Quarterly Market Perspective

Fourth Quarter / 2018
The following pages provide greater detail into some of the themes discussed in the Quarterly Market Perspective video:

1. **MARKET SUMMARY:**
   - Global stocks declined while bonds were flat

2. **BUSINESS CYCLE:**
   - The U.S. economy is showing signs of maturity

3. **STAYING INVESTED:**
   - Market volatility is normal; over time, patience has generally been rewarded

4. **DIVERSIFICATION:**
   - A diversified portfolio can help manage risk
Despite strong corporate earnings and a growing U.S. economy that was supported by the highest level of consumer confidence in nearly 20 years, stocks posted their weakest returns since 2008.

- Growing uncertainty regarding the future pace of global growth and corporate earnings weighed on stocks globally and drove volatility higher in 2018.
- While negative for the year, U.S. stocks outpaced international stocks for the 7th time in the last 10 years. However, over the last 20 calendar years, international stocks have outperformed U.S. stocks 50% of the time.
- Despite modestly higher interest rates, bonds were flat for the year and outpaced stocks for the first time since 2011.

This chart illustrates the performance of a hypothetical $100,000 investment made in the indexes noted. 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 6/30/2018. Domestic Stocks—Dow Jones U.S. Total Stock Market Index; Foreign Stocks—Morgan Stanley Capital International (MSCI) All-Country World Index ex USA (Net MA); Bonds—Bloomberg Barclays US Aggregate Bond Index.
Over the last year U.S. corporate earnings growth was strong, helped by tax cuts. Going forward, the outlook for 2019 looks positive. However, markets are struggling to digest how certain concerns may impact the level of future earnings, such as:

- the pace of future interest rate hikes, which can hamper borrowing and lending;
- a slowing Chinese economy, which has broad effects for global economic growth; and;
- ongoing trade negotiations, which pose greater uncertainty for businesses as well as the potential for higher costs for consumer goods.

Source: FactSet as of 12/21/18. Data reflects annual growth rate of earnings per share. Data for 2016 and 2017 are actual. The figures for 2018 and 2019 are FactSet estimates.
The U.S. economy is showing signs of maturity

The onset of late-cycle expansion is consistent with continued growth, but at a slower pace.

- Typically during this phase, strong employment leads to higher wages, which is good for consumers, but a cost for businesses.
- It is also normal to see the Federal Reserve raise interest rates to dampen rising inflation or overheated growth, which can slow borrowing and lending.
- Importantly, late-cycle expansion is not a recession, when the economy actually shrinks. It is a period of moderating growth.

While still in expansion, it is normal for U.S. growth to moderate.

Four phases of an economy’s business cycle

<table>
<thead>
<tr>
<th>Phase</th>
<th>Signs of Each Cycle Phase</th>
<th>Early</th>
<th>Mid</th>
<th>Late</th>
<th>Recession</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>• Activity rebounds (GDP, IP, employment, incomes)</td>
<td>• Growth peaking</td>
<td>• Growth moderating</td>
<td>• Failing activity</td>
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<td></td>
<td></td>
<td>• Credit begins to grow</td>
<td>• Credit growth strong</td>
<td>• Credit tightens</td>
<td>• Credit dries up</td>
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<tr>
<td></td>
<td></td>
<td>• Profits grow rapidly</td>
<td>• Profit growth peaks</td>
<td>• Earnings under pressure</td>
<td>• Profits decline</td>
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<tr>
<td></td>
<td></td>
<td>• Policy still stimulative</td>
<td>• Policy neutral</td>
<td>• Policy contractionary</td>
<td>• Policy eases</td>
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<tr>
<td></td>
<td></td>
<td>• Inventories low, sales improve</td>
<td>• Inventories, sales grow, equilibrium reached</td>
<td>• Inventories grow, sales growth falls</td>
<td>• Inventories, sales fall</td>
</tr>
</tbody>
</table>

Economic Growth

RECOVERY EXPANSION CONTRACTION

Views supported by:

- Positive corporate earnings
- Healthy employment and rising wages
- Higher interest rates

Please see Important Information for more information about the Business Cycle Framework methodology.

