January 2013

EXECUTIVE SUMMARY

Quarterly Market Update: First Quarter 2013

This Executive Summary should be reviewed with the accompanying presentation, "Quarterly Market Update: First Quarter 2013," by Fidelity's Asset Allocation Research Team.

Market Summary

Asset prices experienced broad-based gains during 2012. Most economically sensitive asset categories achieved double-digit returns, outperforming more defensive investments. The fourth quarter rally in non-U.S. equities pushed them toward the top of the performance rankings for the year.

The global economy enters 2013 on a better footing than one year ago, boosted by a reacceleration in China. Though policy risks are still significant, and valuations of some riskier assets are richer, accommodative monetary policies, modest inflationary pressures, and a more favorable global cycle have bolstered the outlook for more economically sensitive assets.

Theme: U.S. Housing

U.S. residential housing is one of the most important sectors for overall economic health. After nearly seven years of acting as a drag on gross domestic product (GDP), housing has experienced an increasingly self-sustaining recovery, underpinned by tight supply-demand conditions, historically high affordability, and rising prices. U.S. consumers are significantly invested in real estate, so recent price gains have buoyed economic sentiment as well as household and financial institution balance sheets. Increased home buying and selling has broad implications for the banking sector. Most construction and transaction activity metrics remain below long-term averages, leaving the potential for housing to provide a meaningful and sustained boost to the U.S. economy.

Economy/Macro Backdrop

Although progress remains uneven across the world, recent global economic data have generally been better than expected. After notable weakness in global trade and industrial activity since late 2011, evidence of improvement emerged toward the end of 2012. China has shown signs of a rebound and now appears to be in an early-cycle expansion, though the quality and sustainability of the recovery remain questionable amid the emphasis on credit and government-driven activity. The European Central Bank's policy efforts have calmed the sovereign debt crisis, particularly in the periphery, but ongoing government deleveraging and tightening bank credit standards have taken a toll on economic activity. Germany is in the late-cycle phase, while Japan has entered a recession.

The U.S. remained in a mid-cycle expansion at the end of 2012. Inventory and credit cycles have been constructive, with manufacturers' inventories holding steady and banks continuing to ease lending standards for both companies and consumers. But the profit cycle has displayed some weakening amid slowing growth and profit margins that may have limited upside. Faced with persistent fiscal uncertainty, companies pared back capital spending plans, which may have restrained the U.S. economy during the fourth quarter.

While the aggressive pace of the Federal Reserve's latest quantitative easing would raise its balance sheet to nearly $5 trillion if continued through 2014, money velocity has remained low, suggesting that bank lending has transmitted little inflationary pressure. Core inflation has been well contained amid slack labor markets and weak wage growth in the U.S., and muted global demand has kept commodity prices in check, reducing some risks to headline inflation. Indecisive fiscal policy debates have clouded visibility on tax rates, and generally weighed on economic activity and investor sentiment since 2011. More deadlines have the potential to generate market volatility in 2013, but may also spur significant action that would mitigate uncertainty.

U.S. Equity Markets

Despite mixed performance in the fourth quarter, U.S. equities posted solid gains in 2012. Current valuations are near or below average, and such inexpensive valuations have generally preceded above-average subsequent five-year returns. Robust profitability and low interest rates have allowed U.S. corporations to deploy cash to shareholders as dividends and share buybacks, boosting total yields. With the market seeming to pay a premium for the stability of distributed earnings, stocks with high payout ratios have enjoyed higher valuations, and stocks with low payout ratios could benefit from raising their dividends. Sector exposure is a significant factor explaining differences in individual-stock

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performance, so a disciplined business cycle approach to sector allocation may enhance active returns.

International Equity & Global Assets

Non-U.S. equities registered solid returns across all categories during 2012, while commodities lagged during the fourth quarter and declined for the year as global demand remained weak. Emerging-market equities still account for only a small percentage of the global stock market capitalization, leaving plenty of room for future growth. As the credit quality of emerging economies has largely improved, allocating to both equity and debt securities may offer diversification benefits. Earnings multiples ticked up in both developed and emerging countries, yet remain well below long-term averages.

Fixed-Income Markets

Credit-sensitive securities benefited from the improved risk sentiment spurred by continued global monetary easing. With the Federal Reserve's efforts to keep nominal interest rates low, Treasury yields have fallen below the current inflation rate, creating a challenging environment for bond investors. Amid macroeconomic uncertainty and sovereign indebtedness, active management of fixed-income risk exposures has become even more important. Though yield spreads on most categories are now below historical averages after a year of tightening, mortgage-backed security spreads widened during the fourth quarter. State and local tax revenues have revived, and recent tax changes have enhanced the after-tax yield advantage of municipal bonds. However, future tax initiatives could affect muni income.

Asset Allocation Themes

In the current low-yield environment, diversifying across fixed-income sectors and non-bond sources of income with varied risk exposures may lower volatility and raise the expected risk-adjusted return profile of a portfolio. Many investors are paying closer attention to the potential inflation protection provided by different asset classes. Investments with hard-asset or income-adjusting characteristics can increase the frequency of outpacing inflation. Periodic rebalancing to long-term strategic asset weights may smooth portfolio returns over time, while performance rotations among asset classes underscores the need for diversification.

Outlook: Market Assessment

Many developed and emerging economies overseas have begun to stabilize or even to positively inflect, expanding opportunities to diversify regional exposures. The U.S. debt ceiling debate threatens to undermine the improvement in economic conditions, such as the ongoing housing recovery and healthy credit availability. Gaining clarity on the fiscal framework to be implemented could spur corporate capital spending and investor risk-taking. Any near-term volatility may be viewed as an opportunity to add exposure to risk assets.

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This report is a product of the Asset Allocation Research Team (AART), which conducts economic, fundamental, and quantitative research to develop asset allocation recommendations for Fidelity's portfolio managers and investment teams. AART is responsible for analyzing and synthesizing investment perspectives across Fidelity's asset management unit to generate insights on macroeconomic and financial market trends and their implications for asset allocation.

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Past performance and dividend rates are historical and do not guarantee future results.

Diversification/Asset Allocation does not ensure a profit or guarantee against a loss.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Payout ratio is the dividend paid out over the year divided by the earnings over the year. A low payout ratio indicates dividend growth potential, while a high payout ratio indicates less cash to increase dividends.

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.

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

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. Lower-quality debt securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

The municipal market can be affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities.

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