LEADERSHIP SERIES THIRD QUARTER 2018

Quarterly Sector Update

PRIMARY CONTRIBUTORS

Fidelity Management & Research Company, Equity Division

Fidelity INVESTMENTS

Scorecard: Technology and Discretionary Remain on Top

The S&P 500 has traded in a fairly narrow range through the first half of 2018, gaining 2.6%. Technology, consumer discretionary, and energy top the scorecard, and cyclicals are likely to remain in favor as the corporate profit recovery remains intact. Consumer discretionary had the strongest YTD returns and energy was Q2's top performer, driven by a sharp rise in oil prices. Conversely, real estate and utilities continue to face headwinds.

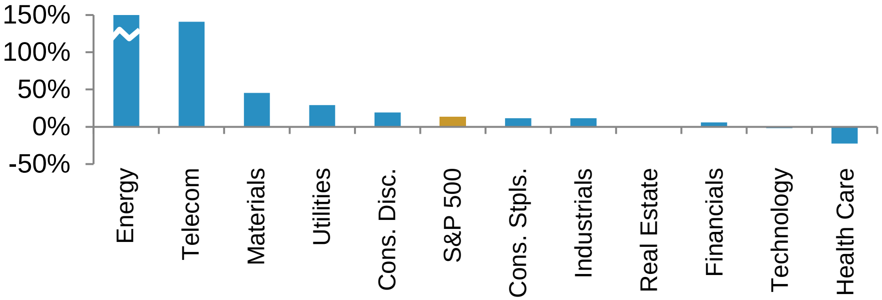
Sector	Time Horizon View (Longer → Shorter)				Weight in S&P 500® Index	Performance as of 6/30/18		
	Business Cycle	Fundamentals	Relative Valuations	Relative Strength		Latest Quarter	Year to Date	Dividend Yield
Consumer Discretionary		+	–	+	12.9%	8.2%	11.5%	1.2%
Consumer Staples				–	6.7%	-1.5%	-8.5%	3.1%
Energy			+	+	6.3%	13.5%	6.8%	2.6%
Financials		–	+		14.2%	-3.2%	-4.1%	1.7%
Health Care					13.9%	3.1%	1.8%	1.6%
Industrials	+		–	–	9.9%	-3.2%	-4.7%	2.0%
Information Technology	+	+	–	+	26.0%	7.1%	10.9%	1.1%
Materials	–	+			2.8%	2.6%	-3.1%	2.0%
Real Estate		–			2.7%	6.1%	0.8%	3.3%
Telecom			+	–	1.8%	-0.9%	-8.4%	5.2%
Utilities	–	–			2.8%	3.7%	0.3%	3.4%
					S&P 500® Returns	3.4%	2.6%	1.8%

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 indexes. It is not possible to invest directly in an index. All indexes are unmanaged. Percentages may not total 100% due to rounding.
Source: FactSet, Fidelity Investments, as of June 30, 2018.

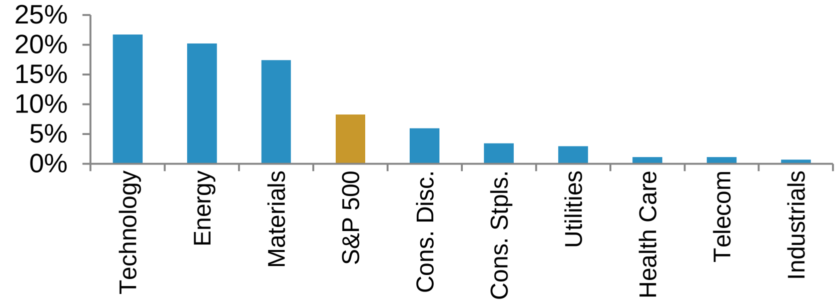
Fundamentals: Tech, Materials, and Discretionary Still Strong

Cyclical sectors, led by technology, materials, and consumer discretionary continued to show fundamental strength through Q2. Technology boasted the highest EBITDA growth and FCF margin; materials had impressive EPS and EBITDA growth; and consumer discretionary's ROE has been strong. On the other hand, the fundamentals of financials and some defensive sectors, including real estate and utilities, were weaker relative to the broad market.

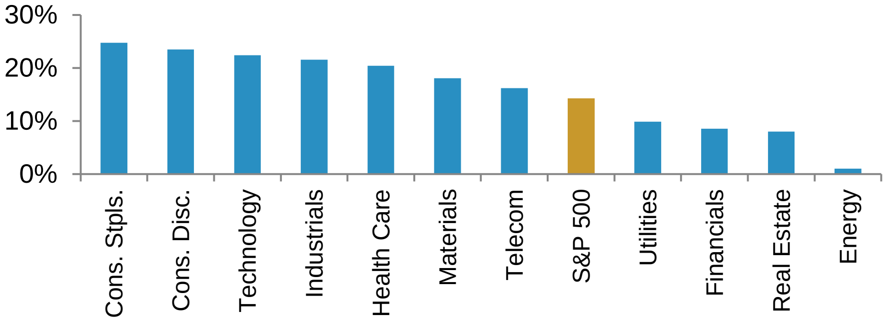
EPS Growth (Last 12 Months)



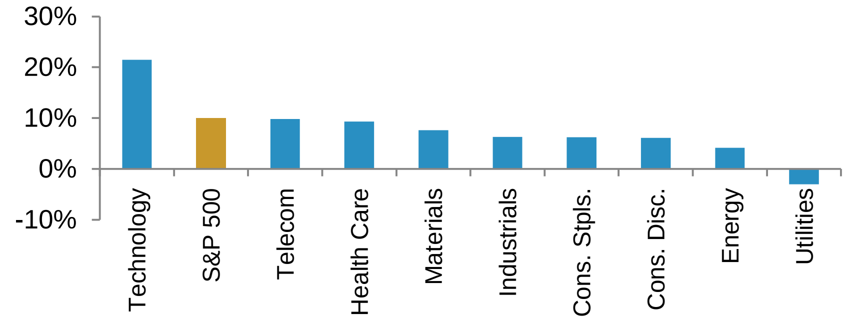
EBITDA Growth (Last 12 Months)



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 of how each sector is doing in terms of growth and profitability.

