

A large, stylized sunburst graphic in shades of blue, centered on the right side of the slide. It features a central point with multiple rays extending outwards, creating a fan-like shape. The rays are of varying lengths and thicknesses, giving it a dynamic, energetic appearance.

**“5 Key Topics for the Markets and Economy”**

**NABE Philadelphia: June 2016**

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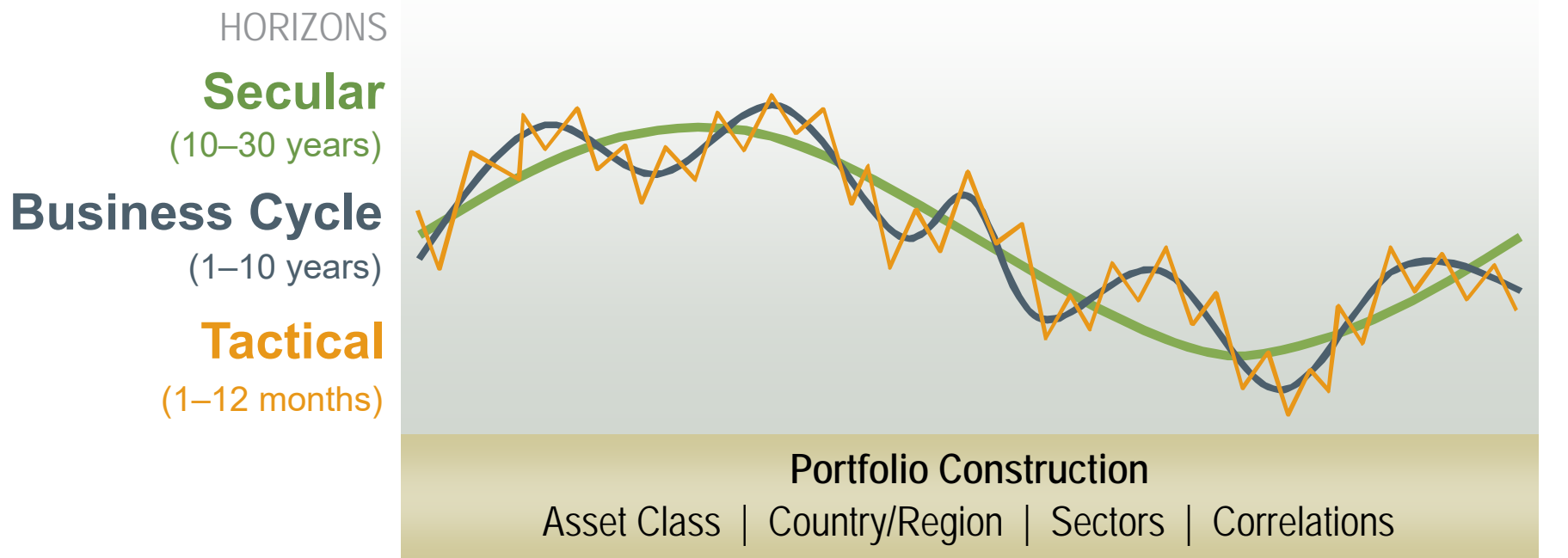
Fidelity Investments



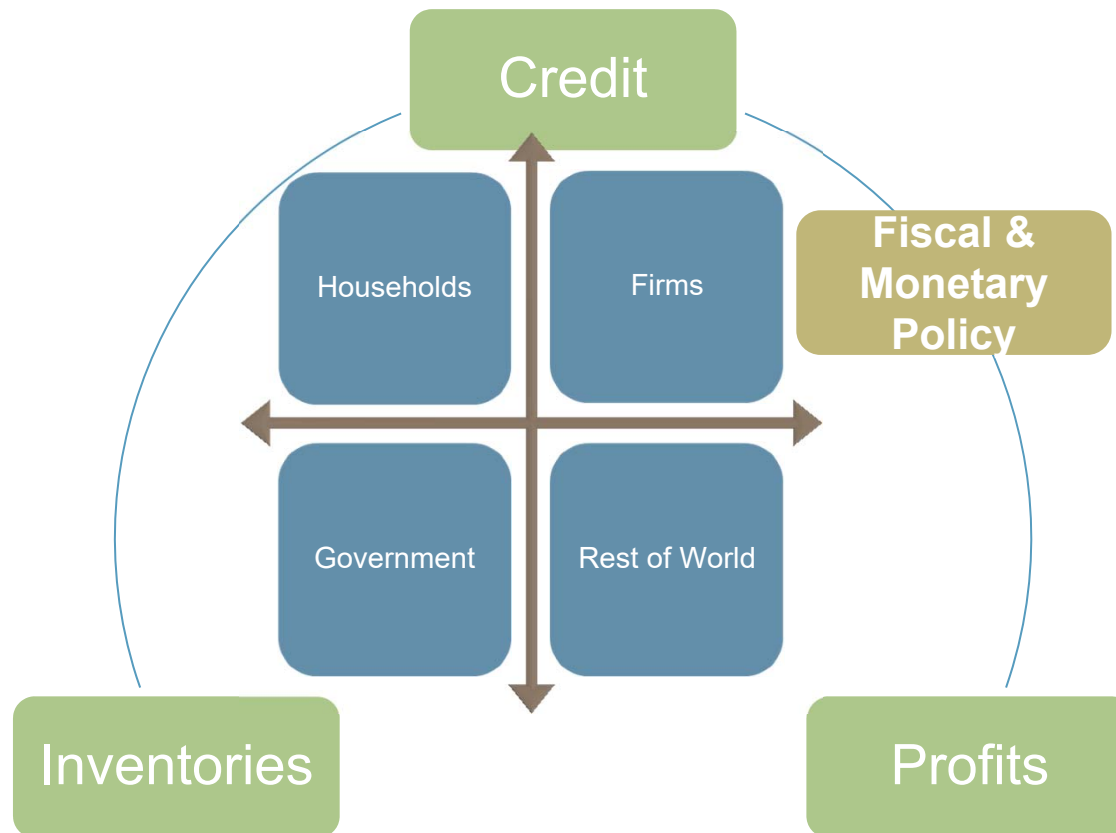
## **How We Combine Our Economic Views with an Asset Allocation Process**



