

leadership series | FOURTH QUARTER 2016

Quarterly Sector Update

PRIMARY CONTRIBUTORS

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What Is Fidelity's Quarterly Sector Update?

The Quarterly Sector Update, including the Sector Scorecard, represents input from three distinct Fidelity investment teams—each with unique insights about sector investing—to present a comprehensive view of the performance potential of the 11* major equity market sectors.

The Sector Scorecard's proprietary methodology measures the relative attractiveness of each sector against five key factors:
business cycle, fundamentals, relative valuations, momentum, and relative strength.

The investment teams whose members contribute to the Quarterly Sector Update include:











**Asset Allocation
Research Team**

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Research Company,
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Scorecard: Tech, Telecom, Health Care, & Materials All Positive











The rally in defensive sectors ended in Q3, as bond yields began to rise. Even so, Telecom still has three positive indicators, unlike Utilities, which now displays negative signals in four of five metrics. Technology had three positive signals. It benefited from strong momentum and relative strength, as did Materials. Health Care bounced back with two constructive metrics.

Sector	Time Horizon View					Weight in S&P 500® Index	Performance as of 9/30/16		
	Longer				Shorter		Latest Quarter	Year to Date	Dividend Yield
	Business Cycle	Fundamentals	Relative Valuations	Momentum	Relative Strength				
 Consumer Discretionary				-	-	12.5%	2.9%	3.6%	1.4
 Consumer Staples		+				9.9%	-2.6%	7.6%	2.6
 Energy		-	-		+	7.3%	2.3%	18.7%	2.9
 Financials		-	+	-		15.8%	4.6%	1.4%	1.9
 Health Care		+	+	-		14.7%	0.9%	1.4%	1.6
 Industrials	+		-			9.7%	4.1%	10.9%	2.2
 Technology	+			+	+	21.2%	12.9%	12.5%	1.4
 Materials	-			+	+	2.9%	3.7%	11.4%	2.1
 Telecom		+	+	+	-	2.6%	-5.6%	17.9%	4.6
 Utilities	-	-	-		-	3.3%	-5.9%	16.1%	3.4
						S&P 500® Returns	3.9%	7.8%	2.0

Past performance is no guarantee of future results. Sectors as defined by the Global Industry Classification Standard (GICS®); see additional information in the appendix. Factors are based on historical analysis and are not a qualitative assessment by any individual investment professional. Green portions suggest outperformance; red portions suggest underperformance; unshaded portions indicate no clear pattern vs. the broader market as represented by the S&P 500. Quarterly and year-to-date returns reflect performance of S&P 500 Sector Indices. It is not possible to invest directly in an index. All indices are unmanaged. Percentages may not sum to 100% due to rounding. Source: FactSet, Fidelity Investments, as of Sep. 30, 2016.

Industries: Top Five & Bottom Five Performers This Quarter

In Q3, 48 of the 67 industries that comprise the MSCI USA Investable Market Index (IMI) had positive total returns, and 33 industries beat the broader market's 4.4% gain (MSCI USA IMI). Four of the five best-performing industries came from the Technology sector, while key industries within the defensive Utilities and Consumer Staples sectors fared the worst.

Top Five Industries in Q3	Sector	Drivers	Bottom Five Industries in Q3	Sector	Drivers
Technology Hardware, Storage & Peripherals  20%	Technology	Strong performance by the sector's largest stock pushed the group higher	Water Utilities  11%	Utilities	Fears of rising rates challenged the entire sector
Semiconductors & Semiconductor Equipment  19%	Technology	Solid earnings, improved revenue forecasts, and good M&A news buoyed the group	Tobacco  6%	Consumer Staples	Concerns around increased taxation weighed on the group
Internet & Direct Marketing Retail  15%	Consumer Discretionary	Strong growth in emerging and U.S. markets led to multiple expansion	Independent Power and Renewable Electricity Producers  6%	Utilities	Softening energy prices in the quarter dragged down renewables
Communications Equipment  14%	Technology	Driven by improved demand from cloud computing and networking clients	Construction Materials  6%	Materials	Weaker-than-expected earnings after a strong first half of the year
Internet Software & Services  13%	Technology	Digital and mobile advertising revenue growth supported higher margins	Multiline Retail  6%	Consumer Discretionary	Continued weakness in consumer demand and large-scale store closures undermined the segment

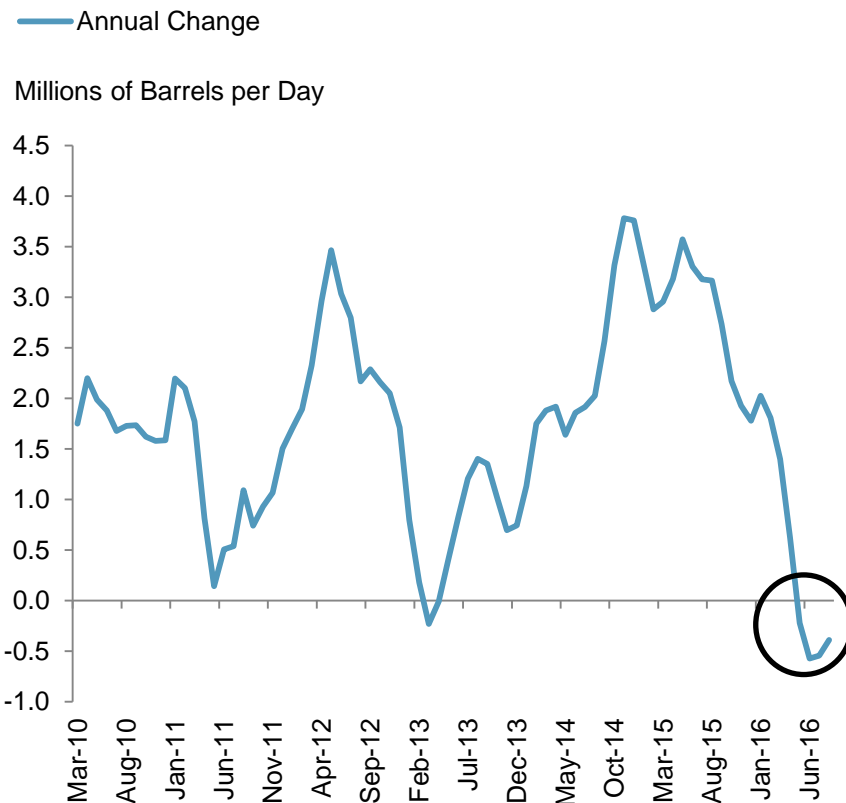
Business Cycle: Energy in Focus

A mix of mid- and late-cycle dynamics continues in the U.S. A business cycle approach to sector allocation may produce active returns, and the Energy sector has traditionally outperformed during the late-cycle phase. In addition, contracting global oil production could bring supply and demand into better balance going forward, potentially resulting in higher oil prices.