Past performance is no guarantee of future results. EPS = earnings per share. EBITDA = earnings before interest, taxes, depreciation, and amortization. The financials and real estate sectors are not represented in the EBITDA Growth or Free-Cash-Flow Margin charts. Note that the energy sector's EPS growth (last 12 months) was 661.6%. See the Glossary and Methodology slide for further explanation. Source: FactSet, Fidelity Investments, as of June 30, 2018.

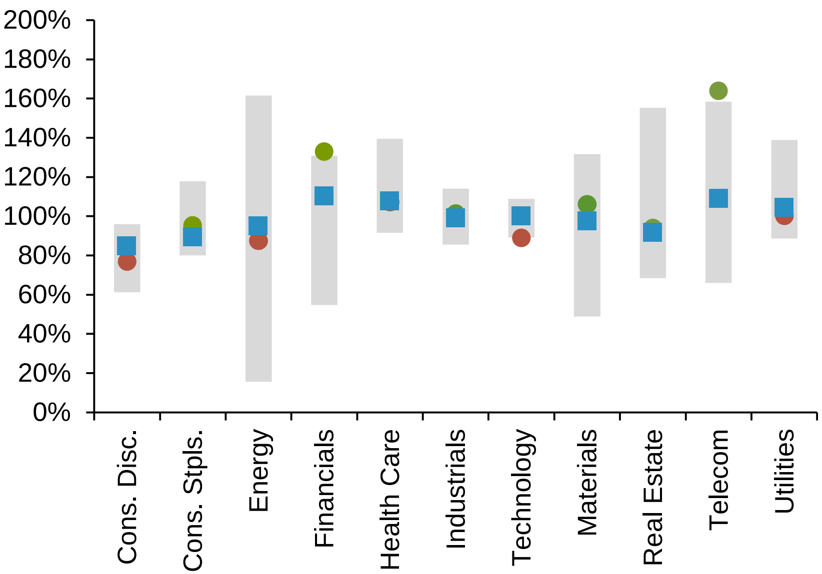
Relative Valuations: Telecom and Energy Look Cheap

Based on our framework, telecom and energy appear inexpensive relative to their historical averages and to other sectors, as both sectors have trailed the broader market over the past few years, despite energy's more recent rally. Financials also looks attractive from a valuation perspective. Conversely, the valuations of technology, consumer discretionary, and industrials appear somewhat elevated.

Earnings Yield

10-Year Range (excl. top & bottom 5%) Current Historical Average

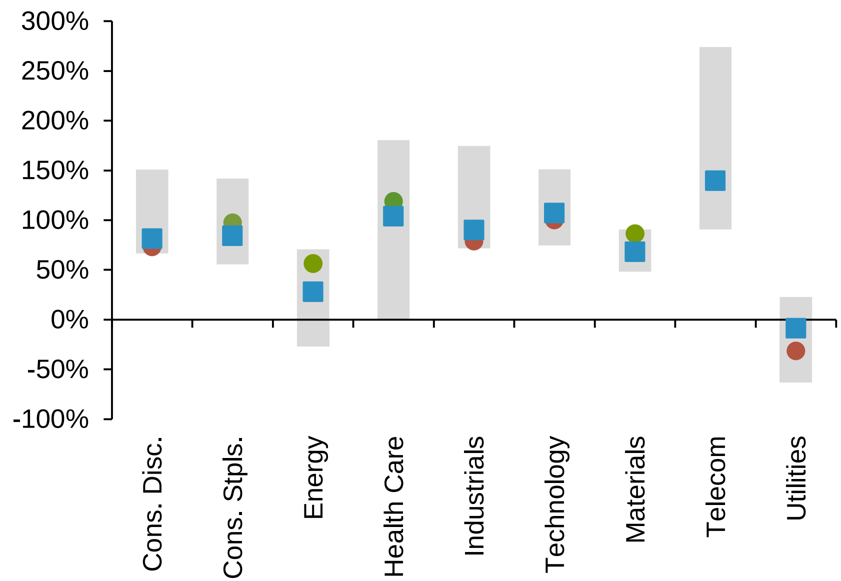
Relative Forward Earnings Yield to S&P 500 Index



Free-Cash-Flow Yield

10-Year Range (excl. top & bottom 5%) Current Historical Average

Relative Free-Cash-Flow Yield to S&P 500 Index



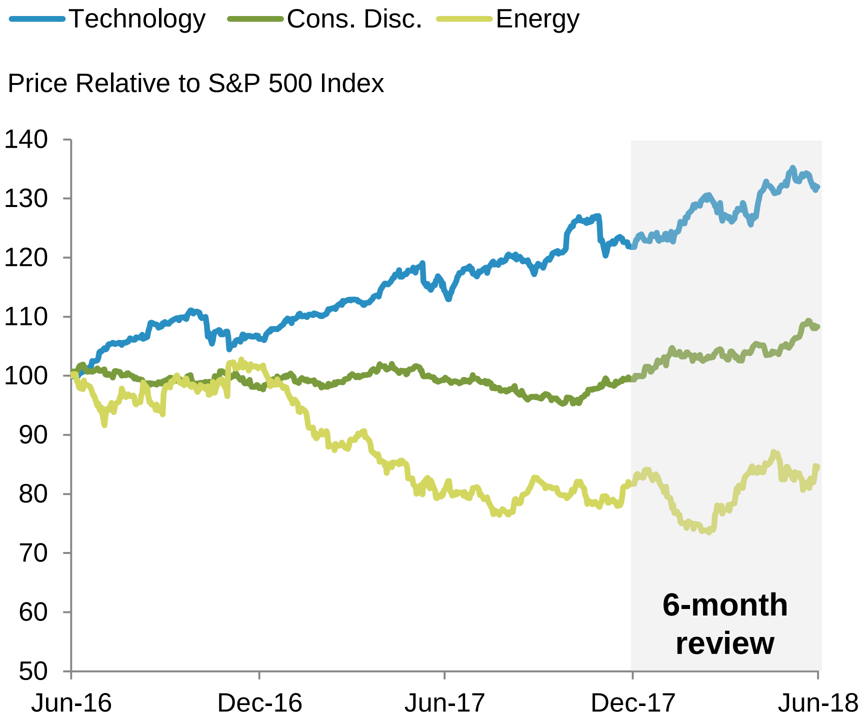
Relative Valuations: On their own, valuations are not necessarily the best indicator of sector performance, but when combined with other factors, valuations can be a useful tool in determining the risk-and-reward profile.

