

China Emerging from Hibernation??
Russia Breathing Fire?
Where Go Economies and Markets?



How Do You Compare Investment Opportunities Around the World?





*U.S.
Stock Markets*

**Rising
Corporate
Earnings**

**Benign
Inflation/
Interest Rates
and Ample
Liquidity**

**Reasonable
Valuations**

Rising Corporate Earnings

Tailwinds

U.S. Net Worth \nless \$63T since GFC

Fiscal Spend Remains High

Job Openings Still Strong

Lag Effect of Covid Spending

Headwinds

Huge Setback in Net Worth

Sticky Inflation

Aggressive Fed

China and Supply Chain

Debt Everywhere

Demographics

Cyber Risk

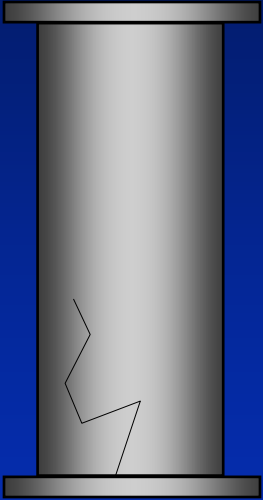
Less Fertilizer

Droughts/Fires

Increasing Regulation

Wavering Consumer Confidence

World Event Risk



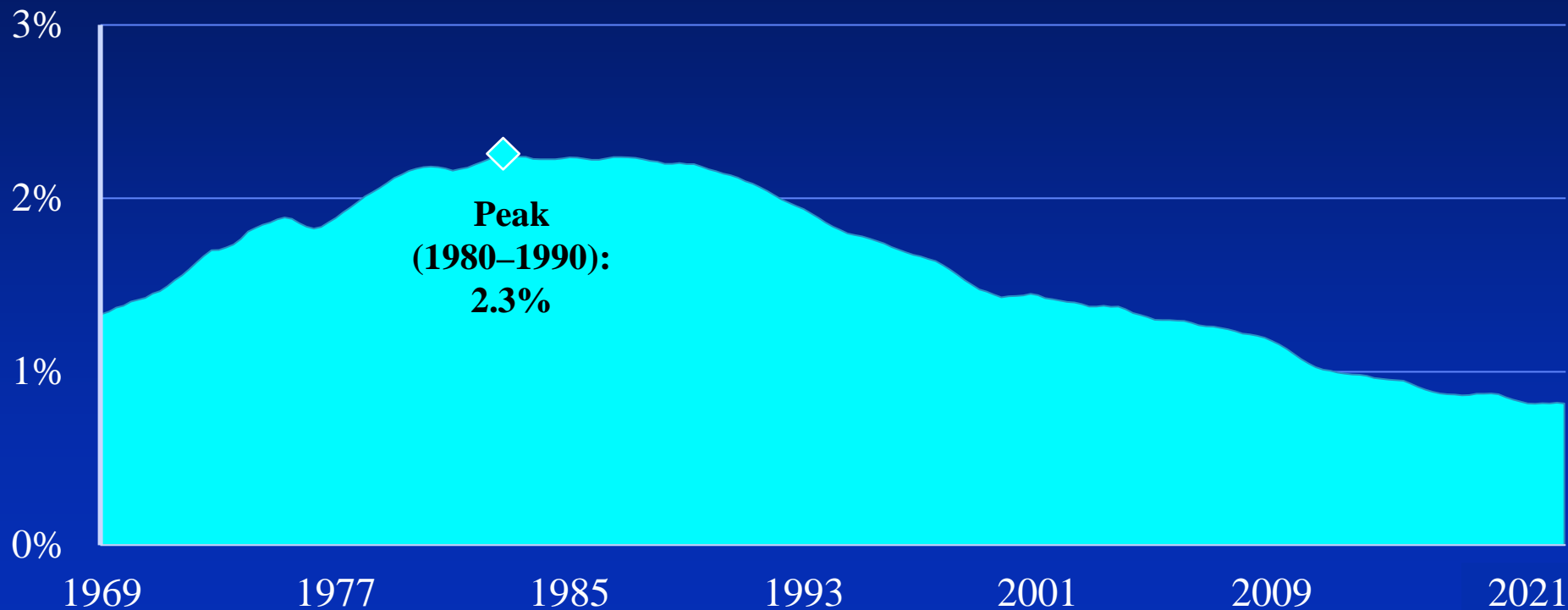
Huge Plunge in Net Worth

Household Net Worth (\$T, 2-Year Change)



