Middle East War Risk
China Emerging from Hibernation?
Russia Breathing Fire?
Inflation and U.S. Economy Having Peaked?
Lead to…??

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Managing Director, Fidelity Investments
Former Chief Investment Officer
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Fidelity Investments
245 Summer Street
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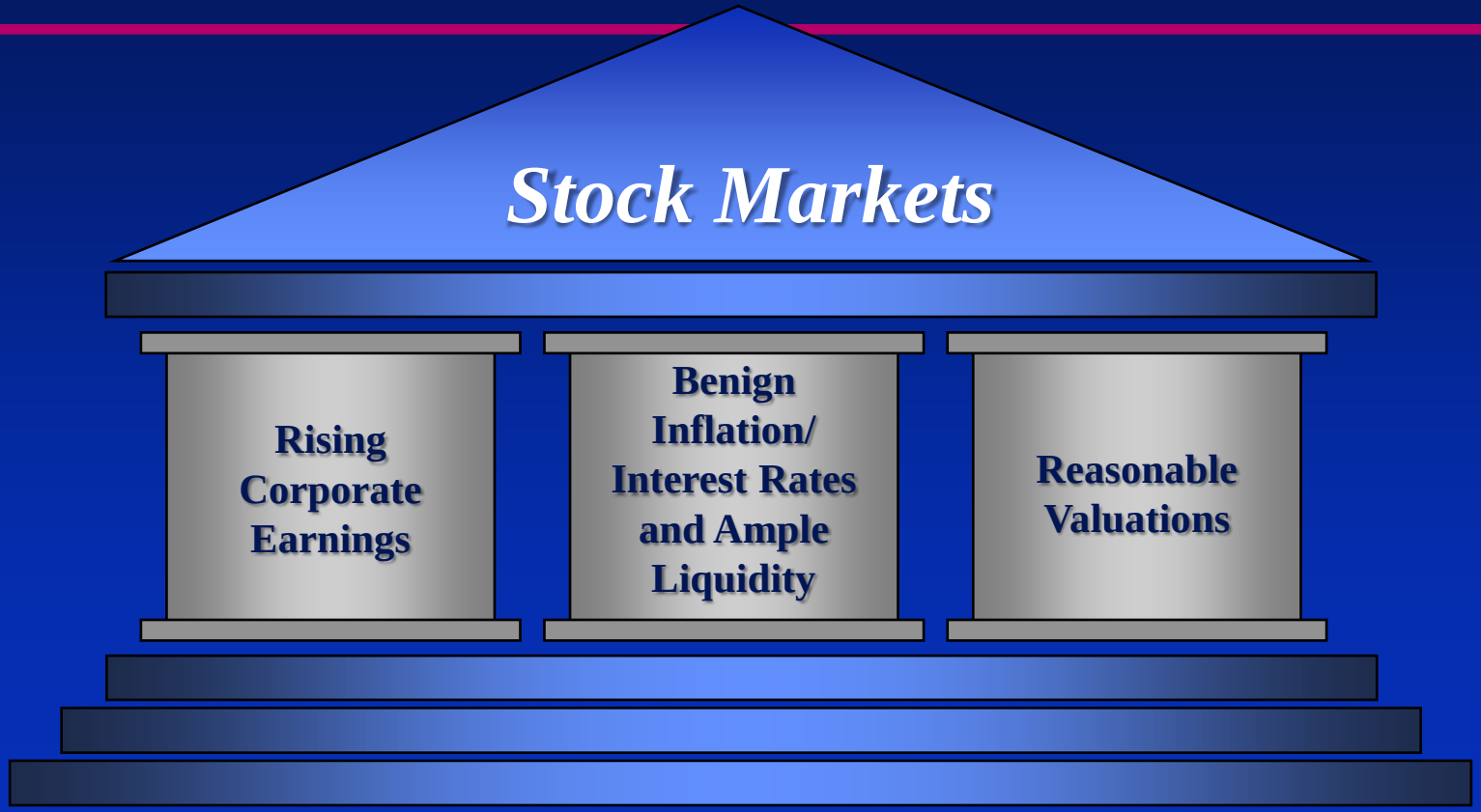
Or… What If?

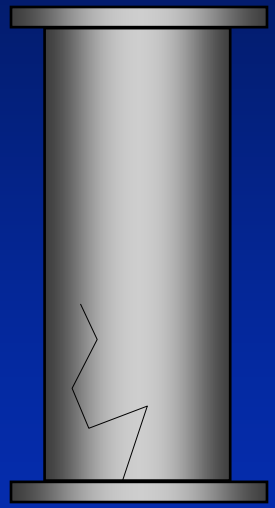
- Hamas and Israel make up
- Ukraine and Moldova beat Russia
- Taiwan threat subsides
- Democrats and Republicans make up
- Trump/Biden drop out
- Inflation slows down gently and rates peak
- Finally, we get a soft-landing economy

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 á $63T since GFC

Job Openings Still Strong

Lag Effect of Covid Spending

China Emerging??

PBoC to the Rescue?

Headwinds

Sticky Inflation/Aggressive Fed?

Debt Everywhere

Demographics

Cyber Risk

Increasing Regulation

Credit Card/Mortgage Rates

Yield Curve Inversion

Costly Move to EV

Bank Runs Tighten Credit

Long Rates Rising (QT/Fiscal Deficit)

U.S. Bankruptcies Rising

Consumer Being Belted

Credit Card Interest Rates

Source: Piper Sandler, as of 12/4/2023.

Monumental

U.S. 30-Year Fixed Mortgage Rate (%)

Source: St. Louis FRED, as of 10/17/2023.

Monetary Tightening Slowing Growth amid Inflation

Global Short Rates

Source: Evercore ISI, as of 12/4/2023.

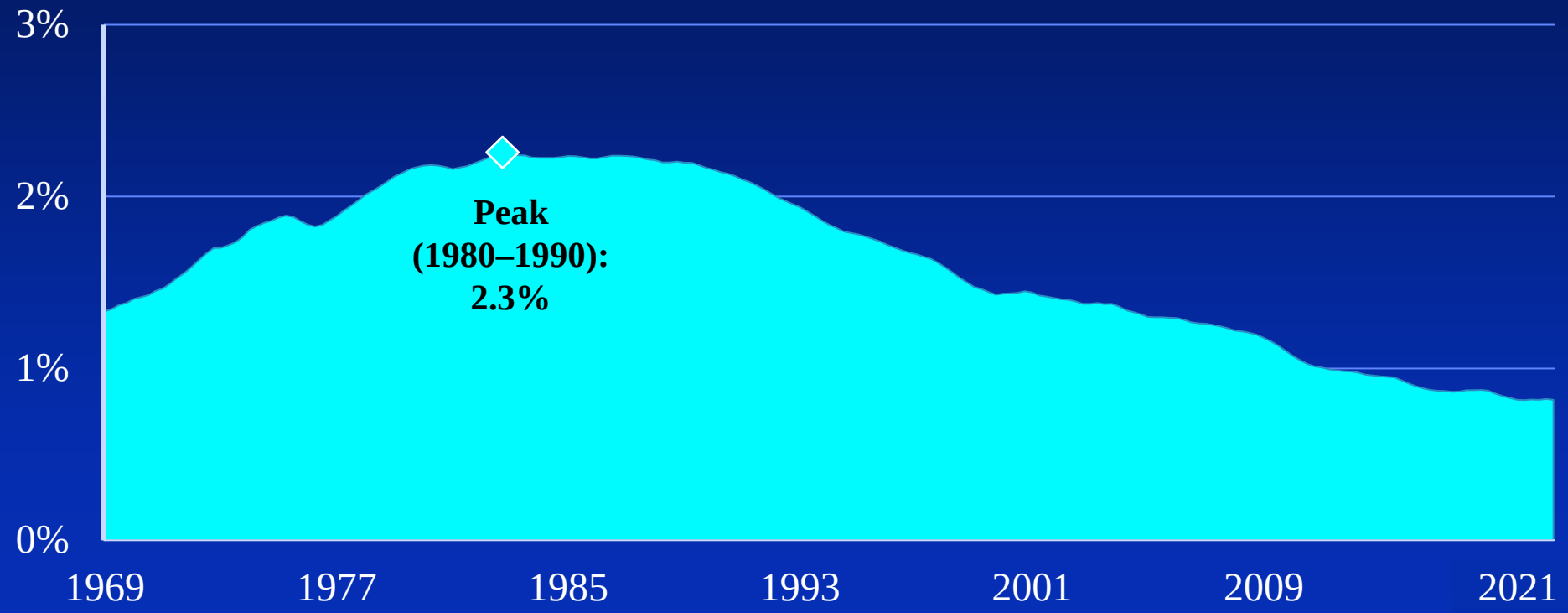
Liquidity at Risk

U.S. M2 (Year-over-Year Change, %)

