What you should know

The goal of this guide is to provide answers to our clients’ top questions, as well as provide information to help you navigate the market environment.
THE FOLLOWING PAGES REVIEW:

NAVIGATING THE CURRENT ENVIRONMENT
- Why are we in a period of high inflation?
- What is the role of the Federal Reserve?
- How has inflation impacted where the U.S. is in the business cycle?
- What are some considerations for investing during periods of inflation?

PLANNING AND INVESTING DURING UNCERTAINITY
- Why is having a plan important during times of volatility and inflation?
- How does Fidelity’s planning approach consider inflation and volatility?
- How can investors stay on track for their goals?
- What are some considerations by life-stage?
- What are Fidelity managed accounts?

Recent Fidelity studies reveal:

71%
Say they are very concerned about the impact of inflation on retirement preparedness¹

59%
See inflation as a key concern²

31%
Don’t know how to make sure their retirement savings keeps up with inflation¹

57%
Don’t feel very knowledgeable about the impact of inflation on their investments²

¹Fidelity Investments 2022 State of Retirement Planning study
²Fidelity Investments Market Volatility Study, April 2022
WHY ARE WE IN A PERIOD OF HIGH INFLATION?

Several factors have combined to drive inflation to its highest level in 40 years; these include the global pandemic, the U.S. government’s fiscal response, pent-up consumer demand, the conflict in Ukraine, and disrupted global supply chains.

From 1997 through the end of 2020, we’ve experienced an average inflation rate of just over 2%, but this rate has been outside the historical norm. The low-inflation environment allowed the Federal Reserve to maintain unusually accommodative policies, even during economic expansions, as well as respond to downturns vigorously.

WHAT IS THE ROLE OF THE FEDERAL RESERVE?

The Federal Reserve’s (the Fed’s) mission is to help maximize employment and ensure stability in the prices of goods and services, which it does by adjusting the federal funds rate up and down.

The Fed’s objective in raising interest rates is to help tame inflation. Historically, it has not been uncommon for stocks to go through bouts of volatility during periods of inflation and higher interest rates.

HOW HAS INFLATION IMPACTED WHERE THE U.S. IS IN THE BUSINESS CYCLE?

High inflation can lead to rate hikes, which can quickly drive the business cycle into a mature phase.

Strategic Advisers LLC maintains an up-to-date view on the business cycle, which you can find here: Quarterly Market Perspective.

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Business Cycle Framework

Cycle Phases

<table>
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<tr>
<th>EARLY</th>
<th>MID</th>
<th>LATE</th>
<th>RECESSION</th>
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<tbody>
<tr>
<td>• Activity rebounds (GDP, IP, employment, incomes)</td>
<td>• Growth peaks</td>
<td>• Growth moderates</td>
<td>• Activity falls</td>
</tr>
<tr>
<td>• Credit begins to grow</td>
<td>• Credit growth strong</td>
<td>• Credit tightens</td>
<td>• Credit dries up</td>
</tr>
<tr>
<td>• Profits grow rapidly</td>
<td>• Profit growth peaks</td>
<td>• Earnings under pressure</td>
<td>• Profits decline</td>
</tr>
<tr>
<td>• Policy still stimulative</td>
<td>• Policy neutral</td>
<td>• Policy contractionary</td>
<td>• Policy eases</td>
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<tr>
<td>• Inventories low; sales improve</td>
<td>• Inventories, sales grow, equilibrium reached</td>
<td>• Inventories grow; sales growth falls</td>
<td>• Inventories, sales fall</td>
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The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one.

Source: Fidelity Investments (AART), as of 7/31/22.
Inflationary periods may not have as negative an impact on the stock market as you might expect.

- U.S. and international stocks have the potential to grow through inflationary periods because businesses tend to pass on higher prices to consumers, steadying revenues.
- Historical returns on stocks, as measured by the S&P 500® Index, have been higher on average (10%) during higher interest rate periods than when the Fed has lowered the rate (7%). This highlights that higher rates have typically been a reflection of growth and not a deterrent to it.
- Value stocks have typically outpaced growth stocks when inflation was high and interest rates were rising.

Bonds have historically provided some diversification in times of stock market volatility, especially when their yields are higher.

- With bonds, Treasury Inflation-Protected Securities (TIPS) have historically performed well as inflation rises.
- For high-quality bonds, such as U.S. Treasuries, higher yields can help drive future returns over time.
- High-yield bonds, floating-rate bonds, and global bonds have historically performed well as rates have risen.

