

The State of the Market

Review & Outlook

February 2019

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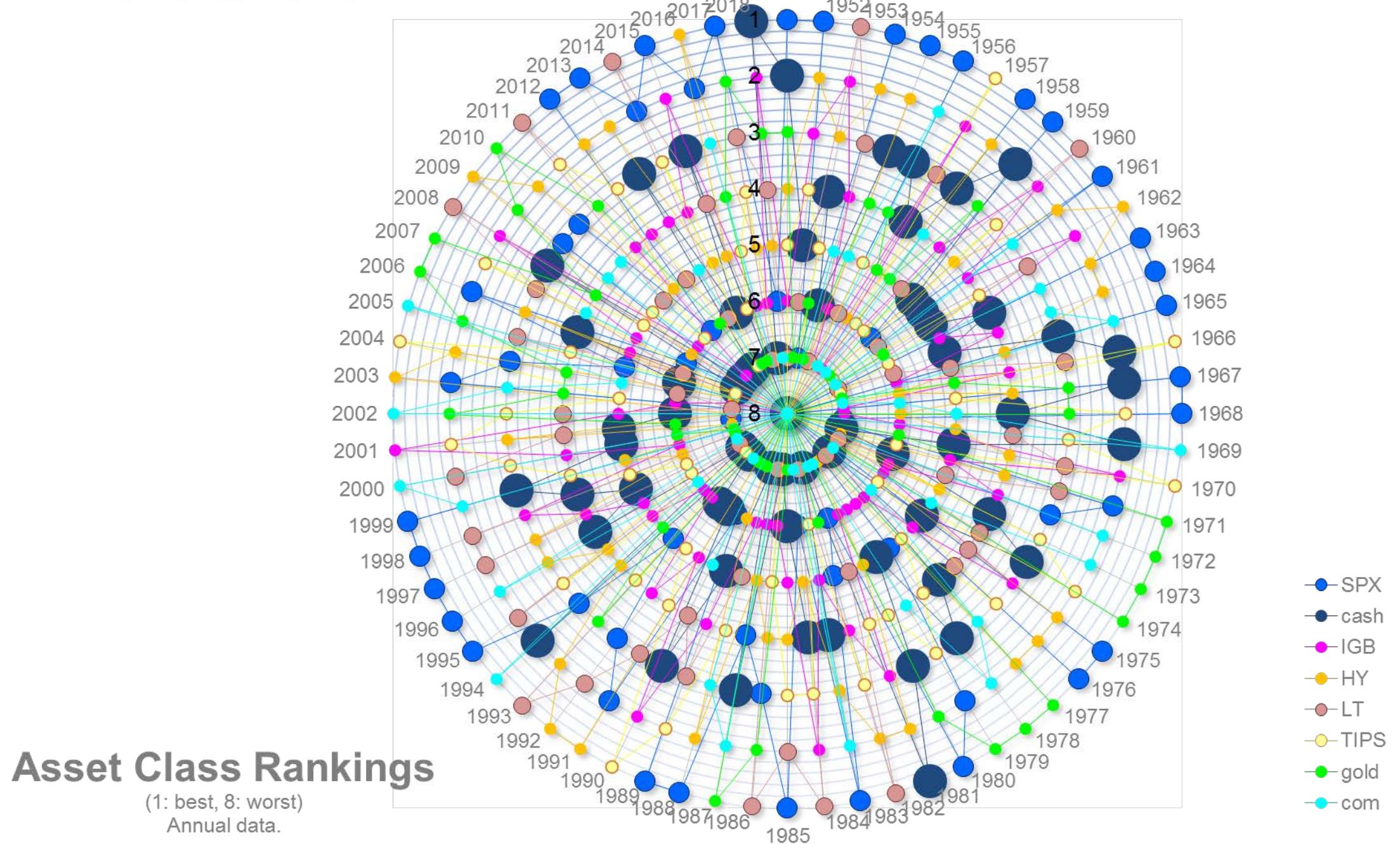


Cash was King in 2018



JPN	EUR	EAF	EAF	EM	EM	TIPS	EM	SV	EM	com	LV	EMD	LV	LG	EM	REIT	REIT	com	EM	REIT	EM	REIT	EM	LT	EM	SG	LT	EUR	SG	REIT	JPN	SV	EM	cash	
REIT	EAF	JPN	gold	JPN	LG	IGB	SG	LV	EAF	JPN	SPX	REIT	SPX	EUR	JPN	SV	SV	gold	SG	EM	JPN	EUR	gold	IGB	HY	REIT	TIPS	EM	SC	LT	LG	SC	LG	LG	
LV	LG	EUR	EM	SV	SPX	cash	EMD	SC	EUR	EAF	LG	LG	SV	SPX	SG	com	HFs	TIPS	SC	SV	com	EM	EUR	cash	gold	SC	gold	EMD	SV	SPX	REIT	LV	EUR	IGB	
LT	SPX	LT	com	EAF	LV	LT	HY	HY	SV	cash	LT	SPX	LG	EAF	LG	LT	IGB	LT	SV	EUR	gold	EAF	TIPS	gold	LG	SV	REIT	SV	LG	LV	SPX	HY	EAF	gold	
IGB	SV	LV	JPN	LV	EUR	LG	SC	EMD	HFs	EUR	SG	LV	EUR	LV	EAF	EMD	TIPS	EMD	EAF	EAF	EAF	gold	LG	TIPS	EUR	gold	EMD	EAF	LV	LG	EMD	SPX	JPN	LT	
EM	LV	gold	LG	SC	SG	com	LG	REIT	SC	LG	SC	EUR	SC	LT	HFs	HFs	HY	IGB	EUR	SC	REIT	SV	EAF	EMD	SG	EM	IGB	REIT	SPX	TIPS	IGB	EM	SPX	HY	
TIPS	LT	REIT	cash	SPX	TIPS	SPX	SV	EM	LV	SPX	EMD	SV	REIT	HFs	EMD	TIPS	LT	REIT	REIT	LV	EMD	LV	LT	HFs	EAF	LG	HY	LV	JPN	IGB	cash	com	SG	LV	
cash	TIPS	SPX	SPX	SG	LT	EUR	REIT	LT	REIT	REIT	TIPS	HFs	HFs	IGB	SC	IGB	cash	HFs	JPN	JPN	EUR	SC	com	HY	REIT	JPN	LG	SC	EUR	SG	EAF	SG	SC	SPX	
HY	SG	HY	EMD	EUR	JPN	gold	SPX	SPX	LT	HFs	SV	com	LT	cash	SPX	LV	SC	cash	LV	SG	LV	SPX	SG	SV	EMD	LV	SPX	SPX	EAF	EMD	LT	EMD	LV	REIT	
EMD	EMD	EMD	HY	REIT	SC	HY	LV	IGB	HY	HY	EUR	SC	SG	TIPS	com	cash	gold	HY	LG	TIPS	LT	SG	IGB	JPN	SC	HY	LV	HY	HY	SC	SG	REIT	gold	EMD	
EAF	SC	TIPS	EUR	HY	SV	EMD	LT	LG	EMD	gold	HY	HY	HY	HY	EUR	SC	EMD	EM	HY	EMD	TIPS	HY	EMD	SC	SPX	SPX	cash	LG	HFs	SV	EUR	LG	EMD	com	
SV	HY	IGB	IGB	EMD	IGB	EM	TIPS	SG	gold	SV	IGB	SG	EMD	SG	LV	gold	EM	JPN	SPX	HY	LG	EMD	SPX	LV	com	com	SG	SG	REIT	HY	HFs	gold	SV	TIPS	
SPX	EM	SV	LT	LG	EAF	LV	IGB	TIPS	SG	SC	REIT	EAF	IGB	gold	cash	HY	LV	SV	EMD	SPX	SPX	HFs	cash	SPX	SV	EMD	SC	TIPS	cash	cash	LV	TIPS	LT	HFs	
EUR	IGB	LG	TIPS	com	REIT	REIT	EUR	cash	JPN	LV	HFs	EM	cash	SC	TIPS	EUR	SG	LV	com	gold	SV	LG	HFs	com	LV	LT	SV	JPN	IGB	HFs	SC	JPN	TIPS	SG	
LG	REIT	EM	LV	TIPS	cash	SG	EAF	com	TIPS	SG	EAF	cash	TIPS	SV	HY	SPX	SPX	EAF	gold	com	SC	JPN	HY	REIT	HFs	TIPS	HFs	IGB	EM	gold	HY	IGB	HY	SC	
SC	JPN	cash	REIT	LT	EMD	SC	cash	EUR	SPX	IGB	com	IGB	EAF	JPN	IGB	EAF	EUR	EUR	HFs	LT	SG	cash	LV	LG	TIPS	EAF	com	LT	EMD	EM	TIPS	HFs	HFs	JPN	
com	cash	SC	SV	IGB	HY	EAF	JPN	gold	IGB	TIPS	cash	TIPS	com	EMD	SV	LG	LG	SC	TIPS	LG	cash	IGB	SC	SG	JPN	IGB	EUR	HFs	com	JPN	SV	EAF	REIT	SV	
SG	gold	SG	SC	cash	gold	SV	gold	EAF	cash	EM	JPN	LT	EM	REIT	gold	SG	com	SPX	IGB	IGB	HY	LT	JPN	EAF	IGB	HFs	EAF	gold	LT	EAF	gold	LT	IGB	EAF	
gold	com	com	SG	gold	com	JPN	com	JPN	LG	LT	gold	JPN	JPN	EM	REIT	JPN	EAF	LG	LT	HFs	HFs	TIPS	SV	EUR	cash	JPN	cash	TIPS	EUR	EM	cash	cash	EM		
										com	EMD	EM	gold	gold	com	LT	EM	JPN	SG	cash	cash	IGB	com	REIT	EM	LT	cash	EM	com	gold	com	com	EUR	com	EUR