# Multi-Time Horizon Asset Allocation Framework



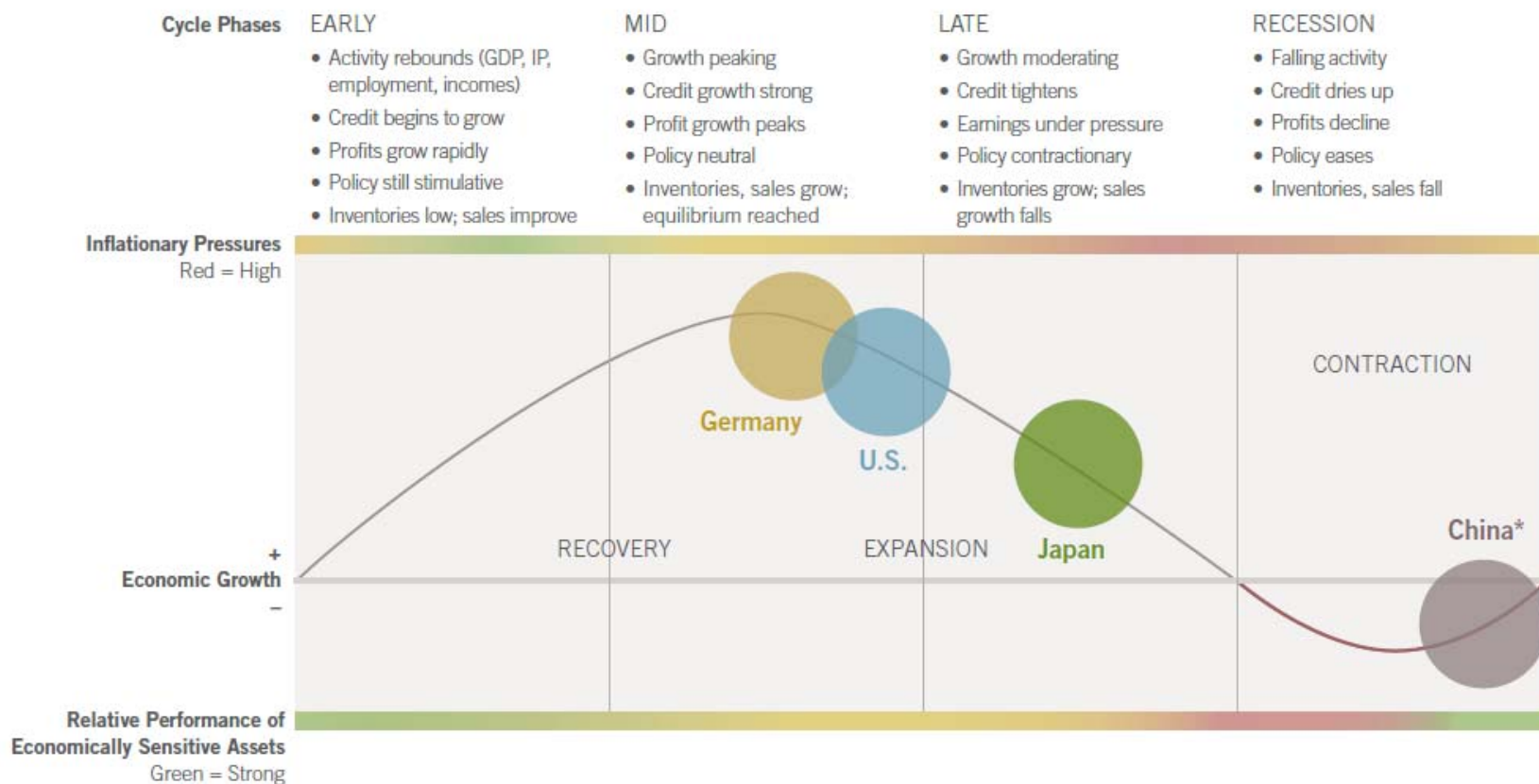
# Business Cycle Modeling Process



- Econometric models to measure probability of cycle phases
- High-quality, timely, leading indicators customized by country
- Three major cycles + policies are primary drivers

# Business Cycle: DMs Lead in Slow, Uneven Environment

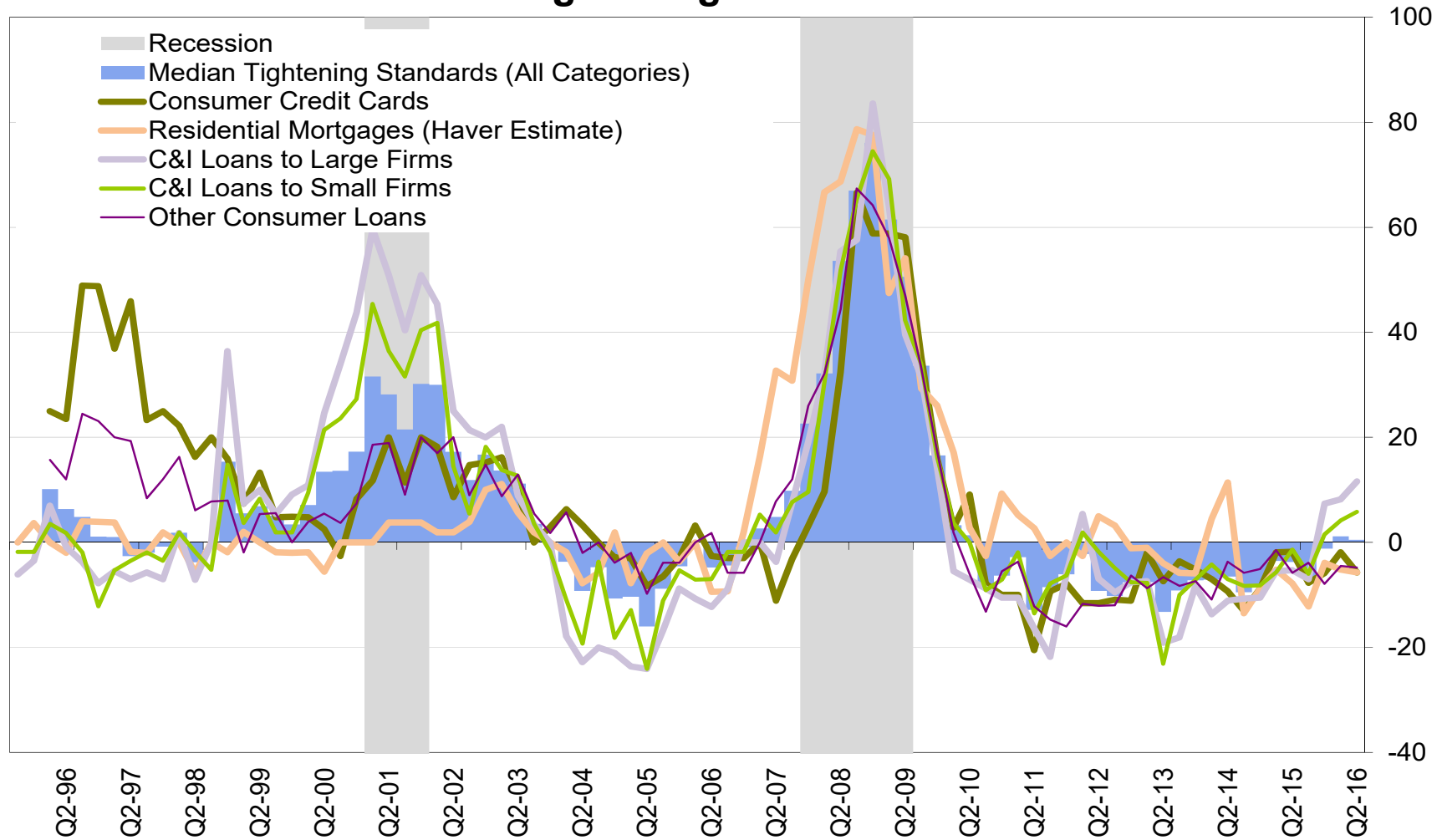
## Business Cycle Framework



DM: Developed Markets. 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 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 have adopted 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 the most for asset returns. We use the classic definition of recession, involving an outright contraction in economic activity, for developed economies. Source: Fidelity Investments (AART), as of 5/1/16.