Slower U.S. Economic Growth Likely

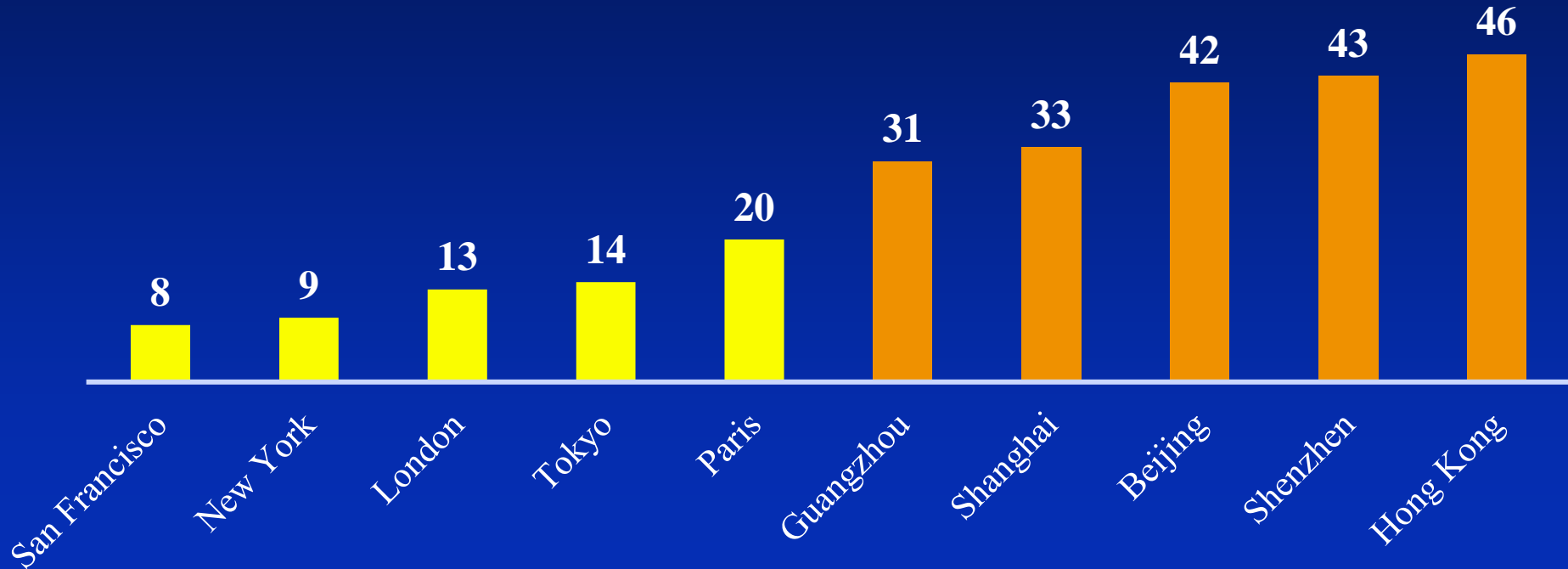
Labor Force Contribution Peaked 40 Years Ago



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 12/28/2020.

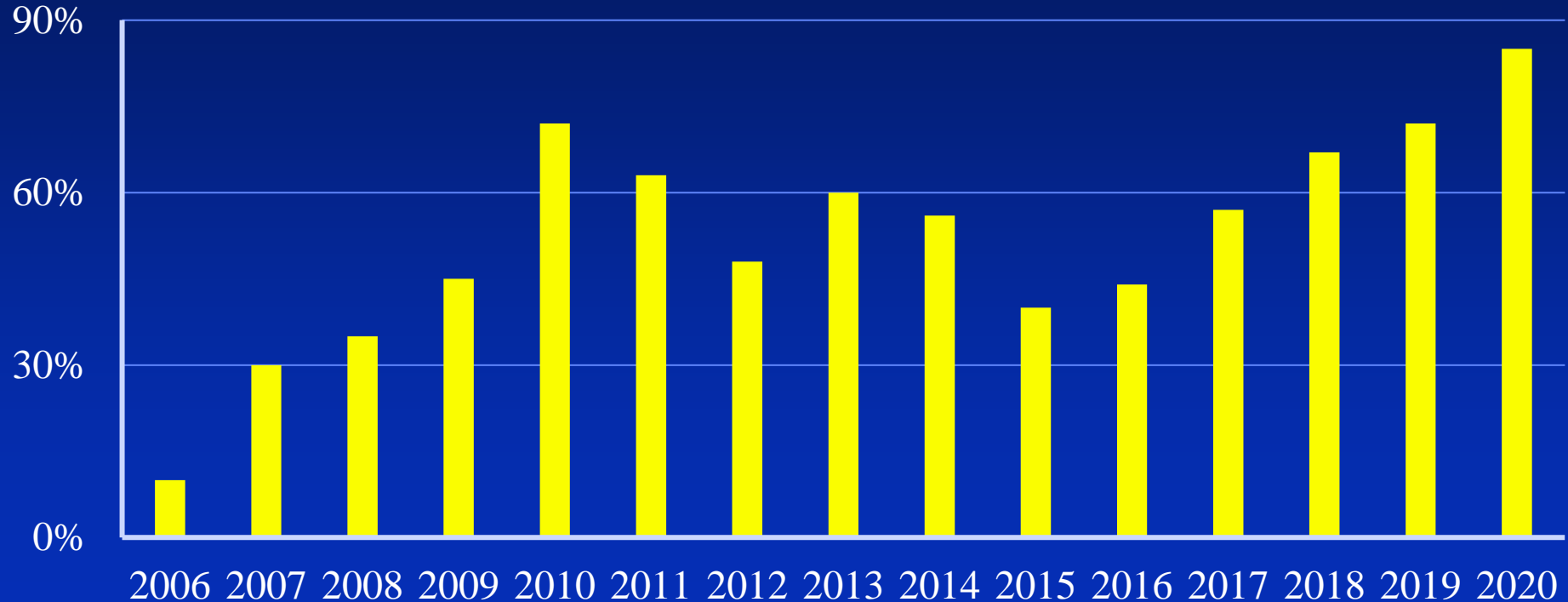
Chinese Real Estate Bubble?

