Portfolio Manager Insights:

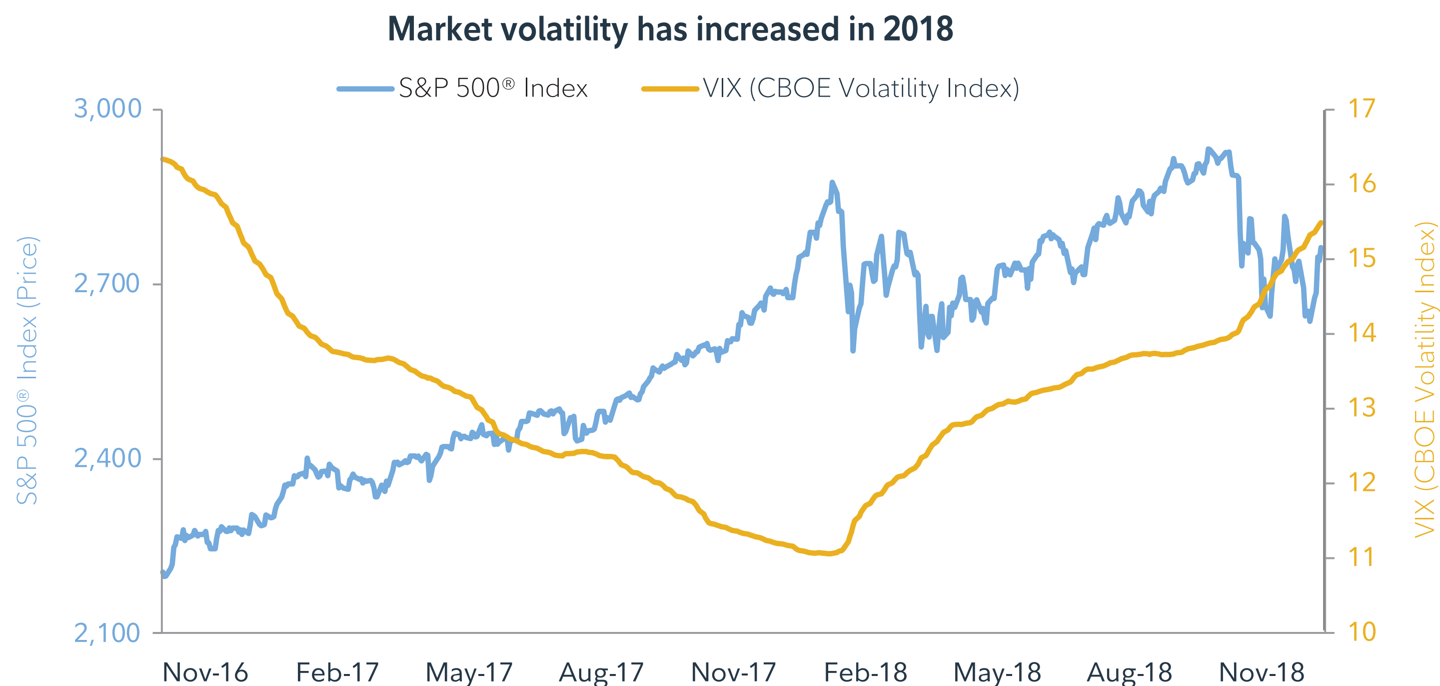
Investing in a Maturing Economy

Fidelity INVESTMENTS

Despite periods of market volatility, the U.S. economy continues to grow.

U.S. stock markets have been more volatile in 2018 than in 2017.

- Despite this increase in market volatility, we still believe that the U.S. economy continues to grow.
- Strong corporate profits, high levels of business and consumer confidence, and a healthy labor market are all signs of a growing economy.



