Range-Bound

Tight labor markets and rising wages suggest core inflation should remain firm around 2%. However, shelter costs (roughly 40% of core CPI) are slowing in tandem with a surge in new multi-family housing units coming online, and temporary factors such as plunging wireless phone costs have weighed on core prices. Weakening auto prices might also provide a sustained check on core inflation.

U.S. Core Inflation Likely Range-Bound

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U.S. Multifamily House Prices & Shelter CPI

- Apartment Rents (REIS)
- Shelter

<table>
<thead>
<tr>
<th>Year</th>
<th>Change (Year-over-Year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>-4%</td>
</tr>
<tr>
<td>2009</td>
<td>-3%</td>
</tr>
<tr>
<td>2010</td>
<td>-2%</td>
</tr>
<tr>
<td>2011</td>
<td>-1%</td>
</tr>
<tr>
<td>2012</td>
<td>0%</td>
</tr>
<tr>
<td>2013</td>
<td>1%</td>
</tr>
<tr>
<td>2014</td>
<td>2%</td>
</tr>
<tr>
<td>2015</td>
<td>3%</td>
</tr>
<tr>
<td>2016</td>
<td>4%</td>
</tr>
<tr>
<td>2017</td>
<td>5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Share of Core CPI</th>
<th>May 2017 Y/Y %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelter</td>
<td>43%</td>
</tr>
<tr>
<td>New &amp; Used Vehicles</td>
<td>8%</td>
</tr>
<tr>
<td>Communication</td>
<td>5%</td>
</tr>
</tbody>
</table>

Upside and Downside Risks to Commodity Inflation

Overall consumer inflation decelerated amid weaker oil prices in Q2, and will be influenced by the commodity outlook. The recent decline in food prices appears poised to end, as rising producer prices suggest inflation will be passed along to consumers. The increased U.S. rig count and oil production have weighed on oil prices, but deteriorating driller productivity and improved global supply/demand balance should provide support.

U.S. Food Prices

- PPI Finished Consumer Foods
- CPI Food at Home

Change (Year-over-Year)

U.S. Rig Count vs. Rig Productivity

- Rig Count
- Rig Productivity

Month-over-Month Change (3-Month Average)

Continued Uncertainty Around Fiscal Policy Changes

Changes in economic policy can influence the cyclical outlook, but the multiplier tends to be higher for stimulus when there is a large amount of economic slack and monetary policy is accommodative (unlike today). U.S. political uncertainty remains elevated amid the lack of legislative progress on potential changes to tax and fiscal policies, and looming debt ceiling and budget deadlines could generate further unease this fall.

Impact of $1 Fiscal Stimulus Boost over Next Two Years

<table>
<thead>
<tr>
<th>Output below potential and Fed's response limited</th>
<th>Output close to potential and Fed's response typical</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1.5</td>
<td>$0.5</td>
</tr>
<tr>
<td>$1.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>$0.5</td>
<td></td>
</tr>
<tr>
<td>$0.0</td>
<td></td>
</tr>
</tbody>
</table>

U.S. Economic Policy Uncertainty

- U.S. Policy Uncertainty Index

Index Level (3-Month Average)

Outlook: Market Assessment

Fidelity’s Business Cycle Board, composed of portfolio managers responsible for a variety of asset allocation strategies across Fidelity’s asset management unit, believes that the global economy is experiencing a synchronized expansion. However, upside globally may be limited, with Chinese policymakers tightening and the U.S. in a mature expansion. At this point in the cycle, smaller asset allocation tilts may be warranted.

U.S. economy is between mid and late cycle
The global economy is experiencing synchronized expansion
Recession risks remain low globally

Asset Allocation Considerations

• Less reliable relative asset performance patterns generally merit smaller cyclical tilts.
• The possibility of higher volatility emphasizes the importance of diversification and a disciplined investment strategy.

Potential Risks

• The disconnect between the market’s and the Federal Reserve’s expectations of tightening may incite volatility in the markets.
• China’s policymakers’ evolving tightening bias indicates that economic momentum may have peaked, which could pose a risk to the global expansion.