Home-Price-to-Annual-Income Ratios



Look at Where Cities Get Their Money

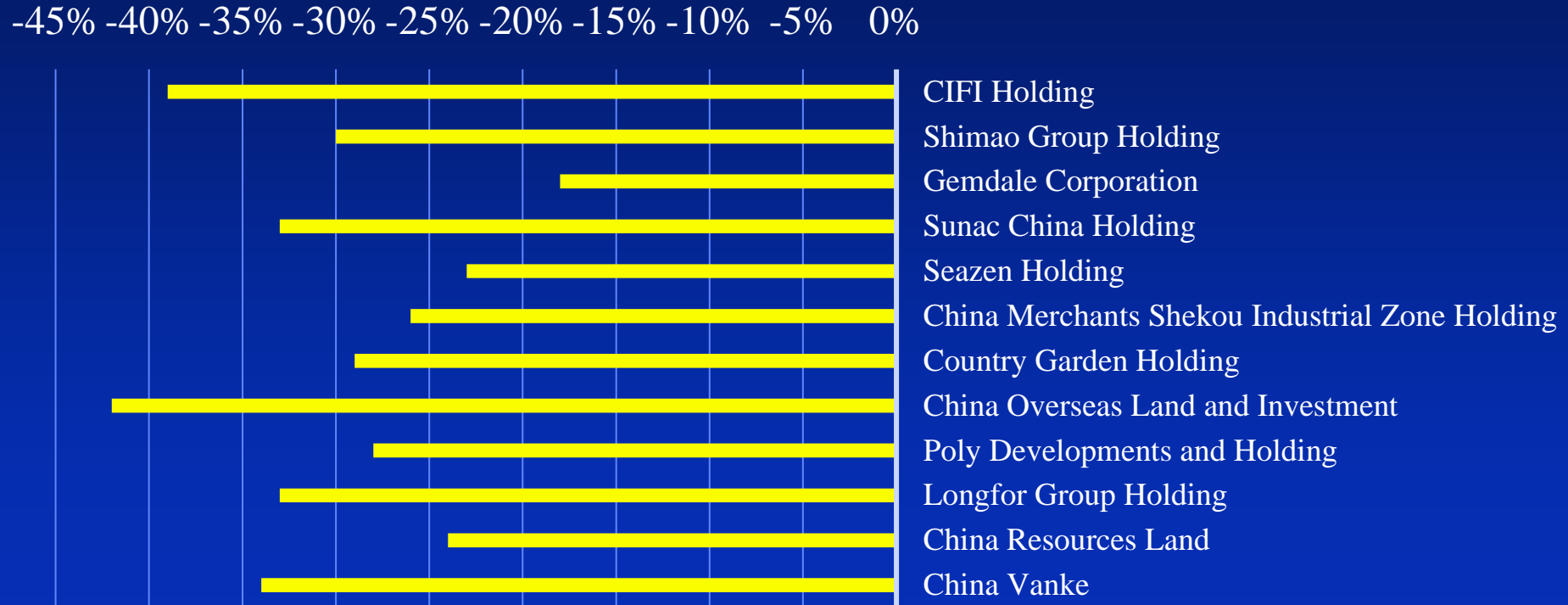
China Land Sales as a Share of Local Government Revenues



Source: CEIC, Empirical Research Partners analysis, as of 9/26/2022.

Real Estate Development Plunging

Chinese Development Companies, Year-over-Year Changes in Contract Sales



China Stifling Growth?

Real estate collapse is happening

- “Common prosperity”
- “Do it for the Party”
- “De-emphasize profits”
- Anti-celebrity/anti-wealth/anti-monopoly
- Property tax? Inheritance tax?
- Judiciary risk rising
- Hong Kong real estate risk
- Developers credit risk HUGE

Why China is Zero Covid

LOCKDOWN

- No homegrown mRNA vaccines yet
- Herd immunity too politically risky this year
- Xi is learning whom he can trust in his next five-year term

China Consumer Risks

Future growth slowdown very possible

- Household debt at 59% of GDP
- Household debt-to-income ratio of 130%
- Residential housing comprises three-quarters of Chinese household wealth
- Very poor pension plans (must increase retirement age)

The China Trade Challenge

- U.S. companies must share cutting-edge technology (must form local joint venture)
- Outright theft of intellectual property
- Non-tariff barriers (inspections, ownership limits, technical standards, subsidies, licensing)
- Cyber theft
- Rare earth bans?
- Lunging for African lithium
- Tariff barriers