Note: This is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one.

Source: Fidelity Investments (AART) as of December 2018.
Historically, stocks and bonds have provided positive returns in the late phase of the business cycle. Typically, returns in late cycle have been more modest compared to mid cycle, and more volatile.

- Stock markets may experience more volatility during late cycle due to more uncertainty regarding the level of corporate earnings and economic growth, but, historically, returns have been positive.
- Stocks have usually performed better than bonds, but less consistently so.
- Meanwhile, other types of investments, like commodities and Treasury inflation-protected securities (TIPS), tend to provide value as inflationary pressures rise.

Select asset class performance in mid- and late-cycle phases (1950–2010)
The economy still grows in late cycle, but rising wage costs and inflationary pressures change the return profile of certain asset classes.

**Mid-Cycle: Strong Asset Class Performance**
- Economically sensitive investments lead
- Broad-based gains

**Late-Cycle: Mixed Asset Class Performance**
- Inflation-resistant investments provide value
- Gains more muted

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Asset class total returns are represented by indexes 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.
Stock volatility is a common characteristic during all phases (early, mid, late, and contraction) of the business cycle.

- In fact, since 1980, the S&P 500 has declined on average 13% during any calendar year.
- Despite these short-term declines, U.S. stocks have generated positive calendar year returns more than 80% of the time, with an average annual return of roughly 13%.*
- While market volatility can be unsettling, straying from a financial plan can lead to missing out on future long-term financial gains.

*S&P 500 Index average annual returns 1980–2018, including dividends.

Past performance is no guarantee of future results. It is not possible to invest directly in an index. Returns are based on index price appreciation and dividends. Max Intrayear Decline drops refer to the largest index drop from a peak to a trough during the year. For illustrative purposes only. See Important Information for index definitions. Data as of 12/31/18. Source: Standard & Poor’s, Bloomberg Finance L.P.
Over time, patience has generally been rewarded

Stocks don’t always go up, but the trend over time is quite positive. Patience has generally been rewarded.

- For example, since 1928, on a daily basis, stocks had positive returns about 50% of the time.
- Stretching out the holding period to five, ten, or twenty years led to significant increases in the success rate, with the chance of positive returns rising to 100% over 20-year increments.
- Patient, long-term-oriented investors can benefit greatly from the growth that stocks can provide in helping achieve their financial goals.

Past performance is no guarantee of future results.
Diversification can help temper short-term market fluctuations

We expect various investment types to perform differently from one year to the next.

• We own different types of investments because one may go up as another may go down.
• We carefully consider the risk and reward of each asset class and also how they may behave relative to one another over time.
• We believe well-diversified investing can help provide smoother returns and a more balanced level of risk.

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 indexes are unmanaged. Please see Important Information for index definitions.

Diversified Portfolio — 42% Dow Jones U.S. Total Stock Market Index, 18% MSCI EAFE Index, 35% Bloomberg Barclays US Aggregate Bond Index, 5% Bloomberg Barclays 3-Month Treasury Bill Index and is rebalanced monthly; Domestic Large Cap Stocks — S&P 500® Index; Domestic Small Cap Stocks — Russell 2000 Index; Domestic Growth Stocks — Russell 3000 Growth Index; Domestic Value Stocks — Russell 3000 Value Index; International Developed Stocks — MSCI EAFE Index Net MA; Emerging Market Stocks — MSCI Emerging Markets Index (G); High Yield Bonds — BofA Merrill Lynch US High Yield Constrained Index; Investment Grade Bonds — Bloomberg Barclays US Aggregate Bond Index; Real Estate Income Stocks — FTSE Nareit Equity-Only Index; Commodities — Bloomberg Commodity Index (Price Return). Diversified Portfolio Benchmark — PAS Growth with Income Composite comprised of allocations to Dow Jones U.S. Total Stock Market Index (Domestic Stocks), MSCI ACWI (All Country World Index) ex USA Index Net MA (International Stocks), Bloomberg Barclays US Aggregate Bond Index (Bonds), Bloomberg Barclays US 3 Month Treasury Bellwether Index (Short-Term). Note that prior to August 2009 the composite benchmark included the Bank of America High Yield Master Constrained Index. Source: Fidelity Investments as of 12/31/18.