U.S. Equity Markets
Growth Stocks, Large-Caps Continued to Lead

For a second consecutive quarter, growth and large-cap stocks outpaced other U.S. equity categories. The outperformance was driven in part by these categories’ exposure to the improving international economic backdrop.

Q2 2017 Total Return

Year-to-Date

<table>
<thead>
<tr>
<th>Category</th>
<th>Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>4.7%</td>
</tr>
<tr>
<td>Large Caps</td>
<td>3.1%</td>
</tr>
<tr>
<td>Mid Caps</td>
<td>2.7%</td>
</tr>
<tr>
<td>Small Caps</td>
<td>2.5%</td>
</tr>
<tr>
<td>Value</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Equity market returns represented by: Growth – Russell 3000 Growth Index; Large Caps – S&P 500 Index; Mid Caps – Russell Midcap Index; REITs (Real Estate Investment Trusts) – FTSE NAREIT Equity Index; Small Caps – Russell 2000 Index; Value – Russell 3000 Value Index. Sources: FactSet, Fidelity Investments (AART), as of 6/30/17.
Varied Performance Across Equity Sectors in Q2

Most U.S. equity sectors posted positive returns during Q2. Several cyclical sectors outperformed (including industrials, financials, information technology, and materials), but the best performer was the defensive health care sector. Energy stocks continued their significant underperformance amid falling crude oil prices, and price competition weighed on telecom stocks.

Q2 2017 Total Return

Year-to-Date 16.1% 9.5% 6.9% 17.2% 9.2% 6.4% 11.0% 8.8% 8.0% -12.6% -10.7% 9.3%

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in more diversified baskets of securities. Sector returns represented by S&P 500 sectors. Sources: FactSet, Fidelity Investments (AART), as of 6/30/17.
U.S. Market Breadth Slightly More Narrow than History

Continued outperformance of the “FANG” technology stocks—which account for more of the S&P 500 index than the energy sector—has raised concerns that market gains have become overly dependent on a small number of stocks. While the breadth of companies driving S&P 500 price returns was somewhat narrow in Q2, this level was not far below historical average breadth during rising markets.

Share of S&P 500 Market Cap

- **FANG Stocks**
- **Energy Stocks**

**S&P 500 Breadth in Rising Markets, 1997–2017**

- **2Q 2017**

Number of Companies accounting for 75% of quarterly price returns

**LEFT:** FANG stocks: Facebook, Amazon, Netflix, and Google (Alphabet). Source: FactSet Fidelity Investments (AART), as of 6/30/17.

**RIGHT:** Positive S&P 500 price return quarters between 12/31/97 and 6/30/17. Source: FactSet, Fidelity Investments (AART), as of 6/30/17.
Modest Profit Growth Outlook Amid Rising Margin Pressures

Corporate earnings are still inflecting positively in 2017, as the continued global expansion supports manufacturing sectors, and higher year-over-year oil prices drive renewed energy sector profitability. Looking beyond 2017, potential pro-growth policies could boost top-line growth. However, profit margins will likely remain under pressure from rising employment costs and higher interest rates, suggesting more modest growth ahead.

**Top-Line Revenues**
- Mostly positive, modest momentum

**Possible Policy Changes**
- Tax cuts / reform / deregulation (+)
- Fiscal spending (+)
- Protectionism (-)

**Global Expansion Continues**
- Manufacturing still growing (+)
- Oil prices softer (-)

**Weakening Dollar**
- Supports exporters and multi-national corporations (+)

**Profit Margins Pressured**
- Tight labor markets → wage pressure (-)
- Limited ability to pass on rising goods costs (-)
- Fed hikes → higher borrowing rates, tighter credit standards (-)

**Earnings**
- Modest earnings growth environment

---

**Large-Cap Earnings per Share**

**Y/Y Growth (4-Quarter Trailing)**

- S&P 500 Index
- Energy Sector

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**Source:** Standard & Poor’s, FactSet, Fidelity Investments (AART), as of 6/30/17. Fidelity Business Cycle Update, “Five Factors Driving Crosswinds for U.S. Earnings Outlook” (May 2017).
Equity Valuations Not an Obstacle for Near-Term Returns

U.S. valuations are higher than historical averages by most metrics. However, in the past, price-to-earnings ratios have showed little correlation with near-term stock performance (e.g., on a one-year-forward basis). Valuations have proven to be much more meaningful as an indicator of future returns over longer time horizons, and are therefore more of a headwind for the secular outlook than the cyclical one.