Business Cycle Approach to Sectors

Sector	Early	Mid	Late	Recession
Financials	+			
Real Estate	++			--
Consumer Discretionary	++		--	
Technology	+	+	--	--
Industrials	++	+		--
Materials		--	++	-
Consumer Staples	-		+	++
Health Care	-		++	++
Energy	--		++	
Telecom	--			++
Utilities	--	-	+	++

Global Crude Oil Supply Growth

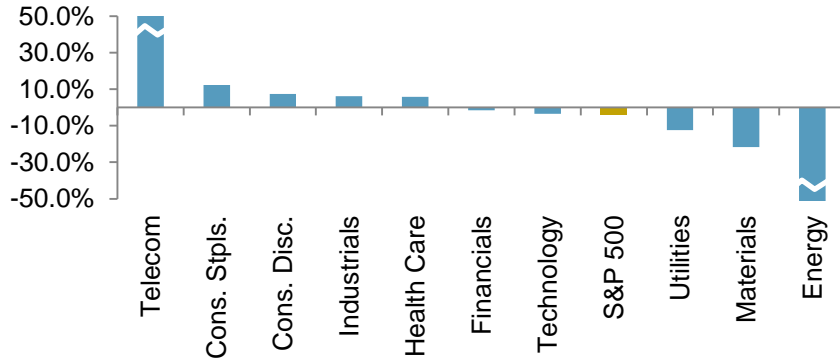


Past performance is no guarantee of future results. Sectors as defined by GICS. **LEFT:** Unshaded (white) portions above suggest no clear pattern of over- or underperformance vs. broader market. Double +/- signs indicate that the sector is showing a consistent signal across all three metrics: full-phase average performance, median monthly difference, and cycle hit rate. A single +/- indicates a mixed or less consistent signal. Source: *The Business Cycle Approach to Sector Investing*, Fidelity Investments (AART), Sep. 2014. **RIGHT:** Data shown as a three-month average. Source: Based on IEA data from the IEA Oil Data Service. © OECD/IEA 9/16, IEA Publishing, Fidelity Investments (AART), as of Sep. 30, 2016.

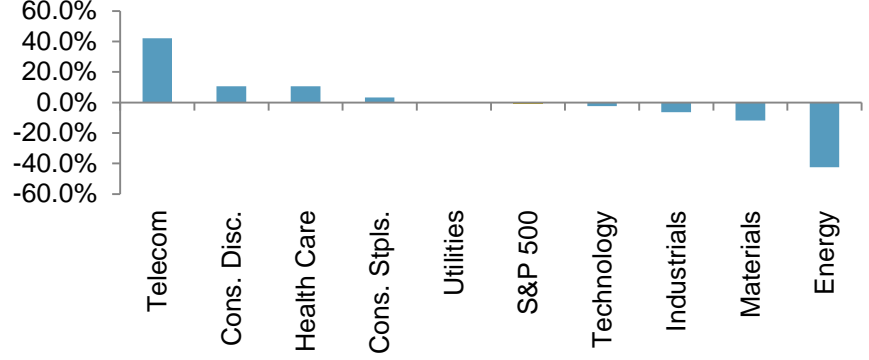
Fundamentals: Telecom and Consumer Staples Strong

Fundamentals for Telecom have been driven by accelerated earnings per share (EPS) and solid free-cash-flow margins, while Consumer Staples has benefited from strong returns on equity and EPS growth. Energy continues to lag, but recent indicators—such as rising oil prices and contracting supply—may bode well for the sector’s fundamentals going forward.

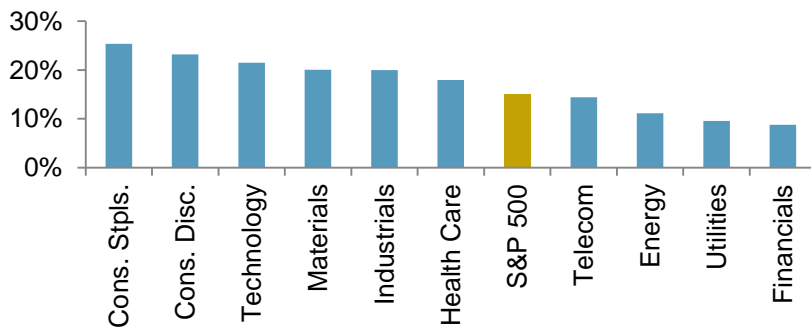
EPS Growth (Last 12 Months)



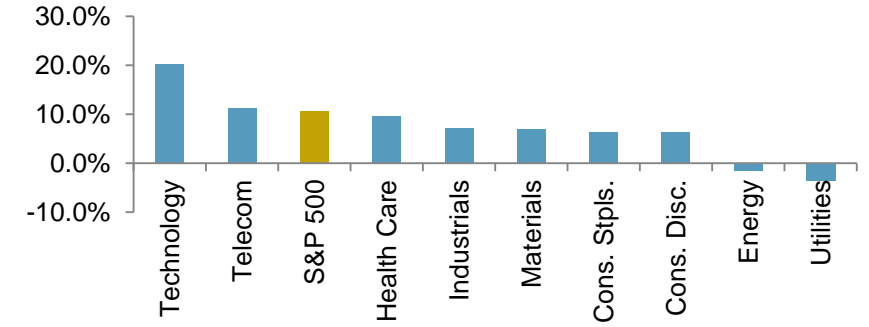
EBITDA Growth (Last 12 Months)



Return on Equity (Last 12 Months)



Free-Cash-Flow Margin (Last 12 Months)



Fundamentals: Strong and improving fundamentals historically have been an intermediate-term indicator of sector performance. Fundamental analysis gives a view into how each sector is doing in terms of growth and profitability.