4. DIVERSIFICATION

<table>
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<th>Periodic Table of Returns</th>
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<td>Investment Grade Bonds</td>
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<td>Domestic Growth Stocks</td>
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<td>High Yield Bonds</td>
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<td>Diversified Portfolio</td>
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<td>Real Estate Income Stocks</td>
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<td>Domestic Value Stocks</td>
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<td>International Developed Stocks</td>
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<tr>
<td>Domestic Small Cap Stocks</td>
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<tr>
<td>Commodities</td>
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<td>Emerging Market Stocks</td>
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Legend
- Investment Grade Bonds
- Domestic Growth Stocks
- High Yield Bonds
- Diversified Portfolio
- Real Estate Income Stocks
- Domestic Large Cap Stocks
- Domestic Value Stocks
- International Developed Stocks
- Domestic Small Cap Stocks
- Commodities
- Emerging Market Stocks
KEY TAKEAWAYS

1. Despite a growing economy and higher corporate earnings, stocks declined while bonds were flat in 2018.

2. Late-cycle expansion is not a recession—when the economy actually shrinks. It is a period of moderating growth that, historically, has seen positive returns for stocks and bonds.

3. Market volatility is a normal part of the full business cycle. A disciplined and patient investment approach can help investors achieve their future financial goals.
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.

Views expressed are as of December 31, 2018, 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.

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

Past performance does not guarantee future results.

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

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.
Important Information

Bloomberg Barclays US Aggregate Bond Index is a broad-based, market value–weighted benchmark that measures the performance of the investment grade, U.S. dollar–denominated, fixed-rate taxable bond market. Sectors in the index include Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS, and CMBS.

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.

MSCI ACWI (All Country World Index) ex USA Index (net MA tax) 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.

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.

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 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 broad 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.

MSCI EAFE Index 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. & Canada.

MSCI Emerging Markets Index is a market capitalization–weighted index that is designed to measure the investable equity market performance for global investors in emerging markets.

The BofA Merrill Lynch US High Yield Constrained Index is a modified market capitalization–weighted index of U.S. dollar–denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody’s, S&P, and Fitch). The country of risk of qualifying issuers must be an FX-G10 member, a Western European nation, or a territory of the U.S. or a Western European nation. The FX-G10 includes all Euro members, the U.S., Japan, the U.K., Canada, Australia, New Zealand, Switzerland, Norway, and Sweden. In addition, qualifying securities must have at least one year remaining to final maturity, a fixed coupon schedule, and at least $100 million in outstanding face value. Defaulted securities are excluded. The index contains all securities of The BofA Merrill Lynch US High Yield Index but caps issuer exposure at 2%.

The FTSE Nareit All Equity REITs Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

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.
Important Information

Bloomberg Barclays US 3 Month Treasury Bellwether Index is a market value–weighted index of investment-grade fixed-rate public obligations of the U.S. Treasury with maturities of three months, excluding zero coupon strips.

Consumer Price Index (CPI) is a widely recognized measure of inflation calculated by the U.S. Government. Shelter CPI represents the buying habits of U.S. residents specific to shelter. Wireless CPI measures the buying habits of U.S. residents specific to wireless phone services.

All indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, unless otherwise noted. Indexes are not illustrative of any particular investment and it is not possible to invest directly in an index.

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