A Rare Event

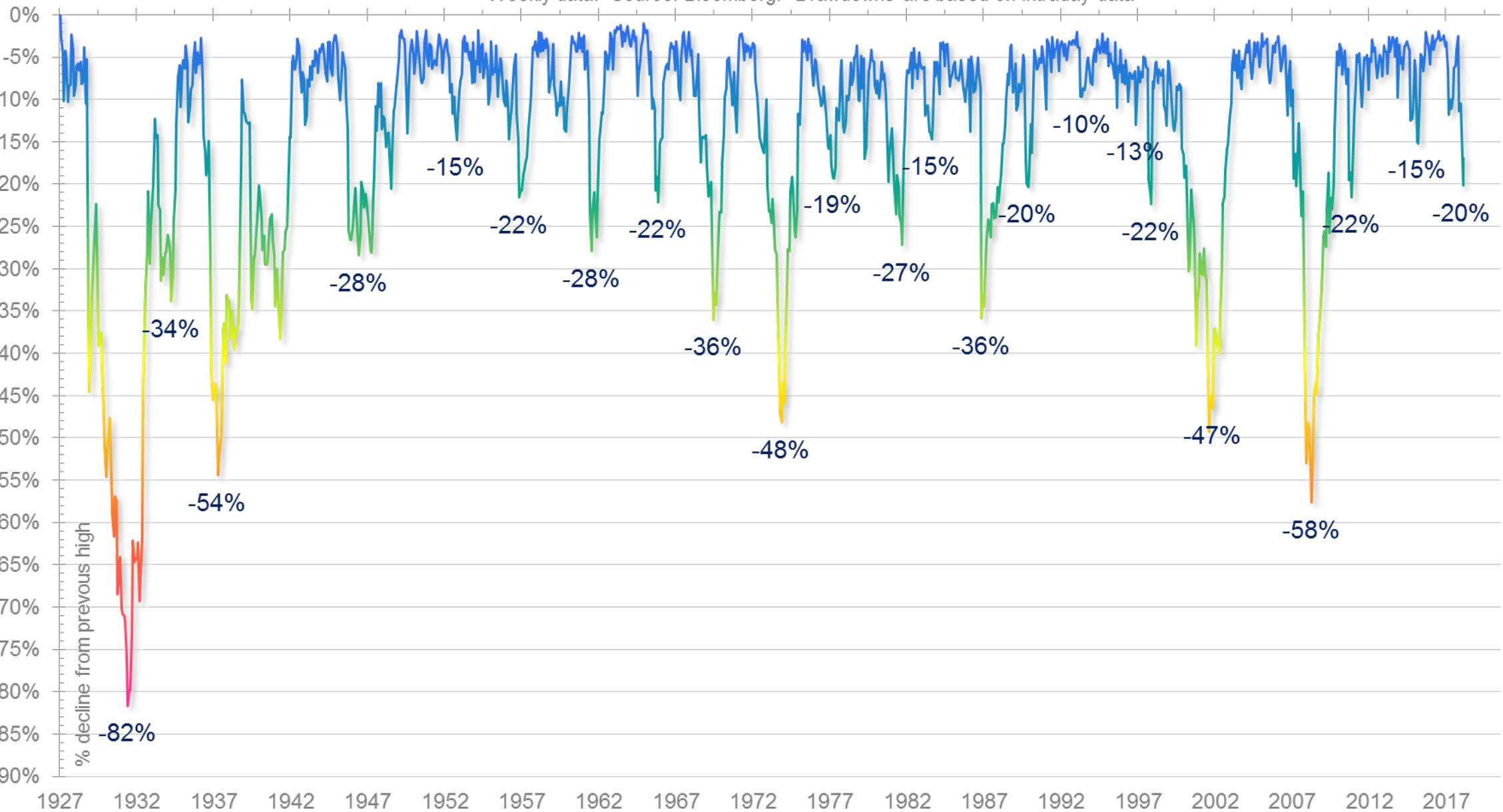


S&P 500 Drawdowns



S&P 500 Index Drawdowns - from 2 year highs

Weekly data. Source: Bloomberg. Drawdowns are based on intraday data

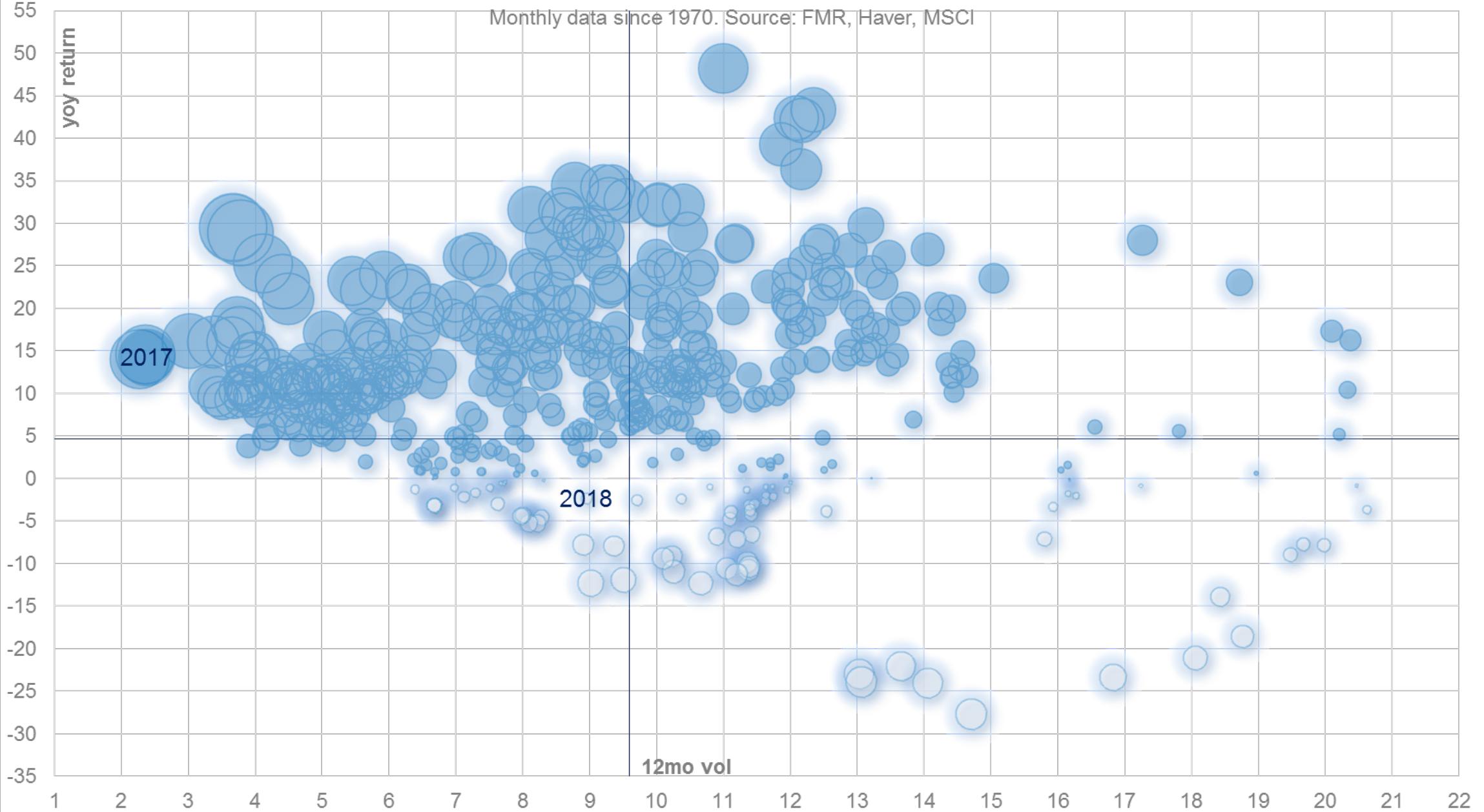


A More Normal Risk/Reward



Return vs Vol: US 60/40

Monthly data since 1970. Source: FMR, Haver, MSCI

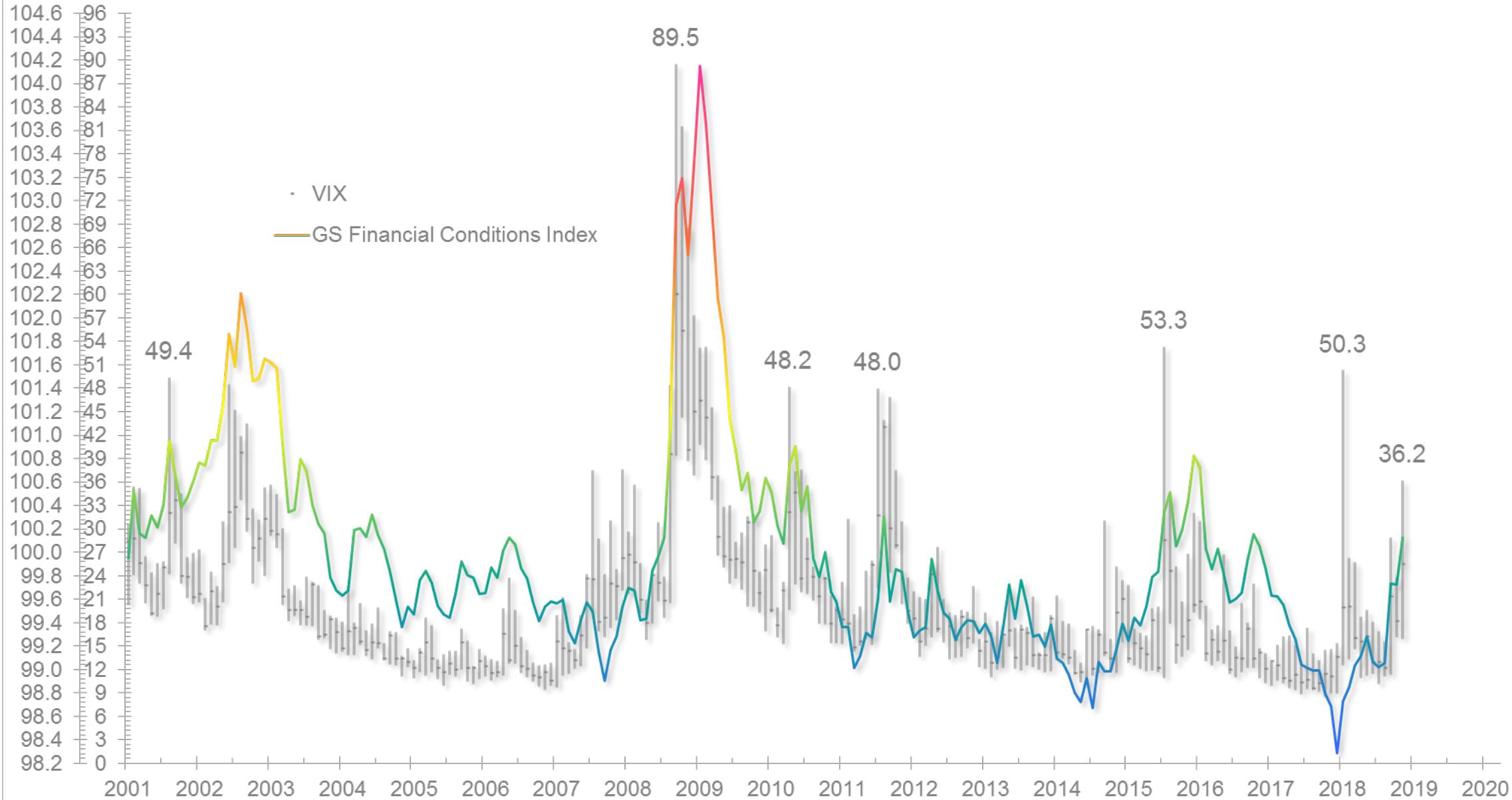


The Return of Vol

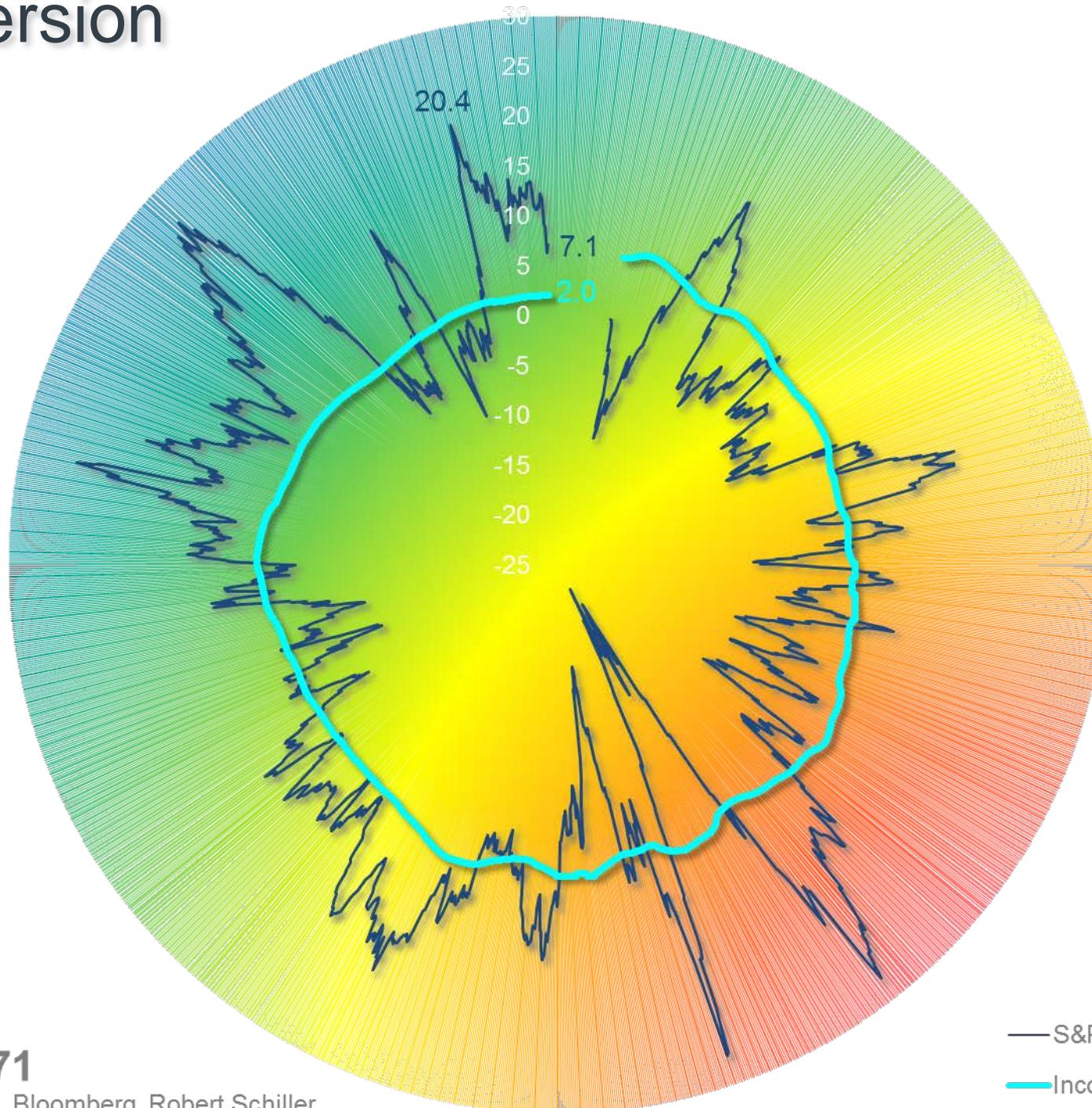


Liquidity Conditions & Volatility

Source: FMRCO, Bloomberg, Haver. Monthly Data.