# US Credit Cycle Begins to Turn

## Federal Reserve Senior Loan Officer Survey: % of Banks Tightening Standards

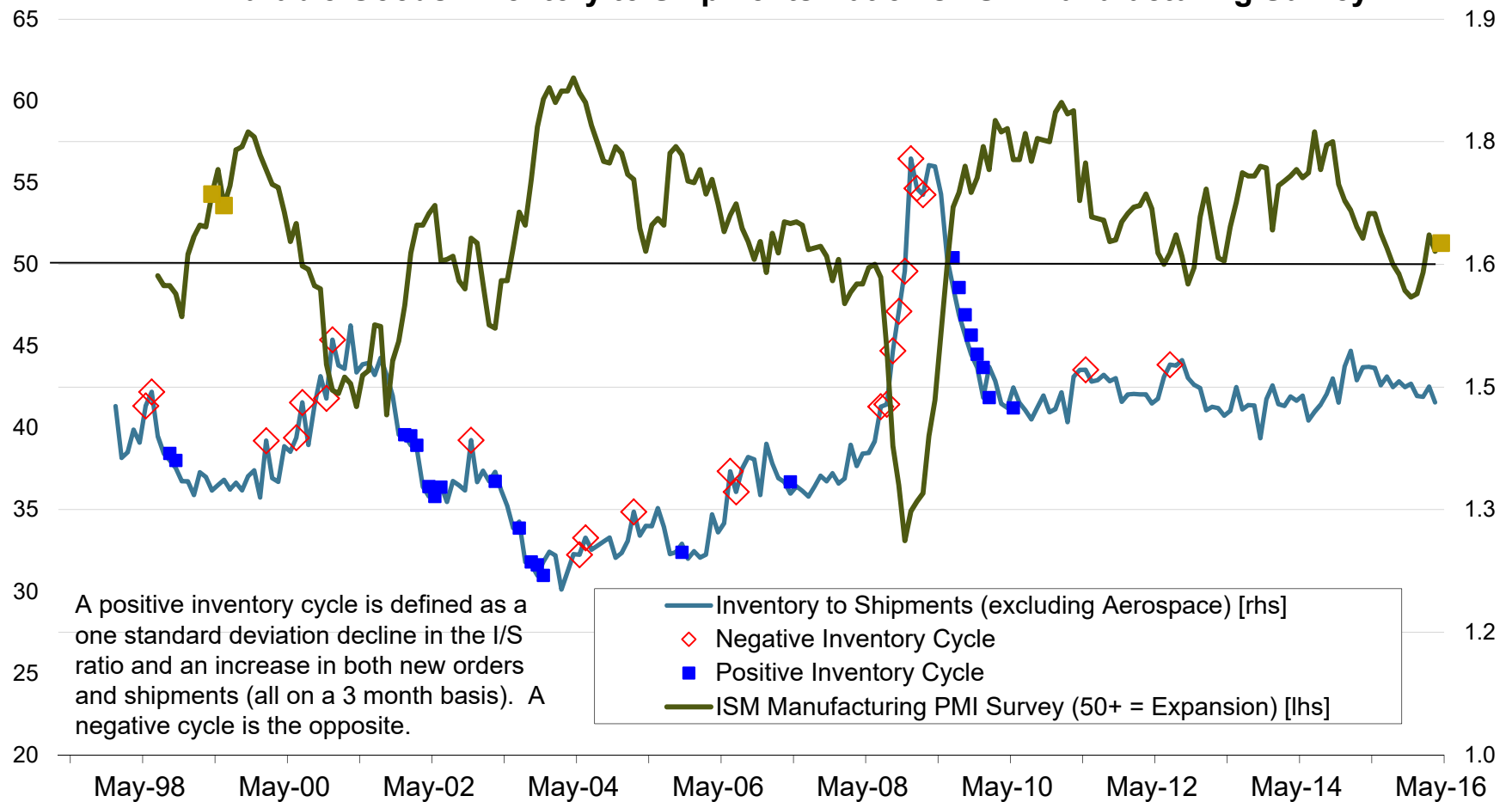


Source: Federal Reserve, Fidelity



# Inventory Cycle Wobbles But Begins to Stabilize

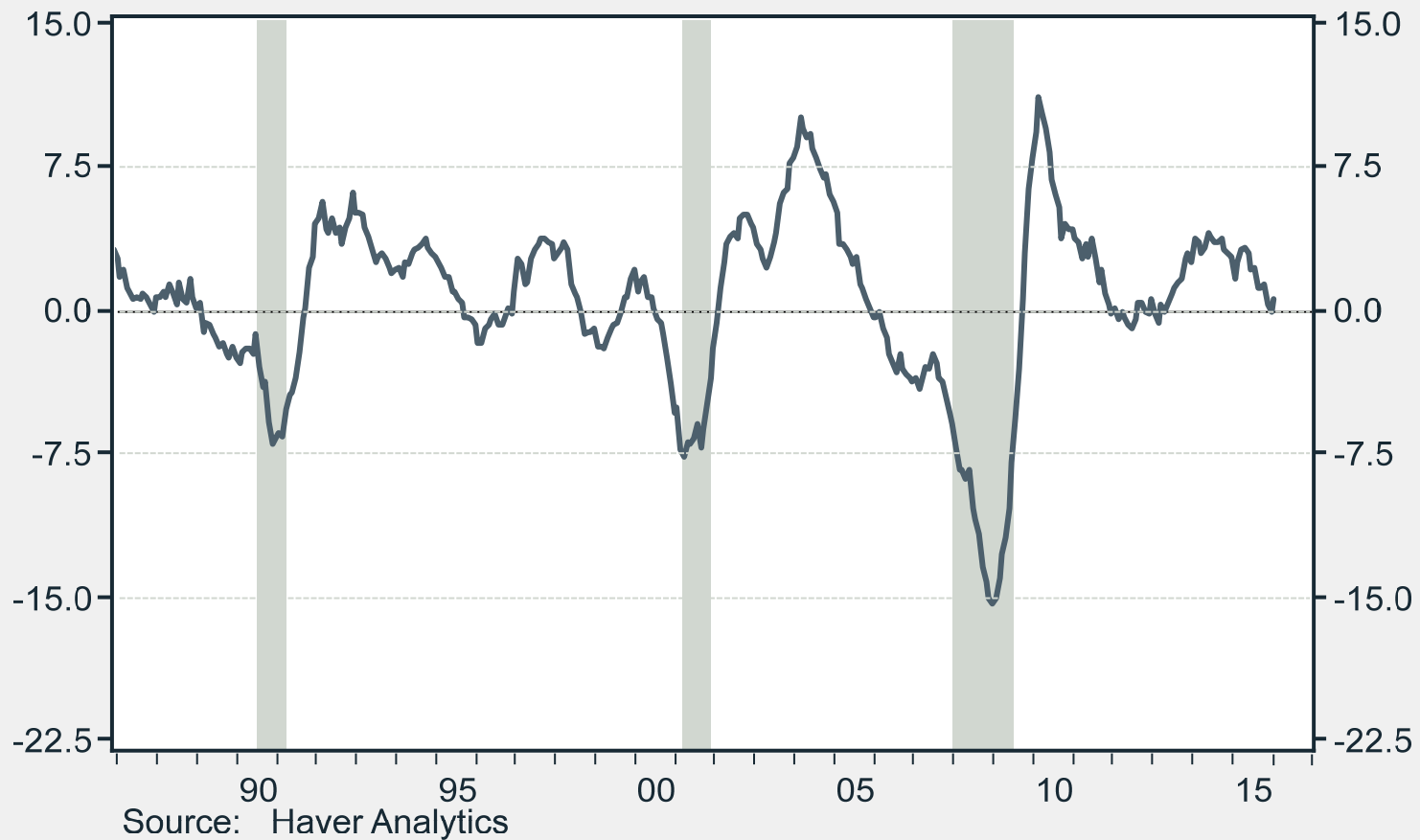
## Durable Goods Inventory to Shipments Ratio vs. ISM Manufacturing Survey