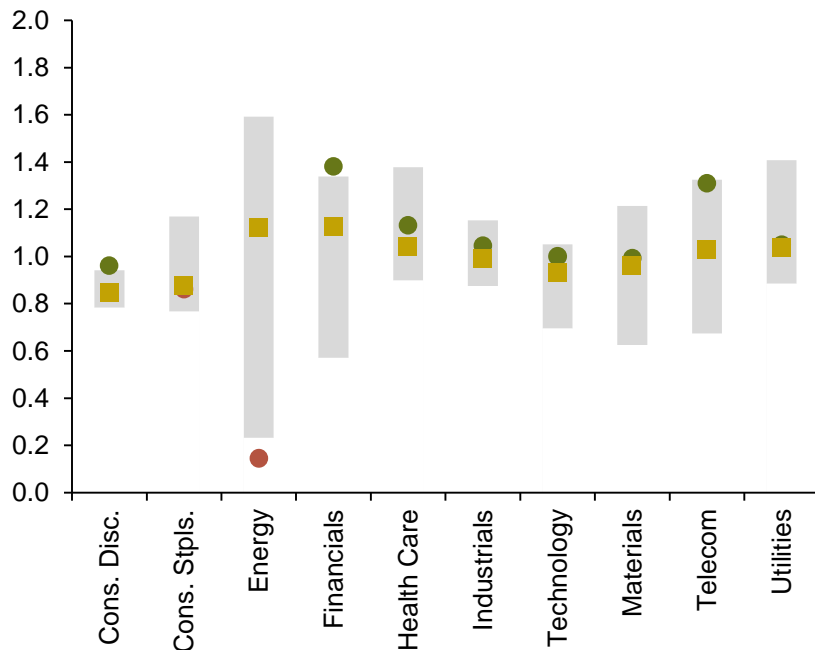
EPS bars for Telecom (+100%) and Energy (-99%) are broken to better demonstrate scale. Telecom EPS and EBITDA growth largely reflect an industry accounting change and is not representative of typical economic earnings growth. EPS = earnings per share. EBITDA = earnings before interest, taxes, depreciation, and amortization. Financials sector is not represented in the EBITDA Growth or Free-Cash-Flow Margin charts. See the Glossary and Methodology slide for further explanation. Source: FactSet, Fidelity Investments, as of Sep. 30, 2016.

Relative Valuations: Financials, Telecom, and Health on Top

Financials is the least expensive sector based on price-to-book (P/B) and price-to-earnings (P/E) ratios. Telecom also looks compelling on a P/E basis, but much less so on a P/B level. Health Care's valuation has become more attractive after recent struggles, but Utilities now appears somewhat overvalued. Meanwhile, Energy valuations continue to send mixed signals.

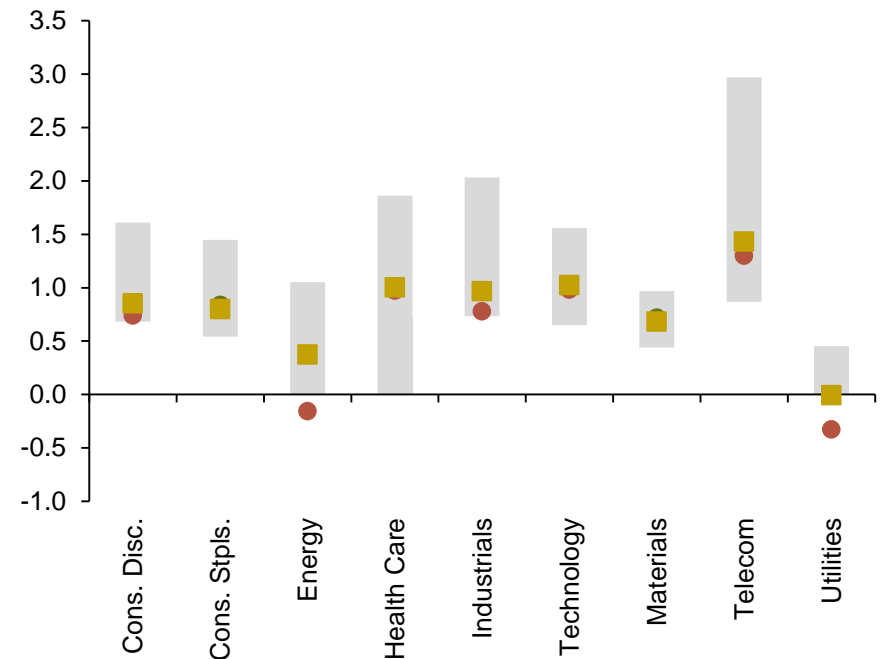
Earnings Yield

■ 10-Year Range (excl. top & bottom 5%) ● Current ■ Historical Average
Relative Forward Earnings Yield to S&P 500 Index (%)



Free-Cash-Flow Yield

■ 10-Year Range (excl. top & bottom 5%) ● Current ■ Historical Average
Relative Free-Cash-Flow Yield to S&P 500 Index (%)



Relative Valuations: On their own, valuations are not necessarily the best indicator of sector performance, but when combined with other factors, valuations can be a useful tool in determining the risk-and-reward profile.

Forward earnings yield reflects analysts' published earnings-per-share estimates for the next 12 months, divided by market price per share; it is the inverse of the price-to-earnings (P/E) ratio. Free-cash-flow yield reflects free cash flow divided by market price per share; it is the inverse of the price-to-free-cash-flow ratio. The Financials sector is not represented in the Free-Cash-Flow Yield chart. Please see the Glossary and Methodology slide for further explanation. Source: FactSet, Fidelity Investments, as of Sep. 30, 2016.