P/E vs. One-Year-Forward Real Stock Returns
One-Year-Forward Real S&P 500 Total Return (since 1926)

P/E vs. 20-Year-Forward Real Stock Returns
20-Year-Forward Annualized Real S&P 500 Total Return (since 1926)

Past performance is no guarantee of future results. Assumes May 2017 CPI level for 2Q 2017. P/E: stock price divided by earnings per share. R²: a measure of how well a regression line fits the data, ranging from 0 to 1. Forward returns calculated through 6/30/16. **LEFT:** Historical real price to 5-year peak earnings valuation levels: Q4 1926 to 6/30/16. Source: Standard & Poor’s, Robert Shiller, Haver Analytics, Fidelity Investments, as of 6/30/17. **RIGHT:** Historical real price to 5-year peak earnings valuation levels: Q4 1926 to 6/30/97. Source: Standard & Poor’s, Haver Analytics, Fidelity Investments (AART), as of 6/30/17.
Sector Considerations: Intermediate-Term Cycle View

A disciplined business-cycle approach to sector allocation can produce active returns by favoring industries that may benefit from cyclical trends. By choosing a blended portfolio of sectors that have historically performed well in the current and potentially upcoming cycle phases—for example, info tech (mid-cycle), energy (late cycle), and health care (recession)—it may be possible to generate excess returns.

Business-Cycle Approach to Sectors

<table>
<thead>
<tr>
<th>Sector</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Recession</th>
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<tr>
<td>Financials</td>
<td>+</td>
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<tr>
<td>Real Estate</td>
<td>++</td>
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<td></td>
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<tr>
<td>Consumer Discretionary</td>
<td>++</td>
<td></td>
<td></td>
<td>--</td>
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<tr>
<td>Technology</td>
<td>+</td>
<td>+</td>
<td></td>
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<tr>
<td>Industrials</td>
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<tr>
<td>Materials</td>
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<td>Consumer Staples</td>
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<tr>
<td>Health Care</td>
<td>-</td>
<td></td>
<td>++</td>
<td>++</td>
</tr>
<tr>
<td>Energy</td>
<td>--</td>
<td></td>
<td>++</td>
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<tr>
<td>Telecom</td>
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<tr>
<td>Utilities</td>
<td>--</td>
<td>-</td>
<td></td>
<td>++</td>
</tr>
</tbody>
</table>


Past performance is no guarantee of future results. Sectors as defined by GICS. **LEFT:** Unshaded (white) portions above suggest no clear pattern of over- or underperformance vs. broader market. Double +/- signs indicate that the sector is showing a consistent signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. A single +/- indicates a mixed or less consistent signal. Sources: The Business-Cycle Approach to Sector Investing, Fidelity Investments (AART), October 2016. **RIGHT:** This chart is an illustrative example of the potential impact of choosing sectors that historically perform well in the current and potentially upcoming two phases of the business cycle (mid/late/recession). Analysis selects one sector from each of the three phases (mid, late, recession) that demonstrated outperformance in one of those phases. Sectors shown are equal-weighted (33.3%). Analysis excludes early cycle because an early cycle is unlikely to occur in the next several years. Sector returns represented by S&P 500 sectors. Source: Haver Analytics, Fidelity Investments (AART), as of 6/30/17.
International Equity Markets & Global Assets
Continued Gains for International Equities

Non-U.S. equities posted strong gains for a second quarter in a row, with major indices of both developed and emerging markets posting double-digit returns through the first half of the year. A weaker dollar in Q2 boosted returns in most developed markets, but was a minor detractor in emerging markets. Weaker performers included commodity prices and commodity-exporting areas, such as Canada and Latin America.