Source: Evercore ISI, as of 12/4/2023.

Slower U.S. Economic Growth Likely

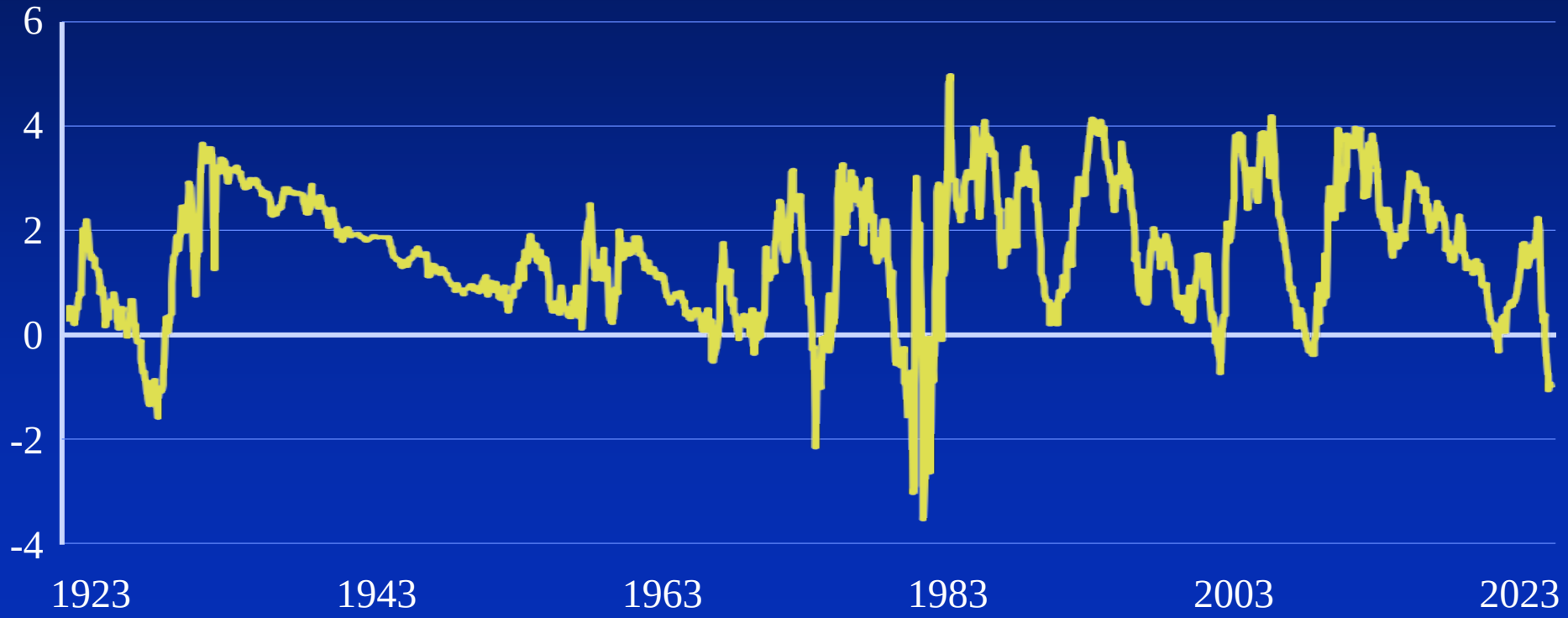
Labor Force Contribution Peaked 40 Years Ago



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

Notice 1929

100 Years of the U.S. Yield Curve



Source: ASR Ltd/Refinitiv, as of 3/22/2023.

Slowdown Underway

Evercore Trucking Survey

0 = weak, 100 = strong. Source: Evercore ISI Company Surveys, as of 12/4/2023.

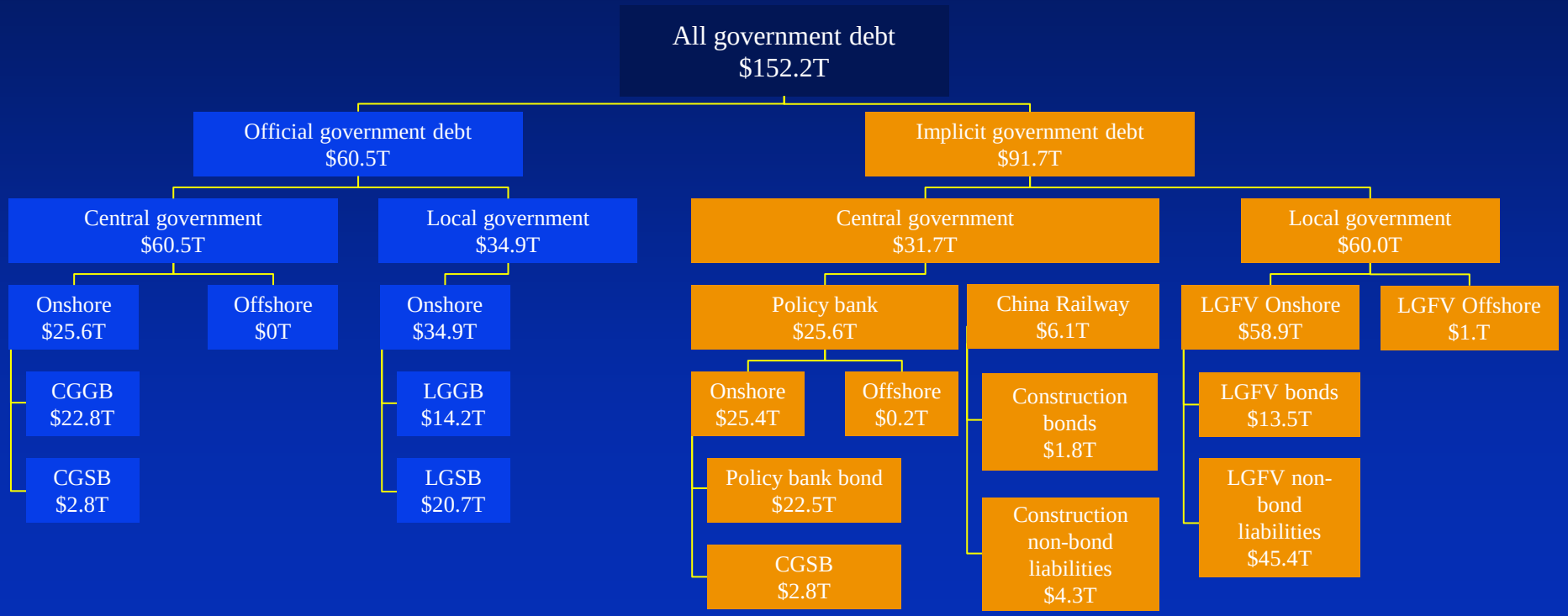
Industrial Slowing

U.S. Manufacturing PMI

Source: Evercore ISI, as of 12/4/2023.