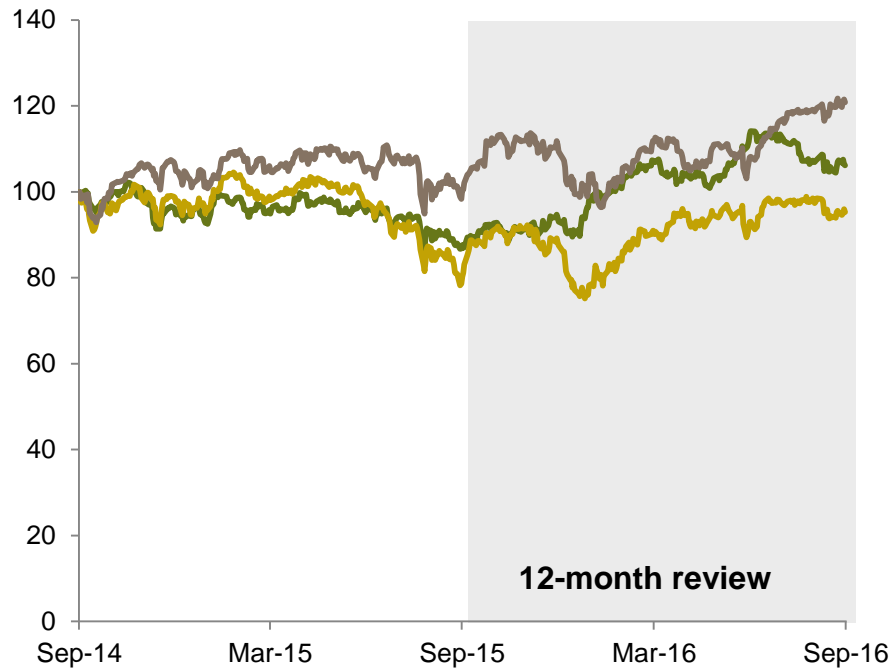
Momentum: Telecom Still Tops; Materials and Tech Rising

The robust momentum of the Telecom sector in the first half of 2016 carried it through Q3, despite a late pullback. Higher prices for gold and other commodities drove Materials' acceleration, while Technology was propelled by several of the largest stocks in the sector. But, with no rate hikes since December 2015, the Financials sector lagged on a momentum basis.

Momentum Leaders

— Telecom — Materials — Technology

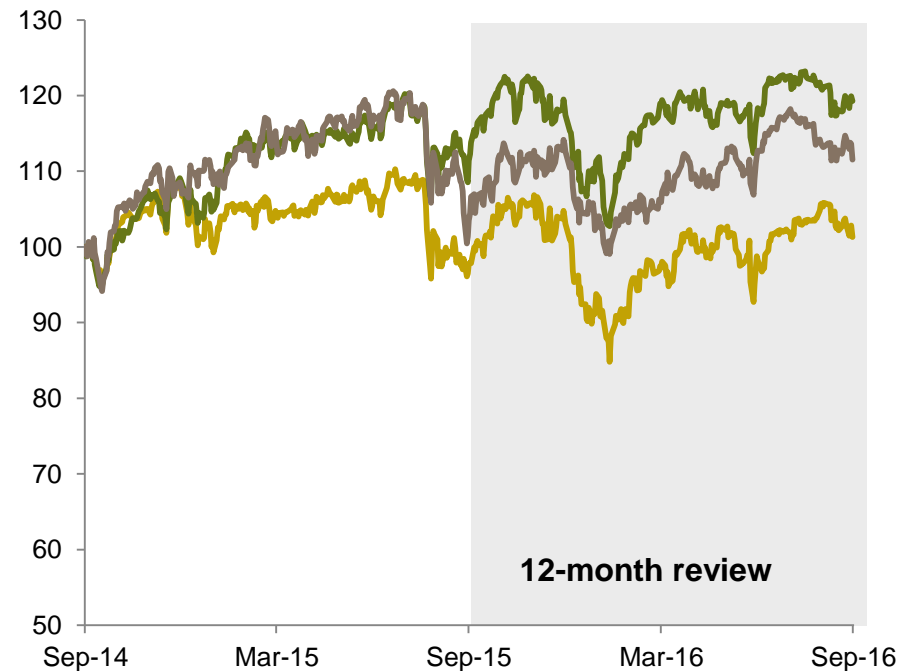
Price Indexed to 100



Momentum Laggards

— Financials — Consumer Discretionary — Health Care

Price Indexed to 100



Momentum: Momentum compares the rate of acceleration in the price of securities within a sector, over time. It can be used to analyze relative sector performance as well as to evaluate performance for a sector separately from the broader market.



Past performance is no guarantee of future results. Charts show performance of S&P 500 Sector Indices, indexed to 100, from 9/30/14 to 9/30/16. It is not possible to invest directly in an index. All indices are unmanaged. Source: FactSet, Fidelity Investments, as of Sep. 30, 2016.