Q2 2017 Total Return

Developed-Market Equities

<table>
<thead>
<tr>
<th></th>
<th>EAFE Small Cap</th>
<th>Europe</th>
<th>EAFE</th>
<th>Japan</th>
<th>Canada</th>
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<tr>
<td>Q2 2017 LC</td>
<td>5.2%</td>
<td>2.1%</td>
<td>2.9%</td>
<td>6.1%</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Year-to-Date</td>
<td>17.0%</td>
<td>15.9%</td>
<td>14.2%</td>
<td>10.1%</td>
<td>3.5%</td>
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Emerging-Market Equities

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<th>EM Asia</th>
<th>Emerging Markets</th>
<th>EMEA</th>
<th>Latin America</th>
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</thead>
<tbody>
<tr>
<td>Q2 2017 LC</td>
<td>9.2%</td>
<td>6.7%</td>
<td>0.9%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Year-to-Date</td>
<td>23.3%</td>
<td>18.6%</td>
<td>5.2%</td>
<td>10.3%</td>
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Commodities

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<th>Gold</th>
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<tr>
<td>Q2 2017 LC</td>
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<td>-3.2%</td>
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<tr>
<td>Year-to-Date</td>
<td></td>
<td>-5.6%</td>
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</table>

EM: emerging markets. LC: local currency. All returns are gross in U.S. dollars unless otherwise noted. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Index returns represented by: Canada – MSCI Canada Index; Commodities – S&P GSCI Commodities Index; EAFE – MSCI 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. Sources: FactSet, Fidelity Investments (AART), as of 6/30/17.
International Earnings Growth Closes Gap with U.S.

Following several years of profit recession, international corporate earnings have accelerated into positive territory and caught up with U.S. corporate profit growth. Earnings revisions have also stabilized for the first time in years, although lofty forward earnings growth expectations may provide a tougher hurdle to clear in the year ahead.

Global EPS Growth (Trailing 12 Months)

Equity and Currency Valuations Attractive Relative to U.S.

Price-to-earnings ratios for most equity markets are lower than those in the U.S., with many countries’ valuations in the bottom half of their 20-year range. Moreover, the value of the U.S. dollar, despite weakening throughout 2017, remains at the upper end of historical ranges versus major currencies. Both factors provide a favorable long-term valuation backdrop for international equity returns.

Cyclical P/Es

Valuation of Major Currencies vs. USD

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please 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. Five-year peak earnings are adjusted for inflation. Source: FactSet, countries’ statistical organizations, Haver Analytics, Fidelity Investments (AART), as of 5/31/17. **RIGHT:** Sources: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), as of 6/30/17. MXN: Mexican peso, GBP: British pound, EUR: euro, CAD: Canadian dollar, JPY: Japanese yen.
Secular Forecast: Slower Global Growth, EMs to Lead

Slowing labor force growth and aging demographics are expected to tamp down global growth over the next two decades. We expect GDP growth of emerging countries to outpace that of developed markets over the long term, providing a relatively favorable secular backdrop for emerging-market equity returns.

Real GDP 20-Year Growth Forecasts vs. History

- Developed Markets
- Emerging Markets
- Last 20 Years

Global Real GDP Growth

Last 20 years | 20-year forecast
--- | ---
2.7% | 2.1%

Annualized Rate

Falling Correlations May Provide More Diversification

During the past three decades, greater integration of global trade has coincided with a steady rise in global equity correlations. The recent flattening of globalization trends could reduce the correlation between U.S. and international equities from such elevated levels, a secular shift that would likely provide greater diversification benefits for non-U.S. equities within a global portfolio.

Equity Correlations and Global Trade

Fixed-Income Markets
Falling Yields, Narrowing Spreads Supported Returns

Most fixed-income categories posted low single-digit positive returns during the second quarter. Long bonds were the strongest-performing category, benefiting from a drop in long-term yields, while most credit-sensitive categories enjoyed a boost from the continued narrowing in credit spreads. TIPS were the worst performer as market inflation expectations waned.