# Cyclical Productivity Indicates Corporate Profits More Challenged

## Cyclical Productivity Proxy: Leading Indicator of Output Per Worker

% Change - Year to Year





# 5 Key Topics for the Markets and Economy

1. SECULAR TRENDS IN RATES

2. CHINA RISK

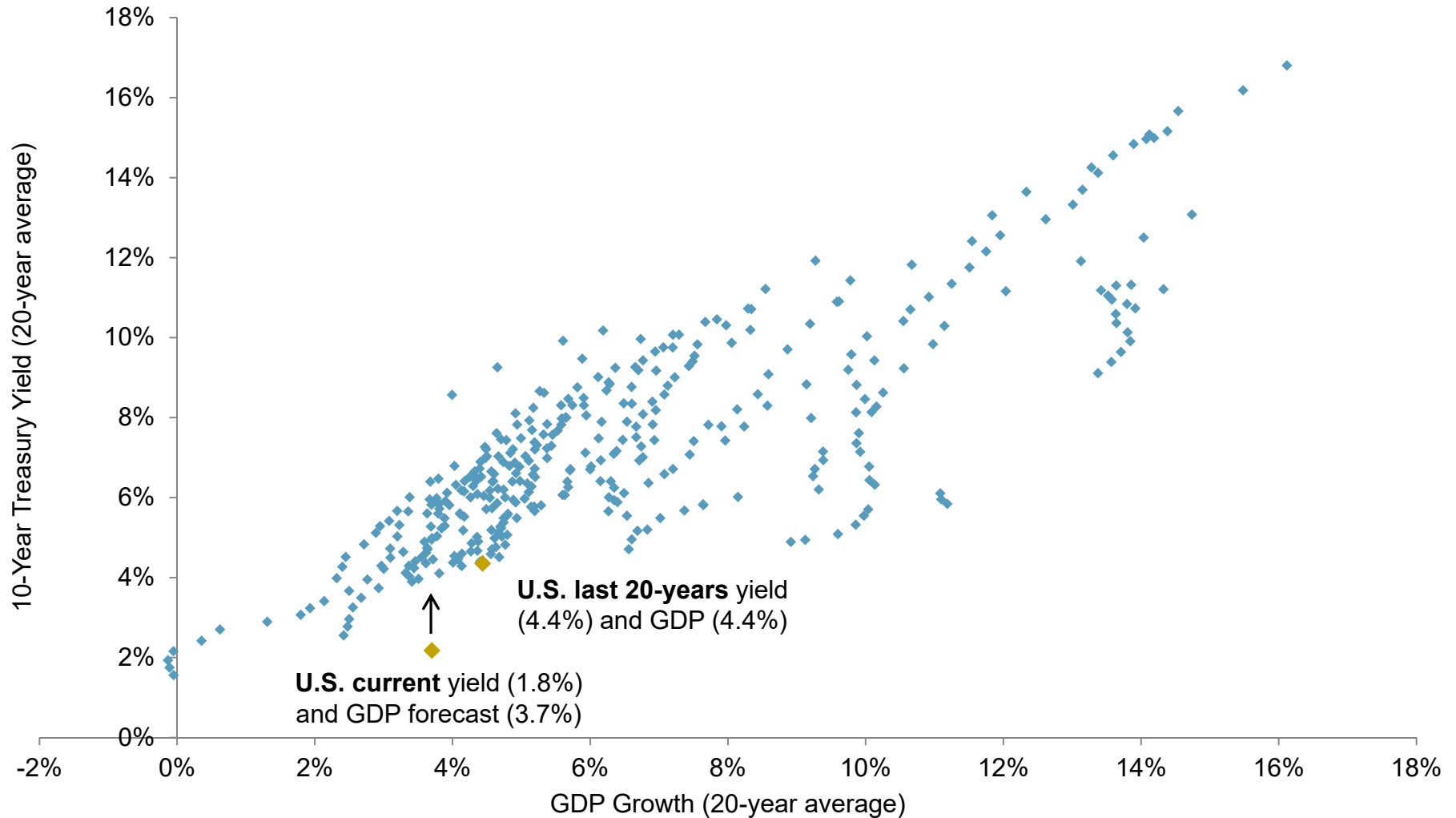
3. PARALLEL WITH THE LATE 1990S

4. INFLATION IS BACK

5. LOW RATES AS PRICE CONTROLS

# Key Topic #1: Secular Trend in Rates

## Nominal Government Bond Yields and GDP Growth

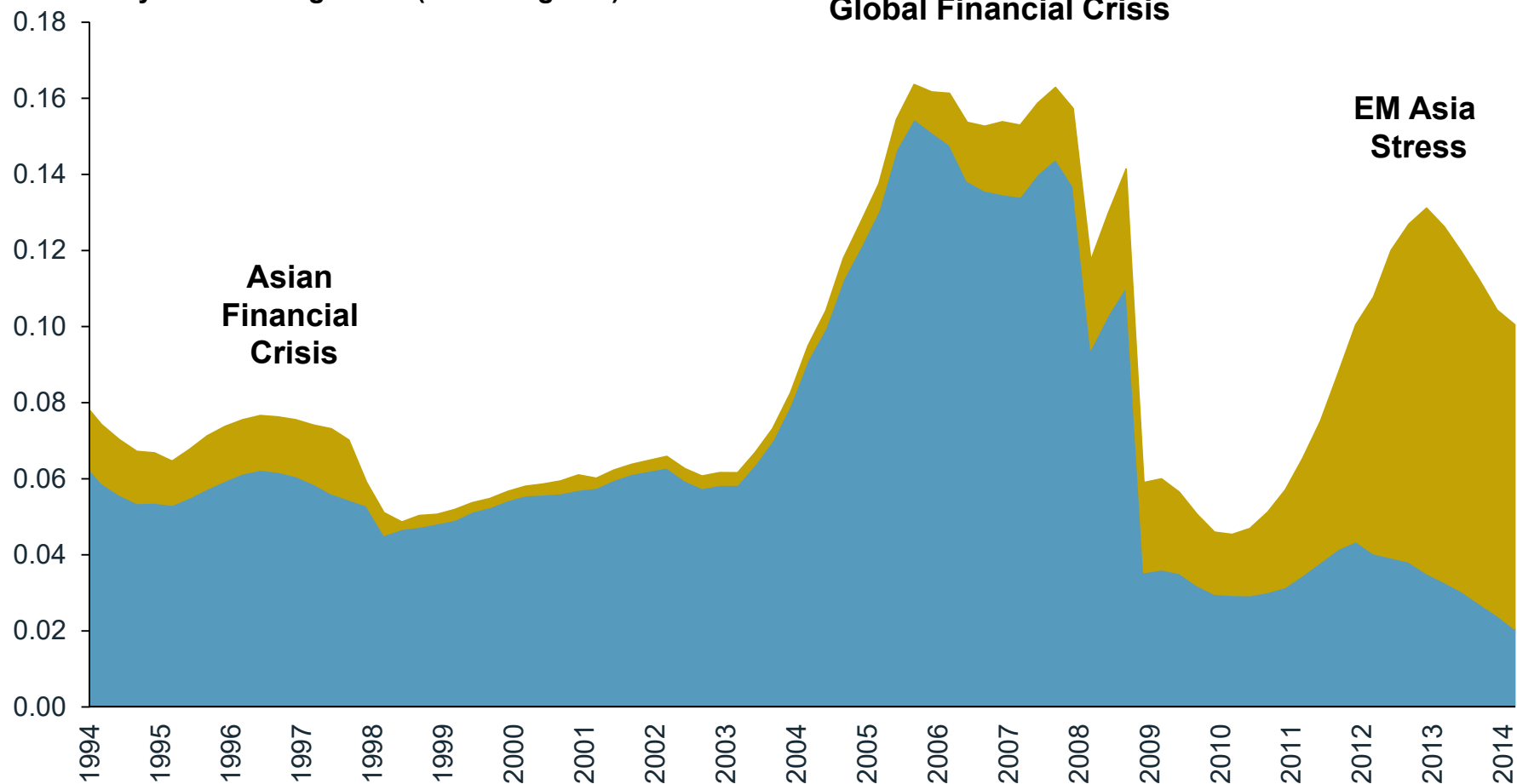