China … Debt, Debt, and More Debt

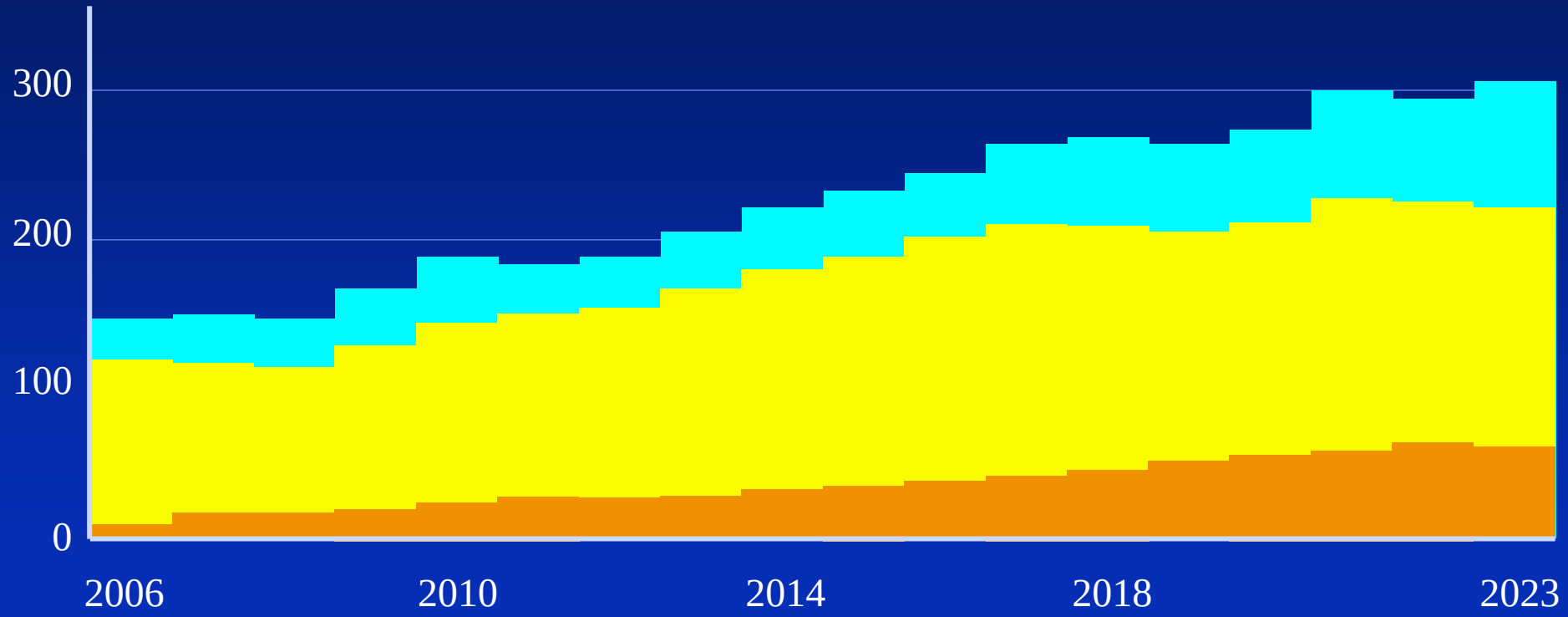
Shadow government debt up tenfold since 2008



Source: Goldman Sachs Global Investment Research, MOF, Wind, Bloomberg, CEIC, as of 4/3/2023.

Explosion of Debt

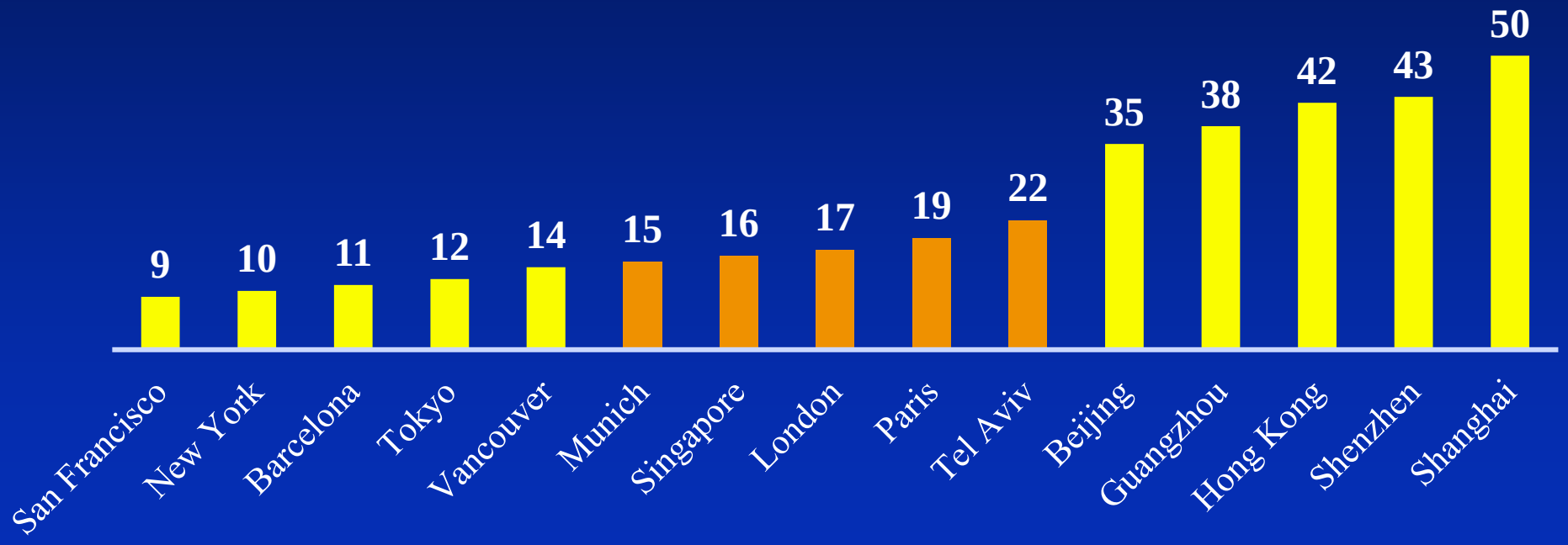
China: Household, Corporate, and Government Debt as % of GDP



Source: Bank for International Settlement, Empirical Research Partners Analysis as of 10/17/2023.

Chinese Real Estate Bubble?

Home-Price-to-Annual-Income Ratios



Source: Numbeo, as of 10/17/2023.

