Plenty of Monetary Stimulus!
Geopolitical Events
Trade Uncertainty
What to Do?

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What’s Weird? (Or Worse?)

Ya Think?

• 100-Year Austrian Bonds Yield 1% (Somebody Even Bought Argentine Century Bonds)
• Chinese Home Prices at 30x Median Income
• Beyond Meat Rose 800% After Its IPO
• “President Xi, who I like very much, said he wants to make a deal.” (Trump)
• Commodity Prices at Multi-Decade Lows
  • Natural Gas: $2.50/mcf
  • Coffee: $1/lb
• Hong Kong Economy/Tourism Collapsing
• $15 Trillion of Negative-Yielding Sovereign Debt
How Do You Compare Investment Opportunities Around the World?

Stock Markets

- Rising Corporate Earnings
- Benign Inflation/Interest Rates and Ample Liquidity
- Reasonable Valuations
U.S. Stock Markets

- Rising Corporate Earnings
- Benign Inflation/Interest Rates and Ample Liquidity
- Reasonable Valuations
Rising Corporate Earnings

**Tailwinds**
- Tax Reform/Fiscal Stimulus
- World Monetary Policies
- Mortgage Rates/Housing/Lumber
- High Savings Rate/Net Worth
- Steady Petroleum Prices
- Deregulation
- Moderate China Stimulus

**Headwinds**
- Trade Wars/Sanctions/China/Europe
- Profit Margins High
- Brexit
- Japan Exports/VAT
- Political Move to the Left?
- Record Debt
- Demographics
- World Event Risk
- Disinflation
Why Corporate Tax Cut?

U.S. Was at a Huge Disadvantage

Source: Cornerstone Macro, as of 6/6/2017.
Deregulation!

Pages in the Federal Register

Source: Bloomberg, Bianco Research, as of 11/25/2019.
Is the U.S. Consumer Improving?

(70% of GDP)

- Job Openings / Layoffs Way Down
- Wages Better
- Wealth and Savings Way Up
- Debt Service Burden Low
- Wide Array of Free Online Apps, Services
Slower U.S. Economic Growth Likely over the Long-Term

Labor Force Contribution to Real GDP (YOY Growth, 20-Year Average)

Peak (1962–1982): 2.3%

Manufacturing Slumping

Global Manufacturing PMI

Source: JPMorgan, IHS Markit as of 10/1/2019.
S&P 500 Reported Profit Margin (%): Q3 vs. 4-Quarter Trailing Average

Source: Standard & Poor’s Corporation, Yardeni, as of 8/8/2019.
Cold War Redux

U.S. Tariffs (Imposed and Threatened) as a % of U.S. GDP

-0.7%
-0.6%
-0.5%
-0.4%
-0.3%
-0.2%
-0.1%
0.0%

China (15%/$300b) -0.22%
September 1, 2019

China (10%/$300b) -0.15%
September 24, 2018

China (15%/$200b) -0.15%
May 10, 2019

China (10%/$200b) -0.15%
July 6, 2018

China (25% on $50b) -0.10%

Source: Cornerstone Macro, as of 8/6/2019.
Worse Than Tiananmen Square

More Reliable Than What China Posts

China Real Economic Activity Index

Source: Cornerstone Macro, as of 10/30/2019.
Worrisome

China Commercial Bank: Non-Performing Loans (Year-over-Year Growth)

Source: Cornerstone Macro, as of 8/8/2019.
The China Trade Challenge

- U.S. companies must share cutting-edge technology (must form local joint venture)
- Outright theft of intellectual property
- Non-tariff barriers (inspections, ownership limits, technical standards, subsidies, licensing)
- Cyber theft
- Rare earth bans?
Old Days of China “Super-Growth” Are History?

Trying to Stay Afloat

- Property Bubble
- Infrastructure Bubble?
- Excess Consumer Stuff
- Heavy Debt / Loan Losses
- Hong Kong / Taiwan / Uighurs
- Subsidies to SOEs Under Attack
- “Social Credit Scorecard” (Internet Censorship/Monitoring)
- Xi Enshrined “Core Leader”
- Pollution
- Demographic Dilemma
- Military Threats
Earnings Growth: Sluggish for 8 Years, Then A Burst, Then Slowing

After-tax corporate profits*
(ratio scale, billions of dollars, saar)

*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates. Source: Yardeni, as of 10/30/2019.
**Positives**
- Trade Wars Slow GDP Growth
- Oil and Gas Prices Down
- The Amazon Effect
- Aging Demographics
- Home Rentals/WeWork
- Technology on Costs
- Fed Has Cut Rates
- Money Supply Improving
- Yield Curve Steepens
- Lower Bond Yields Elsewhere

**Risks**
- Near Term: Tariffs ↑ CPI
- Huge Underfunded Liabilities
- World Gov’t Budget Deficits Growing
- Central Bankers Have Overprinted?
- Disinflation Tough on Margins
Fed Comes to the Rescue

Total Amount of Money Injected into Repo Market by the Fed ($B)