# Key Topic #2: China Risk Remains...

## Aggregate Financial Crisis Risk (In Following Three Years)

■ Developed Markets ■ Emerging Markets

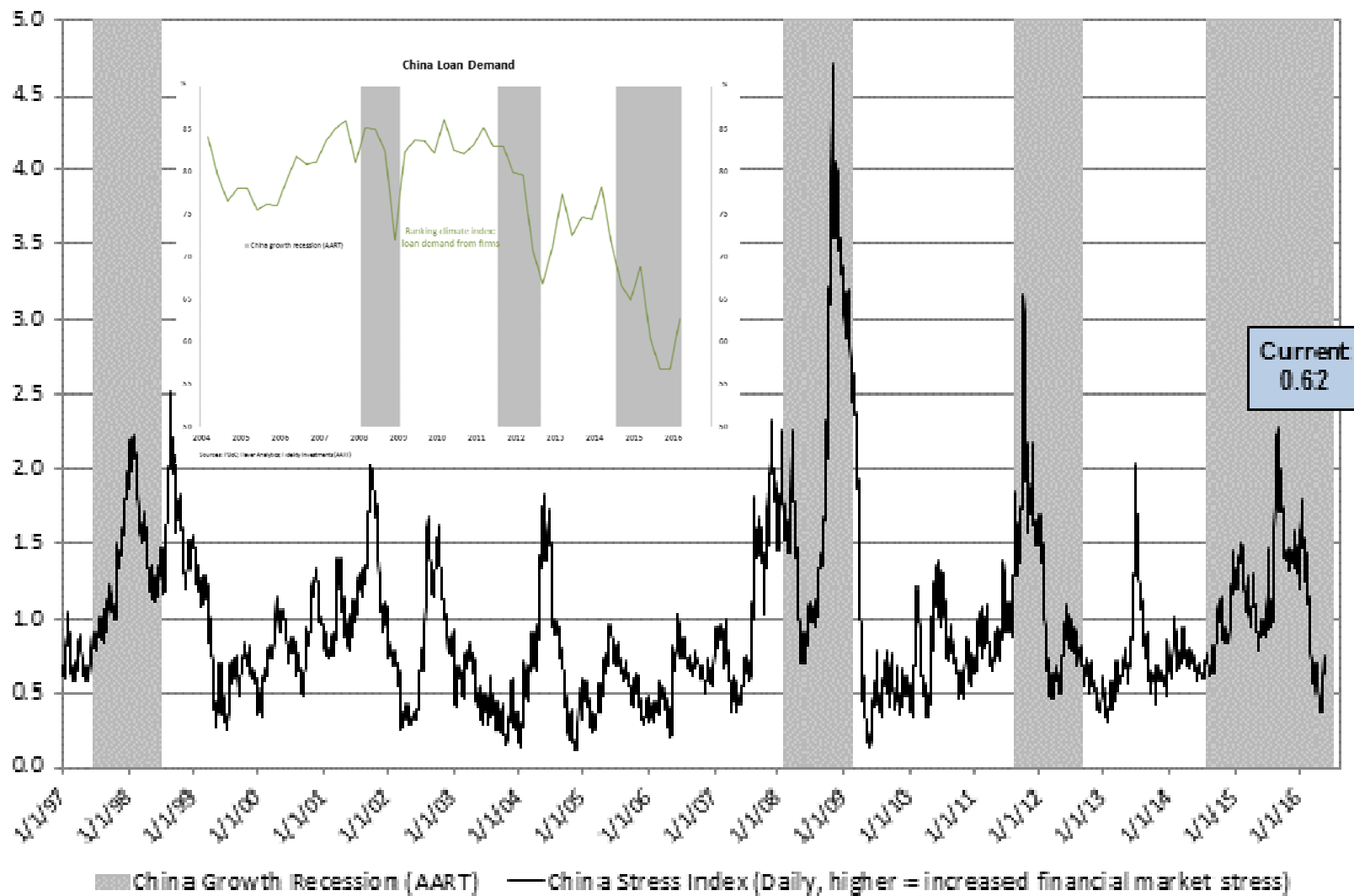
Probability of a Banking Crisis (GDP-weighted)



EM: Emerging market. Risk is weighted by share of global gross domestic product (GDP). The countries included in the analysis vary over time from 22 in 1993 to 30 currently. Source: World Bank, Fidelity Investments (AART), as of 3/31/14.