Real assets and commodities may hedge against inflation due to increasing demand and rising prices.

- Real estate stocks or real estate investment trusts (REITs) may do well against a backdrop of economic growth and higher inflation.
- Investments tied to commodity prices have historically benefited from inflation as demand rises.

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Keep in mind that investing involves risk, including risk of loss.

4. Past performance is no guarantee of future results. Performance metrics reflect S&P 500® index. Indexes are unmanaged. It is not possible to invest directly in an index. This is an average of all the rolling returns of the S&P 500 when the 10-yr yield is rising or falling, all month end data, for the period of 1/1/1980 through 8/1/2022. These are price returns. Source: Haver Analytics, Morningstar, FactSet, Fidelity Investments, as of 6/30/2022.

5. Past performance is no guarantee of future results. Performance metrics reflect S&P 500® Value and Growth indexes. Indexes are unmanaged. It is not possible to invest directly in an index. This is monthly data back to 1/1/1995, S&P 500 Value index and S&P 500 Growth index using quartiles of Core Consumer Price Index (CPI) percent Change and the 10-year treasury yield, all data is rolling 12 month returns. These are price returns. Source: Haver Analytics, Morningstar, FactSet, Fidelity Investments, as of 6/30/2022.
Even through periods of historically high inflation, some diversified portfolios have outpaced inflation better than short-term investments.
Why Is Having a Plan Important During Times of Volatility and Inflation?

• Having a plan is important in all economic environments. Investors who have a mix of stocks, bonds, and short-term investments based on their investment goals and time horizon may already have some protection against inflation due to their well-diversified portfolio.

• Clients can feel confident that Fidelity’s approach to planning and market assumptions used in our planning tools are reasonable over longer periods of time. If you are concerned about near-term impacts on your plan, please reach out.

Impact of Inflation on Retirement Expenses

Even moderate inflation drives up your annual expenses over time. If you begin your retirement with an annual withdrawal of $100,000, see what your lifestyle will cost after 25 years at three different rates of inflation in the graph at right.

Source: Fidelity analysis based on hypothetical expenses over time. This assumes that you begin retirement with an annual withdrawal of $100,000, and projects expenses over the next 25 years at three different hypothetical rates of inflation. This hypothetical example is for illustrative purposes only.
HOW DOES FIDELITY’S PLANNING APPROACH ACCOUNT FOR INFLATION AND VOLATILITY?

- Fidelity can analyze multiple scenarios to provide an estimate of whether an adequate amount of assets—and any other sources of income—may be available during the planning horizon to cover expenses.

- When running analyses, we look to have 90% confidence in the outcomes, meaning that 90% of the time the simulated scenarios will be estimated to provide assets equal to or exceeding the amount necessary to meet expenses throughout the plan.

- Considering recent and expected volatility, we can further test a plan’s resilience by adjusting discretionary and/or essential expenses higher and assessing the impact on plan outcomes.

HOW CAN INVESTORS STAY ON TRACK FOR THEIR GOALS?

Understanding how emergency funds, insurance, and investment strategies work together can help investors more comfortably address inflation while helping to keep them on track toward their goals.

- **Emergency:** Investors from all life stages should incorporate emergency funds as a core feature of their financial plan; the amount needed and location of investments in the appropriate tax-deferred or tax-exempt accounts depends on their goals and life stage.

- **Protection:** Protection can take many forms, helping to provide peace of mind for elements of a financial plan. An important role of protection is to help investors feel confident in staying invested through volatility, which may help realize long-term appreciation while offsetting the impact of inflation.

- **Growth:** Growth strategies are intended to provide asset appreciation; staying invested even through up-and-down markets can help savings keep pace with inflation and help accumulate wealth.

Additional Resources

- Market volatility: Strategies for uncertain times
- Inflation and you

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## WHAT ARE SOME CONSIDERATIONS BY LIFE STAGE?