*Once upon a time, there was a megalomaniac.
His name was Vladimir Putin.*

*His actions have catapulted humanity back to a state
we thought we'd eliminated ... World War II.*

Momentous Developments of Russia's Invasion

A once-in-a-century catastrophe

- Sanctions... freezing Russia's central bank reserves, banks precluded from SWIFT
- Leasing companies forcing grounding of planes, tourism whammy, shutdown of Ukraine and Russia airspace
- Seizing the assets of Russian oligarchs
- Stock market plunge
- The end of Swiss neutrality, Sweden and Finland to join NATO
- Increase in worldwide military spending
- European energy shortages, waves of immigration, wheat/fertilizer/food prices ↗
- Warfare, weaponry is changing (e.g., drones)
- Freezing of yesterday's energy production (coal, shale, pipelines)
- Technology imports blocked, exports also
- Realignment of the Russian ruble
- Putin has greater incentives to end the invasion by declaring victory, locking himself into place
- CHANCES OF ESCALATION TO INCREASE... PUTIN DOESN'T CARE

Earnings Growth: Typically 7%, Surged after Pandemic, and SLOWING Now



*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates.

Source: Yardeni, as of 8/20/2021.

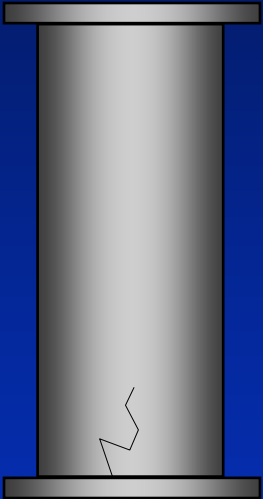
Benign Inflation / Interest Rates / Ample Liquidity

Positives

Inflation Rolling Over
Aging Demographics
Technology
Stronger Dollar
Plenty of Labor

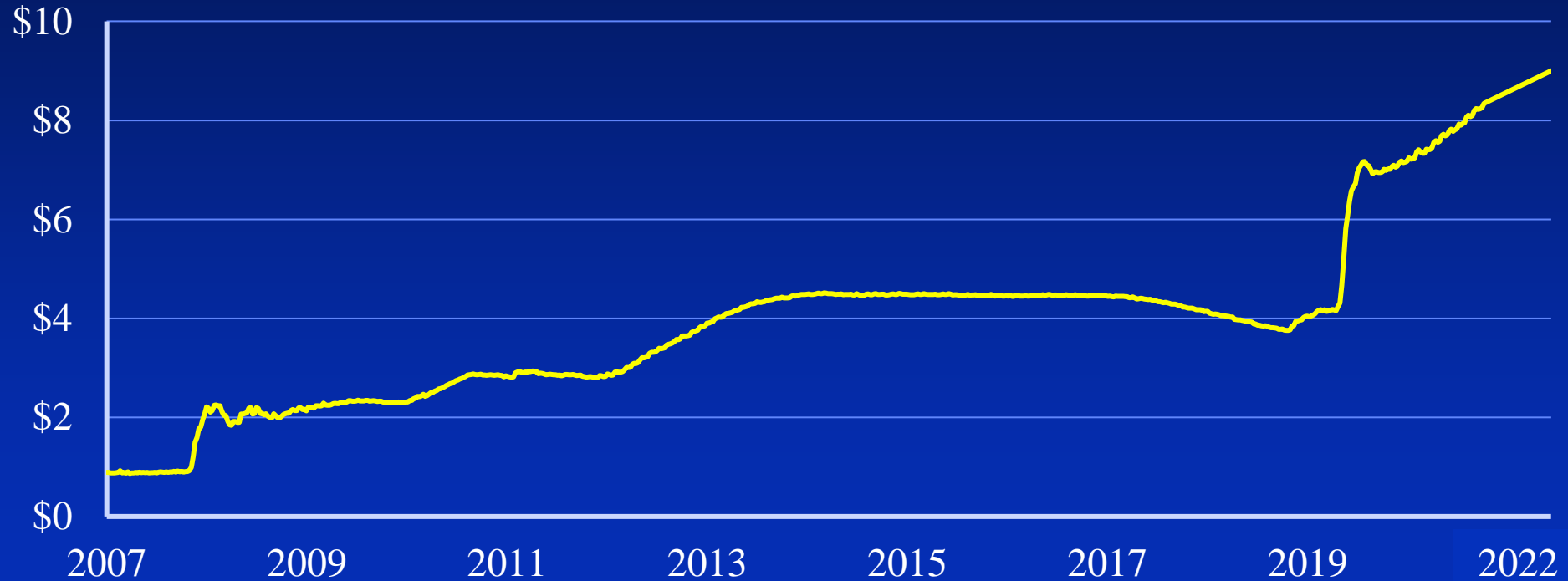
Risks

War Restricting Commodities
Slowdown in Globalization
Colossus of Printed Money
Fed: Game Over
Huge Budget Deficits
Illinois Debt Near Junk-Bond Status
Huge Debt Levels
Labor/Semis Shortage
Truckers/Ports
Too Fast a Move to Green (China and Europe Power Supply)