# Key Topic #2: ... But All Quiet For Now

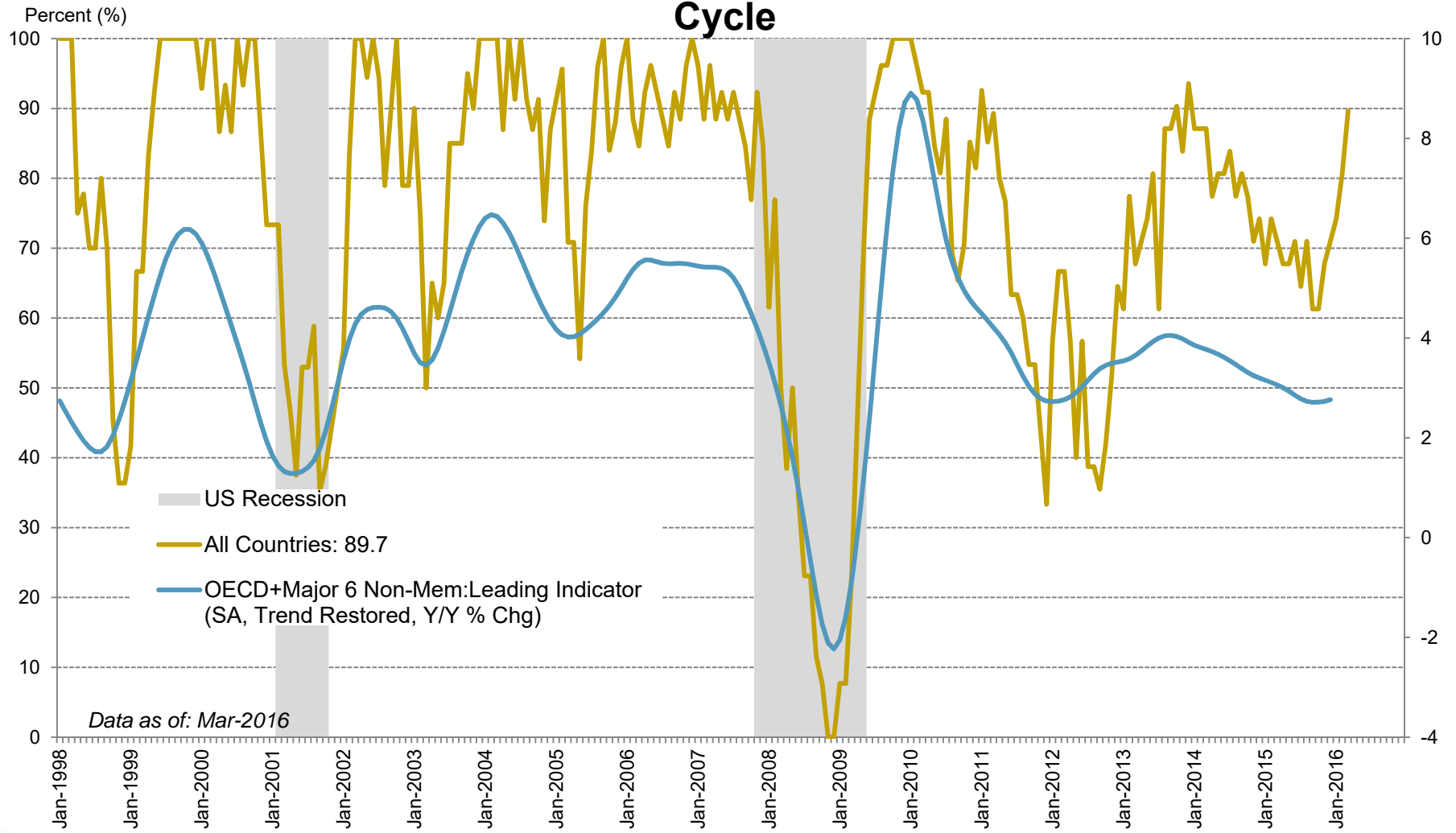
## AART China Stress Index



Data represent an AART (Asset Allocation Research Team) proprietary index. Source: Fidelity Investments (AART), as of 3/31/16.

# Key Topic #3: Parallels with Late 1990s...

## OECD Leading Economic Indicator vs. % of Global Purchasing Managers' Indices Showing a Positive Inventory Cycle



# Key Topic #2: ...if 2015 Rhymed with 1998, What Will 2016 Look Like?

## Periodic Table of Returns

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016*	Legend
18%	75%	17%	38%	35%	35%	35%	66%	32%	14%	26%	56%	32%	35%	35%	40%	5%	79%	28%	8%	20%	39%	28%	5%	9%	Commodities
17%	33%	8%	37%	23%	33%	29%	34%	26%	8%	10%	47%	26%	21%	33%	16%	-20%	58%	27%	8%	19%	34%	14%	3%	7%	High-Yield Bonds
15%	20%	3%	37%	23%	29%	21%	27%	12%	5%	4%	39%	21%	14%	27%	12%	-26%	37%	19%	4%	18%	33%	13%	1%	6%	Emerging-Market Stocks
15%	19%	2%	30%	22%	24%	20%	24%	8%	2%	-2%	37%	18%	12%	22%	11%	-34%	32%	18%	4%	18%	32%	12%	1%	4%	Real Estate Stocks
11%	19%	1%	28%	22%	22%	14%	21%	-1%	-2%	-6%	31%	17%	7%	18%	7%	-36%	28%	17%	2%	16%	23%	11%	1%	4%	Value Stocks
8%	17%	0%	20%	16%	20%	9%	21%	-3%	-4%	-9%	31%	11%	5%	16%	6%	-36%	27%	16%	2%	16%	19%	6%	0%	3%	Investment-Grade Bonds
8%	10%	-1%	18%	15%	13%	3%	12%	-5%	-4%	-15%	29%	11%	5%	12%	5%	-37%	26%	15%	0%	16%	7%	5%	-4%	2%	60% Large Cap 40% IG Bonds
7%	10%	-2%	15%	11%	10%	-3%	7%	-9%	-12%	-16%	28%	9%	5%	11%	2%	-38%	20%	15%	-4%	15%	3%	3%	-4%	2%	Large Cap Stocks
5%	10%	-2%	15%	6%	2%	-18%	3%	-14%	-20%	-20%	24%	8%	4%	9%	-1%	-38%	19%	12%	-12%	11%	-2%	-2%	-5%	0%	Small Cap Stocks
4%	4%	-3%	12%	6%	-3%	-25%	-1%	-22%	-20%	-22%	19%	7%	3%	4%	-2%	-43%	18%	8%	-13%	4%	-2%	-4%	-15%	0%	Foreign-Developed Country Stocks
-12%	-1%	-7%	-5%	4%	-12%	-27%	-5%	-31%	-21%	-28%	4%	4%	2%	2%	-16%	-53%	6%	7%	-18%	-1%	-10%	-17%	-25%	0%	Growth Stocks

\*2016 through 4/30/16. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against loss. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Asset classes represented by: Commodities – Bloomberg Commodity Index; Emerging-Market – MSCI Emerging Markets Index; Foreign-Developed Country – MSCI EAFE Index; Growth – Russell 3000 Growth Index; High Yield – Bank of America Merrill Lynch U.S. High Yield Index; Investment-Grade – Barclays U.S. Aggregate Bond Index; Large Cap – S&P 500 Index; Real Estate – FTSE NAREIT Equity Index; Small Cap – Russell 2000 Index; Value – Russell 3000 Value Index. Source: Morningstar, Standard & Poor's, Haver Analytics, Fidelity Investments (AART), as of 4/30/16.