Past performance is no guarantee of future results. 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 and real estate sectors are 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 June 30, 2018.

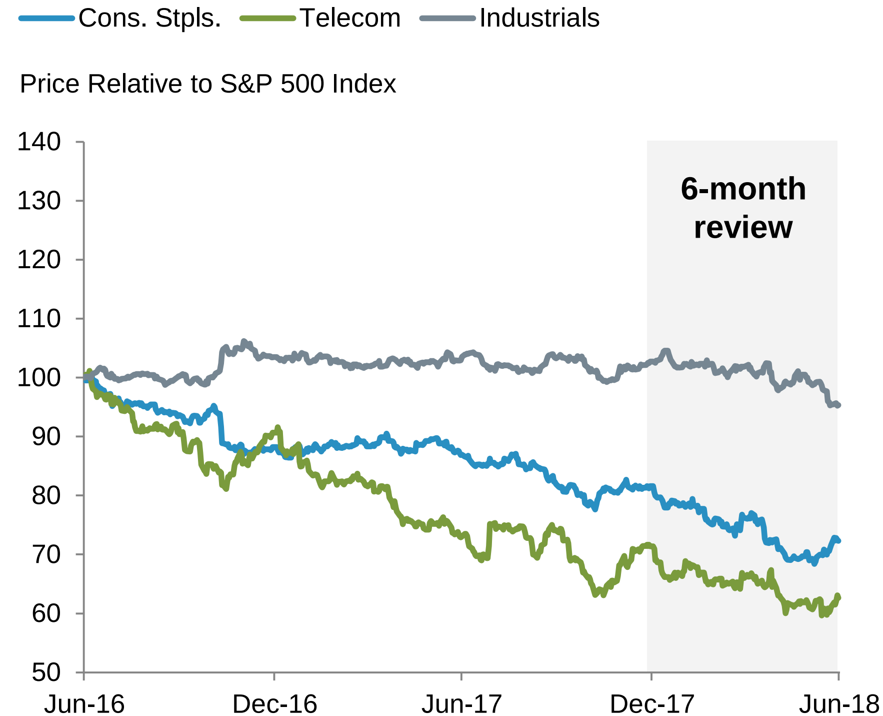
Relative Strength: Tech and Discretionary Continued to Lead

Technology and consumer discretionary continued their steady leadership through the first half of 2018, while energy also outperformed. Defensive sectors such as consumer staples and telecom continued to trail the broader market, with no clear sign of an impending change in trend. Industrials also lagged over the past six months, but leading indicators suggest a constructive outlook for the sector moving forward.

Sectors Exhibiting Relative Strength



Sectors Exhibiting Relative Weakness



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.

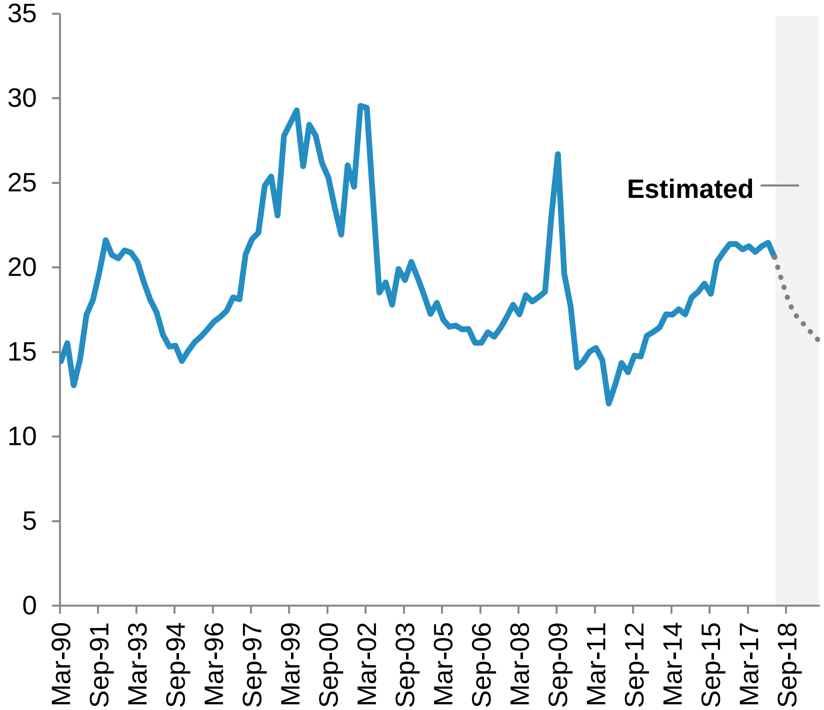
Past performance is no guarantee of future results. Charts represent performance of specified S&P 500 Sector Indexes relative to the broader S&P 500 Index. It is not possible to invest directly in an index. All indexes are unmanaged. Source: FactSet, Fidelity Investments, as of June 30, 2018.

If Earnings Come Through as Expected, Stocks Appear Cheap

The conventional wisdom seems to be that valuations are still elevated. But improving earnings estimates have brought the market's forward P/E ratio below 16, based on earnings projections for 2019. A P/E of 16 on forward 18-month earnings is near the average of the last 80 years and in the cheapest quartile of periods since 1990. This may be bullish for stocks, and for cyclicals in particular, especially if we are in the early stages of profit recovery.

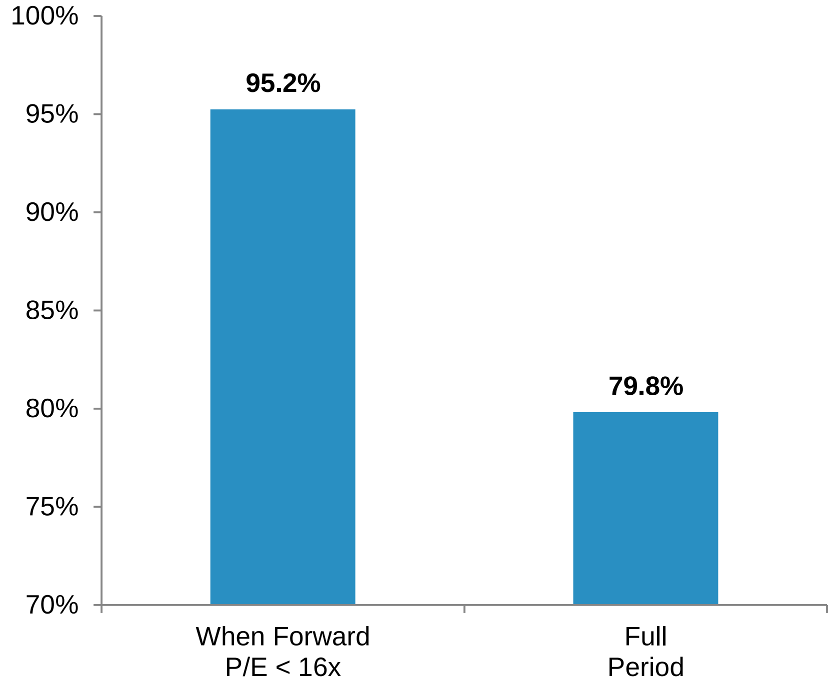
Stock Market Valuations Appear Inexpensive Based on 2019 Earnings Estimates