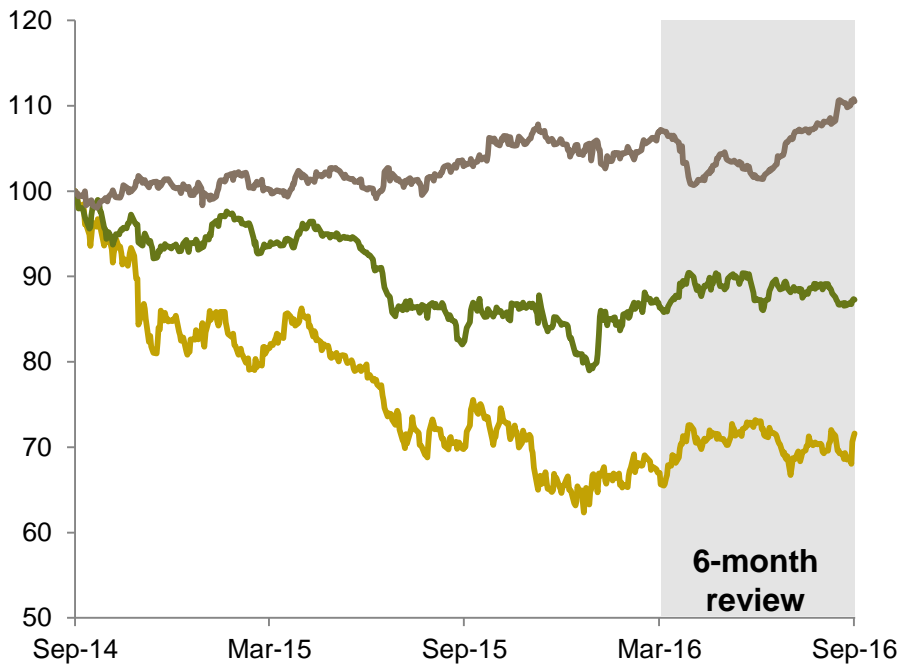
Relative Strength: The Return of Energy and Materials

Renewed interest in the previously out-of-favor Energy and Materials sectors is apparent in their relative strength. Technology also came back strong as the rally in less economically sensitive sectors subsided. Accordingly, the relative strength of the defensive-oriented Utilities and Telecom sectors dropped in the late stages of the period.

Sectors Exhibiting Relative Strength

— Energy — Materials — Technology

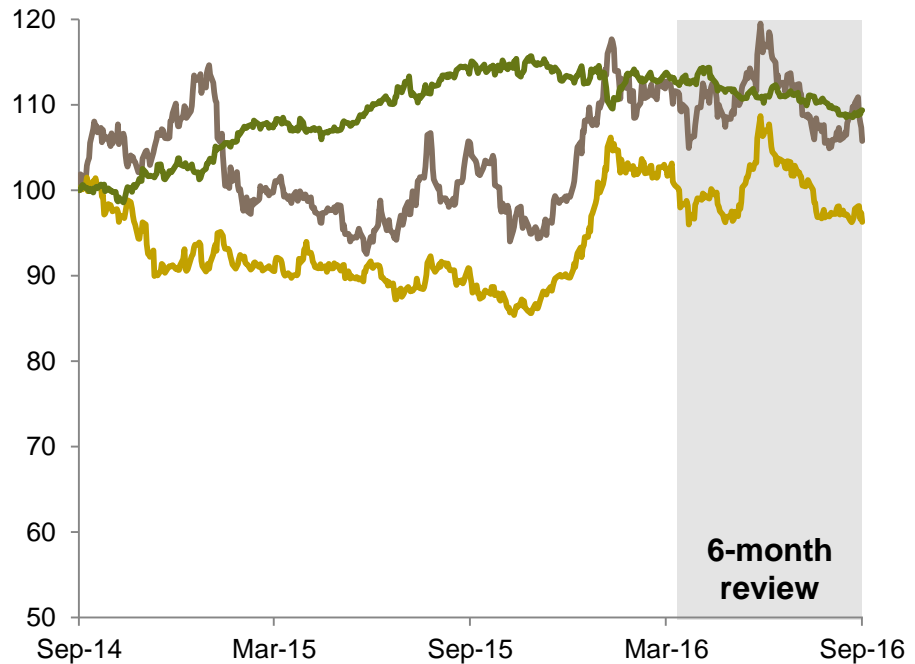
Price Relative to S&P 500 Index



Sectors Exhibiting Relative Weakness

— Utilities — Telecom — Cons Disc.

Price Relative to S&P 500 Index



Relative Strength: This indicator compares the performance of each sector with the performance of the broad market based on changes in the ratio of the securities' respective prices over time.