Liquidity Foaming

Money Supply M2 Index 3-Month Annualized Rate of Change

Source: Strategas Research, as of 11/22/2019.
State & Local Government Unfunded Pension Liabilities ($B)

Source: MacroMavens, as of 9/24/2018.
Quantitative Easing (Money Printing)

Combined Balance Sheet of the “Big Four” Central Banks (Fed, ECB, BoJ, BoE)

Source: Bianco Research, as of 10/30/2019.
Reasonable Valuations

**Positives**
- All Central Banks Easing!
- Ultra-Low Interest Rates
- Trade Breakthrough???
- Plenty of Cash
- “Wall of Worry”
- Technical Pattern Bullish

**Risks**
- Stocks Not Cheap
- Trade Wars
- Economies/Profits Sluggish
- Politics
- Socialism Momentum
- Unicorns
- CCC Yield Spreads Widening
- World Event Risk
Plenty of Cash

Total Money Market Fund Assets ($T)

Source: Strategas Research, as of 11/22/2019.
Let’s Look at the Numbers…

<table>
<thead>
<tr>
<th>Metric</th>
<th>August ‘82</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fed Funds Rate</td>
<td>10.25%</td>
<td>1.62%</td>
</tr>
<tr>
<td>10 Year UST Yield</td>
<td>13.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Trailing S&amp;P 500 P/E</td>
<td>8.8 x</td>
<td>18.5 x</td>
</tr>
<tr>
<td>Price to Book</td>
<td>1.0 x</td>
<td>2.8 x</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>6.6%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Top Marginal Tax Rate</td>
<td>50%</td>
<td>37%</td>
</tr>
<tr>
<td>Capital Gains Tax Rate</td>
<td>20%</td>
<td>23.8%</td>
</tr>
</tbody>
</table>

Source: FactSet, Strategas Research Partners, as of 10/30/2019.
Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP

Source: Bianco Research LLC, as of 10/30/2019.
Too Much Technology Available?

U.S. No Longer THE Military Power – Space Hegemony Disappears

- 5G intrusion inevitable/data integrity at risk
- Dirty networks
- Hypersonic missiles
- Speed-of-light lasers
- Miniaturization of drones
- Jamming capability/cyber warfare
- Robotic guided munitions (AI)
Socialism Momentum

Growth AND Valuations at Risk

- Venezuela an example
- Innovation depends on respect for creativity and wealth
- Socialism targets the values, rights, and assets of successful entrepreneurs
- Government imposition of price and exchange controls ALWAYS causes shortages and economic decline
## Would You Feel Comfortable and Confident Running a Country at Age 70?

<table>
<thead>
<tr>
<th>Country</th>
<th>Leader</th>
<th>Age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malaysia</td>
<td>Mohamad</td>
<td>94</td>
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<tr>
<td>Cameroon</td>
<td>Biya</td>
<td>86</td>
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<tr>
<td>Palestinians</td>
<td>Abbas</td>
<td>84</td>
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<tr>
<td>Vatican</td>
<td>Francis</td>
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<tr>
<td>Iran</td>
<td>Khamenei</td>
<td>80</td>
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<tr>
<td>U.S.</td>
<td>Pelosi</td>
<td>79</td>
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<tr>
<td>U.S.</td>
<td>Sanders</td>
<td>78</td>
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<tr>
<td>U.S.</td>
<td>McConnell</td>
<td>77</td>
</tr>
<tr>
<td>U.S.</td>
<td>Biden</td>
<td>77</td>
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<tr>
<td>U.S.</td>
<td>Trump</td>
<td>73</td>
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<tr>
<td>Israel</td>
<td>Netanyahu</td>
<td>70</td>
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<tr>
<td>India</td>
<td>Modi</td>
<td>69</td>
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<tr>
<td>Russia</td>
<td>Putin</td>
<td>67</td>
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<tr>
<td>China</td>
<td>Xi</td>
<td>66</td>
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<tr>
<td>S. Korea</td>
<td>Moon</td>
<td>66</td>
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<tr>
<td>Mexico</td>
<td>Obrador</td>
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<tr>
<td>Turkey</td>
<td>Erdogan</td>
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<tr>
<td>Germany</td>
<td>Merkel</td>
<td>65</td>
</tr>
<tr>
<td>Japan</td>
<td>Abe</td>
<td>65</td>
</tr>
</tbody>
</table>

Note: Ages are as of 12/31/2019. Source: The Economist, as of 4/22-26/2017, official biographies as of 10/30/2019.
World Event Risk

Potential Disasters
Syria / Lebanon / Iraq / Kurdistan / Refugees
Trade Wars
China / Trade / Taiwan / Hong Kong / Hegemony
North Korea / South Korea
Russia: Ukraine / Turkey / Syria / Afghanistan / Treaties
Pakistan / India
Venezuela / Chile / Bolivia
Iran Deal / Nuclear Proliferation
Brexit / Catalonia / Grexit?
Border Wall / Shutdown / D.C. Volatility
Israel / Palestine
Sino-Russian Entente
Democracies Regressing / Socialism Advancing?
Saudi Succession / Autocracy
Egypt / Tunisia / Yemen / Angola / Kenya
ISIS
Cultural: Cheating / Spying / Fear / Marijuana?
Cyber Warfare / Laser Warfare Weaponry
Decentralized / Dispersed Technology / Unlimited Information
Environmental Concerns: Water Levels / Garbage / Fires
Weaponization of Space / AI Robots and Drones