Q2 2017 Total Return

Year-to-Date

<table>
<thead>
<tr>
<th>Category</th>
<th>Return</th>
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</thead>
<tbody>
<tr>
<td>Long Govt &amp; Credit</td>
<td>6.0%</td>
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<tr>
<td>Credit</td>
<td>3.7%</td>
</tr>
<tr>
<td>EM Debt</td>
<td>6.2%</td>
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<tr>
<td>High Yield</td>
<td>4.9%</td>
</tr>
<tr>
<td>Municipal</td>
<td>3.6%</td>
</tr>
<tr>
<td>CMBS</td>
<td>2.3%</td>
</tr>
<tr>
<td>Treasuries</td>
<td>1.9%</td>
</tr>
<tr>
<td>Agency</td>
<td>1.7%</td>
</tr>
<tr>
<td>MBS</td>
<td>1.3%</td>
</tr>
<tr>
<td>Leveraged Loan</td>
<td>1.9%</td>
</tr>
<tr>
<td>ABS</td>
<td>1.1%</td>
</tr>
<tr>
<td>TIPS</td>
<td>0.9%</td>
</tr>
<tr>
<td>Aggregate</td>
<td>2.3%</td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Index returns represented by: 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 – BofA ML 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. Sources: FactSet, Fidelity Investments (AART), as of 6/30/17.
Yields and Spreads Remain Low Relative to History

Despite a fourth policy rate hike from the Federal Reserve in Q2, bond yields moved even lower across categories during the quarter. Yields remain extremely low relative to history, with high-yield corporate bonds approaching all-time lows. Credit spreads also compressed further for most categories, making all sectors expensive relative to their own histories.

Fixed-Income Yields and Spreads

Yield and Spread Percentiles

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Percentile ranks of yields and spreads based on historical period from 2000 to 2016. MBS: mortgage-backed security; CMBS: commercial mortgage-backed security. All categories represented by respective Bloomberg Barclays bond indices. Sources: Bloomberg Barclays, Fidelity Investments (AART), as of 6/30/17.
Even When Rates Rise, Bond Returns Can Be Resilient

The 35-year bull market for U.S. Treasury bonds included outsized returns and brought interest rates to their lowest levels in recent decades, but bond yields are only modestly lower when compared to long-term history. During the four decades of rising rates from 1941 to 1981, high-quality investment-grade bonds provided positive nominal returns as increasing coupons helped offset the negative impact of price declines.

10-Year U.S. Treasury Yields

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Average Annualized IG Bond Returns</td>
<td>3.4%</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

IG: Investment Grade. Past performance is no guarantee of future results. Asset class total returns are represented by indices from Fidelity Investments, Morningstar, and Bloomberg Barclays. Fidelity Investments proprietary analysis of historical asset class performance, which is not indicative of future performance. Sources: U.S. Treasury, Barclays, Bloomberg Finance L.P., Fidelity Investments (AART) as of 6/30/17.
Leveraged Loans: Income to Benefit from Rising Rates

Most leveraged loans pay a variable-rate coupon equal to 3-month LIBOR plus a credit spread, and in recent years have included a LIBOR floor provision to ensure a minimum rate paid to investors. In early 2017, LIBOR rose above the average floor for the first time in several years, and continued to do so in Q2, thereby allowing the variable-rate feature to provide an upward coupon adjustment if short-term interest rates continue to rise.

Leveraged Loan Floor Rates vs. 3-month LIBOR

Index performance shown does not reflect the deduction of advisory fees, transaction charges, and other expenses, which if charged would reduce performance. All indices are unmanaged. Investing directly in an index is not possible. Past performance is no guarantee of future results. Dotted line reflects Eurodollar futures expectation of 3-month LIBOR going forward. Sources: S&P Global Market Intelligence, Bloomberg Barclays, Fidelity Investments (AART) as of 6/30/17.
The Benefits of Diversification in a Bond Portfolio

Fixed-income strategies with designated allocations in both high-quality bonds and higher-yielding sectors have exhibited consistent downside protection. Both a “core-plus” and a “multi-sector” portfolio have generated fewer periods of negative returns than any individual bond sector, while providing a lower magnitude of losses than lower-quality sectors.