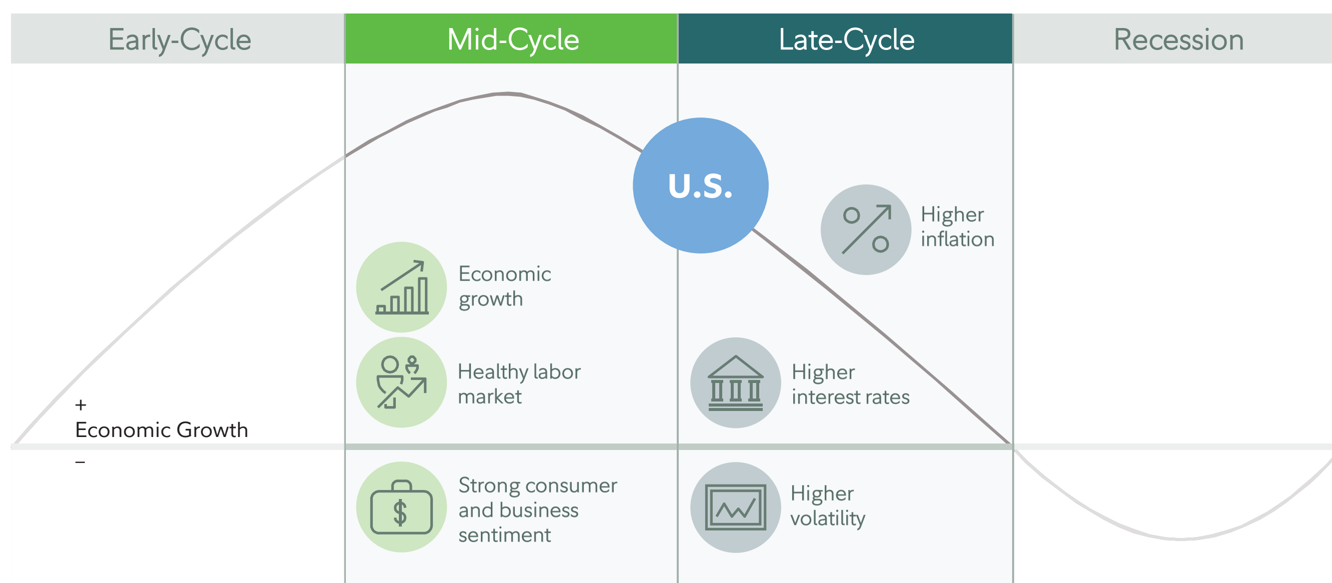
Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Please see appendix for important index information.
Source: Factset as of 11/28/18.

The U.S. economy is experiencing a mix of mid- and late-cycle dynamics.

Late-cycle expansion is a period of continued growth, but at a slower pace.

- For example, the current tight labor market is leading to higher wages, which is good for consumers, but costly for businesses.
- At the same time, inflation and interest rates are gradually moving higher, and consumers may feel these impacts on mortgages and car loans. Inflation may also lead to higher prices for consumer goods.
- It's important to know that late-cycle expansion is not a recession, but rather a period of moderating growth. A recession is when the economy actually shrinks.