Possible Successes
Greece Sold Bonds
Trade Breakthrough
Cheap Stock Markets?
Tech Breakthrough / Energy Renaissance
South Asia?
Eurozone / Brexit
Japan?
Israeli / Sunni Relations
Taiwan / China??
Israel / Palestine Talks
U.S. Natural Gas / Shale Oil Potential
Afghanistan
North Korea
India / Pakistan
Charles / Camilla
William / Kate
Harry / Meghan / Archie
Thorium / Graphene / Vanadium
IRA / Northern Ireland
Middle East Democracy
Immunotherapies
Brainstorm: Make the Private Sector Soil “Fertile”

(Incentives for Growth, Anyone?)

- Raise the retirement age
- More tax reform: carbon/VAT?
- Free-market pricing of water
- Scrap “prevailing wage” laws
- Develop comprehensive energy policy (natural gas / solar)
- Higher user fees (highways, airports, seaports, mass transit, etc.)

Source: Strategas Research, as of 4/13/2015.
Brainstorm: Instructions to Washington…
“Get the Country Moving Again”
(Openness / Productivity of Federal Government)

• Sync House and Senate schedules with 3 (5-day) workweeks in D.C. and one at home
• Encourage/recruit legal immigration
• GAAP accounting – FOR GOVERNMENTS
• Incentives for infrastructure revitalization
• Revamp War on Drugs
• Educate the population (e.g., value of internet, phone technology)
• Manage expectations (growth IS going to be slower)
Brainstorm: More Instructions to Washington

(More Incentives to Grow the Country?)

- Continue reorg of K-12, with “competition” and “choice” the key ideas
- Kill crop/ethanol subsidies
- Consumer must “feel” the cost of healthcare / fees for healthy outcomes
- Have D.C. folks subject to our laws/regs – not theirs – and teach them FINANCE
- Harden the national electric grid
- Everybody has to sacrifice

Source: Strategas Research, as of 8/12/2014.
How to Cope?

**Income & Growth**
- Capital & Income Fund
- New Markets Income Fund
- Convertible Securities Fund
- Financials?
- Global E/I
- Option Writing?
- Small Cap Value
- 2-Year Treasuries
- Preferred Stocks

**Growth**
- Block-Chain Tech
- Water / Ag Plays
- Quantum Computing
- Sensors / Actuators
- Int’l Small Cap Opps
- Energy Infrastructure / Solar / Batteries
- Cyber Security / Drones / AI
- Video Production
- Genome Sequencing / Stem Cell Tech
- Small Cap Discovery
- Emerging Market Discovery
- Waste Management

**Other**
- Commodities
- Refinance Mortgage
- Quality Closed End
- Japan?
- Europe?
- Natural Resources?
- Korea
Refinance!

U.S. 30-Year Mortgage Rate (%)

Source: Cornerstone Macro, as of 8/6/2019.
Global Breadth Means Identifying Better Opportunities

Leveraging the work of over 350 research professionals around the globe*

*Research professionals include portfolio managers, research analysts and associates as of 12/31/2018.
Fidelity’s Actively Managed Equity Funds Outperform!

Funds with PMs with >4 Years of Fund Tenure Beating the S&P 500 by 30bps or More, Annualized Over PM Tenure

Average annual outperformance, excess return percent against the S&P 500, 29 Equity Funds with at least 30 bps (0.30%) of annual active return over current PM tenure. Minimum tenure of 4 years shown. If multiple managers run a fund, lead manager name is shown, unless the fund is team run, then the team name is shown. Source: FMR Co., as of 12/31/2018.

Includes changes in share price and reinvestment of dividends and capital gains. Analysis excludes funds with sales charges.

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Don’t Short the United States

(America the Beautiful / Social Capital Huge)

- Work Ethic/Resilience/Flexibility/Choice/Mobility
- Innovation/Ingenuity/Risk profile (think Silicon Valley)
- Capitalistic system fosters competition
- Intellectual and financial magnet
- Competitiveness (deep/liquid capital markets, rule of law, property rights)
- Rehabilitation, not liquidation (via Chapter 11)
- Superior infrastructure (shipping, inventory costs)
- Accounting transparency
- Universities
- Lots of natural gas/fresh water/geographically removed/river network
- Freedoms (ideas, suffrage, religion, immigrants)
Conclusion

- Keep your goals in sight
- Review your portfolio regularly / rebalance
- Use a financial representative to help you in choices / asset allocation

*Asset allocation does not ensure a profit or protection against a loss.*
“Americans can always be counted on to do the right thing, after they have exhausted all other possibilities.”

–Winston Churchill

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