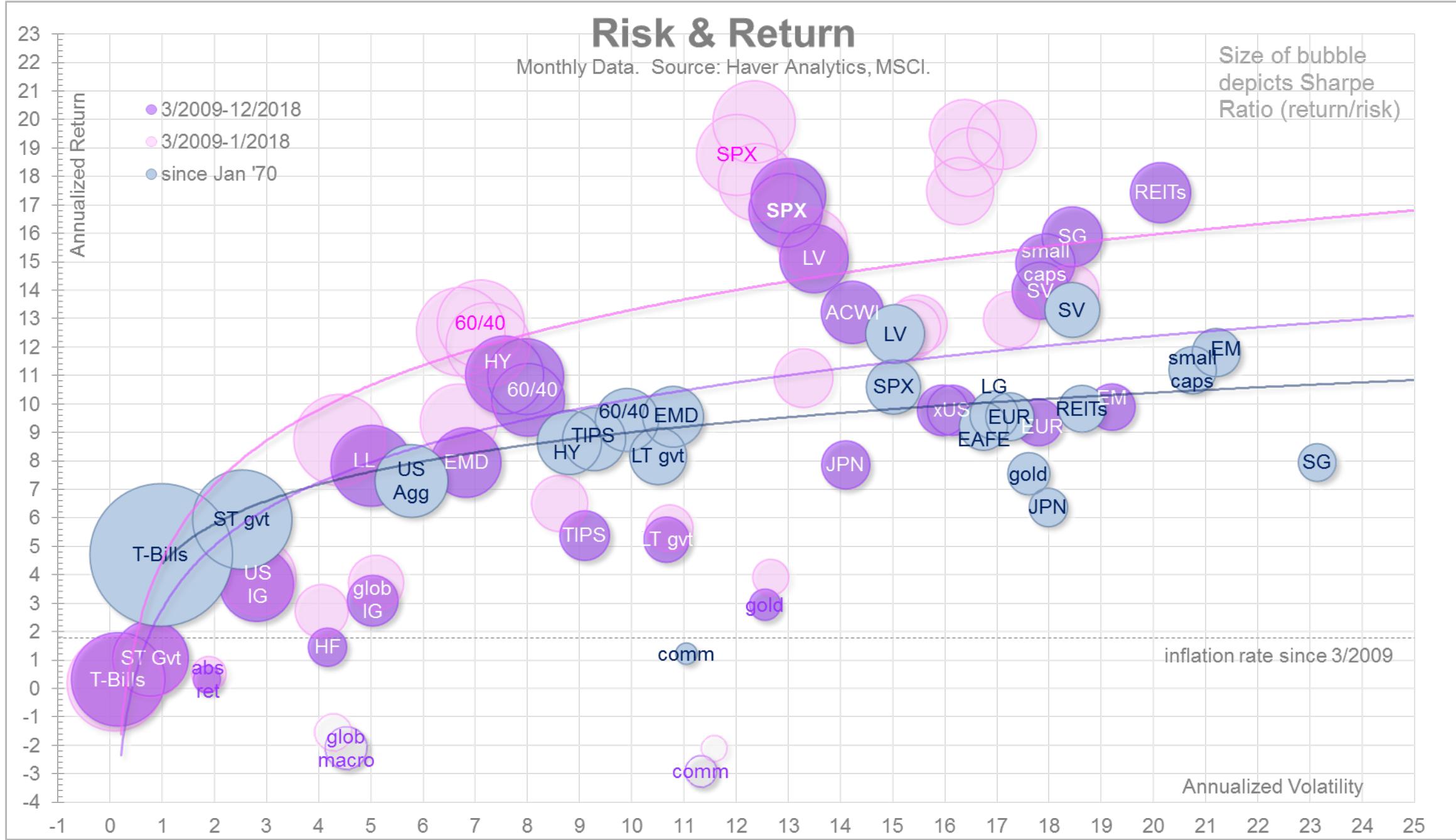
Mean Reversion



Dividend & Price Returns since 1871

monthly data. Source: FMRCO, Bloomberg, Robert Schiller

A Return Towards Normal

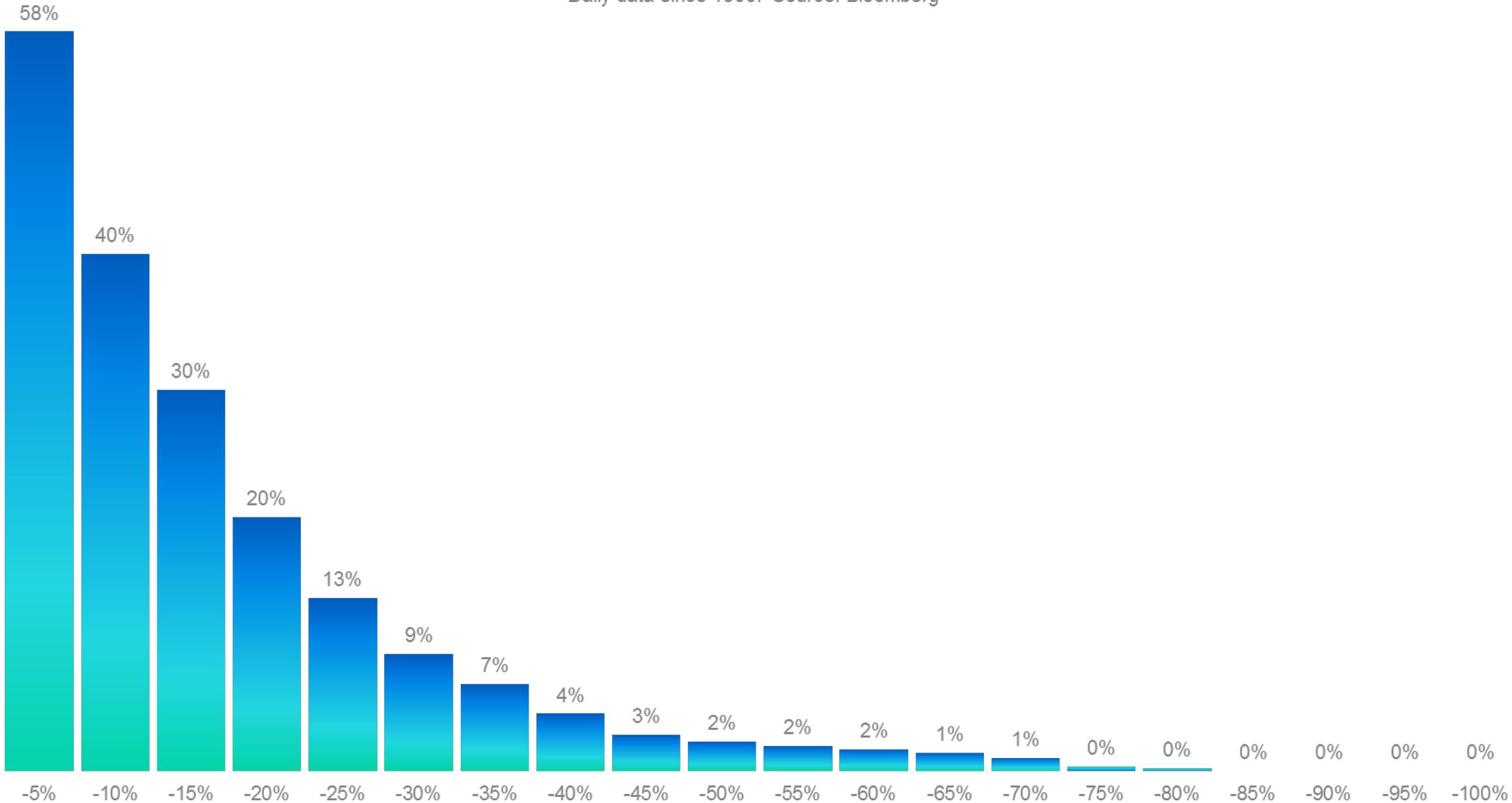


Odds of a 50% Decline: 2%



Odds of a Decline

Daily data since 1900. Source: Bloomberg

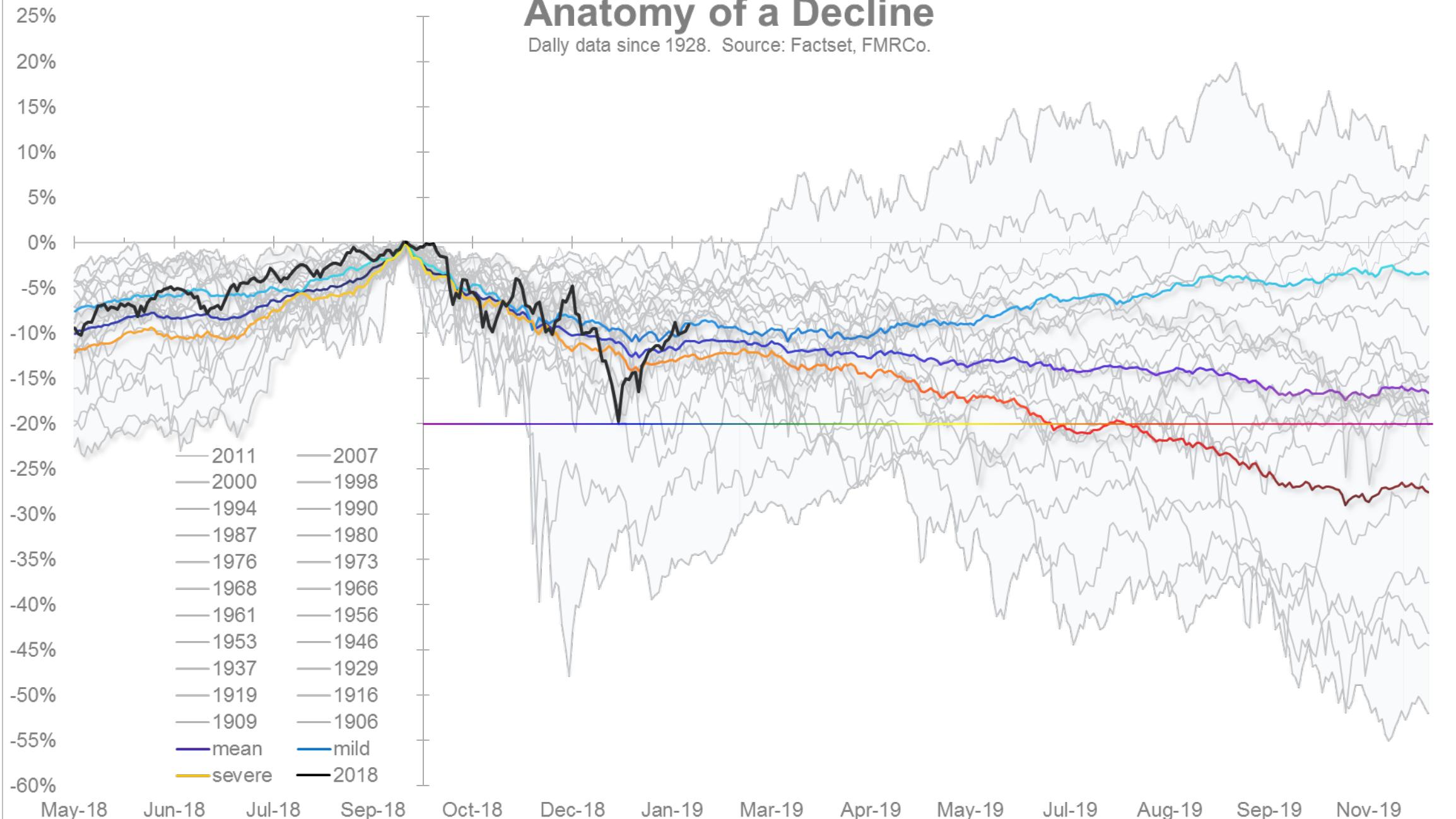


Not All Bears Are Created Equal



Anatomy of a Decline

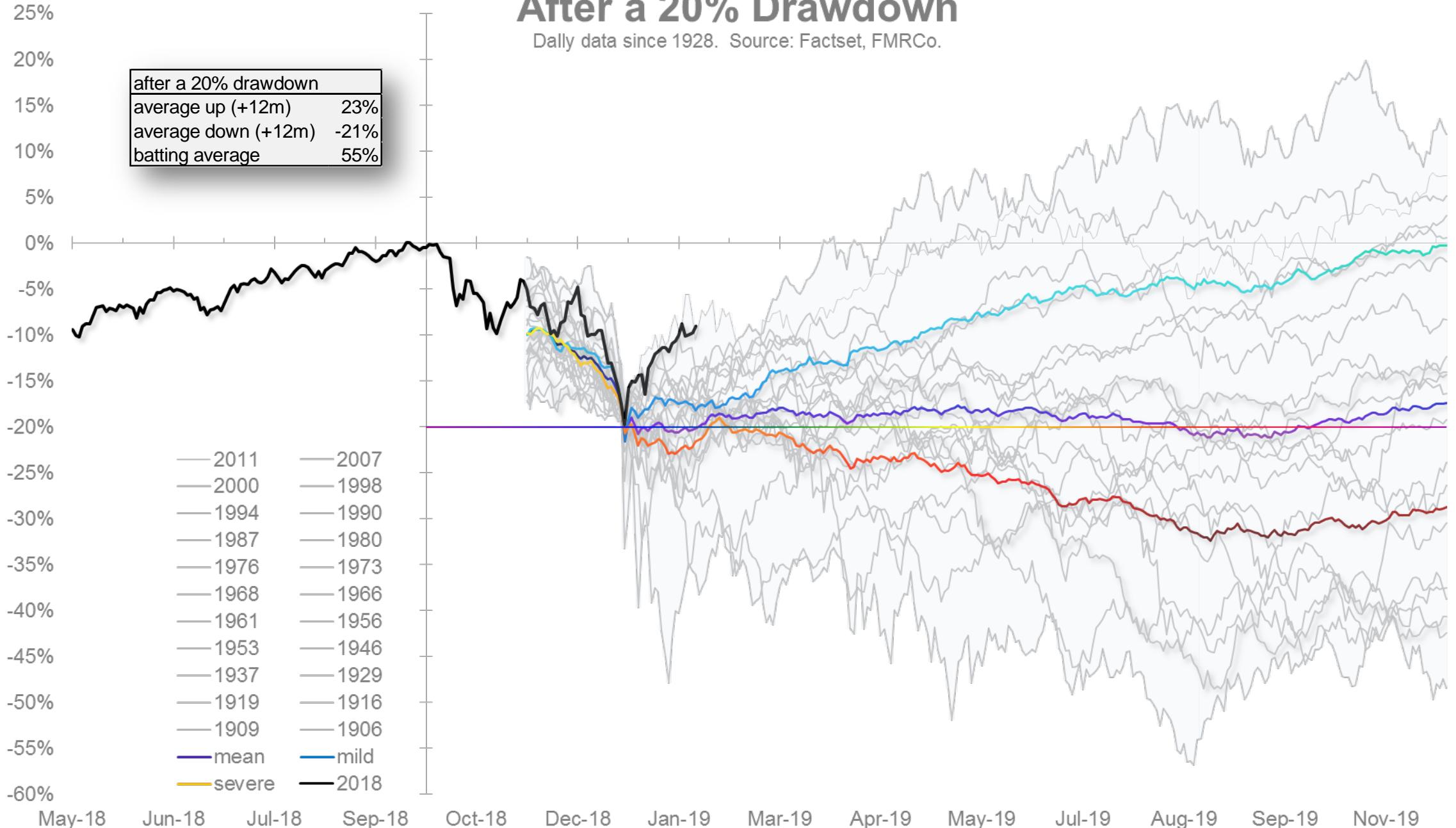
