Quarterly Market Perspective

Fourth Quarter 2023
The following pages provide greater detail into some of the themes discussed in the Quarterly Market Perspective video:

1. **MARKET SUMMARY:**
   Stocks and bonds fell, as persistently elevated inflation stoked concerns about whether the U.S. Federal Reserve intends to keep interest rates “higher for longer.”

2. **BUSINESS CYCLE:**
   The U.S. economy continued to grow but at a slowing pace, as higher interest rates and decreased willingness of banks to lend may have started to weigh on economic activity.

3. **INVESTMENT STRATEGY:**
   We maintained risk levels within client portfolios below their long-term targets; bouts of volatility have historically been more common during late-cycle expansions.

4. **DIVERSIFICATION:**
   Bonds offered attractive levels of yield while stock valuations were above their long-term average, suggesting investors may benefit from owning both asset classes.

5. **STAYING INVESTED:**
   We believe that by staying with their investment plan, investors may be best positioned to achieve their financial goals.
Global stocks and bonds fell as investor concerns rose about interest rates remaining “higher for longer”

- Despite corporate earnings exceeding analyst expectations, U.S. stocks fell, as higher interest rates weighed on valuations.
- International stocks also fell, as tight monetary policies across most major central banks continued to weigh on developed- and emerging-market economies.
- Bond prices fell as interest rates rose, with rates likely driven by investor concerns around persistent inflation.

This chart illustrates the performance of a hypothetical $100,000 investment made in the indexes noted above. Index returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. This chart is not intended to imply any future performance of the investment product.

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Please see Important Information for index definitions. Source: Fidelity Investments, as of 09/29/2023. U.S. stocks—Dow Jones U.S. Total Stock Market Index; international stocks—MSCI All Country World Ex-US Index (Net MA); bonds—Bloomberg US Aggregate Bond Index.
U.S. stocks are up over 15% since consumer sentiment hit an all-time low in June 2022

- The Consumer Sentiment Index measures attitudes and expectations of consumers toward personal finances, business conditions, and market conditions.
- After hitting an all-time low in June 2022, the index readings have trended higher but are still well below the long-term average.
- However, as is typical with other low points reached in the past, U.S. stock returns rose over 15% since June 2022, indicating that stocks can perform well even when consumer sentiment is low.

**University of Michigan Consumer Sentiment Index (September 1978–September 2023)**

<table>
<thead>
<tr>
<th>Date of Low Reached</th>
<th>5-Year Cumulative</th>
<th>5-Year Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>05/31/80</td>
<td>118.0%</td>
<td>16.9%</td>
</tr>
<tr>
<td>03/31/82</td>
<td>224.0%</td>
<td>26.5%</td>
</tr>
<tr>
<td>10/31/90</td>
<td>121.4%</td>
<td>17.2%</td>
</tr>
<tr>
<td>01/31/92</td>
<td>88.1%</td>
<td>13.4%</td>
</tr>
<tr>
<td>11/30/08</td>
<td>124.8%</td>
<td>17.6%</td>
</tr>
<tr>
<td>08/31/11</td>
<td>95.8%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Median 5-Year Return</td>
<td>119.7%</td>
<td>17.1%</td>
</tr>
</tbody>
</table>

Rising interest rates have challenged bond performance but may be providing an opportunity going forward

- Interest rates have risen to their highest levels in over 15 years, with short-term rates remaining slightly above longer-term rates, driven by the U.S. Federal Reserve’s aggressive rate hikes to combat inflation.
- Currently, the overnight federal funds borrowing rate is higher than the rate for the 10-year U.S. Treasury note, which historically has reversed before entering a recession.
- Investing in higher-yielding, longer-term fixed income securities today may reward investors if history repeats itself, and both short- and longer-term interest rates decline.

The U.S. economy remains in a late-cycle expansion, reflecting positive but slower economic growth

- The late-cycle phase of the business cycle has historically been good for stock market performance, but returns have been more muted, and bouts of volatility have been more common.
- Economic growth typically slows in the late-cycle phase, as rising interest rates and inflation can lead to softer economic activity.
- Other major economies around the world are also experiencing slower economic growth, and regions such as Europe and the U.K. may be in contraction.

