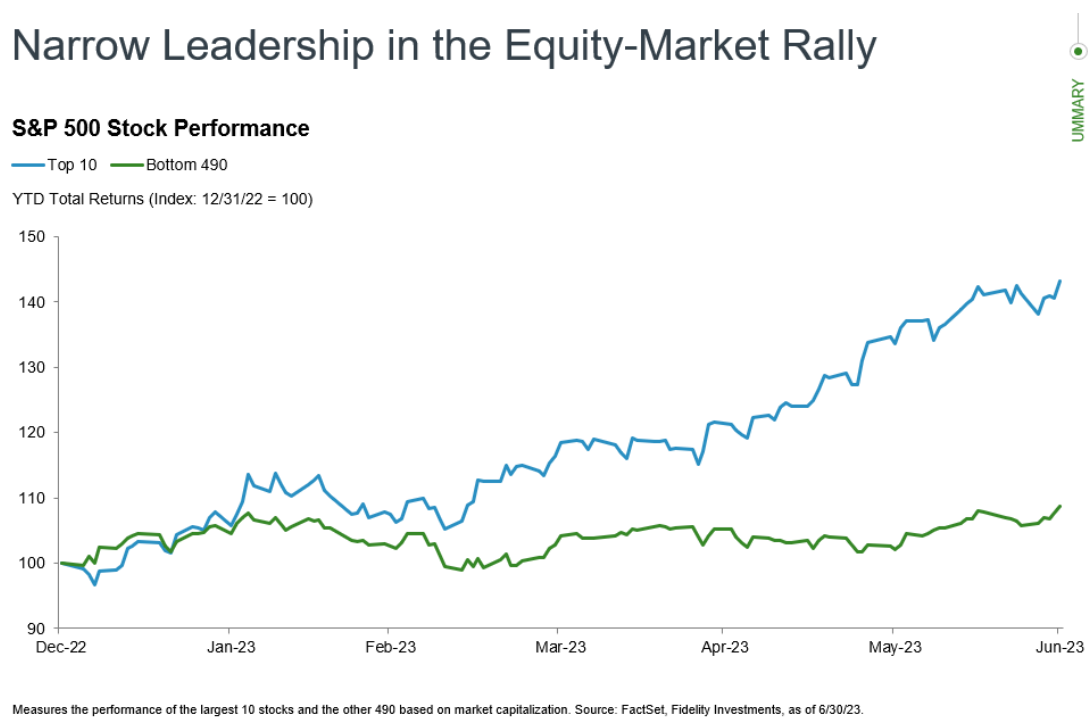
Q3 2023 Quarterly Market Update with Dirk Hofschire

Hello, I'm Dirk Hofschire of Fidelity Investments. On behalf of my colleagues on the Asset Allocation Research Team I want to share with you a few insights that we have on the latest market developments. So, today I'll review the second quarter of 2023 in the markets, as well as look at what's ahead. So let's get started.

The prices of riskier assets rose during the second quarter and posted their third straight quarter of positive returns.

- U.S. large-cap stocks led the way, and the U.S. stock market ended the quarter with double-digit gains for the first half of 2023.
- Stocks in the technology and communications sectors – which dominate the top 10 largest U.S. stocks -- received a boost from investor exuberance about the prospects for artificial intelligence.
- Overall, the stock rally was relatively narrow, with the top 10 largest stocks far outpacing the rest of the market.



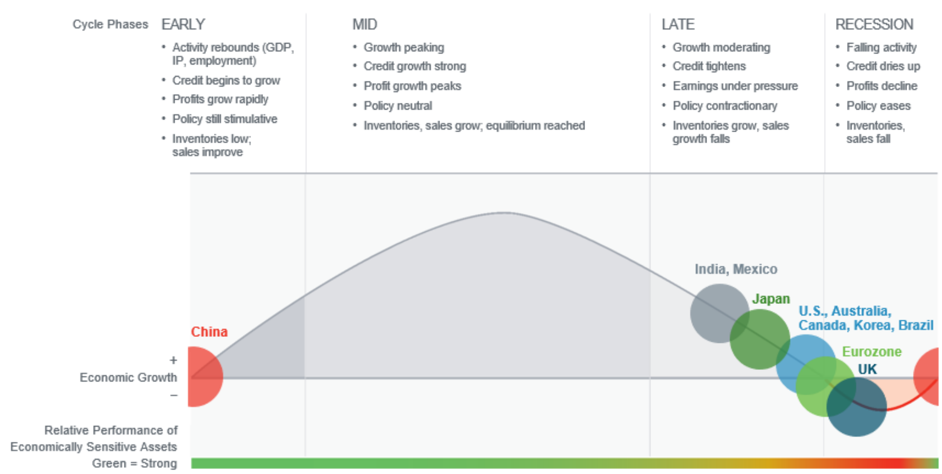
The continued global economic expansion underpinned the stock-market rally.