Daily data since 1928. Source: Factset, FMRCO.



Context is Everything

After a 20% Drawdown

Daily data since 1928. Source: Factset, FMRCO.

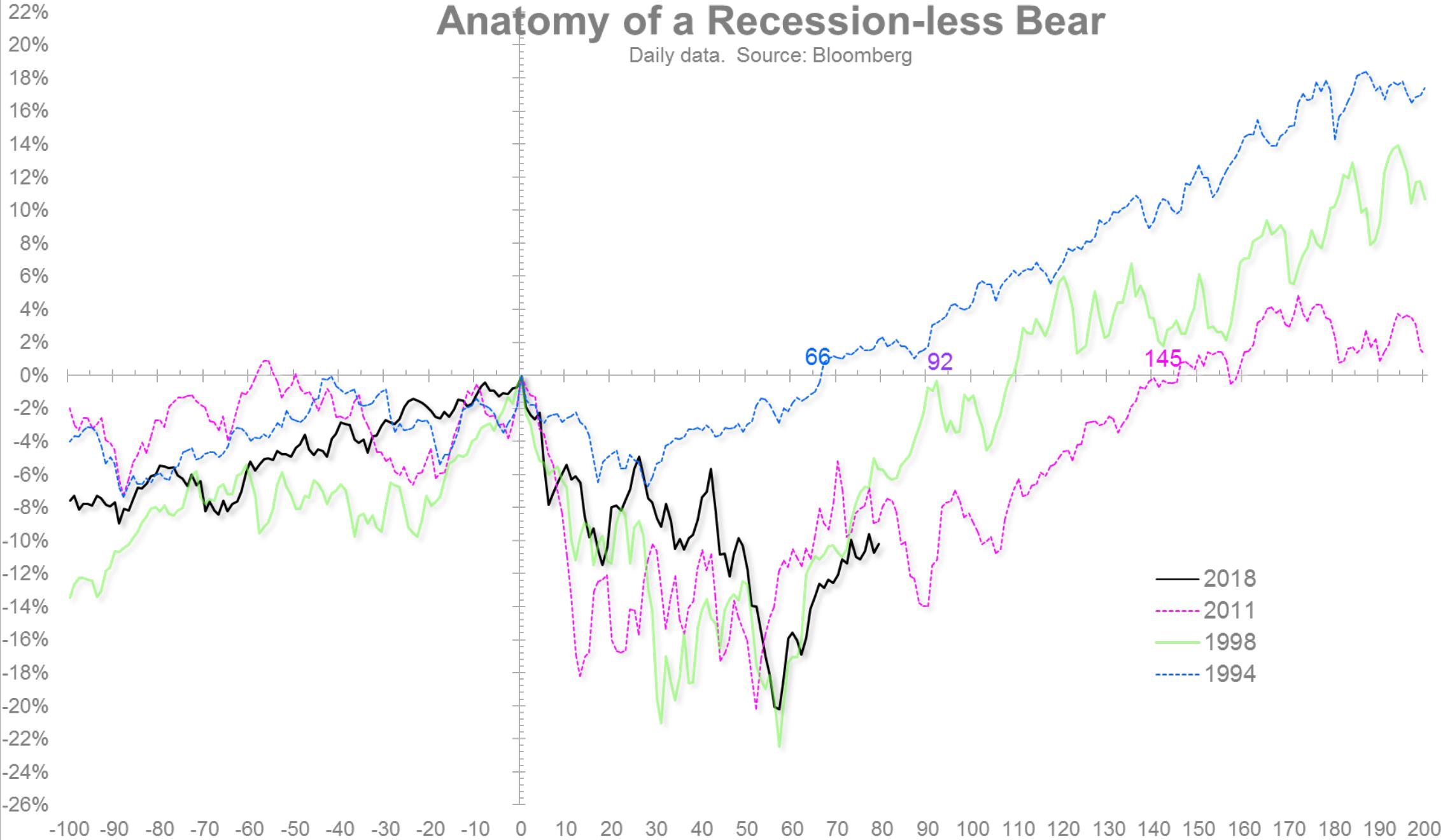


Mild Bears Can Reverse Quickly



Anatomy of a Recession-less Bear

Daily data. Source: Bloomberg

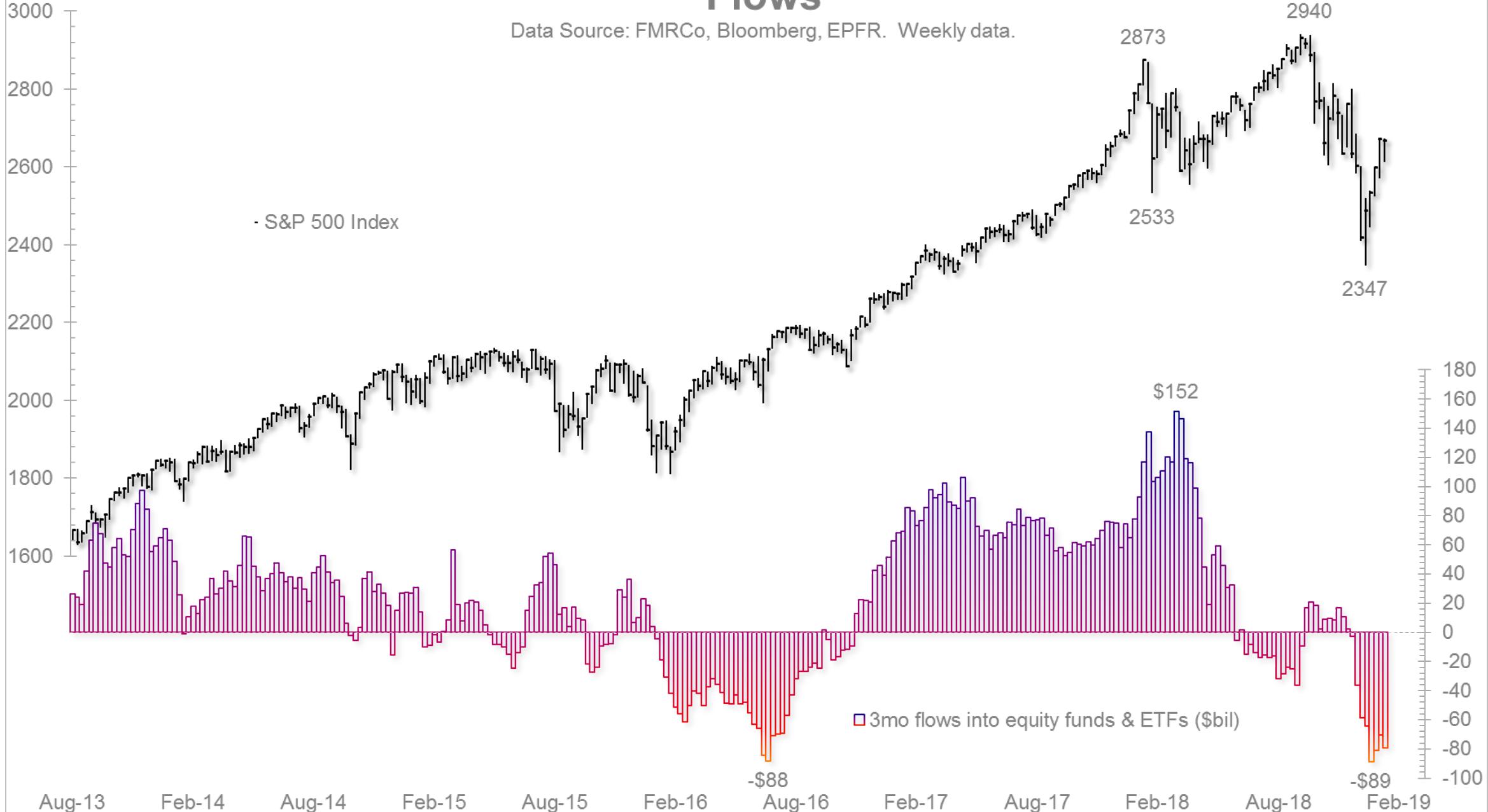


The Public Sold the Low, Again



Flows

Data Source: FMRCO, Bloomberg, EPFR. Weekly data.