S&P 500 Price/Operating Earnings With Estimates (Ratio)



At These Valuations Historically, Stocks Have Had a High Probability of Advancing

Odds of Stock Market Advance (Next 18 Months, Rolling), Since 1990



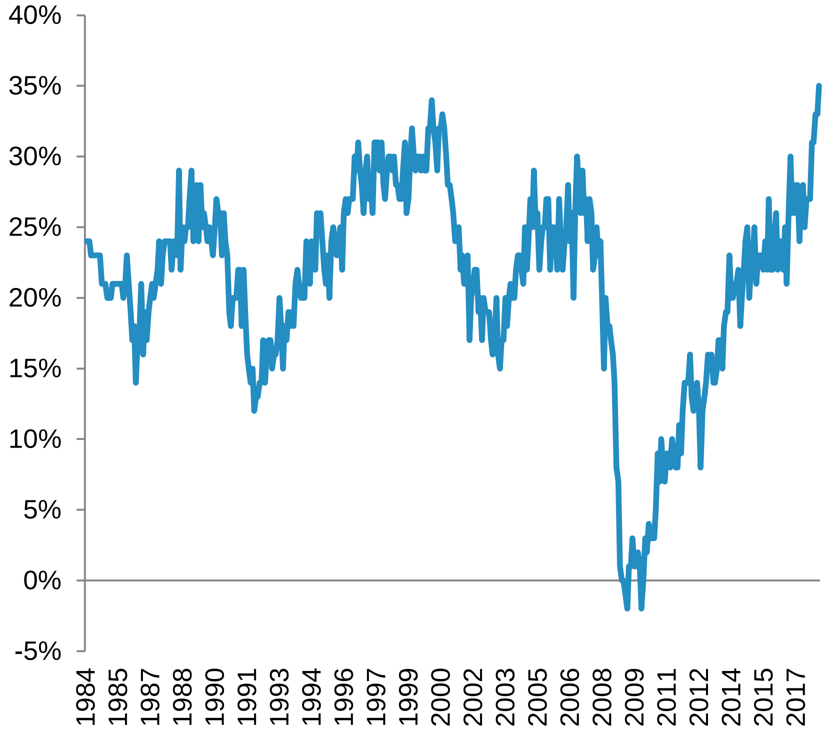
Past performance is no guarantee of future results. YTD: year to date. **Left chart:** Forward price-to-earnings (P/E) ratio: The ratio of a company's current share price to its operating earnings with estimates (a measure of valuation). **Right chart:** Full period: average of all rolling 12-month periods since 1990. Note that since 1990, there have been 21 instances when the S&P 500's forward P/E ratio was below 16%, representing about 20% of the periods over that time frame. Source: Haver Analytics, Standard and Poor's, Fidelity Investments, as of June 30, 2018.

Consumer Discretionary Appears Well Positioned for Gains

As a cyclical sector, consumer discretionary has historically benefited from profit recoveries. Another positive signal for consumer discretionary can be found in improving wage growth trends, which tend to boost consumer spending power. This constructive consumer backdrop has helped lift the sector's performance, bringing it into the top spot on a YTD return basis. Two key indicators suggest wages will continue to accelerate into 2019.

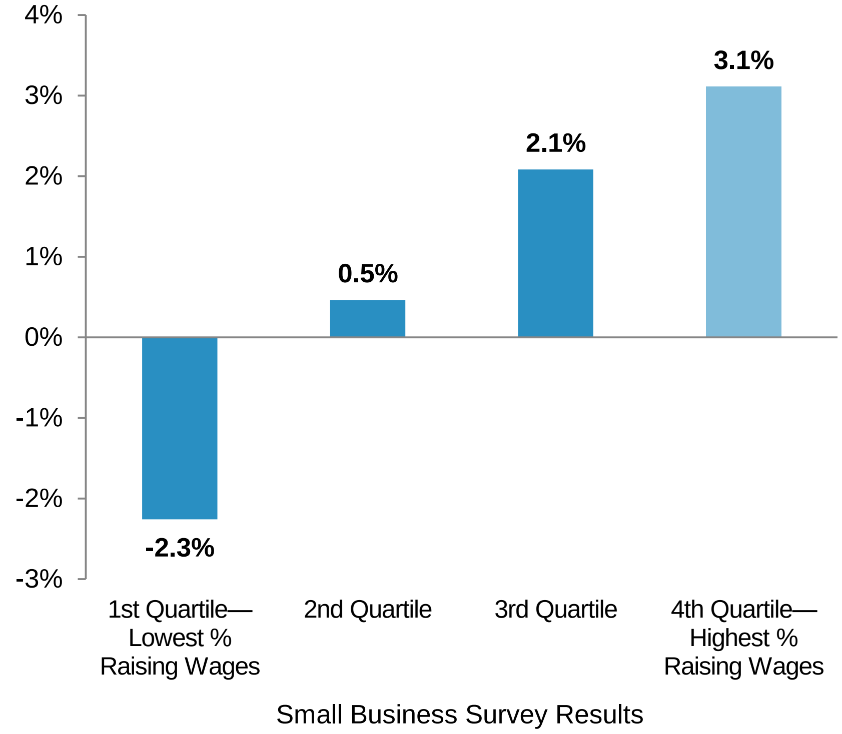
A Growing Percentage of Small Business Owners Say They Have Been Raising Wages

Small Business Owners Raising Worker Compensation (Past 3 Mos.)