- Many major economies face headwinds related to persistent inflationary pressures and tightening monetary conditions, but growth has remained positive.
- China's economy has experienced a disappointing recovery, but it continues to benefit from its post-COVID reopening.
- Europe has stabilized amid falling energy prices.
- We believe the U.S. is in the late-cycle expansion phase, with solid near-term momentum but a high probability of greater slowing ahead.

Global Business Cycle in a Less Synchronized Expansion

ECONOMY

Business Cycle Framework

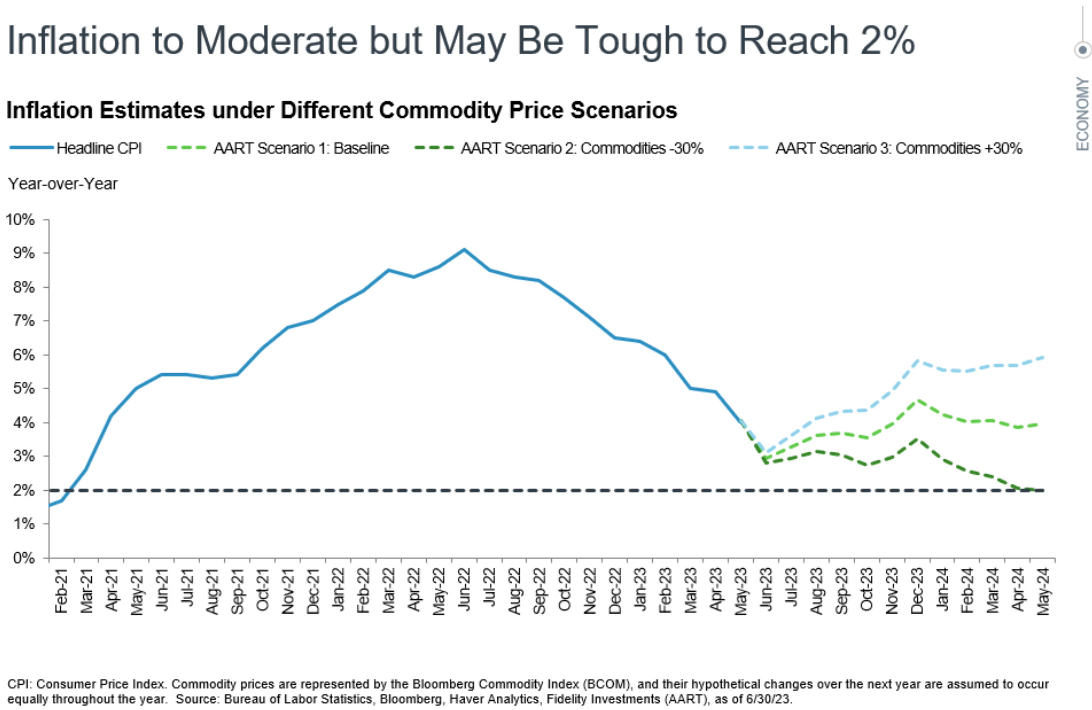


A growth recession is a significant decline in activity relative to a country's long-term economic potential. Note: The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. 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. Source: Fidelity Investments (AART), as of 6/30/23.

The continued decline in inflation rates also provided a positive boost to equity markets.

- U.S. consumer inflation continued to decelerate after reaching a multi-decade peak above 9% last year.
- Many supply-chain disruptions have been fixed, and commodity prices have dropped significantly from their 2022 peaks.
- However, we believe the overall trend of moderating inflation may be coming to an end.

- Many inflation pressures have remained persistent – particularly those core inflation pressures connected to tight labor markets and services inflation.
- Without even larger drops in commodity prices or greater economic weakness, it may be difficult to return to the stable, low-inflation environment of the past two decades.