Quantitative Easing (Money Printing)

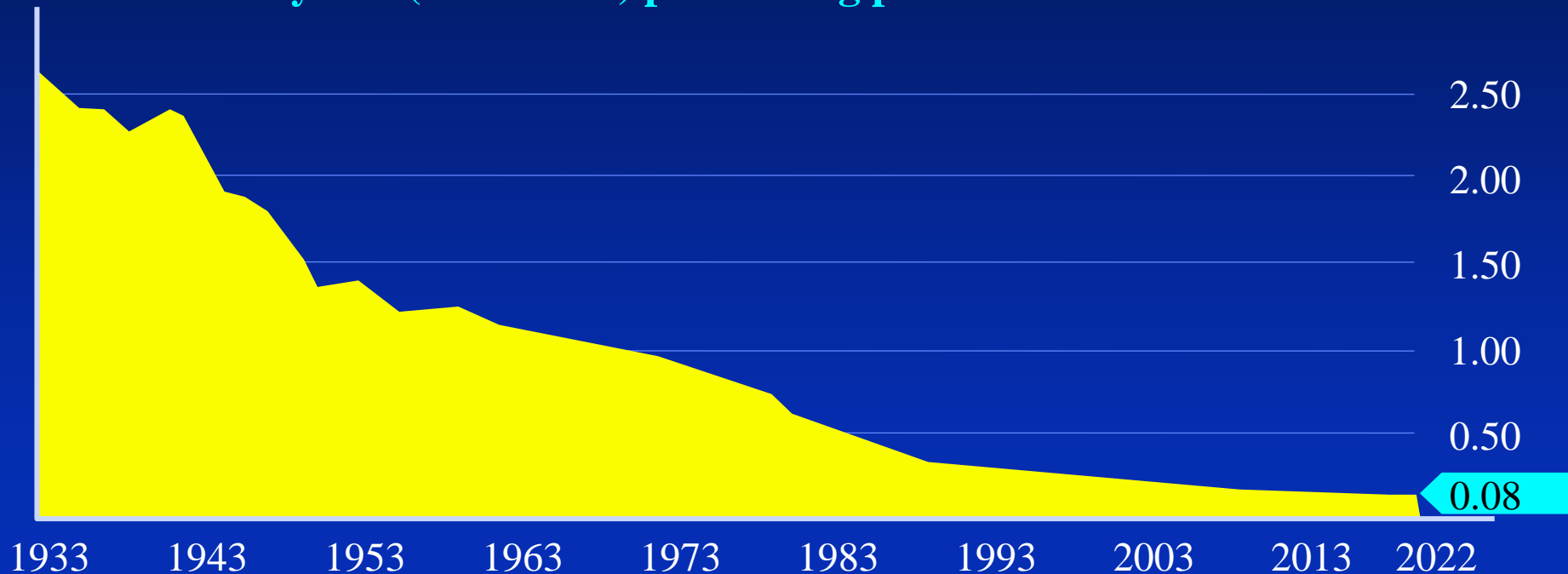
Fed Balance Sheet (\$T)



From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2022)

89 years (1933-2022) purchasing power of USD down 97%



Monetary Tightening Slowing Growth amid Inflation

Global Short Rates



Source: Evercore ISI, as of 11/16/2022.

Disinflation/Deflation

U.S. Import Core Prices (Year-over-Year)



Source: Evercore ISI, as of 11/16/2022.

U.S. Weakening at Faster Pace

Evrasi Trucking Survey



Source: Evercore ISI, as of 11/16/2022.

U.S. Weakening at Faster Pace

Evrasi Homebuilders Surveys



Source: Evercore ISI, as of 11/16/2022.