Hourly Earnings Have Often Accelerated When More Small Businesses Were Raising Wages

Acceleration in Avg. Hourly Earnings (NTM, By Survey Result Quartiles)



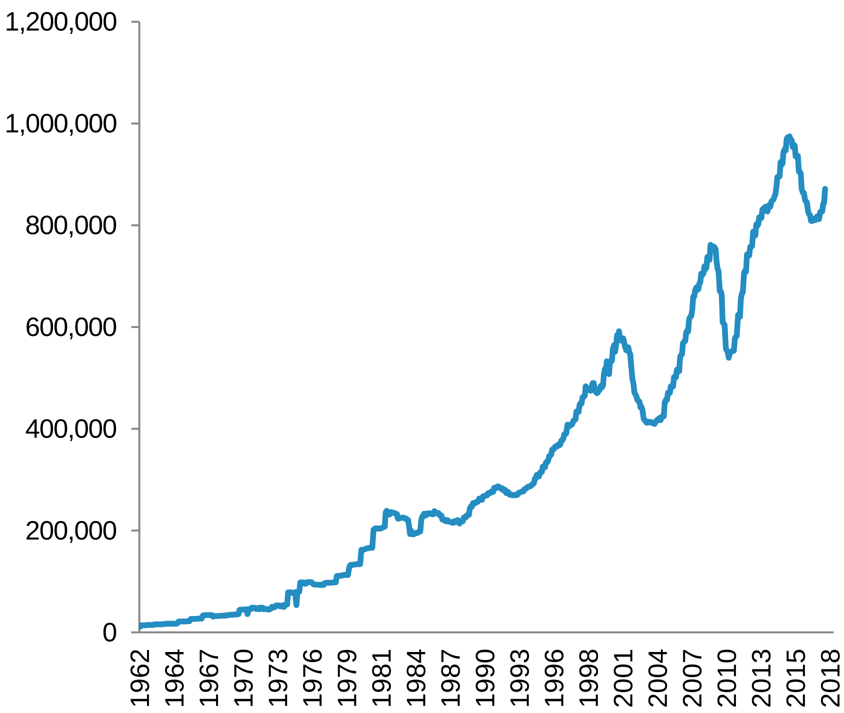
YTD: year to date**. Left chart:** National Federation of Independent Business (NFIB) survey of small business owners shows the net percentage of respondents who say that they have raised worker compensation over the past 3 months. Source: Haver Analytics, NFIB, Fidelity Investments, as of June 30, 2018. **Right chart:** Acceleration in average hourly earnings based on NFIB survey results by quartile. Period measured: 1984 to present. Source: Haver Analytics, NFIB, Bureau of Labor Statistics, Fidelity Investments, as of June 30, 2018.

Two Key Indicators Signal Further Recovery in Corporate Profits

Two important indicators of profit growth have recently turned positive: capital spending (capex) and business lending. When combined, they have significantly increased the odds of sustained corporate profit growth. Industrials has particularly benefited from prior capex recoveries. Capex has strengthened recently due in part to acceleration in commercial and industrial lending, supported by healthy bank balance sheets and low default rates.

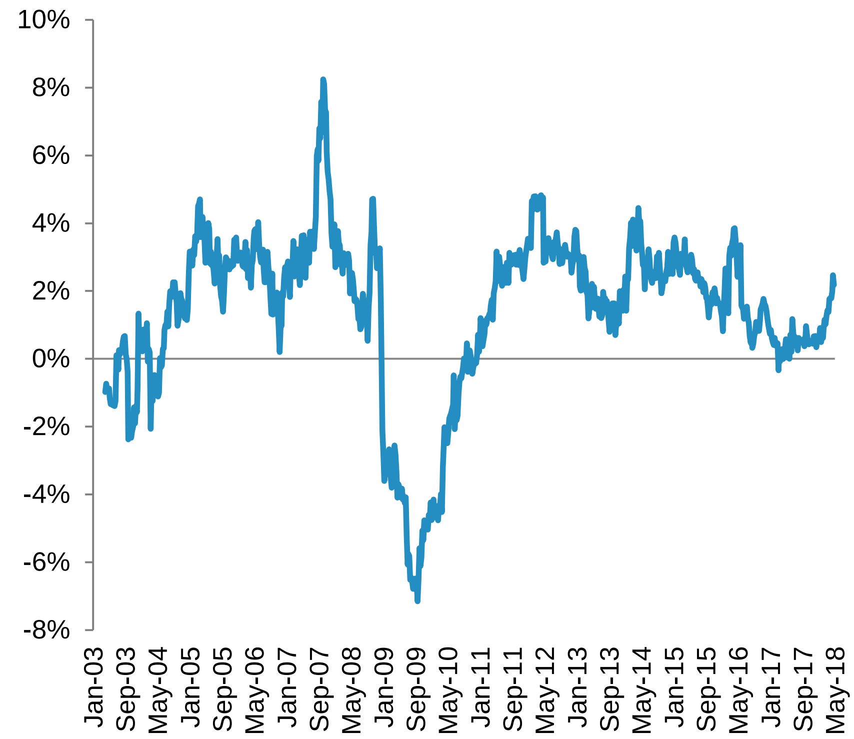
Capital Spending Growth Has Turned Positive, and Suggests the Profit Recovery Will Continue

Capital Spending of the Top 3,000 Stocks by Market Capitalization (Mil. $)



Commercial and Industrial Lending has Recently Recovered, Likely Driving Stronger Capex

Commercial and Industrial Loan Growth (13-Week Change)



Source: Haver Analytics, Federal Reserve, Fidelity Investments, as of June 30, 2018.