Smaller Chinese Cities Have Apartment Glut

Major supply of unsold apartments, worst since 2017

- 1/3 of all newly completed apartments 2022 remain unsold
- Likely to take 6 years for Beihai (a third-tier city) to absorb the excess
- Likely to damp household confidence

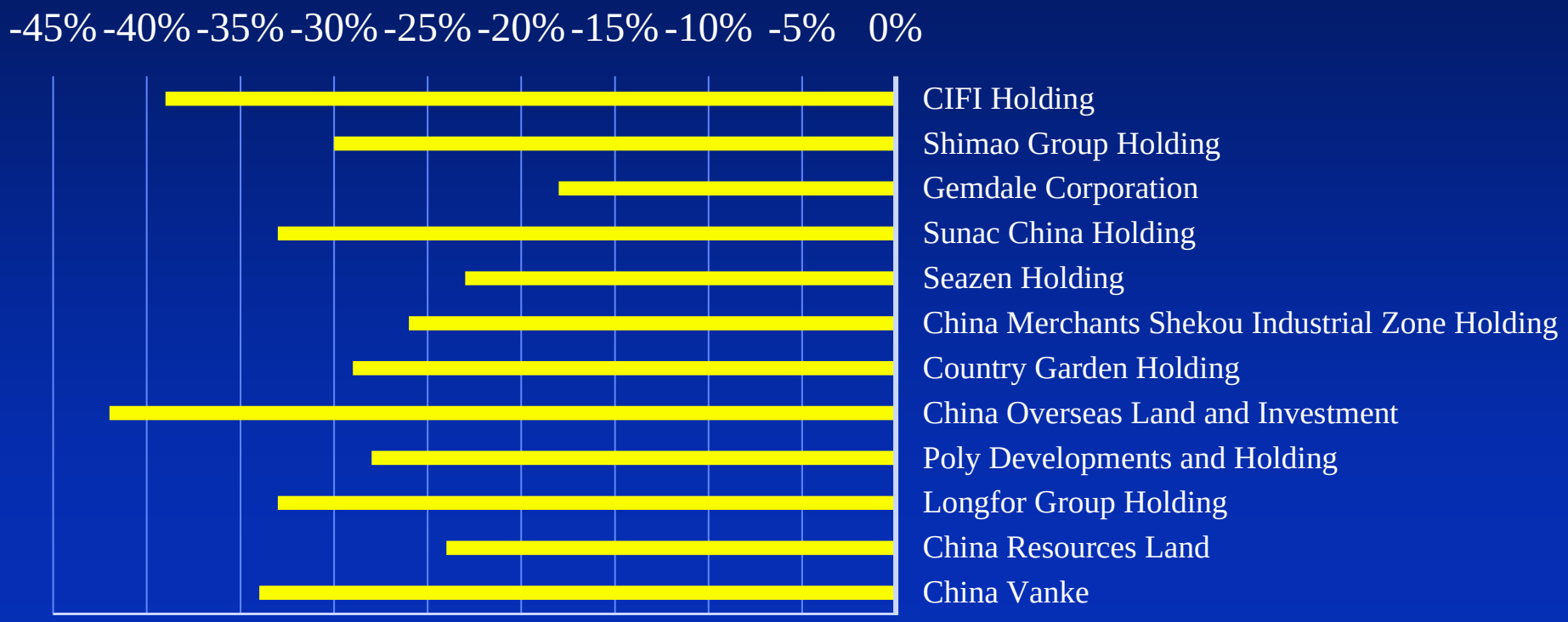
“Country Garden June real estate sales down 54% y/y”

“Overall home sales are down 28% vs. June 2022”

Source: Wall Street Journal, as of 7/14/2023.

Real Estate Development Plunging

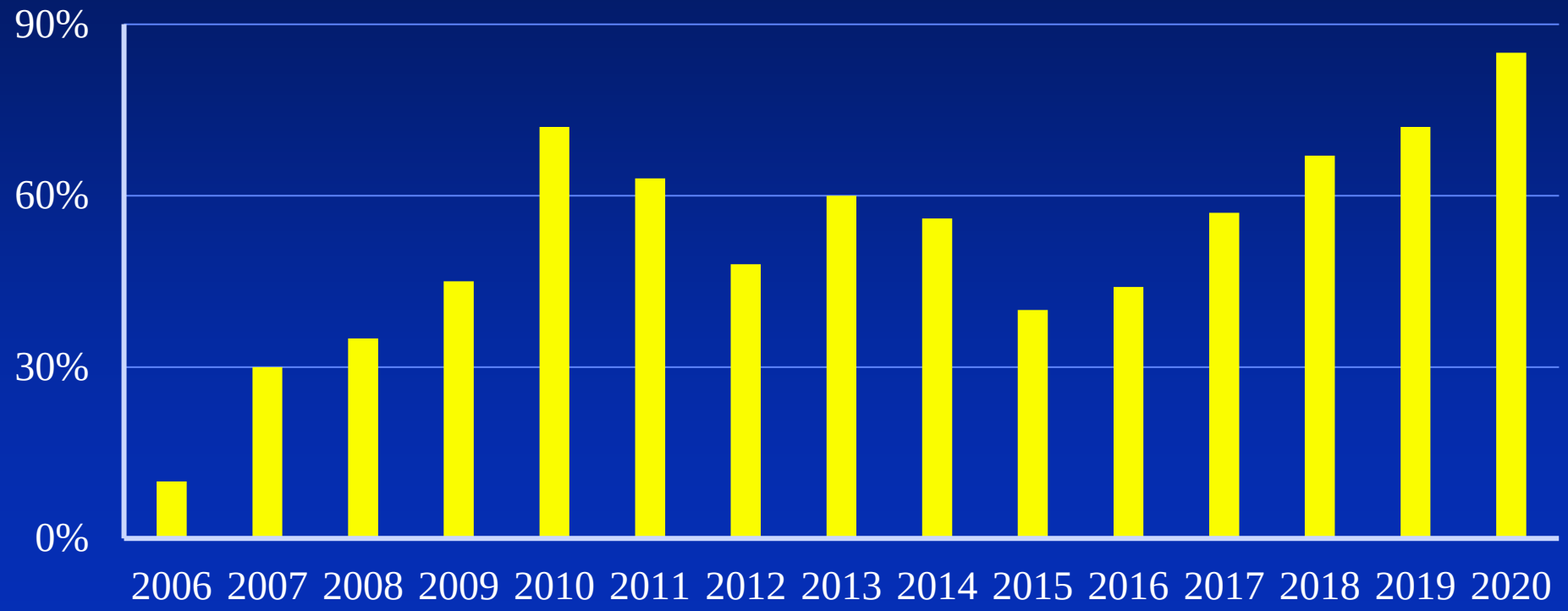
Chinese Development Companies, Year-over-Year Changes in Contract Sales



Source: Corporate reports, Empirical Research Partners, as of 10/13/2023.

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 12/4/2023.

China Stifling Growth?

- Xi's national security agenda (raids, investigations, detentions)
- "Common prosperity"
- "Do it for the Party"
- "De-emphasize profits"
- Anti-celebrity/anti-wealth/anti-monopoly
- Judiciary risk rising
- Developers credit risk HUGE
- Foreign direct investment in China $20B June vs. $100B June '22

Source: Wall Street Journal, as of 9/10/2021.