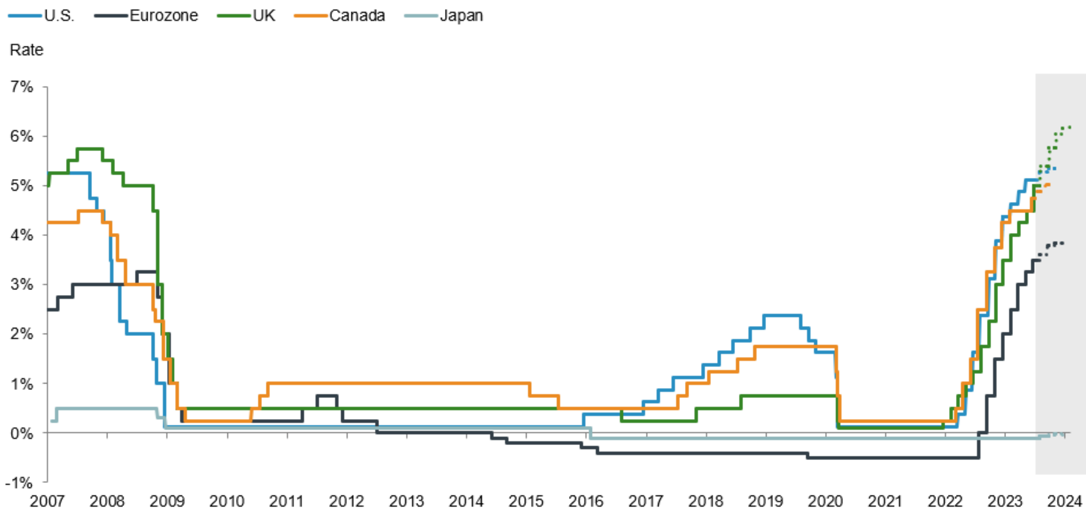
The persistence of inflationary pressures motivated most of the world's major central banks to continue tightening monetary policy during the second quarter.

- Global short-term interest rates rose to their highest levels in more than a decade.
- The Federal Reserve paused its hiking cycle during its June meeting but signaled additional rate increases may be needed.
- Most investors expect the pace of rate hikes to slow and eventually stop during 2023.
- However, the impact of the abrupt departure from the ultra-low rates era may weigh on financial conditions in the quarters to come.

Dramatic Global Hiking Cycle May Be Nearing a Peak

SUMMARY

Global Short-Term Policy Rates

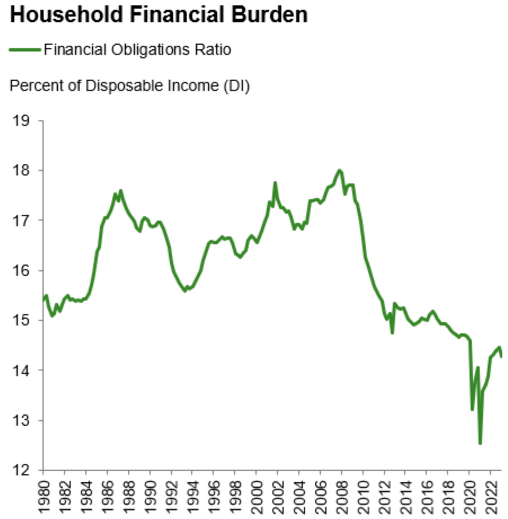


Dotted lines in the shaded area represent market rate expectations using OIS swaps. They end at the peak expected policy rate by the market.
Source: U.S. Federal Reserve Board, ECB, Bank of Japan, Bank of England, Haver Analytics, Bloomberg Finance L.P., Fidelity Investments (AART), as of 6/30/23.

So far, the U.S. economy has weathered higher interest rates relatively well.

- Consumer financial obligations have ticked up, but they remain low relative to history.
- This is in part due to low mortgage debt-servicing costs, as many households hold fixed-rate mortgages.
- Consumers also continue to benefit from strong balance sheets as their net worth is near all-time highs.
- Tight labor markets, rising wages, and post-pandemic excess savings are also providing support for consumer spending.

U.S. Expansion Supported by Healthy Consumer



Source: Federal Reserve, Fidelity Investments (AART), as of 6/30/23.

When we put this all together, the U.S. economy is in a late-cycle expansion, the consumer sector is healthy, and inflation has decelerated.

- However, monetary tightening and economic uncertainty present challenges to the outlook.
- So maintaining a well-diversified portfolio and focusing on long-term objectives are as important as always.

For more information on our perspectives and the current themes in the financial markets, please read out complete Quarterly Market Update at Fidelity.com/QMU. Thank you.

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