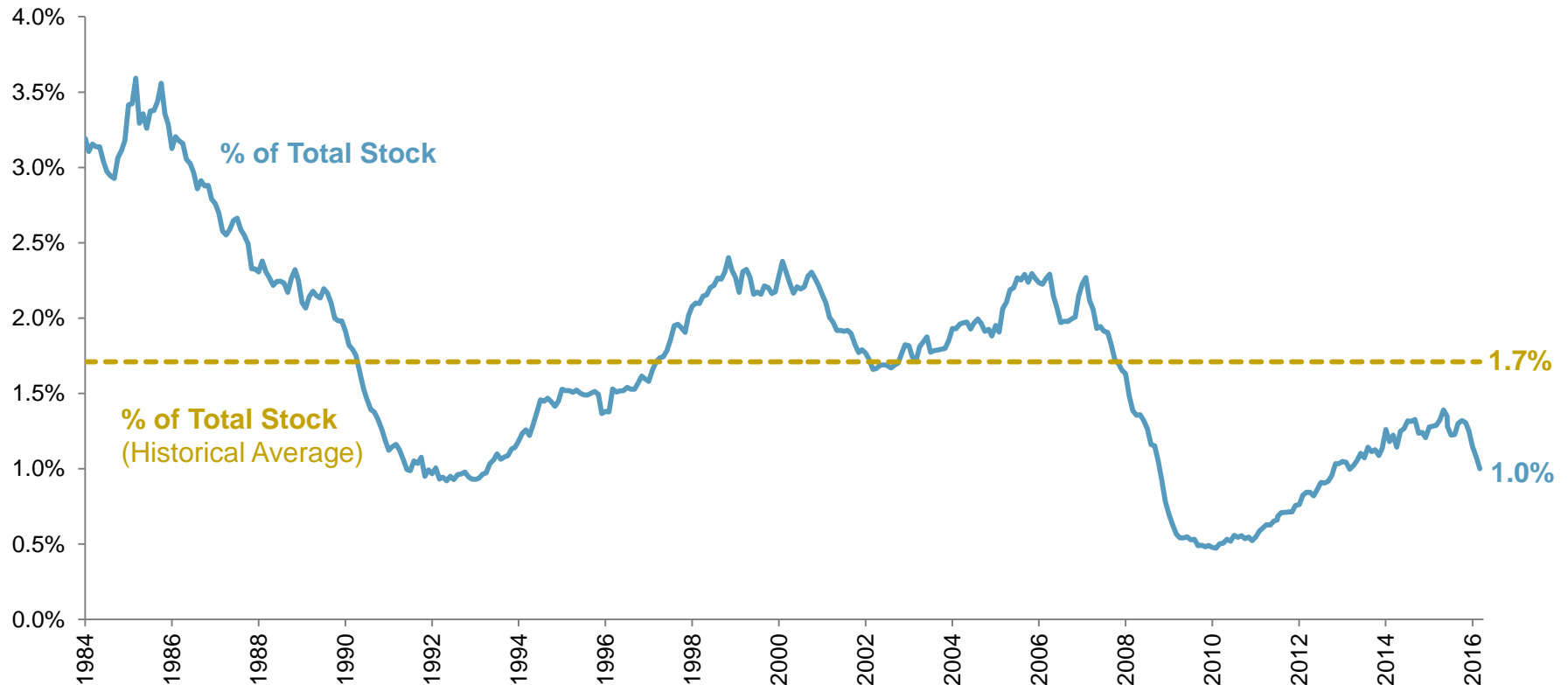


Past performance is no guarantee of future results. Charts represent performance of specified S&P 500 Sector Indices relative to the broader S&P 500 Index. It is not possible to invest directly in an index. All indices are unmanaged. Source: FactSet, Fidelity Investments, as of Sep. 30, 2016.

Positive U.S. Commercial Real Estate Fundamentals

Real Estate fundamentals remain strong amid a favorable supply/demand backdrop. Vacancy levels are historically low and net operating income for REITs has been growing. New supply of U.S. commercial real estate is below its historical average and below levels needed to keep pace with population growth and the obsolescence of existing buildings.

New Supply as % of Total Stock is Below Historical Average

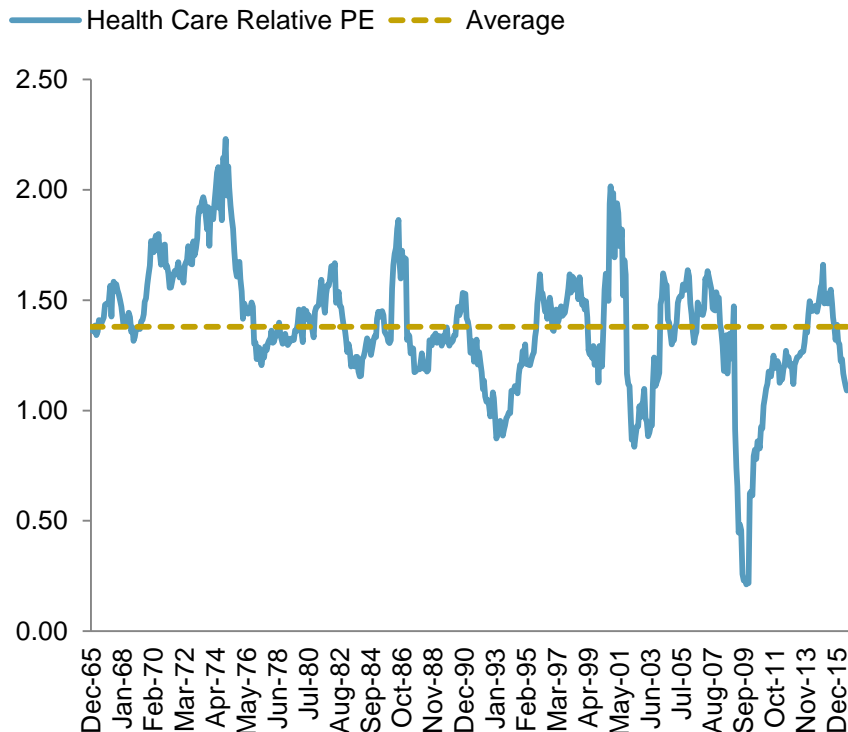


Health Care Valuation at Historically Attractive Level

Health Care's trailing price-to-earnings (P/E) ratio relative to the market is well below its historical average. Over the past decade, when Health Care's relative P/E was this low, it outperformed the S&P 500 Index 93% of the time over the next 12 months. Health Care companies also have generated strong relative earnings growth and free cash flow of late.

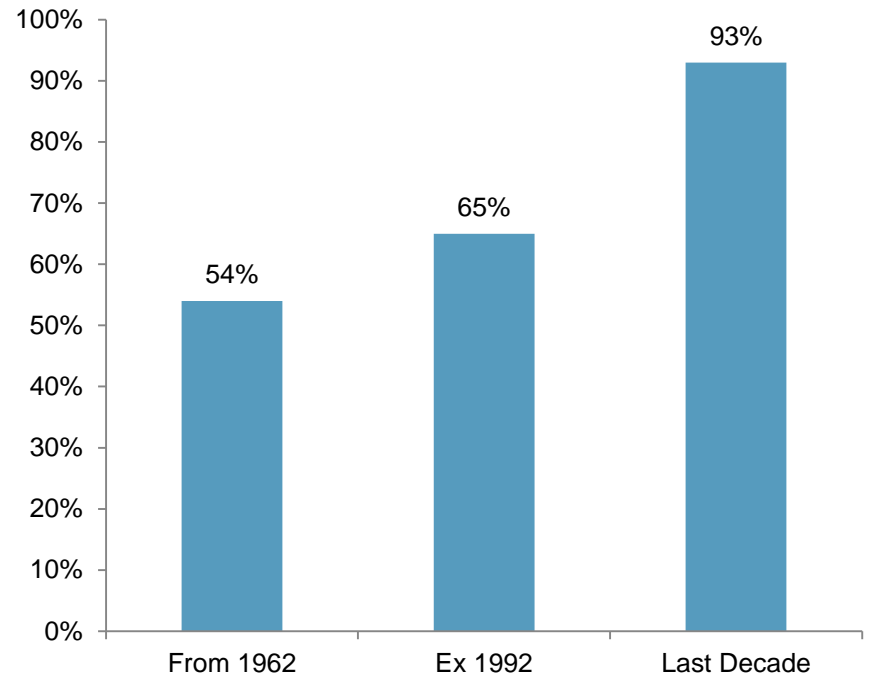
Health Care Relative Trailing P/E Ratio

(Dec. 1965 to Aug. 2016)