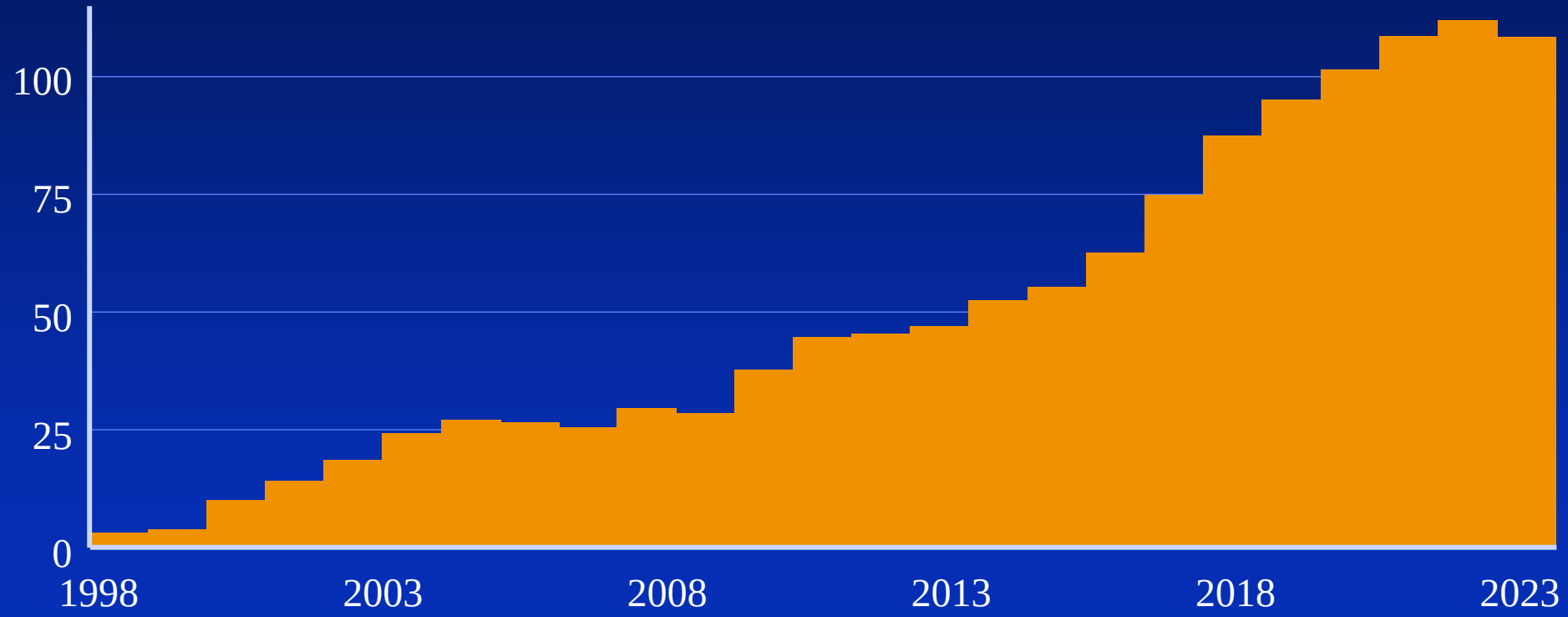
China Consumer Risks

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)
- Population growth *finis*

China Consumer

Up to Eyeballs in Debt (Consumer Loans as % of Disposable Income)



Source: Wall Street Journal, as of 8/25/2023.

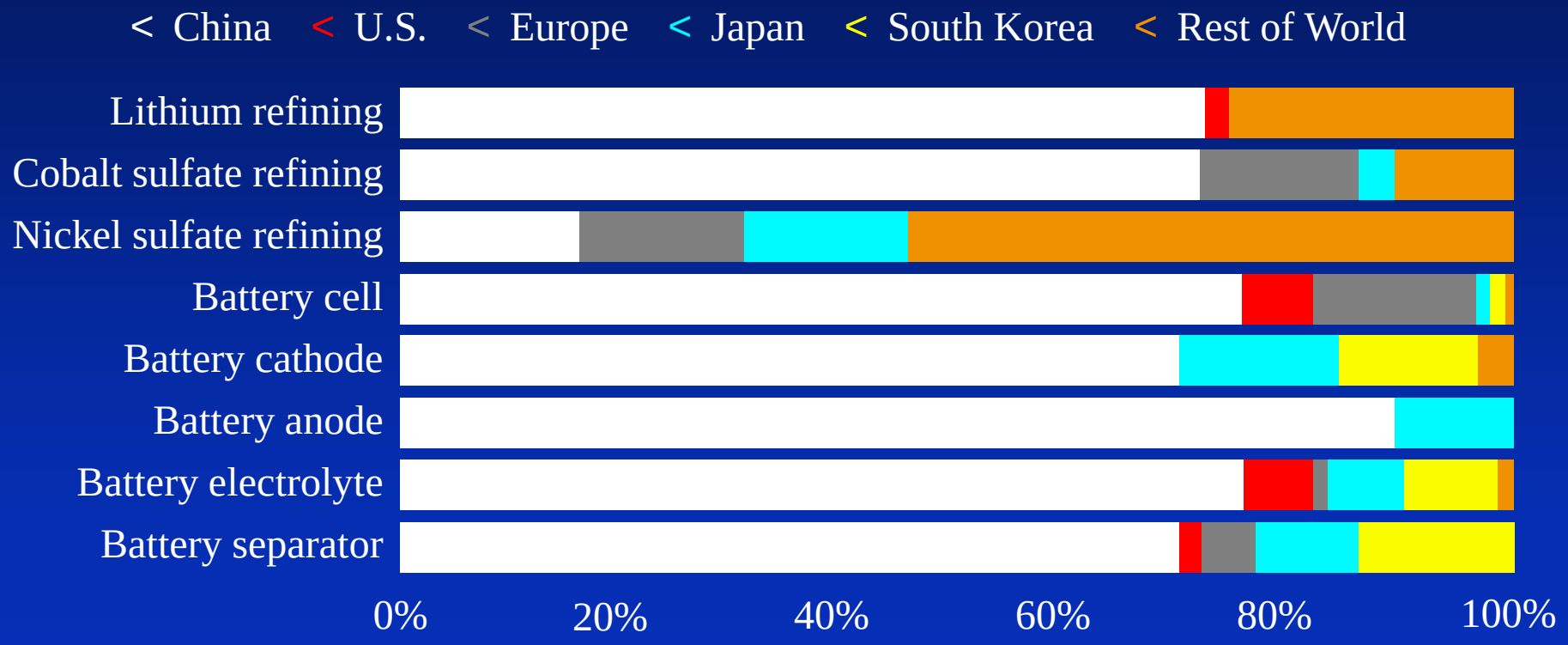
Precipitous Plunge

China Consumer Confidence Index

Source: St. Louis FRED, as of 10/17/2023.

China Remains Formidable

China's Grip on the EV Supply Chain



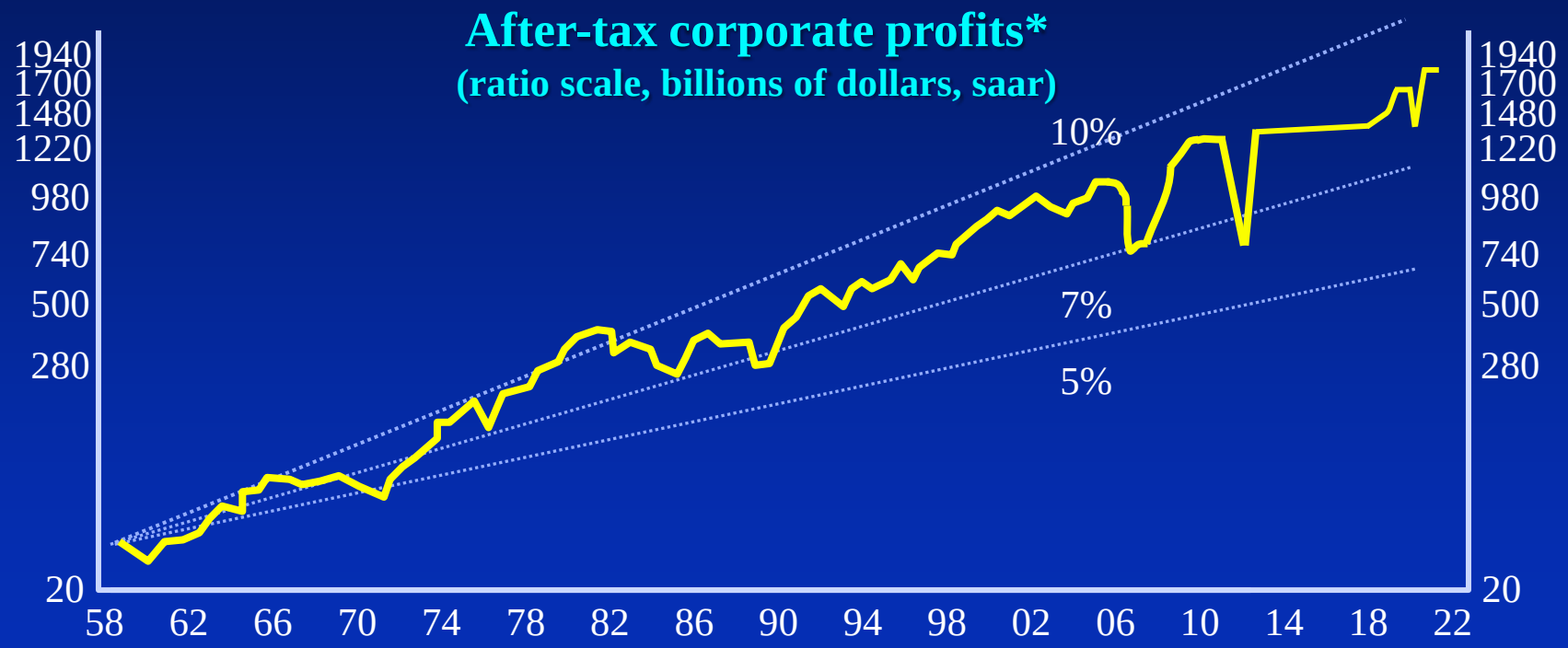
Source: BloombergNEF, as of 4/3/2023.