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<th>Growth</th>
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<td><strong>PRERETIREES/RETIREES</strong></td>
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<tr>
<td>• Investors may want to add to their emergency fund to help cover the cost of an unexpected expense.</td>
<td>• A diversified investment plan, appropriate insurance solutions, and an estate plan can help address concerns about rising prices, lifestyle, and legacy.</td>
<td>• Investors who have a solid emergency plan in place may consider holding less cash and investing for growth potential, depending on their time horizon, goals, and tolerance for risk.</td>
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<td>• While it may not be wise to leave a lot of investable assets in cash, it’s still important to be prepared for short-term liquidity needs.</td>
<td>• Investors’ estate plans should be flexible enough to adapt to changes while assisting with the accomplishment of their goals.</td>
<td>• Cash can be counterproductive during inflationary periods, so investors in the accumulation phase may want to invest for growth potential.</td>
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<td>• Investors may still need to adjust their standard of living or the amount available for heirs to cover health care, especially if care may be higher than the industry average.</td>
<td></td>
<td>• Taking money out of the market can have a substantial effect on long-term performance; missing out on the market’s 10 best days over roughly four decades has historically reduced wealth by as much as 55%.*</td>
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**ACCUMULATORS** *(actively growing wealth)*

• Investors may want to add to their emergency fund to help cover the cost of an unexpected expense.

• It is a general industry norm that investors set aside enough to cover three to six months of expenses.

• Taxes can be one of the main drags on portfolio performance.

• Tax-loss harvesting and properly locating investments in the appropriate tax-deferred or tax-exempt accounts can help limit the impact of capital gains taxes.

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*Source: Fidelity’s 6 tips to navigate volatile markets. The hypothetical example assumes an investment that tracks the returns of the S&P 500® Index and includes dividend reinvestment but does not reflect the impact of taxes, which would lower these figures. There is volatility in the market, and a sell at any point in time could result in a gain or loss. Your own investing experience will differ, including the possibility of loss. You cannot invest directly in an index. Diversification and asset allocation do not ensure a profit or guarantee against loss.*
PLANNING AND INVESTING DURING UNCERTAINTY

WHAT ARE FIDELITY MANAGED ACCOUNTS?

We work to make investing clear and straightforward so that you can feel more confident about your decisions. Then we take on the work for you and make adjustments as needed.

For many of our managed accounts, those adjustments are done by our team at Strategic Advisers. Strategic Advisers publishes a quarterly view on the economy, which discusses the adjustments they’re making within managed accounts. Find the latest Quarterly Market Perspective.

FAST FACTS ABOUT FIDELITY MANAGED ACCOUNTS:

- Fidelity can professionally manage investments tailored to investors’ unique goals and preferences.
- Through Fidelity® Wealth Services, clients can work with a financial advisor who can help them invest and plan for their full financial picture.
- There are a range of preference options available, including a mix of investments, a defensive approach, and the types of securities we use to build each account.
- Where appropriate, we also apply tax-smart investing techniques* throughout the year to help clients keep more of what their investments earn.

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*Tax-smart (i.e., tax-sensitive) investing techniques, including tax-loss harvesting, are applied in managing certain taxable accounts on a limited basis, at the discretion of the portfolio manager, primarily with respect to determining when assets in a client’s account should be bought or sold. Assets contributed may be sold for a taxable gain or loss at any time. There are no guarantees as to the effectiveness of the tax-smart investing techniques applied in serving to reduce or minimize a client’s overall tax liabilities or as to the tax results that may be generated by a given transaction.

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**Investing involves risk, including risk of loss.**

**Past performance is no guarantee of future results.**

Diversification and asset allocation do not ensure a profit or guarantee against loss.

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This information is intended to be educational and is not tailored to the investment needs of any specific investor. Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk.

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Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. 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. These risks are particularly significant for investments that focus on a single country or region.

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. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

Changes in real estate values or economic conditions can have a positive or negative effect on issuers in the real estate industry, which may affect these types of funds.

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

**Index definitions:** Indexes are unmanaged. It is not possible to invest directly in an index. 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. The Bloomberg US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, U.S. dollar–denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate pass-throughs), asset-backed securities, and collateralized mortgage-backed securities (agency and non-agency). The MSCI World ex USA Index captures large and mid-cap representation across the developed markets countries (excluding the United States). The index covers approximately 85% of the free float-adjusted market capitalization in each country. Index returns are adjusted for tax withholding rates applicable to U.S.-based mutual funds organized as Massachusetts business trusts (NR). The Dow Jones U.S. Total Stock Market Index is a float-adjusted market capitalization–weighted index of all equity securities of U.S.-headquartered companies with readily available price data. The Consumer Price Index for All Urban Consumers represents the buying habits of the residents of urban or metropolitan areas in the United States.

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