Best Case

$$E \text{  } + r \text{  } = P/E \text{  } = P \text{  }$$

Worst Case

$$E \text{  } + r \text{  } = P/E \text{  } = P \text{  }$$

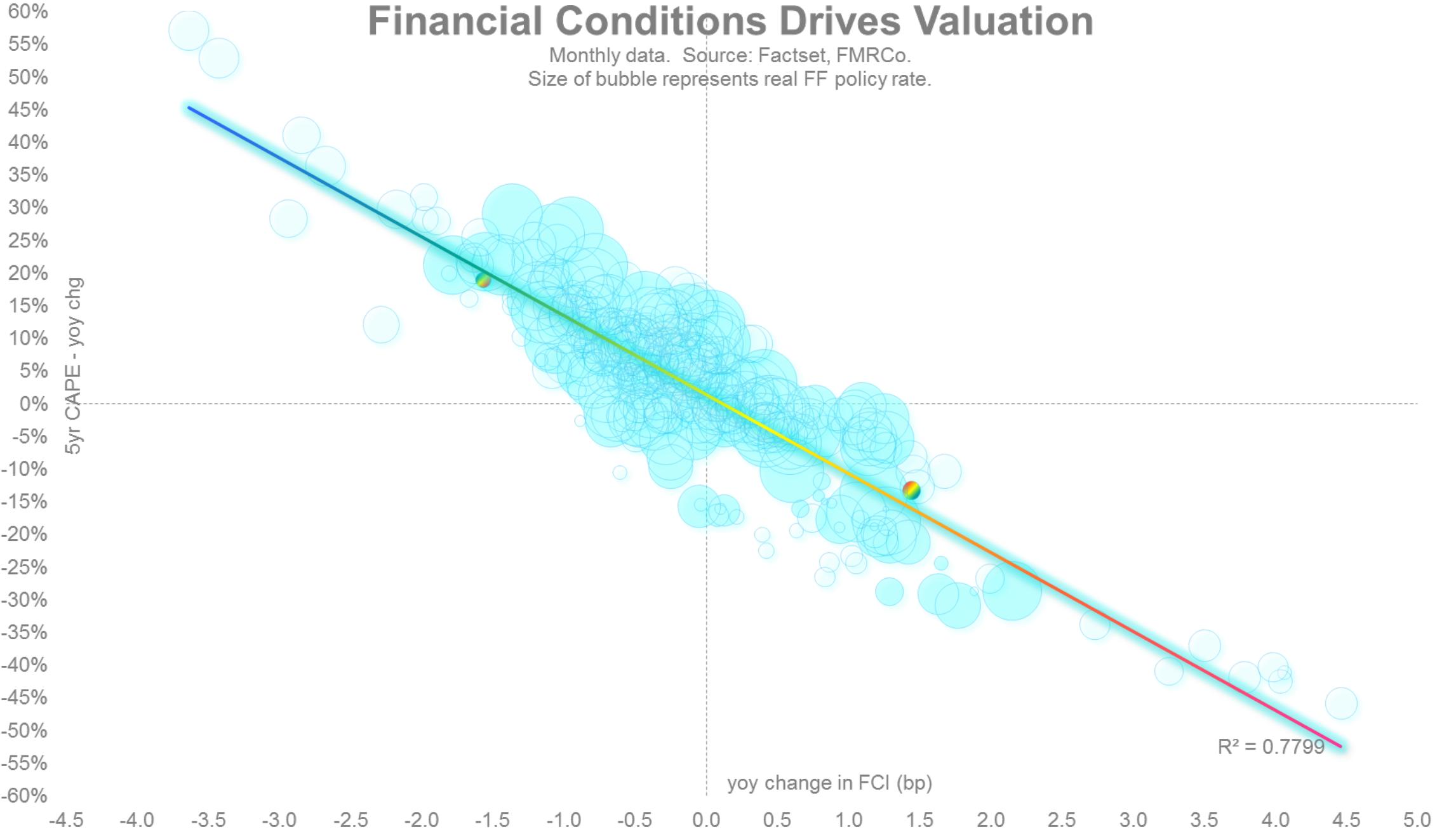
Currently

$$E \text{  } + r \text{  } = P/E \text{  } = P \text{  }$$

A Significant De-Rating

Financial Conditions Drives Valuation

Monthly data. Source: Factset, FMRCO.
Size of bubble represents real FF policy rate.