Health Care: Odds of Outperformance (%) at Current Trailing Relative P/E

(1962 to Aug. 2016)

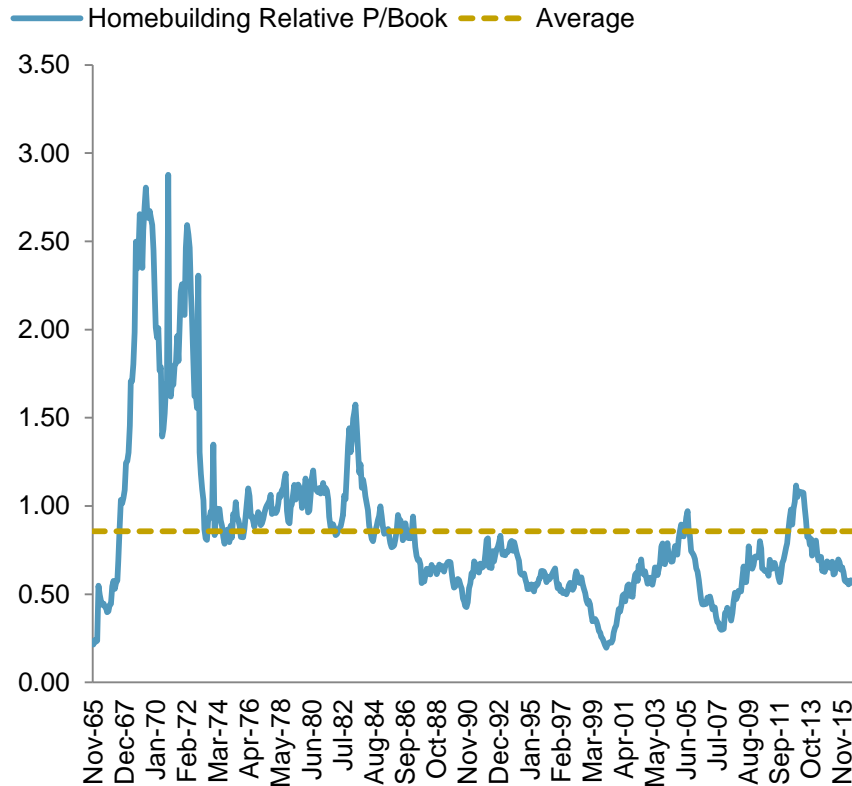


LEFT: Trailing P/E: price-to-earnings ratio using earnings for the four most recently completed quarters. Source: FactSet, Fidelity Investments, as of Aug. 31, 2016. **RIGHT:** Source: FactSet, Fidelity Investments, as of Aug. 31, 2016.

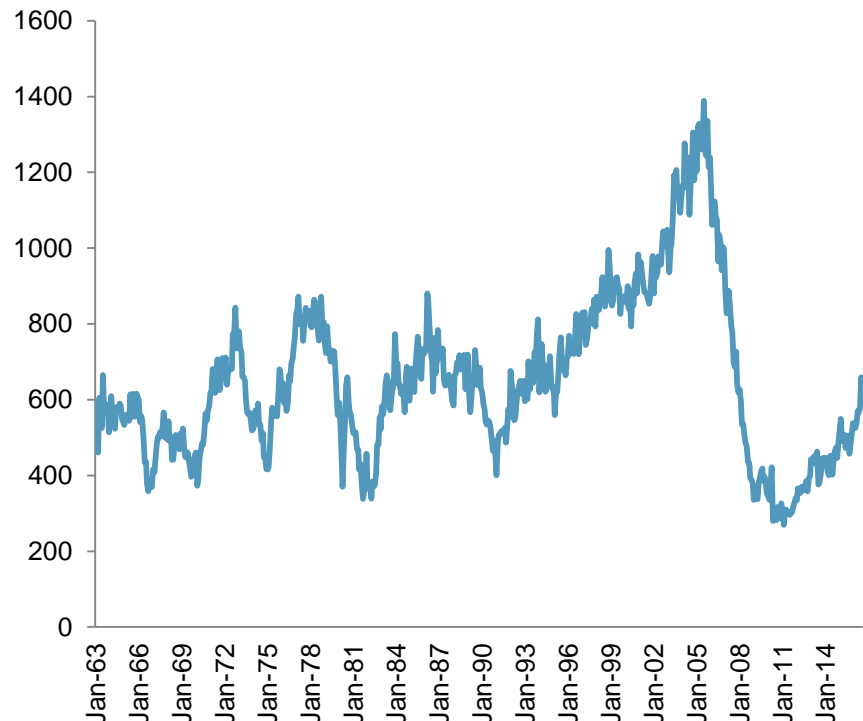
Homebuilders May Be Well Positioned for Growth

A combination of strong data and attractive valuations provides a nice setup for the homebuilders industry within the Consumer Discretionary sector. The group's low relative price-to-book (P/B) ratio, solid rising trend of new home sales, and low inventory levels are potential signals for future strong relative performance.

Homebuilders Relative P/B



New One-Family Houses Sold: U.S. (SAAR, Thous)



Source: **LEFT:** Haver Analytics, Fidelity Investments, as of Aug. 31, 2016. **RIGHT:** SAAR: seasonally adjusted annual rate. Source: U.S. Census Bureau, Haver Analytics, Fidelity Investments, as of Aug. 31, 2016.

Glossary and Methodology

Glossary

Bear Market

At least a 20% correction in the stock market.

Cycle Hit Rate

Calculates the frequency of a sector outperforming the broader equity market over each business cycle phase since 1962.

Dividend Yield

Annual dividends per share divided by share price.

Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA)

A non-GAAP measure often used to compare profitability between companies and industries, because it eliminates the effects of financing and accounting decisions.