*Asset class total returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg. Fidelity Investments source: a proprietary analysis of historical asset class performance, which is not indicative of future performance. From 1950–2022, as of 09/29/2023. Past performance is no guarantee of future results. A growth recession is a significant decline in activity relative to a country’s long-term economic potential. Note: The diagram above is a hypothetical illustration of the business cycle—the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of 09/29/23. Dow Jones U.S. Total Stock Market Index—U.S. stocks; MSCI All Country World Ex-US Index (Net MA)—international stocks; Bloomberg US Aggregate Bond Index—high-quality bonds; ICE BofA US High Yield Index—high-yield bonds; Bloomberg 3–6 Month US Treasury Bill Index—short-term investments; Bloomberg Commodity Index Total Return Index—commodities.*
The U.S. backdrop was largely unchanged, but emerging-market economies likely lost some momentum

- The Fed raised rates by only 0.25% in July but held steady in September, which, coupled with improving inflation, suggested to investors that this hiking cycle may be nearing the end.
- Earnings came in ahead of low expectations, and consensus estimates call for a meaningful rebound in 2024, which could bolster stock prices.
- Despite continued government efforts to stimulate activity, China’s economy continues to grow slowly, which has weighed on not only emerging markets but also developed-market trading partners.

Summary of business cycle indicators
As of September 29, 2023

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Current View</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic Growth</td>
<td>Favorable</td>
<td>U.S. continues to expand, but at a slowing pace.</td>
</tr>
<tr>
<td>Corporate Profits</td>
<td>Favorable</td>
<td>Earnings are still expected to end the year slightly lower, but analysts have raised estimates for 2023 and expect strong earnings growth in 2024.</td>
</tr>
<tr>
<td>Borrowing/Credit</td>
<td>Unfavorable</td>
<td>Banks continue to restrict lending practices, while higher interest rates have dampened demand for loans.</td>
</tr>
<tr>
<td>Inventory</td>
<td>Favorable</td>
<td>Inventory levels remain elevated, which suggests sluggish consumer spending in some product areas.</td>
</tr>
<tr>
<td>Federal Reserve</td>
<td>Unfavorable</td>
<td>The Fed raised rates in July and held steady in September but may further hike rates if inflation remains high.</td>
</tr>
<tr>
<td>Government Spending</td>
<td>Favorable</td>
<td>Fiscal spending continues to be somewhat accommodative, but deep political divides have disrupted government operations, which could negatively impact economic conditions.</td>
</tr>
<tr>
<td>Inflation</td>
<td>Unfavorable</td>
<td>Inflation has declined for nearly a year but may take several more quarters to reach the Fed’s long-term target.</td>
</tr>
<tr>
<td>Consumer</td>
<td>Favorable</td>
<td>Consumer spending continues to moderate, particularly for lower-income consumers.</td>
</tr>
<tr>
<td>Manufacturing Activity</td>
<td>Unfavorable</td>
<td>Measures of manufacturing activity remain below an expansionary pace, with some areas weakening.</td>
</tr>
<tr>
<td>International Developed Markets</td>
<td>Unfavorable</td>
<td>Some developed international economies are in late-cycle or contracting, but analysts have raised their outlook for corporate profits over the next 12 months, and Japan has stood out in a positive way.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>Unfavorable</td>
<td>While China has taken measures to stimulate activity, their sluggish economy continues to weigh on other emerging and developed economies.</td>
</tr>
</tbody>
</table>

Sources: Fidelity Investments (AART), Strategic Advisers LLC, Bloomberg Finance L.P., as of 09/29/23.
Key economic indicators continue to show signs of slower growth, but not recession

2. BUSINESS CYCLE

Corporate Profits: Margins heading lower, but profits ahead of analyst expectations
Declining corporate profits generally reflect slowing economic growth

Borrowing/Credit: Inverted yield curve dissuades banks from lending long term
Tightening conditions indicate that banks are less willing to issue loans

Inventory: Levels rising in some sectors of the economy
Lower levels reflect rising demand, while rising inventory levels reflect falling demand

Jobless Claims: Remain low, indicating a strong labor market
Claims typically rise during a recession

3. INVESTMENT STRATEGY

We continued to maintain relatively lower risk within client accounts as late-cycle expansion continues

- We continued to maintain relatively lower risk in client portfolios during the quarter, but we slightly increased stock exposure to more closely align with long-term target allocations.
- Within stocks and bonds, we sought to bring our positioning closer to long-term targets in areas like value versus growth or Treasury bonds versus high-yield bonds.
- We believe that our positioning can help protect client accounts from market volatility and allow them to participate in late-cycle rallies, like the one we experienced so far this year.

