Business Cycle Update: U.S. and Global Economies in Advanced Stages of the Cycle

United States
- The U.S. is in the late-cycle phase, characterized by tight labor markets, less accommodative monetary policy, and a flattening yield curve.
- Recession risk remains low, and the U.S. consumer backdrop is strong amid a low unemployment rate, accelerating wage growth, and manageable financial obligations.
- Corporate earnings growth in 2019 is expected to decelerate as businesses face margin pressures from higher wages, global demand remains tepid, and the boost from 2018 tax changes fades.
- The policy backdrop is highly uncertain, with the direction of monetary and trade policies unclear.

Global
- Global growth remains positive but has become more uneven, and many major economies have progressed toward more advanced stages of the business cycle.
- Global manufacturing remains in expansion, but the outlook has deteriorated and activity levels have likely passed their peak.
- China is in a growth recession, and policy easing measures so far appear insufficient to sustain a reacceleration.
- China’s slowdown, in addition to global monetary tightening and trade-policy uncertainty, has weighed on the industrial sectors in Europe and other export-oriented economies.

Asset allocation outlook
- Consistent with a maturing business cycle, asset class patterns may become less reliable, warranting smaller cyclical tilts and a prioritization on portfolio diversification.
- Meanwhile, low recession risk implies it’s too early to have high conviction in extremely bearish scenarios.
- After an unprecedented period of global monetary easing, the shift toward global monetary tightening has turned into a liquidity headwind that may cause asset-market volatility to remain elevated.
- Overall, we expect the late-cycle environment to provide a less favorable risk-return profile for asset markets than during recent years.

Business Cycle Framework
The business cycle, which is the pattern of cyclical fluctuations in an economy over a few years, can influence asset returns over an intermediate-term horizon. Cyclical allocation tilts are only one investment tool, and any adjustments should be considered within the context of long-term portfolio construction principles and strategic asset allocation positioning.

Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of Jan. 31, 2019.
BUSINESS CYCLE UPDATE: U.S. AND MANY GLOBAL ECONOMIES IN ADVANCED STAGES OF THE CYCLE

Information provided in this document is for informational and educational purposes only. To the extent any investment information in this material is deemed to be a recommendation, it is not meant to be impartial investment advice or advice in a fiduciary capacity and is not intended to be used as a primary basis for you or your client’s investment decisions. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in them, and receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Views expressed are as of February 2019, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

Investment decisions should be based on an individual’s own goals, time horizon, and tolerance for risk. Nothing in this content should be considered to be legal or tax advice, and you are encouraged to consult your own lawyer, accountant, or other advisor before making any financial decision.

Fixed income securities carry inflation, credit, and default risks for both issuers and counterparties.

Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rates rise, bond prices usually fall, and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments. Additionally, bonds and short-term investments entail greater inflation risk—or the risk that the return of an investment will not keep up with increases in the prices of goods and services—than stocks. Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Stock markets, especially non-U.S. markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

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.

All indices are unmanaged. You cannot invest directly in an index.

Third-party marks are the property of their respective owners; all other marks are the property of FMR LLC.

The Chartered Financial Analyst (CFA) designation is offered by the CFA Institute. To obtain the CFA charter, candidates must pass three exams demonstrating their competence, integrity, and extensive knowledge in accounting, ethical and professional standards, economics, portfolio management, and security analysis, and must also have at least four years of qualifying work experience, among other requirements.

If receiving this piece through your relationship with Fidelity Institutional Asset Management® (FIAM), this publication may be provided by Fidelity Investments Institutional Services Company, Inc., Fidelity Institutional Asset Management Trust Company, or FIAM LLC, depending on your relationship.

If receiving this piece through your relationship with Fidelity Personal & Workplace Investing (PWI) or Fidelity Family Office Services (FFOS), this publication is provided through Fidelity Brokerage Services LLC, Member NYSE, SIPC.

If receiving this piece through your relationship with Fidelity Clearing and Custody Solutions® or Fidelity Capital Markets, this publication is for institutional investor or investment professional use only. Clearing, custody, or other brokerage services are provided through National Financial Services LLC or Fidelity Brokerage Services LLC, Members NYSE, SIPC.

© 2019 FMR LLC. All rights reserved.

874721.1.0