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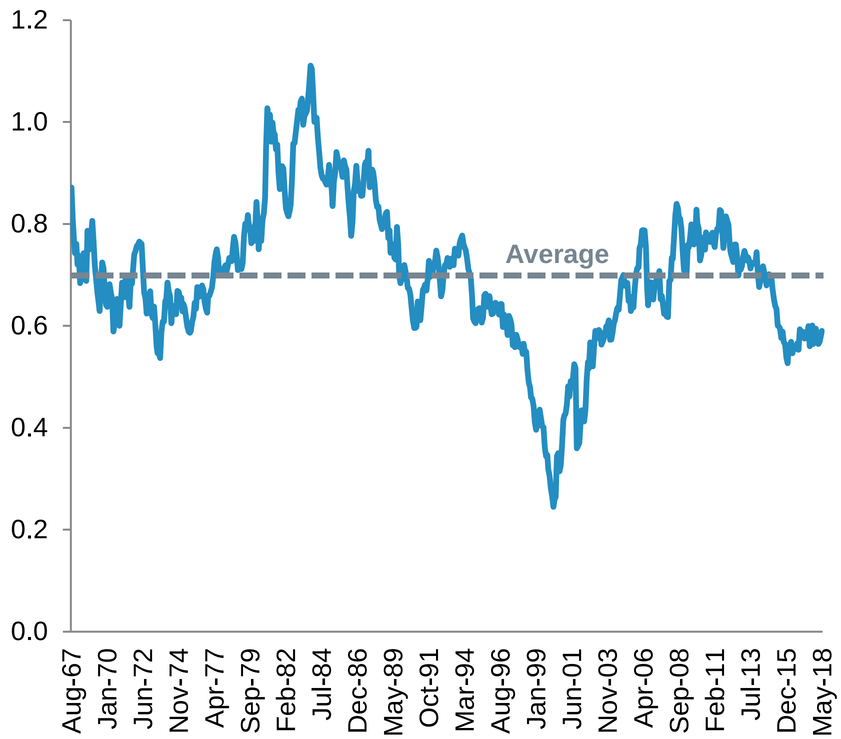
Capex Growth, Valuations Positive for Transportation Stocks

Within industrials, the transportation industry group has historically been a major beneficiary of the nascent stages of prior capex recoveries. In addition, transportation stocks are currently trading at low valuations relative to their own history and their profit margins have been in a persistent uptrend—all constructive signals for the industry group moving forward.

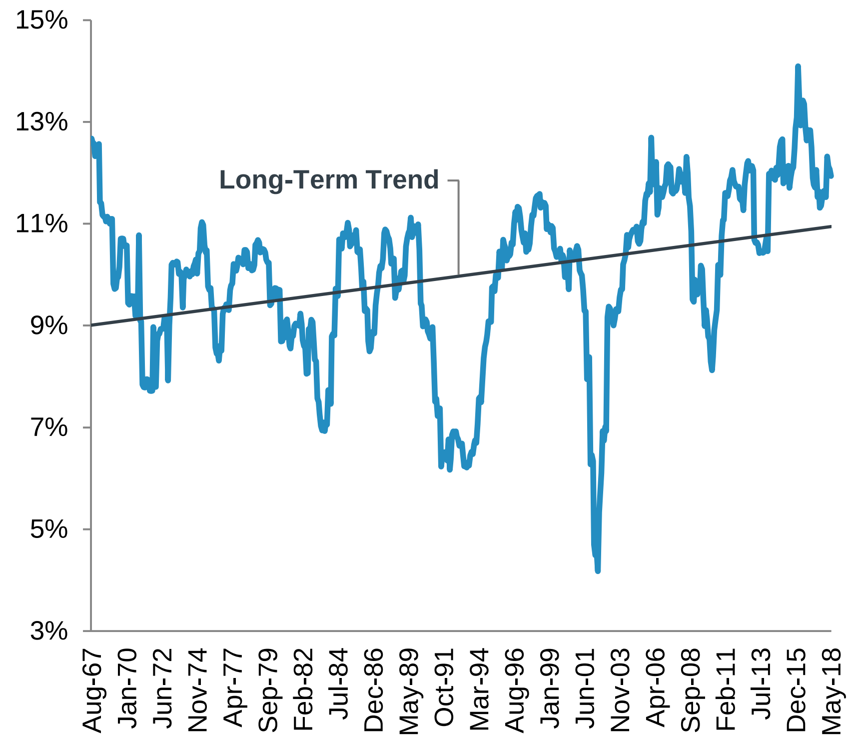
Transportation Stocks Appear Cheap Relative to Their Historical Valuations

Transportation Industry Group Relative Price-to-Sales Ratio



Expanding Profit Margins Also Suggest a Positive Outlook for the Industry Group

Transportation Industry Group EBIT Margin



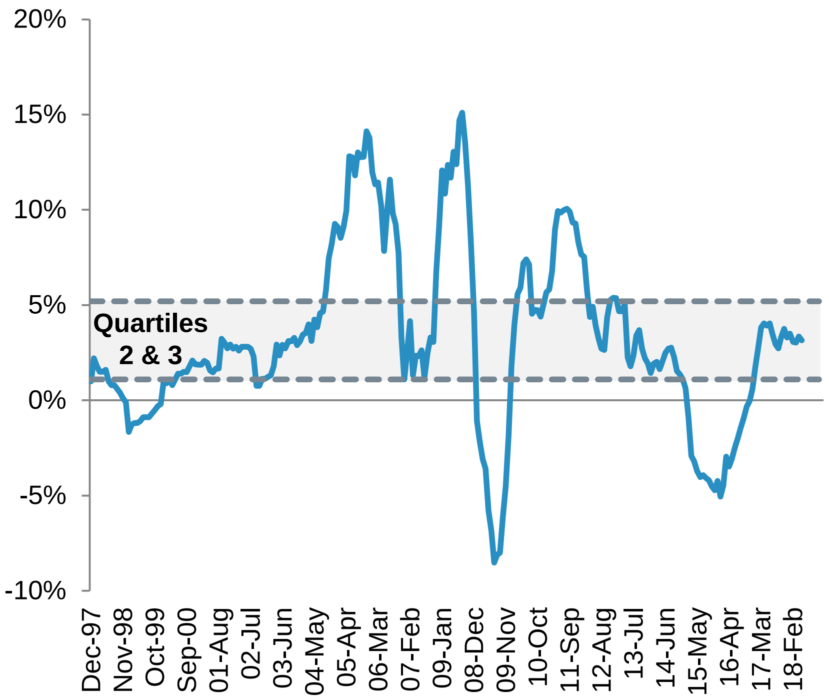
Left chart: Relative price-to-sales ratio: the ratio of a company's current share price to reported sales relative to historical levels (a measure of valuation).
Right chart: EBIT: earnings before interest and taxes. Source: Haver Analytics, Fidelity Investments, as of Jun 30, 2018.