Foreign Minister Sergei Lavrov, pressed by an oligarch to explain how Mr. Putin could have planned such an invasion (of Ukraine) without his inner circle knowing, reportedly replied:

“He has three advisers: Ivan the Terrible, Peter the Great, and Catherine the Great.”

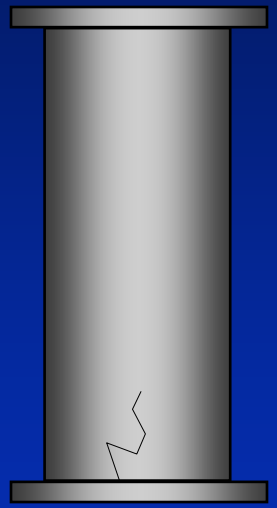
Source: Wall Street Journal, as of 4/3/2023.

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 11/20/2022.

Benign Inflation / Interest Rates / Ample Liquidity



Positives

- Inflation Rolling Over
- Aging Demographics
- Technology
- Stronger Dollar
- Earnings to Slow
- Yield Curve Inversion

Risks

- Wars Restricting Commodities
- Slowdown in Globalization
- Colossus of Printed Money
- Huge Budget Deficits
- Huge Debt Levels
- Illinois Debt Near Junk-Bond Status
- Risk of Structurally Elevated Inflation

Inflation Cooling

CRB Raw Industrials Index

Source: Evercore ISI, as of 12/4/2023.

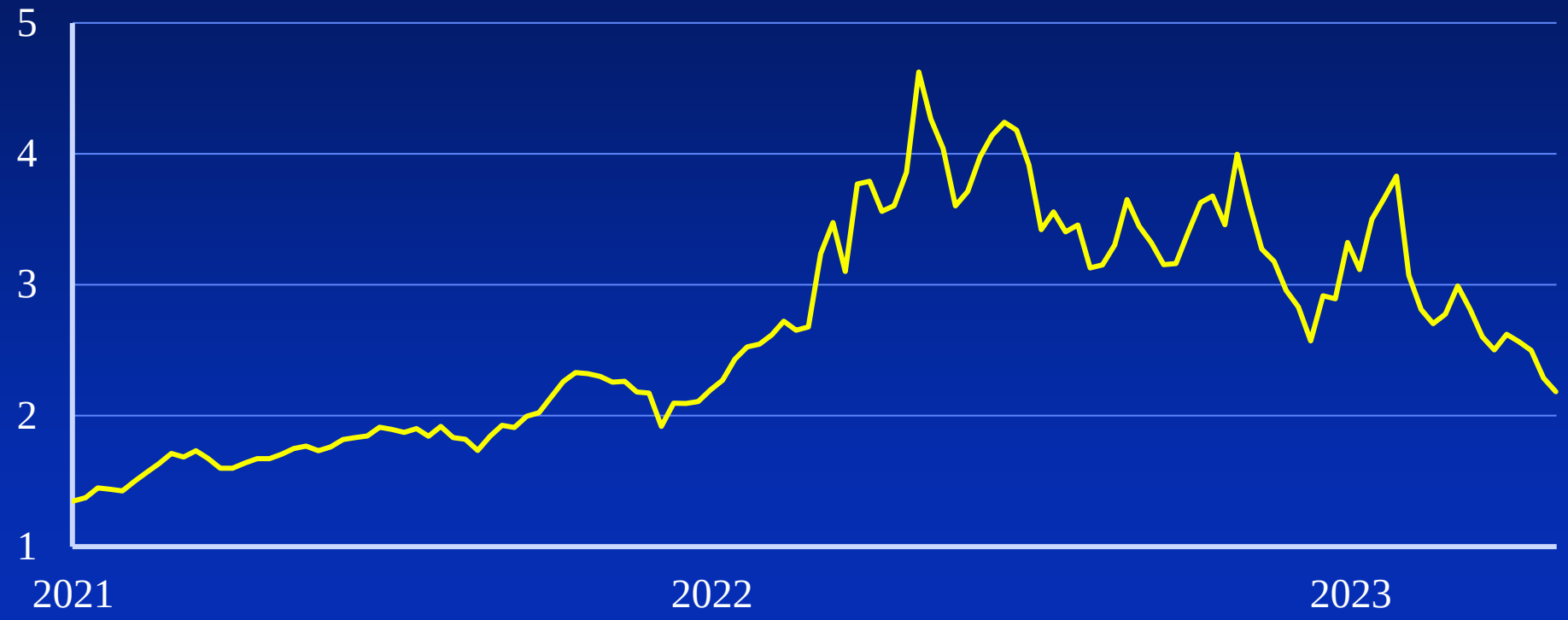
Rents Rolling Over

Rents post first annual decline since start of pandemic

Source: Redfin, as of 7/14/2023.

Prices Softening

Price of Jet Fuel



Spot price, kerosene-type fuel. Source: Evercore ISI, as of 4/26/2023.

Inflation Rolling Over?

U.S. CPI Year-over-Year

Source: Strategas Research Partners, as of 12/4/2023.

Expected Change in Inflation Rates

Flattening out???

Source: Fidelity Investments (AART), University of Michigan, as of 11/30/2023.

Mindboggling Federal Spending

Federal Government Outlays (Year-over-Year % Change)

Six-month moving average. Source: Free Market Inc., as of 12/4/2023.