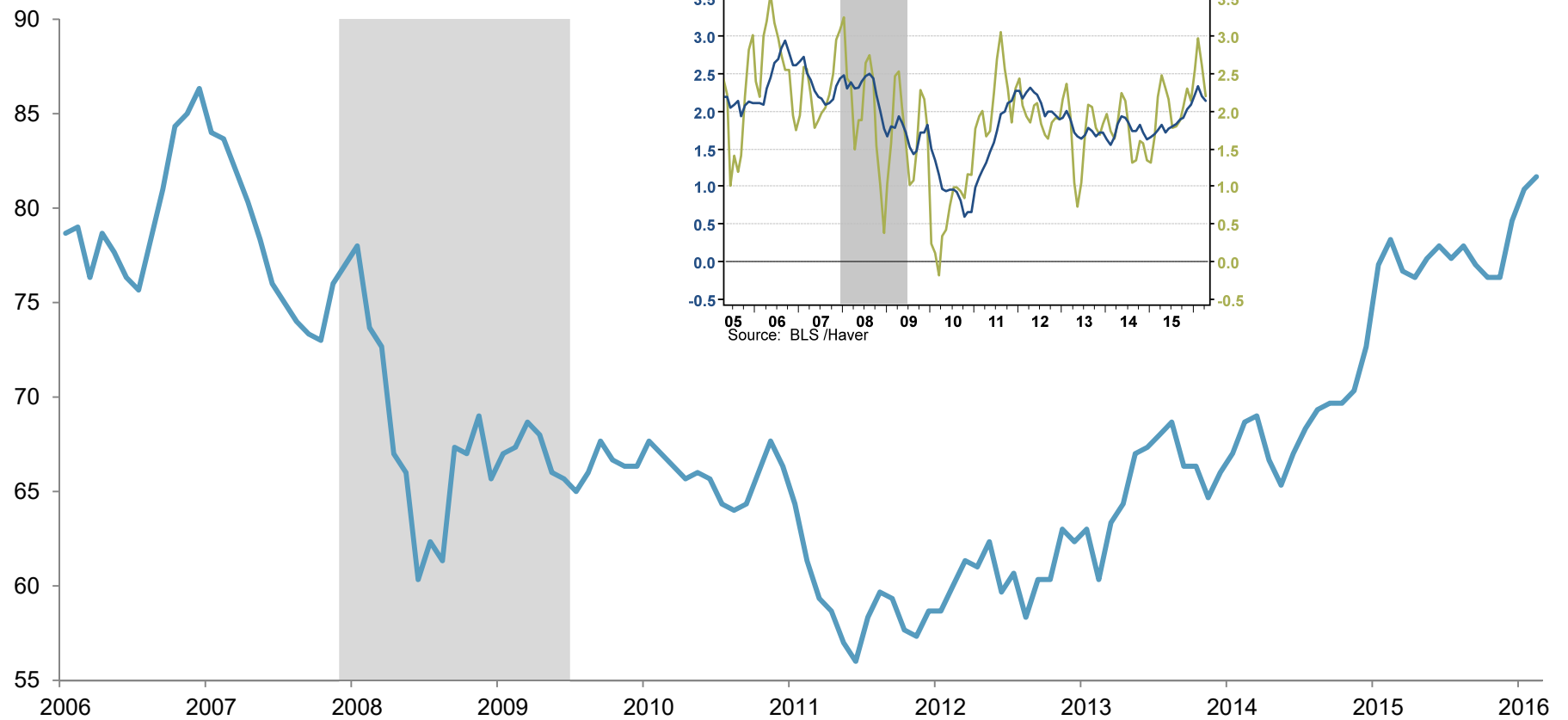
# Key Topic #4: Inflation is Back ...

## Consumer One-Year Real Wage Expectations

Rising real wage expectations bode well for consumer demand

— Consumer Real Wage Expectations

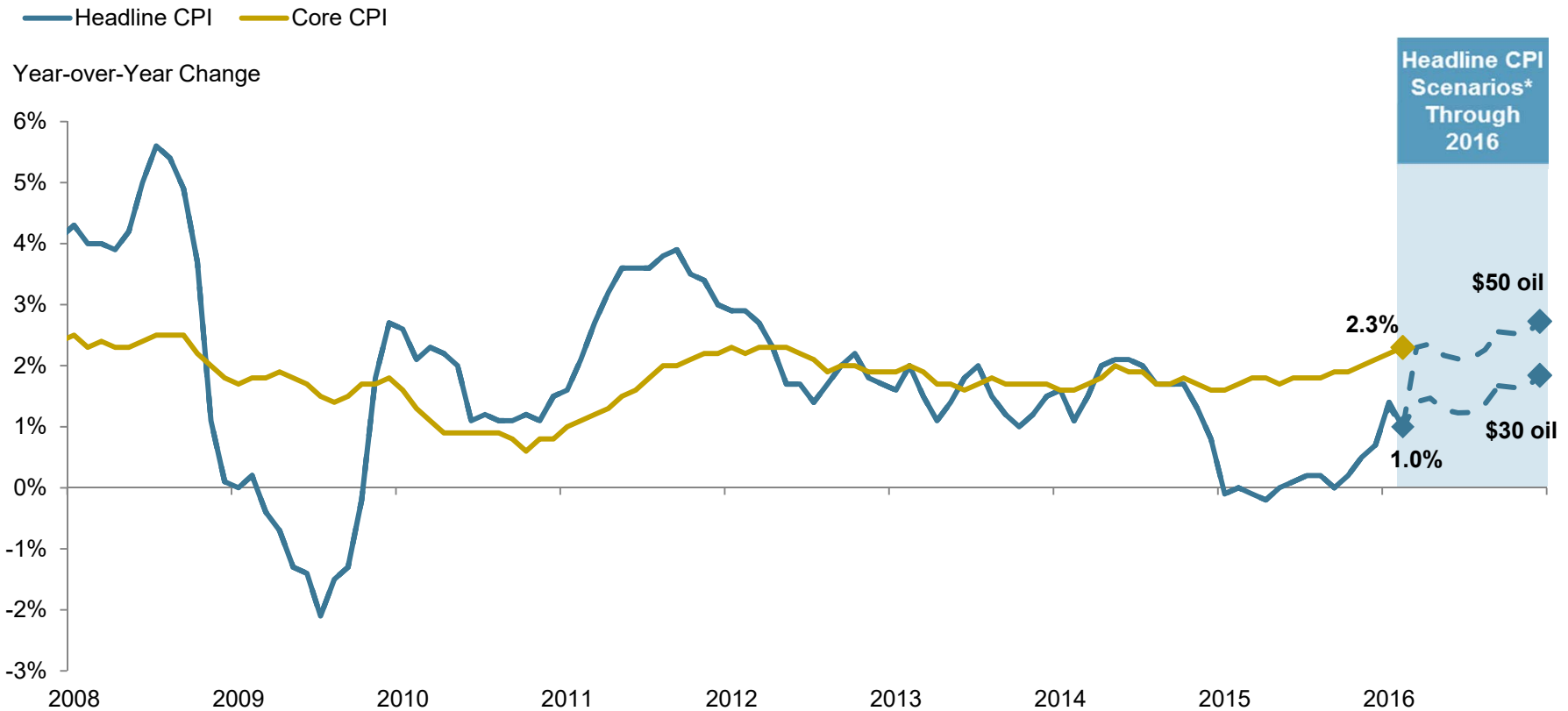
Index Level (Three-month average)