Inflation Slowing

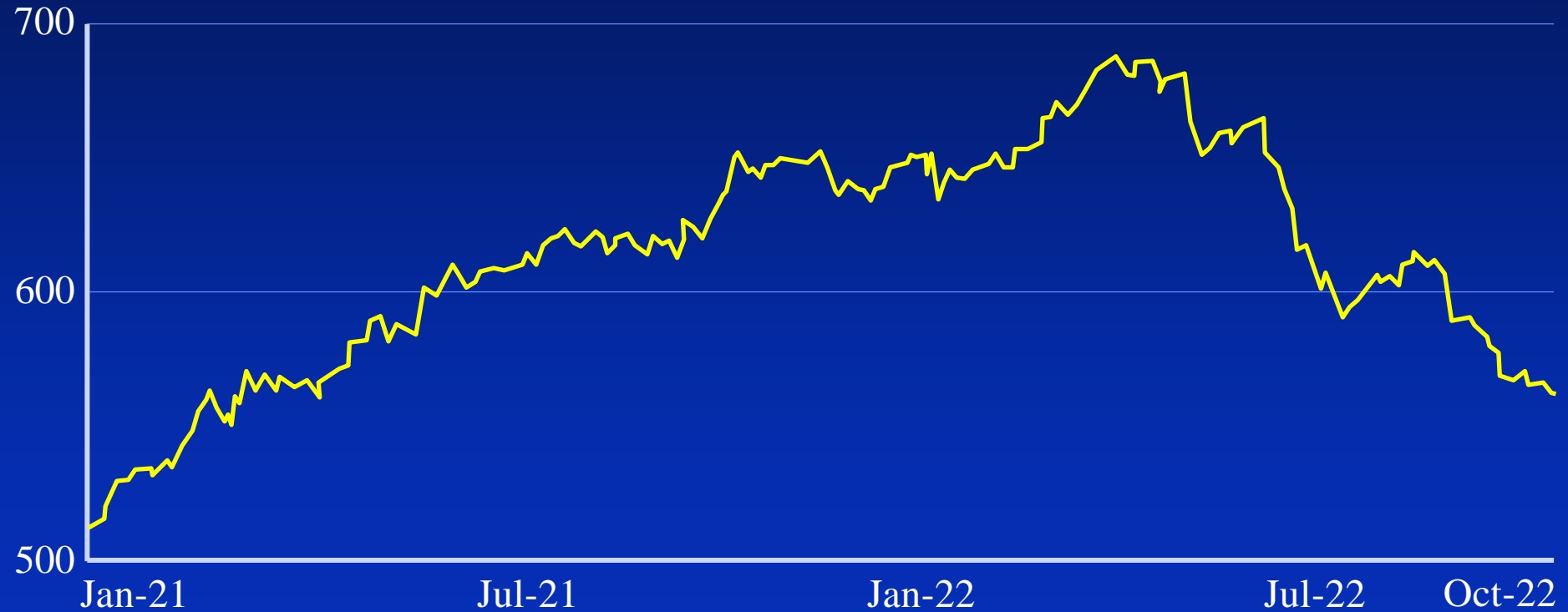
WCI Composite Container Freight Rate



Source: Evercore ISI, as of 11/16/2022.

Inflation Cooling

CRB Raw Industrials Index



Source: Evercore ISI, as of 10/18/2022.

Inflation Rolling Over?

U.S. CPI Year-over-Year



Source: Strategas Research Partners, as of 11/11/2022.

Reasonable Valuations

Positives



Bears vs. Bulls at Record Levels
Put-Call Ratio Record Bearish
Net Worth/Savings Still Big
Margin Improvement Still Good
Insiders Buying

Risks

Russian Invasion
Politics
Central Bankers' Reversal
Stocks Not Cheap
Interest Rates Rising
Huge Yield Inversion
Junk Yield Spreads
DeFi Risk
World Event Risk

Free Cash Flow Generation Has Been the Story Behind the Market for Two Decades...

Large-Cap Stocks Free Cash Flow Margins, 1952–2021



Source: Empirical Research Partners, as of 11/22/2021.

Let's Look at the Numbers...

Then & Now: August 1982 vs. December 2022

	August '82	Current
Fed Funds Rate	10.25%	4%
10 Year UST Yield	13.6%	3.7%
Trailing S&P 500 P/E	8.8 x	18.0 x
Price to Book	1.0 x	2.6 x
Dividend Yield	6.6%	1.9%
Top Marginal Tax Rate	50%	37%
Capital Gains Tax Rate	20%	23.8%

Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP



Source: GuruFocus as of 4/13/2022.

Socialism Momentum

Growth AND Valuations at Risk

- Venezuela an example
- Innovation depends on respect for creativity and wealth
- Socialism targets the values, rights, and assets of successful entrepreneurs
- Government imposition of price/loan rate/rent/exchange controls always has caused shortages and economic decline

Authoritarian Expansion via Nationalism/Surveillance/ Repression of Dissent/Manipulation

(Control/Stability/Security vs. Democracy/Privacy)

Countries with Autocratic Leadership

Russia	India?	Nicaragua	Ethiopia
China	Philippines	Guatemala	Libya
Iran	Austria	Mozambique	Togo
Saudi Arabia	Moldova	Uganda	Zimbabwe
Hungary	Romania	Lebanon	Central African Republic
Poland	Czech Republic	Egypt	Kuwait
Turkey	Kazakhstan	Malaysia?	United Arab Emirates
Afghanistan	Singapore?	Myanmar	Morocco
Cambodia	Tanzania	Nigeria	Belarus
Thailand	Venezuela	Sudan	Uzbekistan
Brazil?	Cuba	South Sudan	Azerbaijan
North Korea	Laos	Equatorial Guinea	Tajikistan
Syria	Paraguay	Eritrea	

Would You Feel Comfortable and Confident Running a Country at Age 70?