While the economy continues to grow, it is showing some signs of maturity

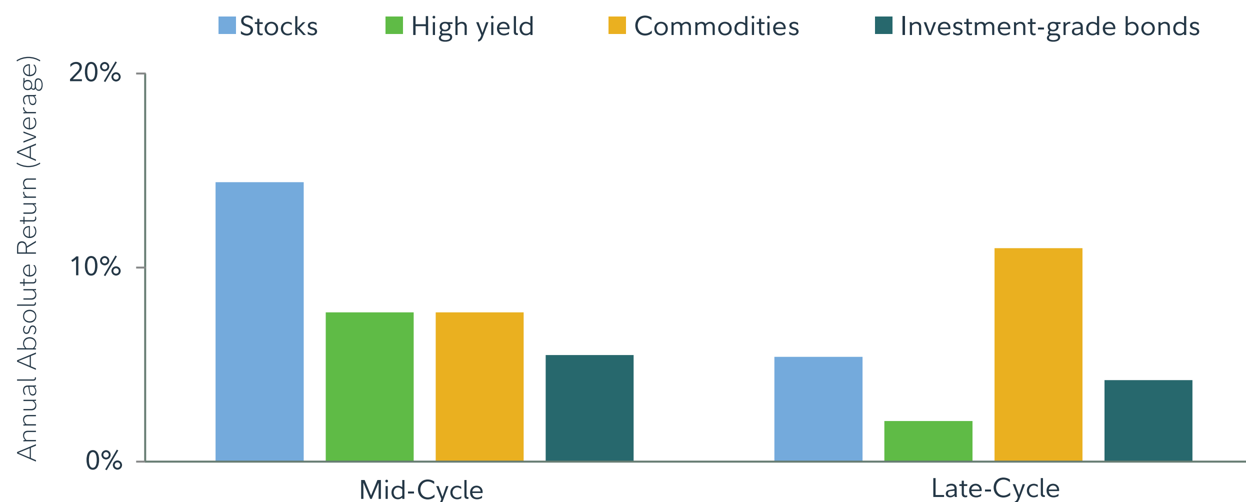


Note: The business cycle above is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments, Asset Allocation and Research Team (AART), as of September 30, 2018.

Historically, stocks and bonds have provided positive returns during late-cycle.

Typically, late-cycle returns have been more modest compared to mid-cycle, and have tended to be more volatile.

- Stock markets may experience more volatility during late-cycle due to more uncertainty about corporate profits and economic growth, but historically, they have experienced positive returns.
- Stocks have usually performed better than bonds, but less consistently so.
- Meanwhile, commodities and inflation-protected bonds (TIPS) tend to gain in value during these periods.



Past performance is no guarantee of future results. Asset class total returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg Barclays. Fidelity Investments source: a proprietary analysis of historical asset class performance, which is not indicative of future performance.

As the economy matures, we may make shifts to the mix of investments in your portfolio.

For example, we may gradually lower your allocation to stocks and high-yield bonds to reduce the level of risk in your portfolio.

- Within stocks, we will seek to emphasize companies that have stable earnings and healthy balance sheets.
- Within bonds, we may slowly increase your allocation to treasuries and corporate bonds with strong credit ratings, as they can provide stability during late-cycle.
- We might also invest in commodities and inflation-protected bonds (TIPS), as they have historically performed well in a maturing economy.
- For clients with taxable accounts, we may look for opportunities to harvest tax losses during periods of market volatility in order to reduce your tax liability.

Potential portfolio changes as economy matures:

▼	Stocks
▼	High-yield bonds
▲	Investment-grade bonds (e.g., treasuries, corporate bonds)
▲	Commodities
▲	TIPS

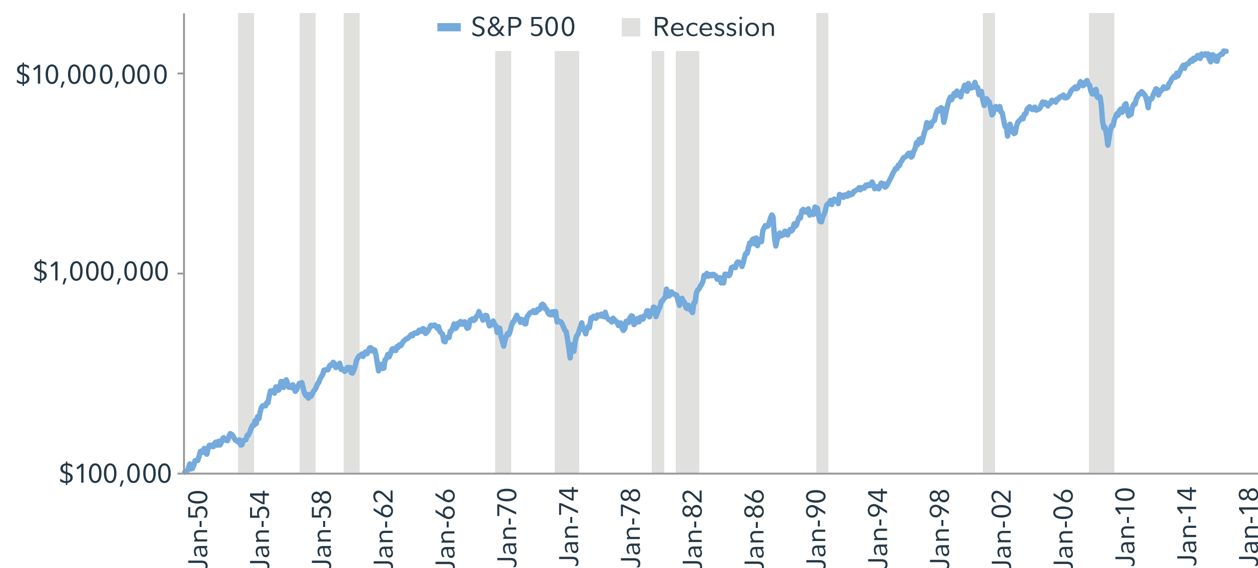
It's important to stay invested and focus on your long-term financial goals.

