
**United States**
- The U.S. is firmly in the late-cycle phase as evidenced by tight labor markets, challenged corporate profit margins, and a flat yield curve.
- The U.S. consumer remains solid amid low unemployment, but sentiment indicators are beginning to decline from their peaks—a typical pattern during late cycle.
- Corporate hiring and capital spending intentions have declined amid a weak global backdrop.
- The Federal Reserve has eased monetary policy. Historically, rate cuts have been less effective late in the economic cycle.

**Global**
- The global business cycle continues to mature, and most major economies are in the late-cycle phase.
- China’s monetary and fiscal policy easing has helped stabilize industrial activity, but a material reacceleration from its growth recession remains unlikely.
- Trade tensions and higher tariffs, particularly between the U.S. and China, have cast a shadow over corporate confidence in the highly integrated global economy.
- Overall, weaker global manufacturing and trade activity have shown few signs of abating, and it remains to be seen whether policy easing measures will prove sufficient to incite a sustained global reacceleration.

**Asset allocation outlook**
- Consistent with a maturing business cycle, asset-class patterns may become less reliable, warranting smaller cyclical tilts and prioritization of portfolio diversification.
- The move to a global monetary easing cycle may boost asset valuations and provide support for financial conditions in the near term, but trade policy uncertainty and a multitude of economic headwinds may blunt the ability of monetary easing to stimulate global growth.
- Overall, we expect the late-cycle environment to provide more volatility and 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.

<table>
<thead>
<tr>
<th>Cycle Phases</th>
<th>EARLY</th>
<th>MID</th>
<th>LATE</th>
<th>RECESSSION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Activity rebounds (GDP, IP, employment, incomes)</td>
<td>Growth peaking</td>
<td>Growth moderating</td>
<td>Falling activity</td>
</tr>
<tr>
<td></td>
<td>Credit begins to grow</td>
<td>Credit growth strong</td>
<td>Credit tightens</td>
<td>Credit dries up</td>
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<tr>
<td></td>
<td>Profits grow rapidly</td>
<td>Profit growth peaks</td>
<td>Earnings under pressure</td>
<td>Profits decline</td>
</tr>
<tr>
<td></td>
<td>Policy still stimulative</td>
<td>Policy neutral</td>
<td>Policy contractionary</td>
<td>Policy eases</td>
</tr>
<tr>
<td></td>
<td>Inventories, sales grow; equilibrium reached</td>
<td>Inventories, sales grow; sales growth falls</td>
<td>Inventories grow; sales growth falls</td>
<td>Inventories, sales fall</td>
</tr>
</tbody>
</table>

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 has skipped a phase or retraced an earlier one. * A growth recession is a significant decline in activity relative to a country's long-term economic potential. We use the "growth cycle" definition for most developing economies, such as China, because they tend to exhibit strong trend performance driven by rapid factor accumulation and increases in productivity, and the deviation from the trend tends to matter most for asset returns. We use the classic definition of recession, involving an outright contraction in economic activity, for developed economies. Source: Fidelity Investments (Asset Allocation Research Team), as of Oct. 31, 2019.
BUSINESS CYCLE UPDATE: U.S. AND GLOBAL BUSINESS CYCLES CONTINUE TO MATURE

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