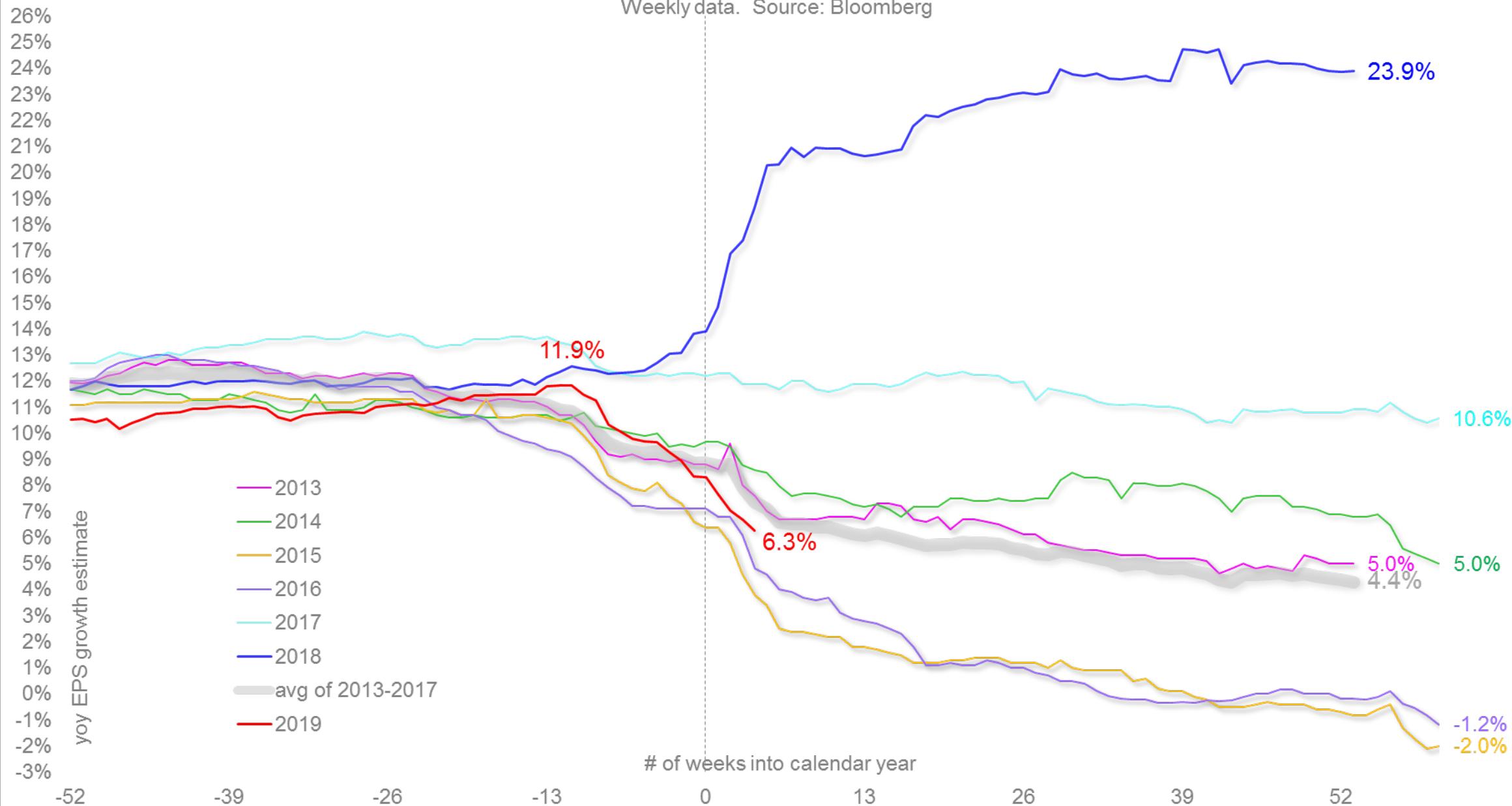


Earnings Estimates



Earnings Estimate Progression

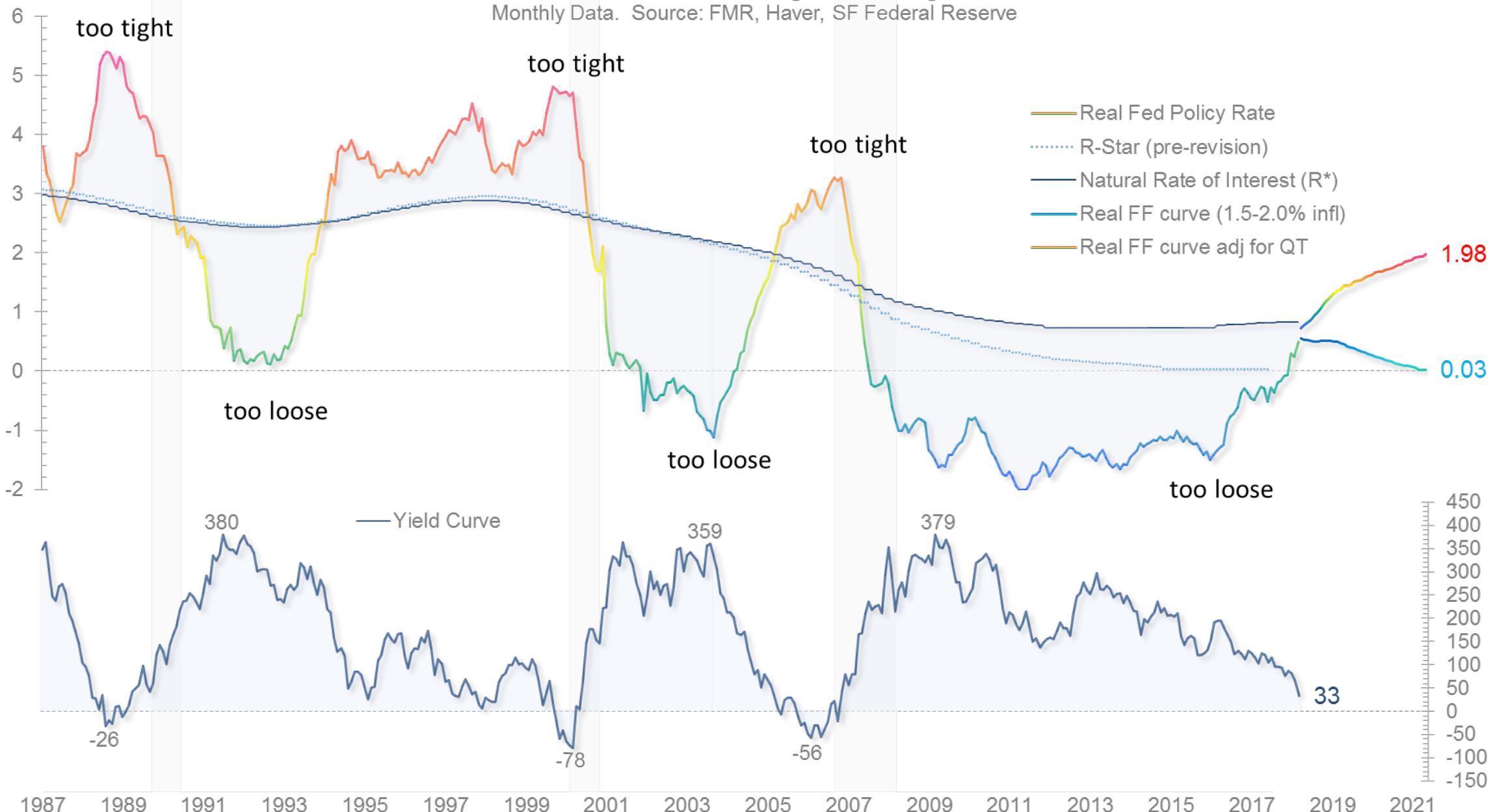
Weekly data. Source: Bloomberg



Too Tight? Depends on QT

US Monetary Policy

Monthly Data. Source: FMR, Haver, SF Federal Reserve

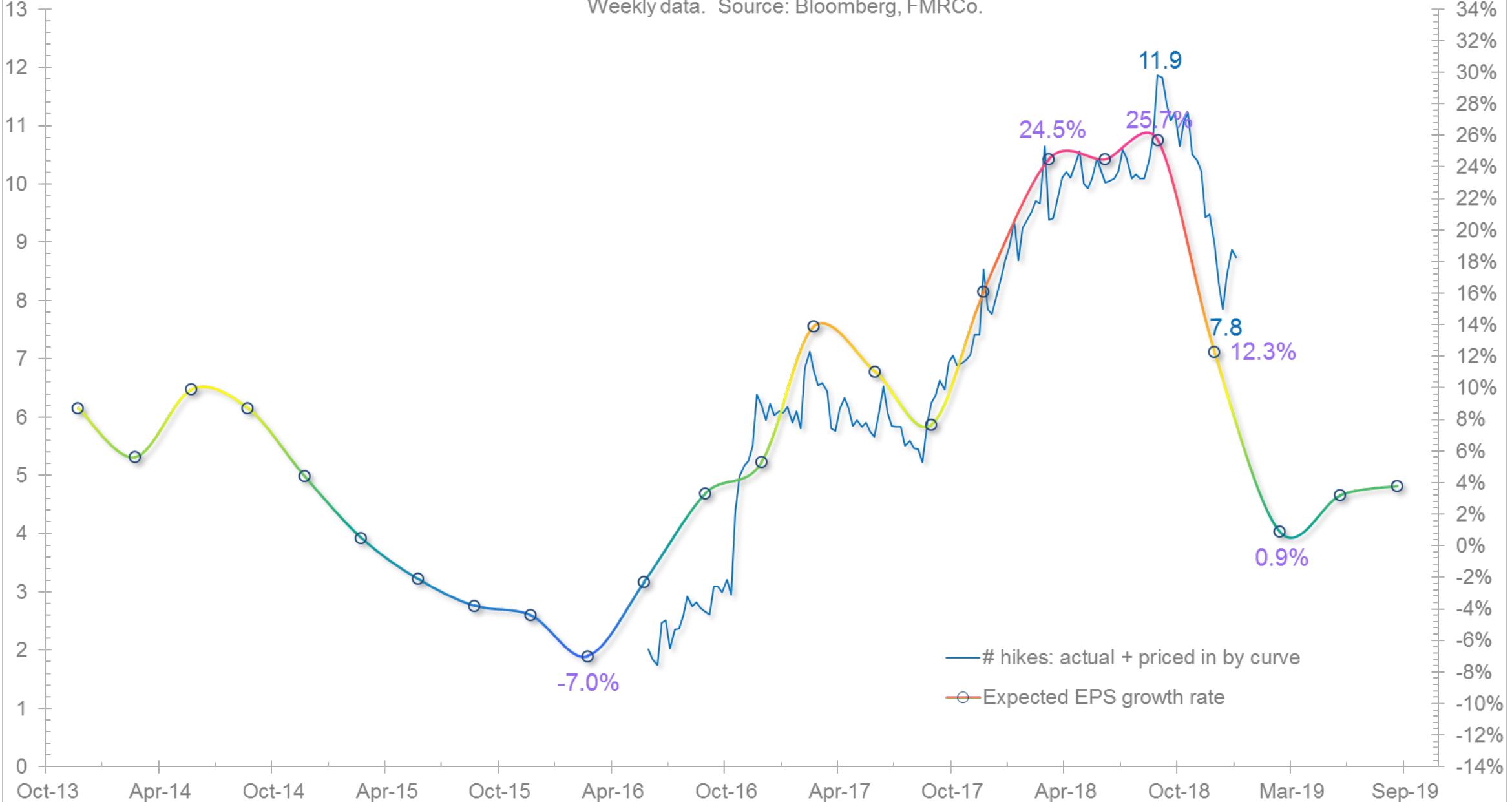


The Case for Rate Cuts



Earnings Growth & the Fed Cycle

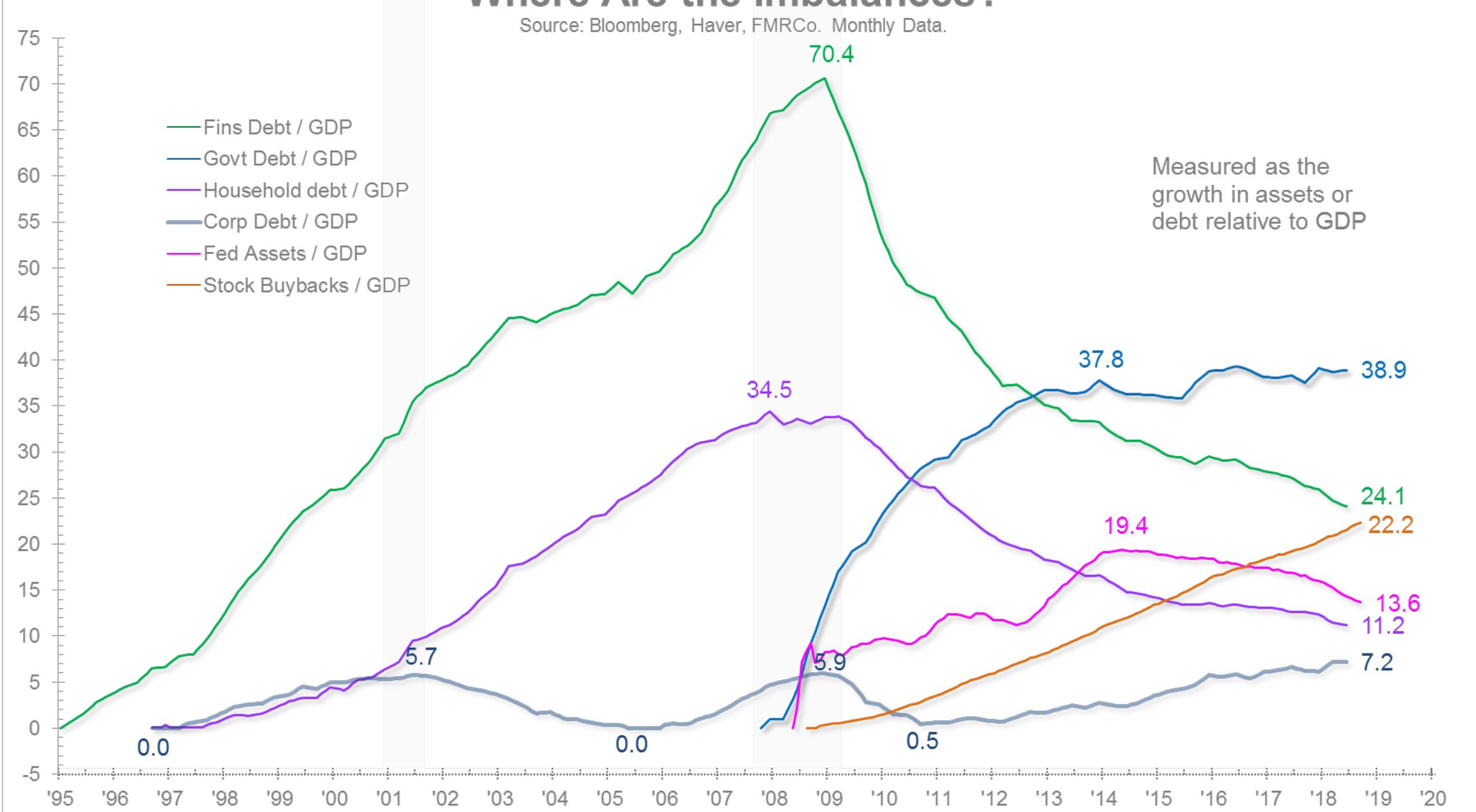
Weekly data. Source: Bloomberg, FMRCO.



Where Are the Imbalances?

Where Are the Imbalances?

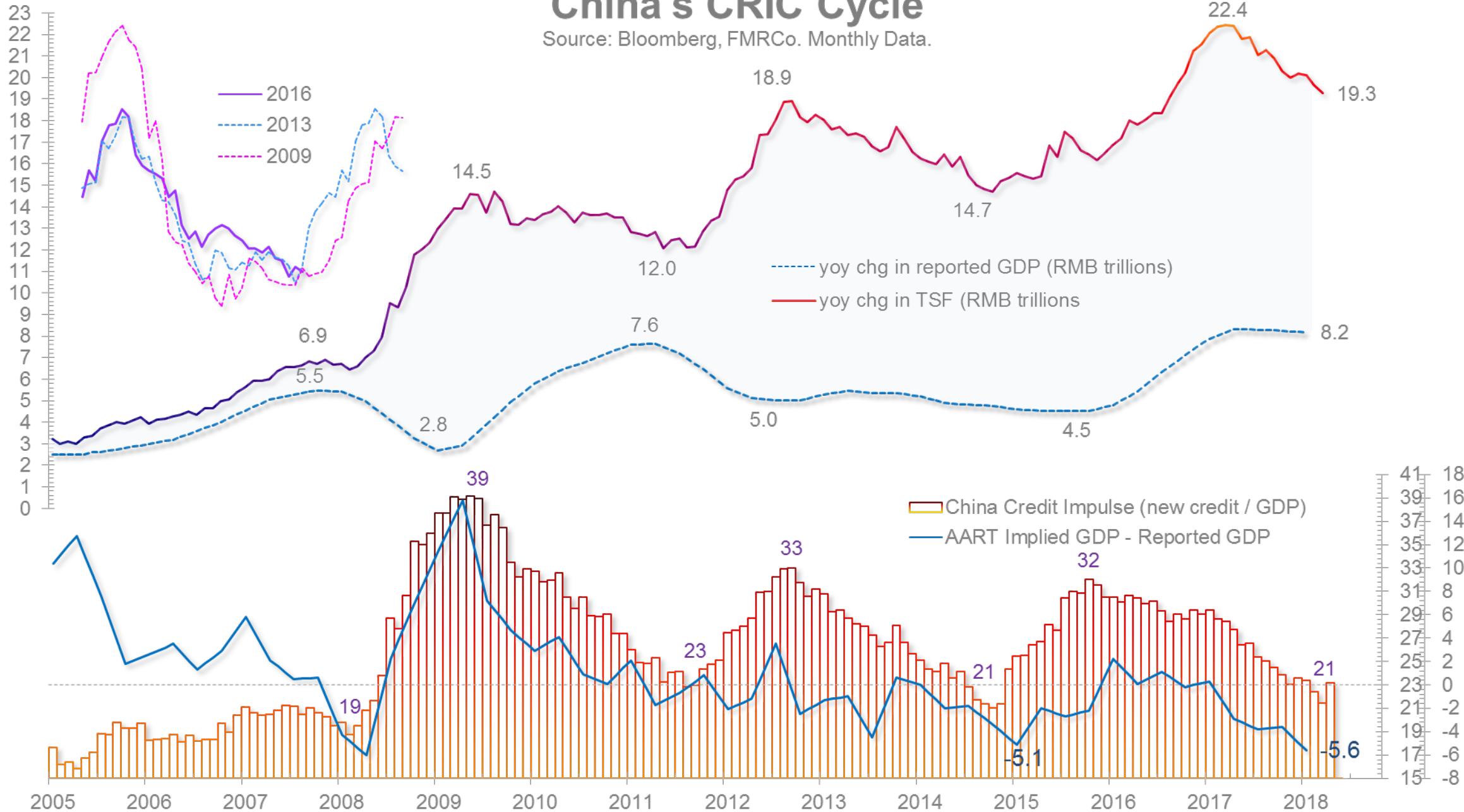
Source: Bloomberg, Haver, FMRCO. Monthly Data.