Earnings per Share Growth

Measures the growth in reported earnings per share over the specified past time period.

Earnings Yield

Earnings per share divided by share price. It is the inverse of the price-to-earnings (P/E) ratio.

Free Cash Flow (FCF)

The amount of cash a company has remaining after expenses, debt service, capital expenditures, and dividends. High free cash flow typically suggests stronger company value.

Free-Cash-Flow Yield

Free cash flow per share divided by share price. A high FCF yield often represents a good investment opportunity, because investors would be paying a reasonable price for healthy cash earnings.

Full-Phase Average Performance

Calculates the (geometric) average performance of a sector in a particular phase of the business cycle and subtracts the performance of the broader equity market.

Median Monthly Difference

Calculates the difference in the monthly performance of a sector compared with the broader equity market, and then takes the midpoint of those observations.

Price-to-Book (P/B) Ratio

The ratio of a company's share price to reported accumulated profits and capital.

Price-to-Earnings (P/E) Ratio

The ratio of a company's current share price to its reported earnings. A forward P/E ratio typically uses an average of analysts' published earnings estimates for the next 12 mos.

Price-to-Sales (P/S) Ratio

The ratio of a company's current share price to reported sales.

Relative Strength

The comparison of a security's performance relative to a benchmark, typically a market index.

Return on Equity (ROE)

The amount, expressed as a percentage, earned on a company's common stock investment for a given period.

Risk Decomposition

A mathematical analysis that estimates the relative contribution of various sources of volatility.

Methodology

Business Cycle

The business cycle as used herein reflects fluctuation of activity in the U.S. economy and is based on Fidelity's analysis of historical trends.

Fundamentals

Sector rankings are based on equally weighting the following four fundamental factors: EBITDA growth, earnings growth, ROE, and FCF margin. However, we evaluate the Financials sector only on earnings growth and ROE because of differences in its business model and accounting standards.

Momentum

Compares the price change of a sector versus itself over a 12-month period, with a one-month reversal on the latest month. Persistence in returns can be a useful indicator of sector performance during a six- to 12-month period.

Relative Strength

Compares the strength of a sector versus the S&P 500 Index over a six-month period, with a one-month reversal on the latest month; identifying relative strength patterns can be a useful indicator for short-term sector performance.

Relative Valuations

Valuation metrics for each sector are relative to the S&P 500 Index. Ratios compute the current relative valuation divided by the 10-year historical average relative valuation, eliminating the top 5% and bottom 5% values to reduce the effect of potential outliers. Sectors are then ranked by their weighted average ratios, weighted as follows: P/E: 35%; P/B: 20%; P/S: 20%; FCF yield: 20%; dividend yield: 5%. However, the Financials sector is weighted as follows: P/E: 59%; P/B: 33%; dividend yield: 8%.

Primary Contributors

Asset Allocation Research Team (AART)

AART is part of the Global Asset Allocation division of Fidelity's Asset Management organization. AART conducts economic, fundamental, and quantitative research to develop asset allocation recommendations for Fidelity's portfolio managers and investment teams.

Fidelity Management & Research Company Equity Division

The Equity Division within Fidelity Asset Management consists of 11 portfolio groups, as well as Select and Advisor Focus sector portfolios. Each group is responsible for portfolio management supported by in-depth fundamental research.

Fidelity SelectCo

SelectCo is a division within Fidelity's Asset Management organization and is focused exclusively on expanding the company's 30-year heritage of sector investing to help meet the evolving needs of investors and advisers for innovative sector-specific tools, resources, and products.

Appendix

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.

References to specific investment themes are for illustrative purposes only and should not be construed as recommendations or investment advice. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

This piece may contain assumptions that are “forward-looking statements,” which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Past performance is no guarantee of future results.

Investing involves risk, including risk of loss.

All indices are unmanaged. You cannot invest directly in an index. 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.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Because of its narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies. Sector investing is also subject to the additional risks associated with its particular industry.

Business Cycle Definition

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:

Early-cycle: economy bottoms and picks up steam until it exits recession, then begins the recovery as activity accelerates. Inflationary pressures are typically low, monetary policy is accommodative, and the yield curve is steep.

Mid-cycle: 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.

Late-cycle: 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.



Please note that there is no uniformity of time among phases, nor is the chronological progression always in this order. For example, business cycles have varied between one and 10 years in the U.S., and there have been examples when the economy has skipped a phase or retraced an earlier one.

Market Indices

The FTSE NAREIT All Equity REITs Index is a market capitalization–weighted index that is designed to measure the performance of tax–qualified Real Estate Investment Trusts (REITs) that are listed on the New York Stock Exchange, the NYSE MKT LLC, or the NASDAQ National Market List with more than fifty percent of total assets in qualifying real estate assets secured by real property. Mortgage REITs are excluded.

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 Standard & Poor's Financial Services LLC. Sectors and industries are defined by the Global Industry Classification Standard (GICS).

The S&P 500 sector indices include the standard GICS sectors that make up the S&P 500 Index. The market capitalization of all S&P 500 sector indices together composes the market capitalization of the parent S&P 500 Index; each member of the S&P 500 Index is assigned to one (and only one) sector.

MSCI USA Investable Market Index (IMI) is designed to measure the performance of the large-, mid-, and small-cap segments of the U.S. market. With 2,505 constituents, the index covers approximately 99% of the free-float-adjusted market cap in the U.S.

Sectors are defined as follows: **Consumer Discretionary:** companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles. **Consumer Staples:** companies that provide goods and services that people use on a daily basis, like food, household products, and personal-care products; these businesses tend to be 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, or 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 and manufacturers, and providers of health care services; and companies involved in the research, development, production, and marketing of pharmaceuticals and biotechnology products. **Industrials:** companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. **Technology:** companies in technology software and services and technology hardware and equipment. **Materials:** companies that are engaged in a wide range of commodity-related manufacturing. **Telecommunication Services:** companies that provide communications services primarily through fixed-line, cellular, wireless, high bandwidth, and/or fiber-optic cable networks. **Utilities:** companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

Appendix

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