Diversification does not ensure a profit or guarantee against loss. This chart represents the relative asset class weights over time versus the long-term asset allocation mix of a PAS Total Return Growth with Income Blended preference. Stocks reference both U.S. and international stock allocations. Bonds represent investment-grade bond allocations. Short-term investments include money market fund and short-duration bond fund allocations. Opportunistic allocation classes refer to allocations to funds not within traditional stock, investment-grade bond, and short-term investment categories, including high-yield bond, commodity, and alternative investment allocations. The Growth with Income strategy has a long-term asset allocation mix of 42% U.S. stocks (Dow Jones U.S. Total Stock Market Index), 18% international stocks (MSCI All Country World Ex-US Index [Net MA]), 35% bonds (Bloomberg US Aggregate Bond Index), and 5% short-term investments (Bloomberg 3–6 Month US Treasury Bill Index), as of 09/29/23. Current composition may differ, perhaps significantly. Recession time frame from March 2020 to April 2020. Source: National Bureau of Economic Research (NBER).
Higher stock and higher bond yields may support maintaining exposure to both asset classes

- For the first time in over 20 years, the broad-market bond index yield exceeds the earnings yield on the S&P 500.
- The stock market’s earnings yield tends to be lower when stocks are more expensive (as measured by price-to-earnings ratios), and historically has predated periods of more muted returns.
- The gap between bond yields and the stock market’s earnings yield widened over the past quarter, which suggests that investors may especially benefit from owning both asset classes as part of a well-diversified portfolio.

Comparison of Bond Yields with Stock Earnings Yield (Inverse of P/E Ratio)
Yields of the Bloomberg US Aggregate Bond Index and the S&P 500 Index from September 30, 2013-September 29, 2023

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indexes are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund. Sources: Bloomberg Finance L.P., Morningstar, and Fidelity Investments, as of 09/29/23.
A well-diversified portfolio has tended to recover from bear markets faster than stocks alone

- Last year saw U.S. stocks enter a bear market, which occurs when stocks decline 20% or more for an extended period; from 1952 to 2022, bear markets have occurred 13 times.
- In 8 of the 13 instances, the U.S. economy entered a recession** during the bear market.
- Regardless of a recession, on average, a well-diversified portfolio consisting of stocks, bonds, and short-term investments has recovered its starting value (completed a round trip) in less time than a portfolio of only stocks.

Past performance is no guarantee of future results. Bloomberg Finance L.P., 06/1/56–12/30/22. A bear market is defined as a 20% drop in S&P 500 Index from a previous high. “Round trip” is defined as a client’s holding in either a 60/40 portfolio or the S&P 500 Index returning to equal or greater value compared with its value before the bear market. Diversification does not ensure a profit or guarantee against loss. The S&P 500 Index was created in 1957; however, returns have been reported since 1926, and the index has been reconstructed for years before 1957.

* Averages represent median round trips.
** NBER defines “recession” as a significant decline in economic activity, spread across the economy and lasting more than a few months.
The end of a Federal Reserve rate hike cycle has typically been supportive of improved bond performance over the following year.

- The U.S. Federal Reserve has conducted rate hike cycles 10 times since 1969; the cycle ends when the Fed no longer raises rates and subsequently cuts rates.
- Historically, the broad-market investment-grade bond index may experience volatility before and after the hiking cycle ends, driven by uncertainties around how high the Fed will hike rates and how long the Fed will keep rates high.
- However, in retrospect, once the Fed finished hiking, the index has generated positive performance in all 10 cases, with the average return around 12%.

**The investment-grade bond index generated positive returns a year after the past 10 Fed rate hiking cycles**

The Bloomberg US Aggregate Bond Index and the U.S. Federal Reserve federal fund rate hiking cycles from August 1969 to present.

**Date of final rate hike**

- Aug-69
- May-74
- Mar-80
- Feb-95
- May-00
- Jun-06
- May-81
- Aug-84
- Feb-89
- Dec-18

**Average**

12%

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On average, stocks, bonds, and a diversified portfolio have outpaced cash as soon as one year after rate hikes end.

- Over the last 10 hiking cycles, short-term rates have moved high relative to longer-term rates, making short-term cash investments appear attractive.
- However, the Fed has often cut short-term rates once economic activity slows and inflation reverts to a more manageable level.
- Long-term investors seeking to take advantage of higher interest rates may benefit from diversifying away from cash and adding asset classes such as stocks, bonds, and even a combination of all three.

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indexes are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund. Bonds—Bloomberg US Aggregate Bond Index; stocks—S&P 500 Index. Sources: Bloomberg, AART, August 1969 to December 2019.
The best-return days can happen at any time but often occur during a bear market or early in a bull market.

- We believe that it is impossible to predict the magnitude or timing of stock market returns, and so long-term investors may be more likely to experience better long-term returns if they maintain their exposure to stocks through bear markets.

- Bull markets are periods in which stocks rise 20% for an extended period of time; almost a quarter of the 50 best-returning days happen at the very beginning of bull markets.