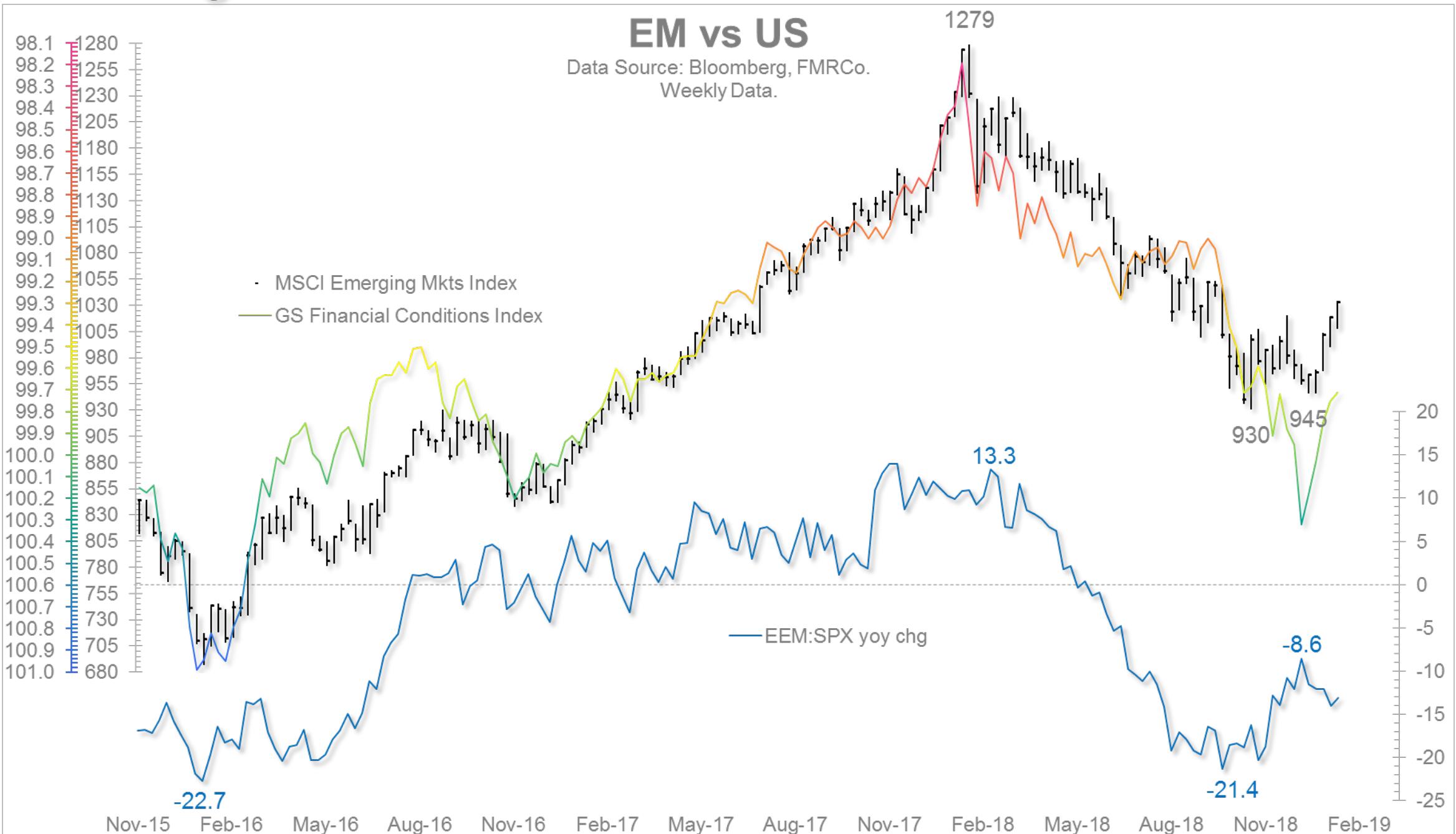
Waiting for China's Reflation

China's CRIC Cycle

Source: Bloomberg, FMRCO. Monthly Data.



Convergence in 2019?

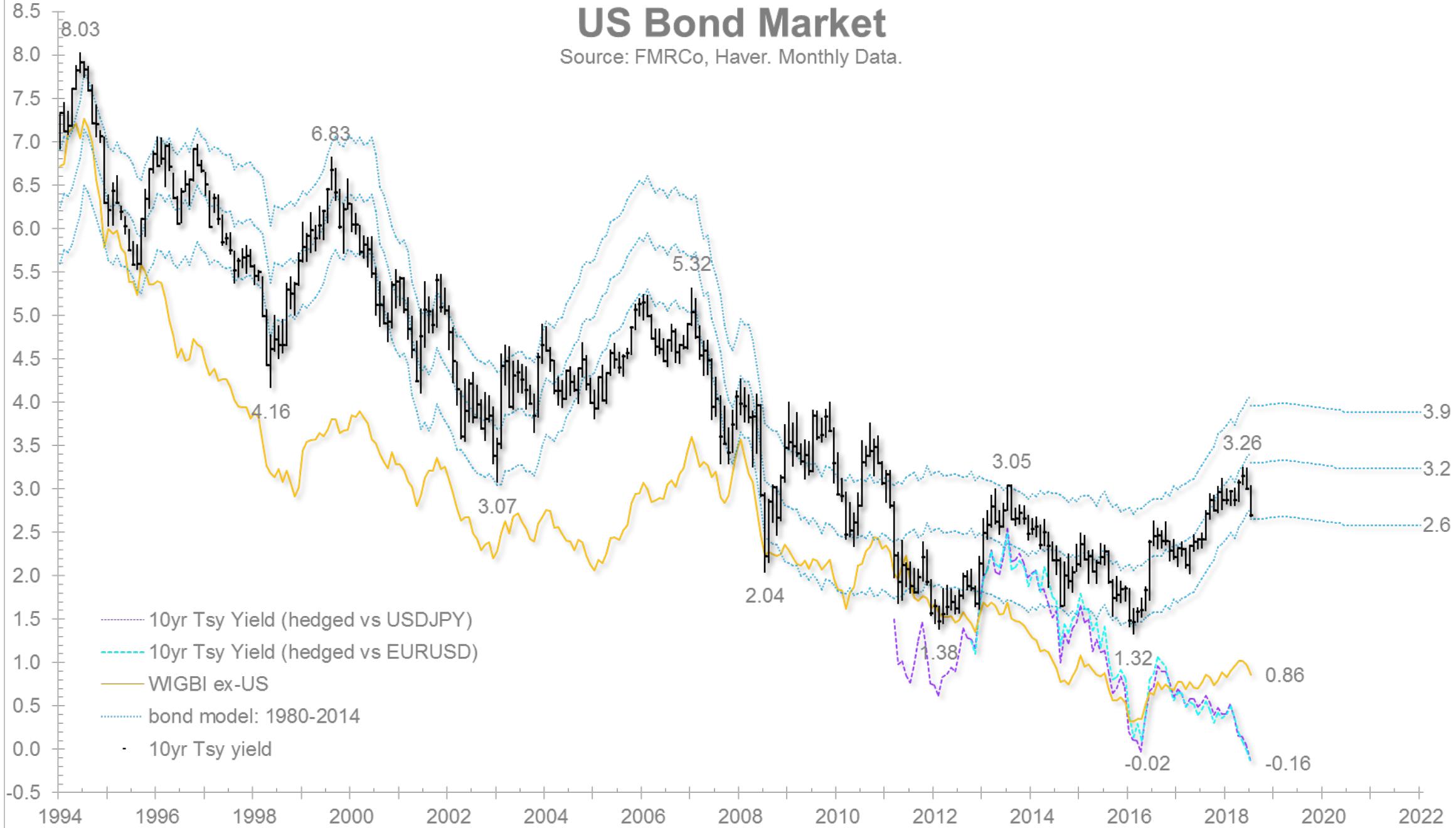


Bonds Look Rich Here



US Bond Market

Source: FMRCO, Haver. Monthly Data.