• Cameroon	Biya	89	• U.S.	Trump	76
• Palestinians	Abbas	87	• India	Modi	72
• Vatican	Francis	86	• Russia	Putin	70
• Iran	Khamenei	83	• China	Xi	69
• U.S.	Pelosi	82	• S. Korea	Moon	69
• U.S.	Sanders	81	• Mexico	Obrador	69
• U.S.	McConnell	80	• Turkey	Erdogan	68
• U.S.	Biden	80			

World Event Risk

Potential Disasters

Russia / Ukraine
China / Trade / Taiwan / Hong Kong / Hegemony
Israel / Palestine
Iran / Syria / Lebanon / Iraq / Kurdistan / Afghanistan
Cyber Warfare
Iran Deal / Nuclear Proliferation
North Korea / South Korea
Turkey / Syria / Treaties
Pakistan / India
Thailand
Venezuela / Chile / Bolivia / Peru
Europe / Brexit / Catalonia / Grexit?
Sino-Russian Entente
Biden Transition / Divided Government
Democracies Regressing / Socialism Advancing?
Vaccine Risk?
Saudi Succession / Autocracy
Egypt / Tunisia / Libya / Yemen / Ethiopia / Kenya
ISIS / Taliban
Environmental: CO2 / Water Levels / Garbage / Fires
Weaponization of Space / AI Robots and Drones / Laser Weaponry

Possible Successes

Vaccines
Israel / Sunni Relations
Trade Breakthrough
Tech Breakthrough / Energy Renaissance
South Asia?
Eurozone / Brexit
Japan?
Israel / Palestine Talks
North Korea
India / Pakistan / China
Charles / Camilla
William / Kate
Thorium / Graphene / Vanadium
Ireland Reunification?
Middle East Democracy
Immunotherapies

How to Cope?

Income & Growth

- Capital & Income Fund
- New Markets Income Fund
- Convertible Securities Fund
- Financials?
- Global E/I
- Option Writing?
- Small Cap Value
- 2-Year Treasuries?
- Treasury Bills
- Preferred Stocks

Growth

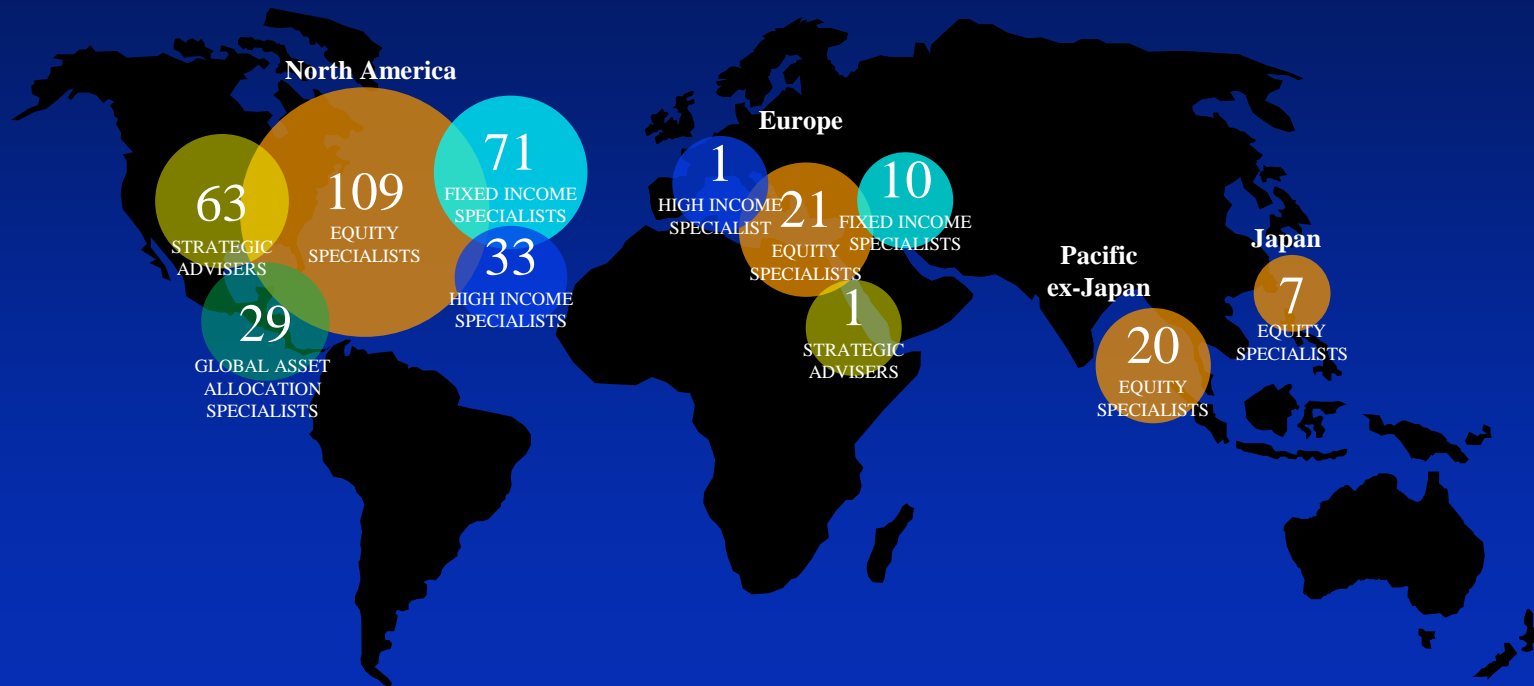
- Blockchain Tech?
- Home Workspaces / Telehealth
- Quantum Computing
- Sensors / Actuators
- Int'l Small Cap Opps
- EV Infrastructure / Solar / Batteries
- Cyber Security / Drones / AI
- Video Production
- Genome / DNA / CRISPR / mRNA
- Small Cap Discovery
- Emerging Market Discovery
- Waste Management