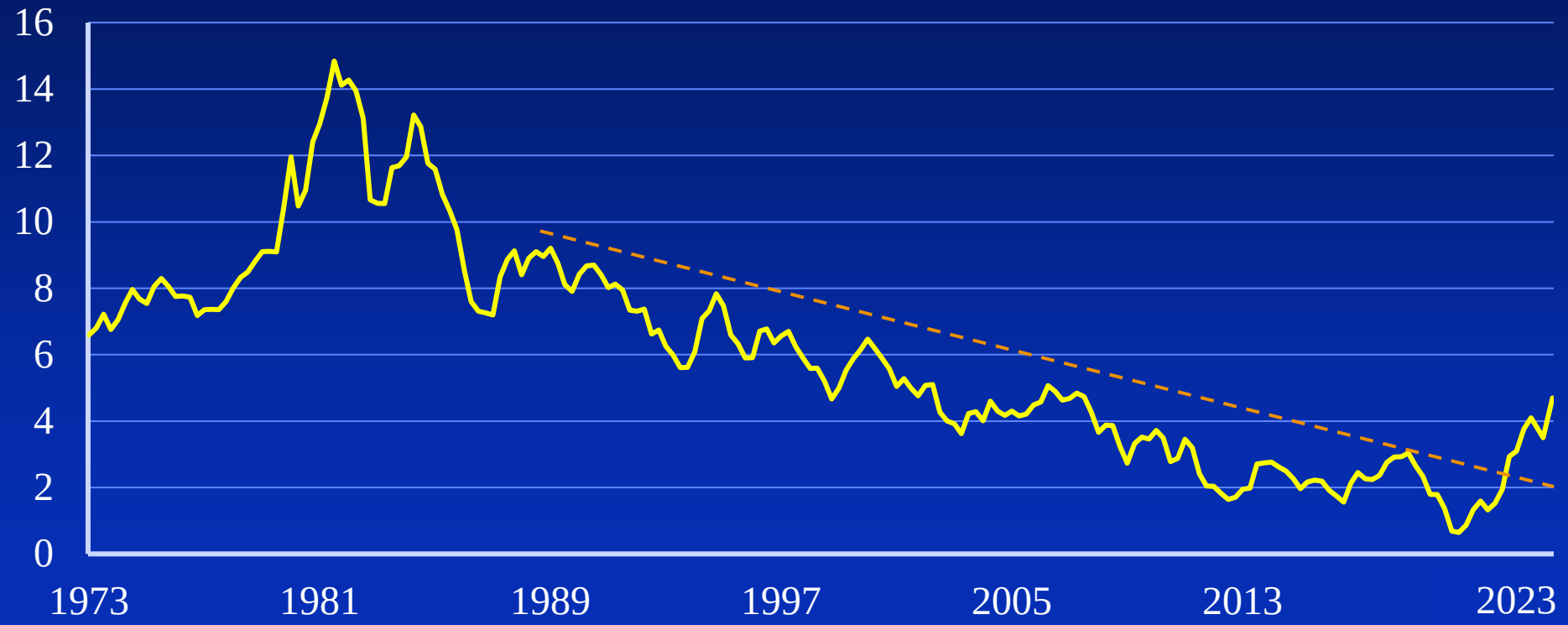
Legacy of Liquidity (Money Printing)

Fed Balance Sheet ($T)

Source: St. Louis Fed (FRED), as of 11/14/2023.

40-Year Reversal

10-Year U.S. Treasury Yields (%)

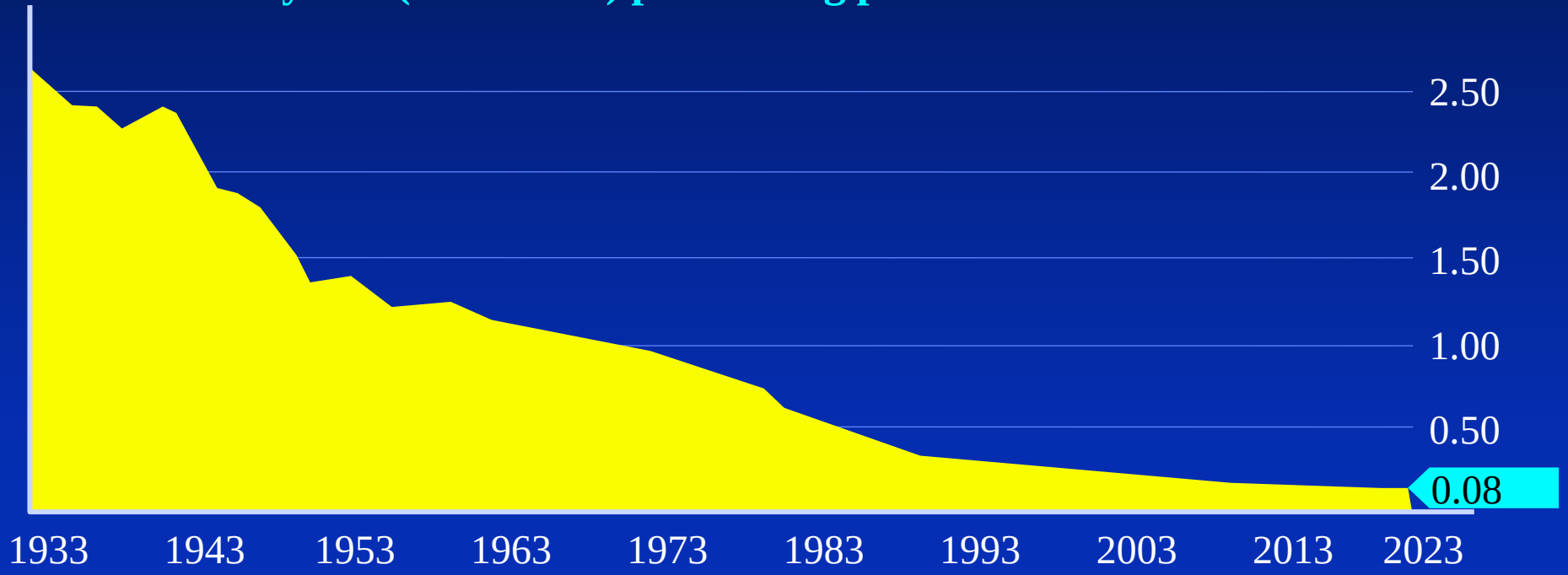


Source: St. Louis Fed (FRED), as of 10/13/2023.

From 5¢ Cokes to $5 Lattes

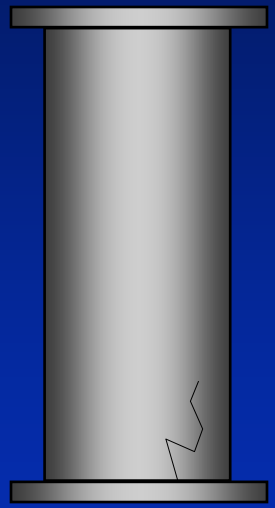
Purchasing Power of the Dollar (1933-2023)

90 years (1933-2023) purchasing power of USD down 97%



Source: Bloomberg Seeking Alpha, as of 12/4/2023.

Reasonable Valuations



Positives

Net Worth/Savings Still Big

Margin Improvement Good

Fed Pivot???

Risks

Israel/Hamas/Hezbollah

Russian Invasion

Politics

Stocks Not Cheap

Interest Rates High

Yield Curve Inversion

Recession?

World Event Risk

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

Large-Cap Stocks Free Cash Flow Margins, 1952–2023

Source: Empirical Research Partners, as of 7/14/2023.

Let's Look at the Numbers…

Then & Now:
August 1982 vs. December 2023

	August '82	Current
Fed Funds Rate	10.25%	5.4%
10 Year UST Yield	13.6%	4.3%
Trailing S&P 500 P/E	8.8 x	19.9 x
Price to Book	1.0 x	2.9 x
Dividend Yield	6.6%	1.65%
Top Marginal Tax Rate	50%	37%
Capital Gains Tax Rate	20%	23.8%

Source: FactSet, Strategas Research Partners, as of 12/4/2023.

Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP

Source: GuruFocus as of 4/13/2022.