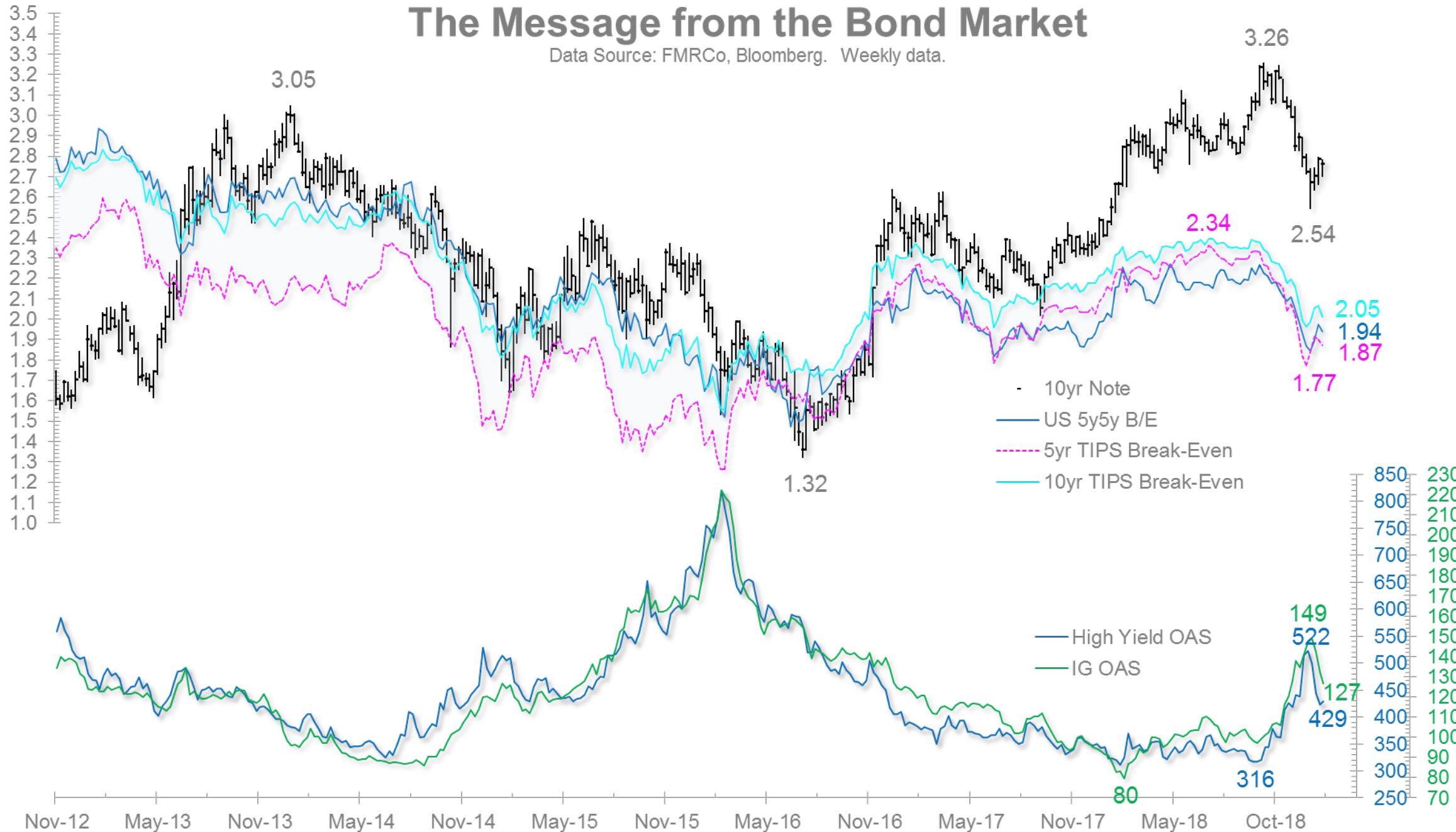


Credit & Inflation Offer Better Value Now



The Message from the Bond Market

Data Source: FMRCO, Bloomberg. Weekly data.

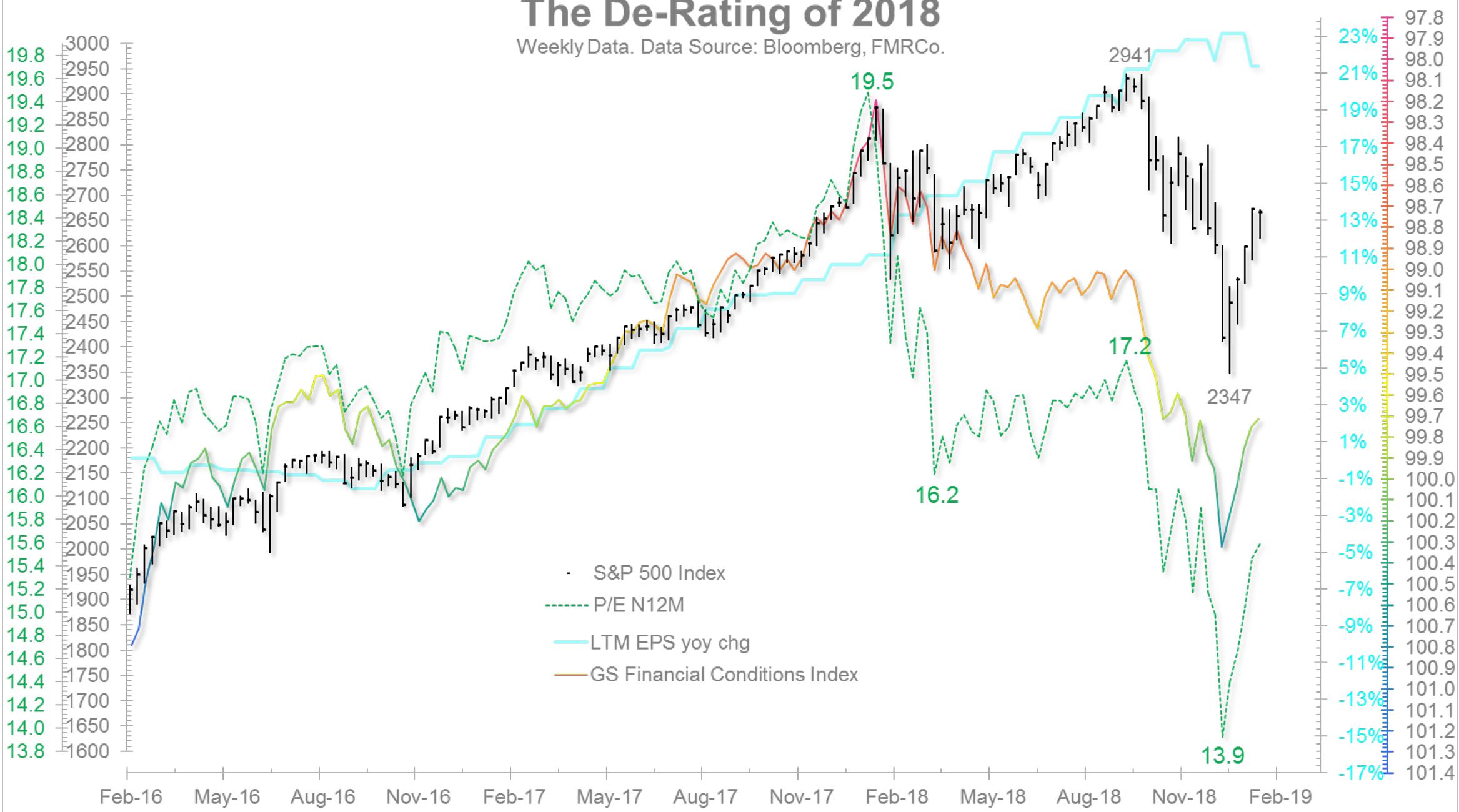


A More Compelling Value Proposition



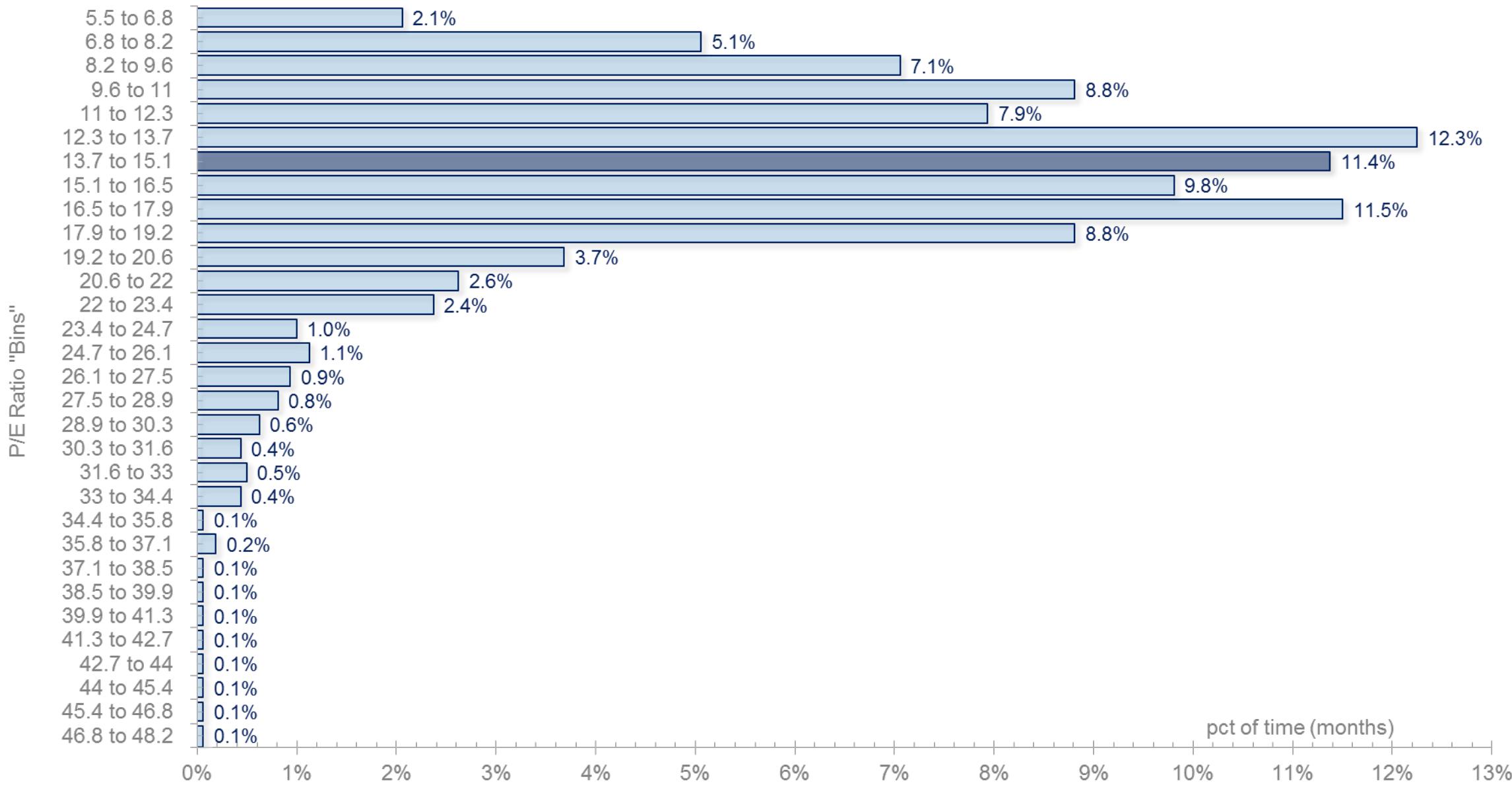
The De-Rating of 2018

Weekly Data. Data Source: Bloomberg, FMRCO.



Valuation

Source: FMRCO, Robert Schiller, Haver Analytics. Monthly Data from 1871.



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Here's what a trade war will do to stock prices



if the by-product of globalization
is stronger global growth

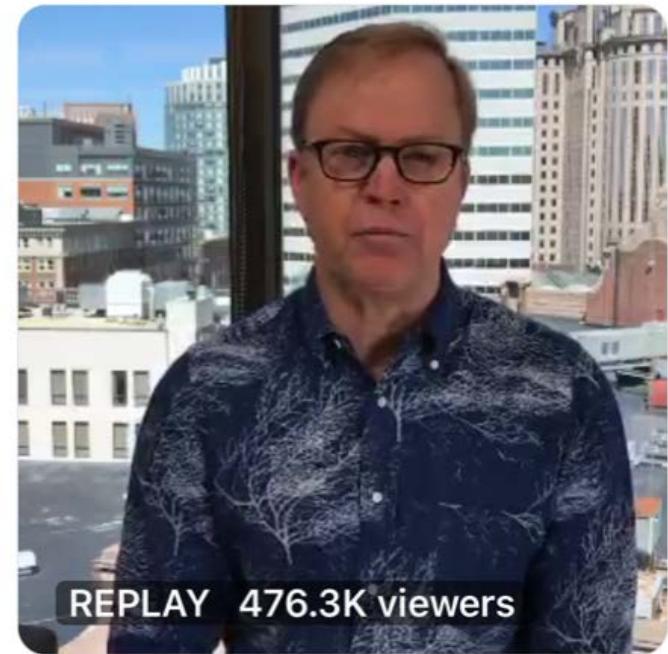
Anti-trade policies lead to less growth and more inflation

Fidelity director of global macro Jurrien Timmer says anti-trade policies lead to less growth and more inflation and will increase pressure on valuations.



Fidelity Investme...  · 6/26/18 ▾

Is a storm brewing? Here's the latest from [@TimmerFidelity](#) & more: go.fidelity.com/f22st



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Sources for correlation slide: All data downloaded from Haver Analytics. All country and regional equity indices: MSCI. All bond indices: Barclays Capital. Gold: Handy & Harman. All GSCI: Goldman Sachs Commodity Index. Currencies: Morgan Stanley. Hedge Fund Data: HFRX.

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