Other

- Commodities
- Quality Closed End
- ESG
- Japan?
- Europe?
- Natural Resources?
- Water Sustainability Fund
- North Korea
- Crypto
- Uranium, copper, lithium, nickel, cobalt
- Silver?
- Oil service
- Defense

Global Breadth Means Identifying Better Opportunities

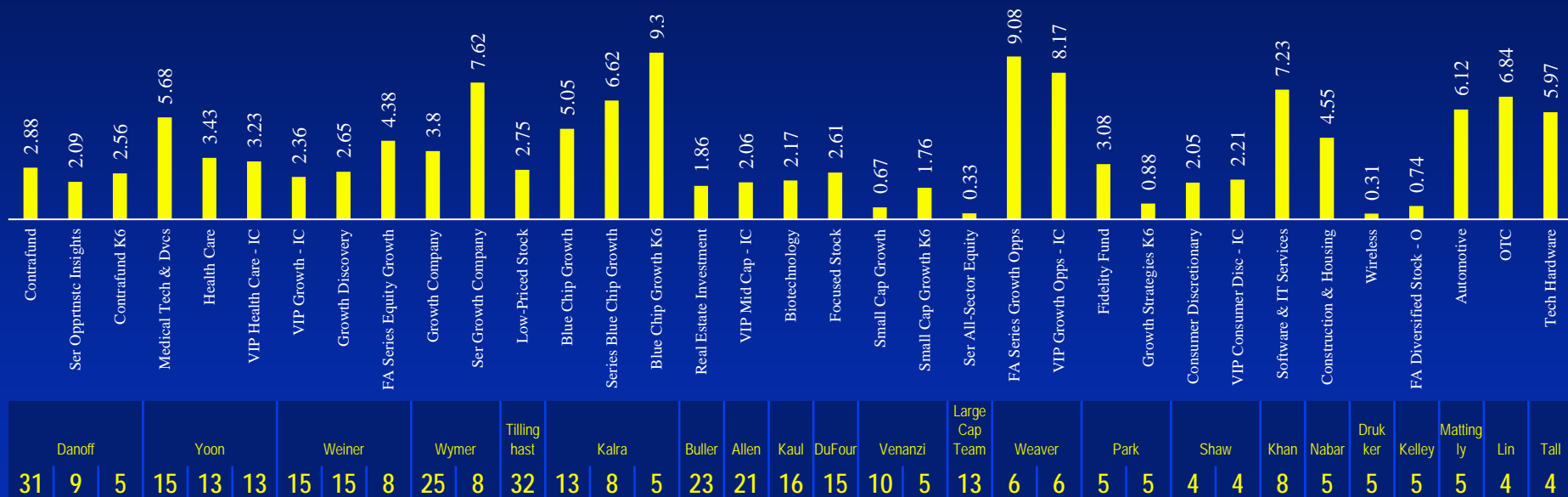
Leveraging the work of over 360 research professionals around the globe*



*Research professionals include both research analysts and associates. Source: Fidelity Investments as of 12/31/2021. Data is unaudited. These figures reflect the resources of Fidelity Management & Research Company, a U.S. company, and its subsidiaries.

Fidelity's Actively Managed Equity Mutual Funds Have Outperformed!

Funds with PMs with >4 Years of Fund Tenure That Have Beaten the S&P 500 by 30bps or More, Annualized Over PM Tenure



Average annual outperformance, excess return percent against the S&P 500, 24 Equity Funds with at least 30 bps (0.30%) of annual active return over current PM tenure. Minimum tenure of 4 years shown. If multiple managers run a fund, lead manager name is shown, unless the fund is team-run, in which case the team's name is shown. Source: FMR Co., as of 12/31/2021. Includes changes in share price and reinvestment of dividends and capital gains. Analysis excludes funds with sales charges. Current performance may be higher or lower than that quoted. Visit i.fidelity.com or call your investment professional for most recent month-end performance. Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold.

Don't Short the United States

(America the Beautiful / Social Capital Huge)

- Work Ethic/Resilience/Flexibility/Choice/Mobility
- Innovation/Ingenuity/Risk profile (think Silicon Valley)
- Capitalistic system fosters competition
- Intellectual and financial magnet
- Competitiveness (deep/liquid capital markets, rule of law, property rights)
- Rehabilitation, not liquidation (via Chapter 11)
- Superior infrastructure (shipping, inventory costs)
- Accounting transparency
- Universities
- Lots of natural gas/fresh water/geographically removed/river network
- Freedoms (ideas, suffrage, religion, immigrants)



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