% of Rolling Periods

<table>
<thead>
<tr>
<th>Portfolio</th>
<th>Description</th>
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<tbody>
<tr>
<td>Core Plus</td>
<td>80% U.S. Investment Grade 10% U.S. High Yield</td>
</tr>
<tr>
<td>Multi-Sector</td>
<td>40% High Yield 15% Emerging Market 25% U.S. Government 15% Foreign IG Bonds</td>
</tr>
</tbody>
</table>


Total Return

Asset Allocation Themes
Historical Playbook for Mid- and Late-Cycle Phases

Late cycles have the most mixed performance of any business-cycle phase, with more limited overall upside than mid-cycle phases. There is less confidence in equity performance, though stocks have typically outperformed bonds. Inflation-resistant assets, such as commodities, energy stocks, short-duration bonds, and TIPS, have typically performed relatively well.

Asset Class Performance in Mid- and Late-Cycle Phases (1950–2010)

Mid-Cycle: Strong asset class performance
• Favor economically sensitive assets
• Broad-based gains

Late-Cycle: Mixed asset class performance
• Favor inflation-resistant assets
• Gains more muted

Past performance is no guarantee of future results. Asset class total returns are represented by indices from the following sources: Fidelity Investments, Morningstar, and Bloomberg Barclays. Fidelity Investments: proprietary analysis of historical asset class performance, which is not indicative of future performance.
Inflation Risk Matters, Even if Inflation Remains Subdued

Any inflation erodes the purchasing power of portfolios. In addition, equity and bond returns have historically experienced headwinds during periods of rising inflation. Further, when inflation has been higher and more volatile—as it was in the 1970s—the performance correlation between stocks and bonds increased, leaving inflation-resistant assets such as commodities as one of the few diversifiers for stocks during these periods.

Returns of Major Asset Classes, 1935-2015

- U.S. Stocks
- 10-Year Treasury

Annualized Real Return

20-Year Rolling Inflation Rate vs. Correlations

- Inflation
- Stock/Aggregate Bond Index Correlation
- Stock/Commodity Correlation

Investors May Be Able to Mitigate Inflation Risks

Even though the performance of the major asset classes tends to deteriorate when inflation is rising, inflation-resistant asset classes—such as commodities, gold, commodity-producing equities, and short-duration bonds—have historically held up better in such environments. A strategic allocation to a basket of such assets may help investors manage the risk that inflation could be higher than anticipated over the long term.

U.S. Falling Inflation Periods, 1966–2015

Annualized Real Return


Annualized Real Return

Past performance is no guarantee of future results. It is not possible to invest directly in an index. Index returns represented by: Stocks – top 3000 U.S. stocks by market capitalization; Gold – Gold Bullion Price, LBMA PM Fix; Commodities – Bloomberg Commodity Index; Investment-Grade Bonds – Bloomberg Barclays Long Government & Credit Index; Treasuries – Bloomberg Barclays U.S. Treasury Index; and Treasury Bills – Bloomberg Barclays U.S. 1-3 Month Treasury Bill Index. Sectors as defined by GICS. Sources: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 12/31/15.
Secular Rate Outlook: Higher than Now, Lower than History

Over long periods of time, GDP growth has a tight positive relationship with long-term government bond yields (yields generally have averaged the same rate as nominal growth). We expect interest rates will rise over the long term to an average that is closer to our 3.6% nominal GDP forecast, but this implies they would settle at a significantly lower level than their historical averages.

Nominal Government Bond Yields and GDP Growth

- U.S. Secular Growth Forecast
- Historical Observations of Various Countries

10-Year Sovereign Yield (20-Year Average)

Sources: Official Country Estimates, Haver Analytics, Fidelity Investments (AART), as of 4/30/17.
Performance Rotations Underscore Need for Diversification

The performance of different assets has fluctuated widely from year to year, and the magnitude of returns can vary significantly among asset classes in any given year—even among asset classes that are moving in the same direction. A simple portfolio allocation with 60% in U.S. equities and 40% in U.S. bonds illustrates the potential benefits of diversification.