Russia Exodus

Everybody wants outta town

- Airports Swamped
- IT Workers Hunting
- Labor Shortages Increasing
- Passports Confiscated

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
China
Iran
Saudi Arabia
Hungary
Poland
Turkey
Afghanistan
Cambodia
Thailand
Brazil
North Korea
Syria

India?
Philippines
Austria
Moldova
Romania
Czech Republic
Kazakhstan
Singapore?
Tanzania
Venezuela
Cuba
Laos
Paraguay

Nicaragua
Guatemala
Mozambique
Uganda
Lebanon
Egypt
Malaysia?
Myanmar
Nigeria
Sudan
South Sudan
Equatorial Guinea
Eritrea

Ethiopia
Libya
Togo
Zimbabwe
Central African Republic
Kuwait
United Arab Emirates
Morocco
Belarus
Uzbekistan
Azerbaijan
Tajikistan

The Union Heaven of Illinois

Permanent Pension Liabilities

- Pensions are 21% funded
- $535 billion unfunded
- Amended constitution extending the permanency of Illinois' pension liabilities to the entirety of public sector compensation

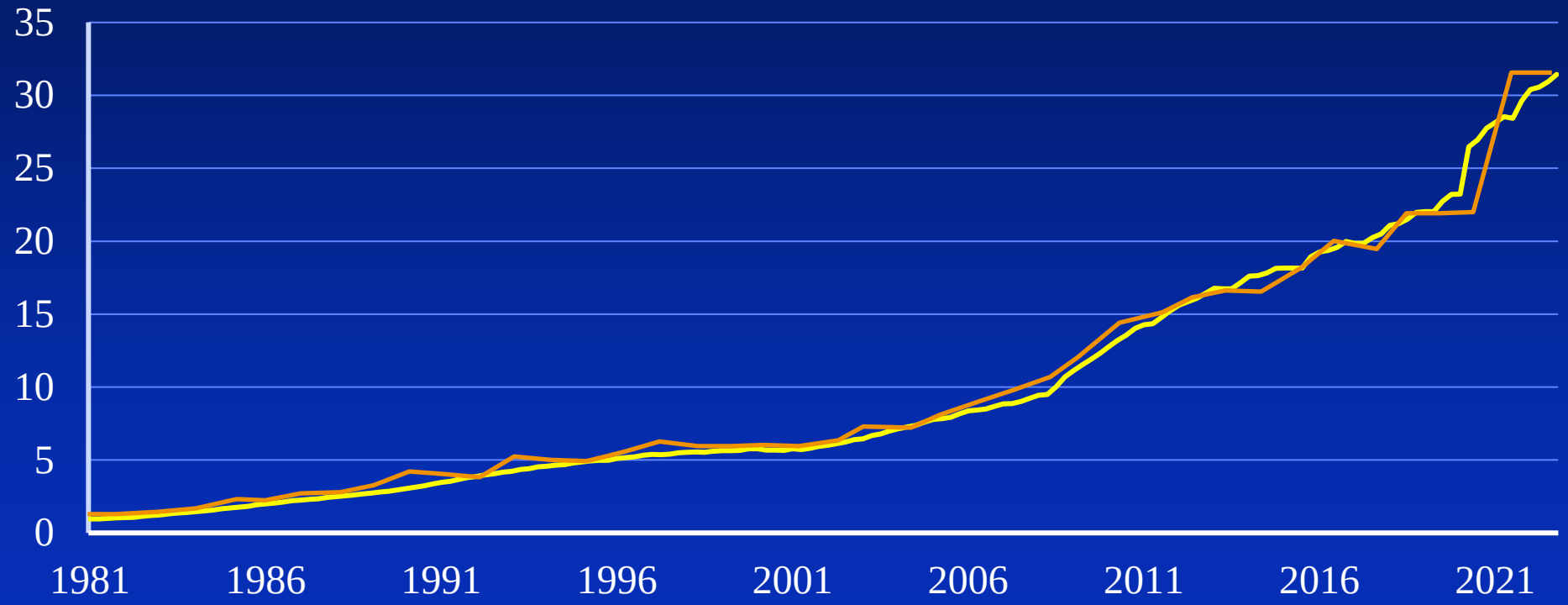
Would You Feel Comfortable and Confident Running a Country at Age 70?

Cameroon	Biya	90
Palestinians	Abbas	88
Vatican	Francis	87
Kuwait	Al-Sabah	86
Iran	Khamenei	84
Ireland	Higgins	82
U.S.	Biden	81
Brazil	Lula	78
U.S.	Trump	77
India	Modi	73
Russia	Putin	71
Bank of Japan	Ueda	71
China	Xi	70
Mexico	Obrador	70
Turkey	Erdogan	69

Note: Ages are as of 12/31/2023. Source: Official biographies as of 2/16/2023.

Cataclysm?

Debt Ceiling and Public Debt ($T, 1981-2023)



Source: St. Louis Fed and Cowen Research, as of 12/4/2023.

World Event Risk

Potential Disasters

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

Possible Successes

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

How to Cope?

Income & Growth

- Fidelity Multi-Asset Income Fund
- Fidelity New Markets Income Fund
- Fidelity Convertible Securities Fund
- Fidelity High Income Fund
- Fidelity Floating Rate High Income Fund
- Fidelity Money Market Funds
- Financials?
- Global E/I
- Option Writing?
- Preferred Stocks

Growth

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

Other

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

Global Breadth Means Identifying Better Opportunities

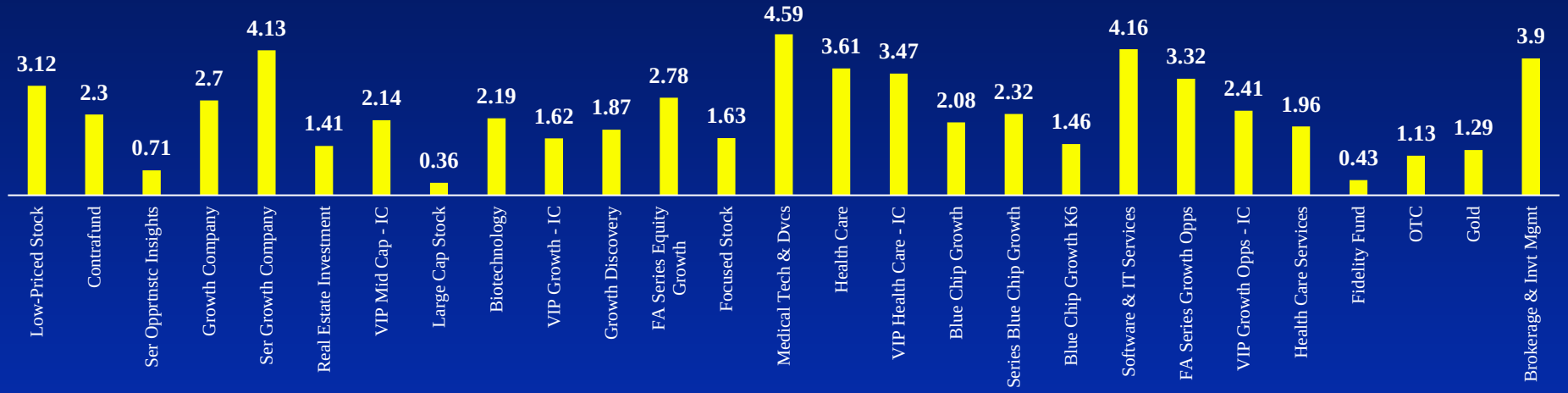
Leveraging the work of nearly 400 research professionals around the globe*

* Research professionals include both research analysts and associates. Source: Fidelity Investments as of 12/31/2022. 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



Tillinghast	Danoff		Wymer		Buller	Allen	Fruhan	Kaul	Weiner			Dufour	Yoon			Kalra			Khan	Weaver		Segalini	Park	Lin	Calhoun	Ackerman
33	32	10	26	9	24	22	18	17	16	16	9	16	16	14	14	14	9	6	9	7	7	7	6	5	4	4

Average annual outperformance, excess return percent against the S&P 500, 27 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 12/31/2022. 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.

75 YEARS

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)

Patience!

Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

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The information presented reflects the opinions of Bruce Johnstone, Managing Director, Fidelity Investments, for Fidelity Brokerage Services LLC as of 10/17/2023.

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