Pricing Power Could Lift Returns of Railroad Stocks

As global profits have recovered since 2017, railroad stocks (within the transportation industry group) have gained significant pricing power—a key driver of the industry's performance relative to the broader market. When the industry's prices have risen at this rate in the past (near the middle of the historical range), railroad stocks have had a high probability of outperforming, outpacing the market the majority of the time.

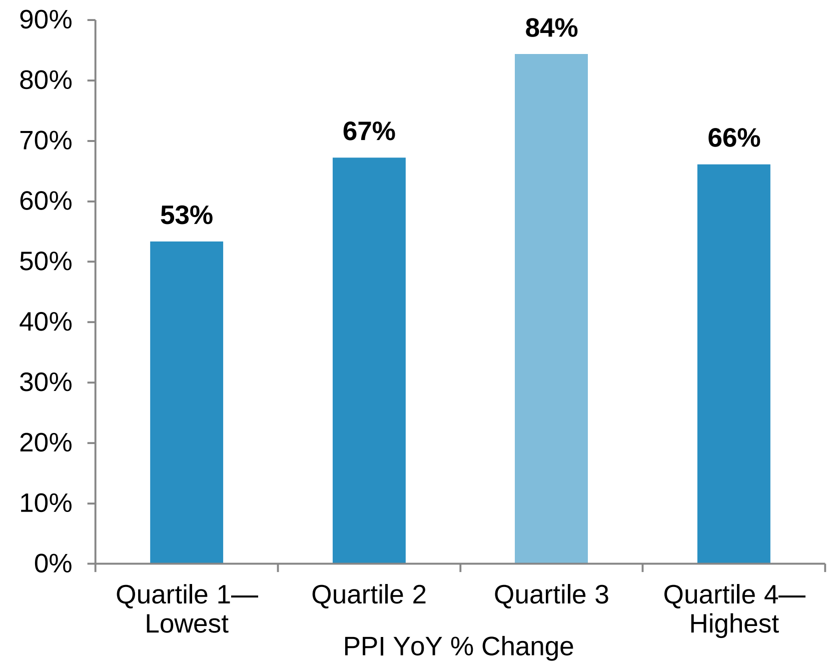
Railroad Stocks Have Been Able to Gain Pricing Power in Recent Years

Producer Price Index for Line-Haul Railroads (PPI, Year-over-Year Change)



Amid Strong Pricing Power, Railroad Stocks Have Historically Outperformed

Odds of Rail Stocks Outperforming the Market By PPI Quartile (NTM)



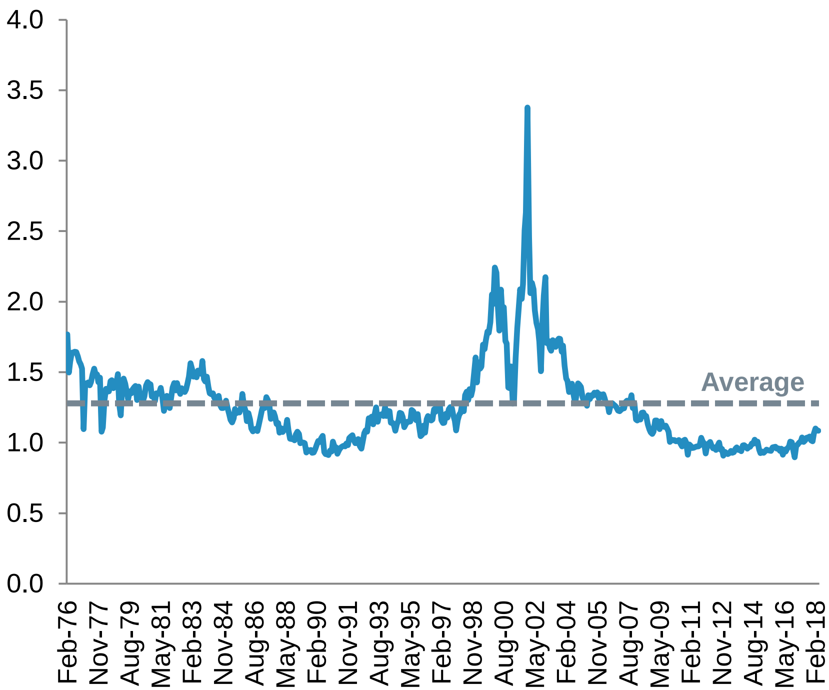
Past performance is no guarantee of future results. Left chart: Producer price index (a weighted index of prices at the wholesale, or producer, level by industry) for line-haul railroads, not seasonally adjusted. Dotted lines indicate the middle two quartiles of the historical PPI year-over-year percentage change, representing somewhat of a "sweet spot" for the industry's pricing power. Source: Haver Analytics, Bureau of Labor Statistics, Fidelity Investments, as of June 30, 2018. **Right chart:** Period measured: 1962 to present. Performance relative to the top 3,000 stocks by market capitalization. Source: Haver Analytics, Fidelity Investments, as of June 30, 2018.

Can Technology Stocks Continue Their Run?

Despite concerns about whether technology stocks can continue to outperform, a number of constructive signals bode well for the sector. For example, the sector's current forward P/E ratio is relatively low compared to history and its profit margins have surpassed prior peaks, suggesting a strong backdrop for the sector moving forward.

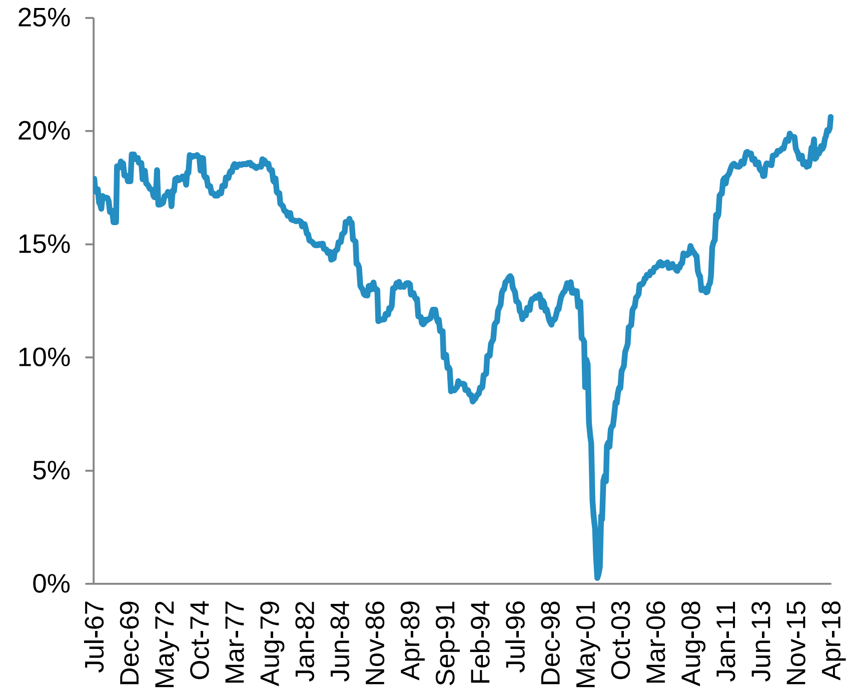
Technology Valuations Appear Inexpensive Relative to the Sector's History