Periodic Table of Returns

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<td>18%</td>
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*2017 as of 6/30/17. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Asset classes represented by: Commodities – Bloomberg Commodity Index; Emerging-Market – MSCI Emerging Markets Index; Foreign-Developed Country – MSCI EAFE Index; Growth – Russell 3000 Growth Index; High Yield – Bank of America Merrill Lynch U.S. High Yield Index; Investment-Grade – Barclays U.S. Aggregate Bond Index; Large Cap – S&P 500 Index; Real Estate – FTSE NAREIT Equity Index; Small Cap – Russell 2000 Index; Value – Russell 3000 Value Index. Sources: Morningstar, Standard & Poor’s, Haver Analytics, Fidelity Investments (AART), as of 6/30/17.
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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Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk. Nothing in this content should be considered to be legal or tax advice and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision. These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security, sector, or investment strategy.

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.
Appendix: Important Information

Market Indices

**BofA ML Corporate Real Estate Index**, a subset of BofA ML U.S. Corporate Index, is a market capitalization-weighted index of U.S. dollar-denominated investment-grade corporate debt publicly issued in the U.S. domestic market by real estate issuers. Qualifying securities must have an investment-grade rating (based on an average of Moody's, S&P, and Fitch). In addition, qualifying securities must have at least one year remaining to final maturity, a fixed coupon schedule, and a minimum amount outstanding of $250 million. **BofA ML U.S. Real Estate Index** is a subset of the BofA ML Real Estate Corporate Index; qualifying securities must have an investment grade rating and an investment grade-rated country of risk. **BofA ML U.S. High Yield Bond Index** is a market capitalization-weighted index of U.S. dollar-denominated below investment grade corporate debt publicly issued in the U.S. domestic market.

The BofA/Merrill Lynch High-Yield Bond Master II Index is an unmanaged index that tracks the performance of below-investment-grade, U.S.-dollar-denominated corporate bonds publicly issued in the U.S. domestic market. **Bloomberg Barclays U.S. 1-3 (1-5) Year Government Credit Index** includes all publicly issued U.S. government and corporate securities that have a remaining maturity between one and three (five) years and are rated investment grade. **Bloomberg Barclays U.S. 1-5 Year Credit Index** is designed to cover publicly issued U.S. corporate and specified non-U.S. debentures and secured notes with a maturity between one and five years and meet the specified liquidity and quality requirements; bonds must be SEC-registered to qualify. **Bloomberg Barclays U.S. 1-5 Year Municipal Index** covers the one- to five-year maturity, U.S. dollar-denominated, tax-exempt bond market with four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. **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 Emerging Market Bond Index** is an unmanaged index that tracks total returns for external-currency-denominated debt instruments of the emerging markets. **Bloomberg Barclays Euro Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues. **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. Corporate High Yield Bond Index** is a market value-weighted index that covers the universe of dollar-denominated, fixed-rate, non-investment grade debt. **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. Government Index** is a market value-weighted index of U.S. Government fixed-rate debt issues with maturities of one year or more. **Bloomberg Barclays Global Aggregate ex-USD Index Unhedged** is a measure of global investment grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers.

**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. **Dow Jones U.S. Select Real Estate Securities Index** is a float-adjusted, market capitalization-weighted index of publicly traded real estate security, such as real estate investment trusts (REITs) and real estate operating companies (REOCs).

**FTSE 100 Index** is a market capitalization-weighted index of the 100 most highly capitalized blue chip companies listed on the London Stock Exchange. **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).

**The IA SBBI U.S. Small Cap Stock Index** is a custom index designed to measure the performance of small capitalization U.S. stocks. **IA SBBI U.S. Intermediate-Term Government Bond Index** is an unweighted index that measures the performance of five-year maturity U.S. Treasury bonds. Each year, a one-bond portfolio containing the shortest noncallable bond having a maturity of not less than five years is constructed. **IA SBBI U.S. Long-Term Corporate Bond Index** is a custom index designed to measure the performance of long-term U.S. corporate bonds. **IA SBBI U.S. 30-Day Treasury Bill Index** is an unweighted index that measures the performance of 30-day maturity U.S. Treasury bills.