Since 1950, stocks have grown through 10 complete business cycles.

- As shown on the chart to the right, investing in stocks has led to significant investment growth over the long term, even as the U.S. economy has experienced occasional recessions and market downturns.
- A shift to late-cycle could lead to more stock volatility, which can make it challenging to stick to your investment plan, but stocks are likely to grow during this time.
- Therefore, we believe that remaining disciplined and sticking with a diversified mix of stocks, bonds, and other investments, can help you reach your financial goals.

Despite downturns, the stock market continues to grow over time

Growth of $100,000 (1950–2018)



Past performance is no guarantee of future results. Source: Bloomberg Finance L.P., National Bureau of Economic Research (NBER) 1950–2018. The chart shows the growth of a $100,000 investment from January 1, 1950, to January 1, 2018, based on cumulative total returns for the S&P 500 Index. 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. See appendix for index definitions.

Key takeaways

The U.S. economy continues to grow despite an increase in market volatility, but is showing some signs of maturity.

If the U.S. economy continues to mature, it may shift to a late-cycle expansion, which is still a positive environment for stocks and bonds, but with more modest growth.

As economic conditions change, we may make modest adjustments to your portfolio to help you reach your financial goals.

Views expressed are as of December 13, 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 ensures a profit or protects against loss.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Past performance does not guarantee future results.

This presentation does not constitute an offer or solicitation to any person in any jurisdiction in which such offer or solicitation would be unlawful. Nothing contained herein constitutes investment, legal, tax, or other advice, nor is it to be relied on in making an investment or other decision. No assumptions should be made regarding the manner in which a client's account should or would be handled, as appropriate investment strategies will depend upon each client's investment objectives. None of the information contained herein takes into account the particular investment objectives, restrictions, tax or financial situation, or other needs of any specific client. Certain strategies discussed herein give rise to substantial risks and are not suitable for all investors. The information contained in this material is only as current as the date indicated, and may be superseded by subsequent market events or for other reasons. The information provided by third parties has been obtained from sources believed to be reliable, but Strategic Advisers LLC makes no representation as to its accuracy or completeness. Statements concerning financial market trends are based on current market conditions, which will fluctuate. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

It is not possible to invest directly in an index.

The S&P 500® Index is an unmanaged, market capitalization–weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to present U.S. equity performance.

The CBOE Volatility Index is a weighted average of prices on S&P 500 Index options with a constant maturity of 30 days to expiration. It is designed to measure the market's expectation of near-term stock market volatility.

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.

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.

This material may not be reproduced or redistributed without the express written permission of Strategic Advisers LLC.

Optional investment management services provided for a fee through Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser and a Fidelity Investments company. Discretionary portfolio management provided by its affiliate, Strategic Advisers LLC, a registered investment adviser. **These services are provided for a fee.**

Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. FPWA, Strategic Advisers, FPTC, FBS, and NFS are Fidelity Investments companies.

Fidelity Brokerage Services LLC, Member NYSE and SIPC, 900 Salem Street, Smithfield, RI 02917

© 2018 FMR LLC. All rights reserved.

867731.5.0

For more information, please contact your Fidelity associate at 800-544-3455 or visit Fidelity.com.