Grey area represents U.S. recession as defined by National Bureau of Economic Research (NBER). Source: University of Michigan, NBER, Haver Analytics, Fidelity Investments (AART), as of Feb. 26, 2016.

# Key Topic #4: ...Getting in the Fed's Target Range

## U.S. Inflation: The Base Effect



\*Scenarios assume core CPI and food cost growth rates remain constant and vary only by the cost of oil each month. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 2/29/16.



# Key Topic #5: Unintended Consequences of Ultra Low and Negative Rates

## Intended Central Bank Goals

Income Effect

Credit Creation

Graceful Deleveraging

Positive Wealth Effect



Bank Lending Up

Currency Down

Consumption Up

Inflation Up

## Unintended Consequences

Substitution Effect

Price Controls

Lower Productivity

Inequality and Speculation



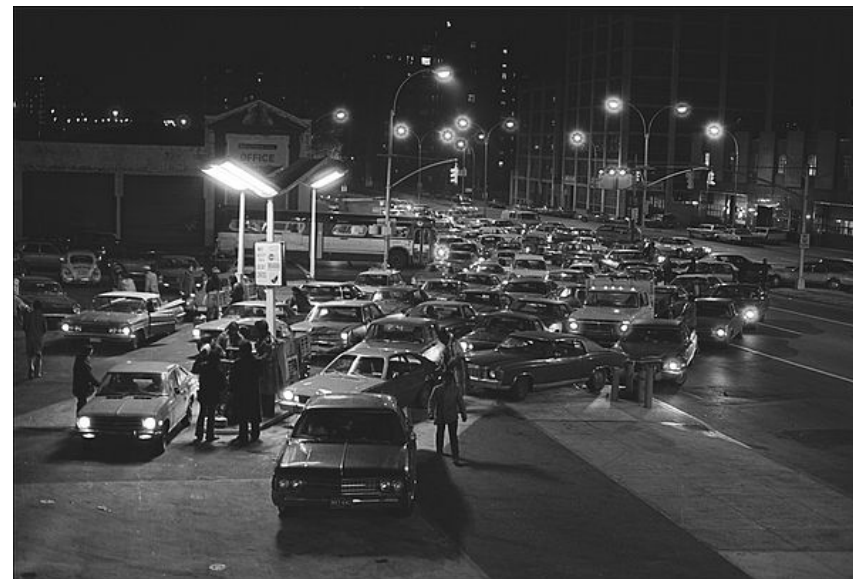
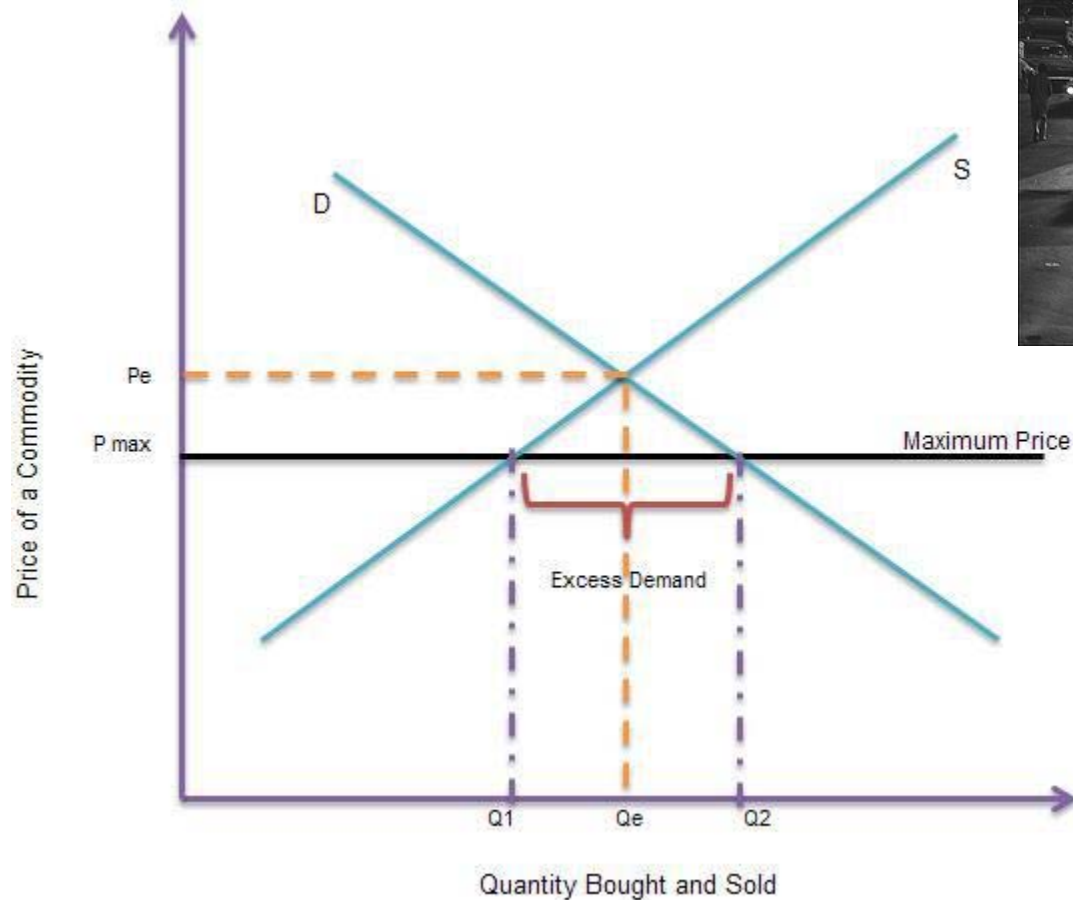
Bank Lending Down

Currency Up

Savings Up

Inflation Down

# Key Topic #5: Unintended Consequences of Ultra Low and Negative Rates



## Why Low Rates May Confound Central Banks

- Demographics
- Willingness to Lend
- Productivity



# Important Information

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