**JPM® EMBI Global Index**, and its country sub-indices, 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. **JPM® EMBI Global Investment Grade Index**, and its country sub-indices, tracks total returns for traded external debt instruments issued by emerging-market sovereign and quasi-sovereign entities rated investment grade.
Appendix: Important Information

Market Indices (continued)

MSCI® All Country (AC) Europe Index is a market capitalization-weighted index that is designed to measure the equity market performance of Europe; it consists of the following developed and emerging-market country indices: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Russia, Spain, Sweden, Switzerland, Turkey, and United Kingdom. MSCI All Country World Index (ACWI) is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed and emerging markets. 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 Europe Financials Index (Total Return) captures large- and mid-cap representations of financial securities across 15 developed-market countries in Europe, represented by the MSCI Europe Index. MSCI Japan Financials Index (Total Return) captures large- and mid-cap representations of financial securities across Japan, represented by the MSCI Japan Index, an index designed to measure the performance of the large- and mid-cap segments of the Japanese equity market. With 318 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan. MSCI North America Index is a market capitalization-weighted index designed to measure the performance of large- and mid-cap segments of the U.S. and Canada markets. MSCI Pacific ex Japan Index is a market capitalization-weighted index that is designed to measure the equity market performance of four of the five developed market countries in the Pacific region including Australia, Hong Kong, New Zealand and Singapore. MSCI World Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed markets. MSCI World ex USA Index is a market capitalization-weighted index designed to measure the equity market performance of developed markets excluding the U.S.

MSCI Emerging Markets (EM) Index is a market capitalization-weighted index that is 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 in Asia. MSCI EM Europe, Middle East, and Africa (EMEA) Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in the emerging-market countries of Europe, the Middle East, and Africa. MSCI EM Latin America Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in the emerging-market countries of Latin America. MSCI EM Large Cap Index is composed of those securities in the MSCI EM Index that are defined as large-capitalization stocks.

MSCI Europe, Australasia, Far East Index (EAFE) is a market capitalization-weighted index that is 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 that is 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 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. MSCI USA Index is a market capitalization-weighted index designed to measure the equity market performance of the U.S.

MSCI REIT Preferred Index is a preferred stock market capitalization-weighted total return index of certain exchange-traded perpetual preferred securities issued by U.S. Equity and U.S. Hybrid REITs.

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.

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. 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. The S&P 500 Total Return Index represents the price changes and reinvested dividends of the S&P 500® Index. The S&P SmallCap 600 is a market capitalization-weighted index of 600 small-capitalization stocks. The S&P GSCI® Commodities Index provides investors with a reliable and publicly available benchmark for investment performance in the commodity markets.

LIBOR is the London Interbank Offered Rate. It is the benchmark rate that some of the world’s leading banks charge each other for short-term loans.

Global Policy Uncertainty Index a GDP-weighted average of national economic policy uncertainty indexes for 18 countries. It reflects the relative frequency of own-country newspaper articles that contain a trio of terms pertaining to the economy, policy, and uncertainty.
Appendix: Important Information

Market Indices (continued)

The Sectors and Industries 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 real estate, including 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 pharmaceutica  

The Philadelphia Gold and Silver Index is a market-capitalization index of precious metal mining company stocks.

A Purchasing Managers’ Index (PMI) is a survey of purchasing managers in a certain economic sector. A PMI over 50 represents expansion of the sector compared to the previous month, while a reading under 50 represents a contraction, and a reading of 50 indicates no change. The Institute for Supply Management® reports the U.S. manufacturing PMI®. Markit compiles non-U.S. PMIs.

S&P Global BMI Gold Capped Index is a modified market capitalization–weighted index of stocks designed to measure the performance of companies that produce gold and related products, including companies that mine or process gold and the South African finance houses that primarily invest in, but do not operate, gold mines.

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.

The 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: 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.

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