Technology Relative Forward P/E Ratio



And Its Profit Margins Have Surpassed Prior Peaks—A Positive Signal for the Sector

Technology EBIT Margin



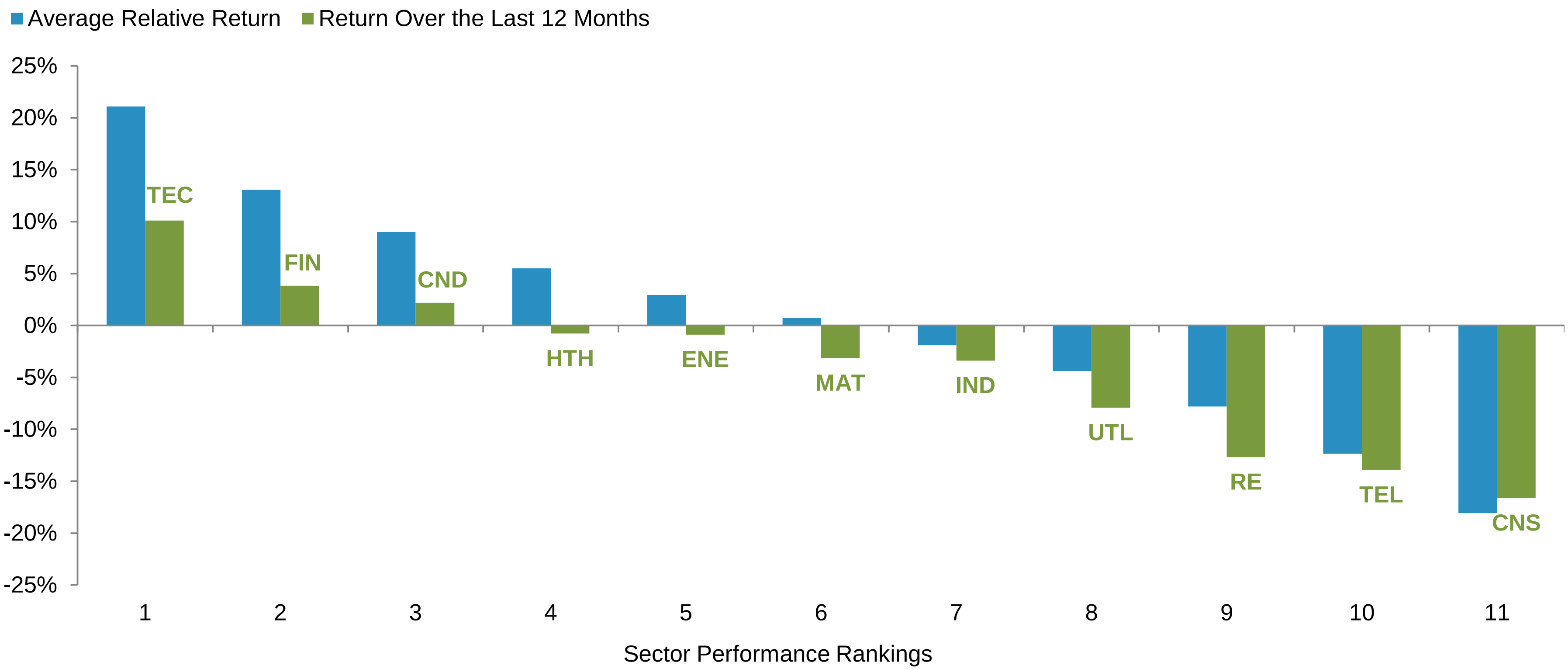
Left chart: Forward P/E ratio relative to the sector's history. **Right chart:** EBIT: earnings before interest and taxes. Source: Haver Analytics, Fidelity Investments, as of June 30, 2018.

Tech Leadership Not Outsized Compared to Prior Top Sectors

Although technology has led the market for some time, its excess returns over the last 12 months were significantly lower than the average annual outperformance of market-leading sectors dating back to 1962. In fact, the average top-performing sector outpaced the broader market by approximately 20% in a given year, twice the magnitude of technology's 10% lead over the broader market during the past 12 months.

Technology's Outperformance Over the Last 12 Months Has Been About Half That of the Average Top-Performing Sectors Since 1962

Sector Relative Returns (Avg. 1-Year Historical Returns by Sector Ranking vs. Sector Returns and Rankings over the Last 12 Months)



Past performance is no guarantee of future results. Blue bars represent historical average annual returns relative to the top 3,000 stocks by market capitalization by sector performance ranking, since 1962. Green bars show the performance over the last 12 months of each of the 11 sectors, and their current performance rankings. Source: Haver Analytics, Fidelity Investments, as of June 30, 2018.

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 months.

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 and real estate sectors only on earnings growth and ROE because of differences in their business model and accounting standards.

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. 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%; and dividend yield: 5%. However, the financials and real estate sectors are weighted as follows: P/E: 59%; P/B: 33%; and dividend yield: 8%.

Primary Contributors

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.

Appendix

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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 indexes 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: The 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: 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.

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 1 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 Indexes: The 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.

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 50 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 MSCI World ex. U.S. Index is a market capitalization-weighted index designed to measure the investable equity market performance for global investors of large cap stocks in developed markets, excluding the United States.

Appendix

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 indexes together comprises 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.

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, and insurance and investments. **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. **Materials**: companies that are engaged in a wide range of commodity-related manufacturing. **Real Estate:** companies in two main industry groups—real estate investment trusts (REITs), and real estate management and development companies. **Technology:** companies in technology software and services and technology hardware and equipment. **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.

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