- But half of the best days occurred during bear markets, which typically is a time in which investors are less confident that stocks will rise.

Top 50 days with the highest returns in the S&P 500 Index, January 1980 to December 2022

- During a Bear Market: 28%
- During the First Two Months of a Bull Market: 50%
- During the Rest of a Bull Market: 22%

Past performance is no guarantee of future results. Measures the 50 best one-day returns of the S&P 500 Index from 01/01/1980 to 12/31/2022, as of 12/31/2022. A bear market is defined as a 20% drop in the S&P 500 Index from a previous high.
Lasting economic expansions have powered investors through relatively infrequent recessions

- Swift and severe market declines and recessions are stressful, but contractions are often much shorter than expansions.
- Each of the past recessions (red areas) on the chart were challenging in the moment, but they pale in comparison with expansions (blue areas), which show significant growth during those multiyear periods.
- After every past recession, the markets and the economy eventually stabilized, and an expansion followed.

**Stocks have experienced significant gains during economic expansions**
Recessions have been moderate detractors from performance

<table>
<thead>
<tr>
<th></th>
<th>Expansion</th>
<th>Recession</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average months duration</td>
<td>62</td>
<td>11</td>
</tr>
<tr>
<td>Average annualized return</td>
<td>15%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Past performance is no guarantee of future results. This chart illustrates the cumulative percentage return of a hypothetical investment made in the S&P 500 Index during periods of economic expansion and recession. Index returns include reinvestment of capital gains and dividends, if any, but do not reflect any fees or expenses. This chart is not intended to imply any future performance of an investment product. It is not possible to invest directly in an index. All indexes are unmanaged. Please see Important Information for index definitions. Source: Bloomberg, S&P 500 Index total annual return, 01/01/50-12/31/22; recession and expansion dates defined by the National Bureau of Economic Research (NBER).
1. Stocks and bonds struggled during the quarter on investor concerns around the potential for interest rates to remain at high levels for longer than previously anticipated.

2. The U.S. economy remained in a late-cycle expansion—a phase of the business cycle that has historically led to modestly positive stock market returns but with more frequent bouts of volatility.

3. The level of risk within client accounts is below the long-term target since the late phase of economic expansions typically experiences elevated volatility and uncertainty.
For more information, please call your Fidelity associate at 800-544-3455 or visit Fidelity.com.
The Business Cycle Framework depicts the general pattern of economic cycles throughout history, though each cycle is different; specific commentary on the current stage is provided in the main body of the text. In general, the typical business cycle demonstrates the following: During the typical early-cycle phase, the economy bottoms out 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. Economically sensitive asset classes, such as stocks, tend to experience their best performance of the cycle. During the typical mid-cycle phase, the economy exits recovery and enters into expansion, characterized by broader and more self-sustaining economic momentum but a more moderate pace of growth. Inflationary pressures typically begin to rise, monetary policy becomes tighter, and the yield curve experiences some flattening. Economically sensitive asset classes tend to continue benefiting from a growing economy, but their relative advantage narrows. During the typical late-cycle phase, the economic expansion matures, inflationary pressures continue to rise, and the yield curve may eventually become flat or inverted. Eventually, the economy contracts and enters recession, with monetary policy shifting from tightening to easing. Less economically sensitive asset categories tend to hold up better, particularly right before and upon entering recession.

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

Past performance does not guarantee future results.

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Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible.

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

The Dow Jones U.S. Total Stock Market Index is an all-inclusive measure composed of all U.S. equity securities with readily available prices. This broad index is sliced according to stock-size segment, style, and sector to create distinct sub-indexes that track every major segment of the market.

The ICE BofA US High Yield Index is market capitalization–weighted and is designed to measure the performance of U.S. dollar–denominated, below-investment-grade (commonly referred to as “junk”) corporate debt publicly issued in the U.S. domestic market.

The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar–denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate pass-throughs), asset-backed securities, and collateralized mortgage-backed securities (agency and non-agency).

The Bloomberg 3–6 Month US Treasury Bill Index is a market capitalization–weighted index of investment-grade, fixed-rate public obligations of the U.S. Treasury with remaining maturities from three up to (but not including) six months, excluding zero-coupon STRIPS.

The Bloomberg Commodity Index Total Return Index measures the performance of the commodities market. It consists of exchange-traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

The MSCI All Country World Ex-USA Index (Net MA) is a market capitalization–weighted index designed to measure the investable equity market performance for global investors of large- and mid-cap stocks in developed and emerging markets, excluding the United States.

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.
Important Information

Views expressed are as of September 29, 2023, and are subject to change at any time based on market and other conditions. Data is unaudited. Information may not be representative of current or future holdings.

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