Market Analysis / First Quarter 2021

INDEPENDENT WEALTH MANAGEMENT

Tumultuous 2020 Ended with More Hopeful Expectations

Despite the recent U.S. surge in COVID-19 cases, financial markets continued to recover from pandemic- and recession-related declines experienced in the first half of the year. The cyclical outlook for most economies is constructive amid maturing recoveries, supportive policies, and vaccine-assisted reopenings on the horizon. Lofty asset valuations, combined with policy and inflation uncertainty, may keep volatility elevated in 2021.

	MACRO	ASSET MARKETS
Q4 2020	• Global economic recovery continued, with some moderation amid rise in virus cases.	• Big gains for riskier asset prices, including a shift toward reflationary leadership.
OUTLOOK	• Most major countries' recoveries should broaden into expansions as vaccine-related full reopening occurs. • Near-term headwinds from the recent spike in virus cases are unlikely to cause a double-dip recession. • China's economy remains a bit ahead of the rest of the world, underpinned by strength in global manufacturing activity. • Monetary policy remains extraordinarily supportive of liquidity and financial conditions. • Fiscal policy is likely to become even more stimulative and supportive of inflation.	• Policy decisions and their impact on real interest rates are likely to have an increasingly large influence on asset returns. • Buoyant asset valuations reflect positive expectations built into asset prices. • Market volatility may return as expectations adjust to the post-pandemic landscape. • Potential shifts in long-term trends, including the possibility of a more inflationary backdrop, also loom. • Cyclical outlook remains constructive, but portfolio diversification is as important as ever.

Diversification does not ensure a profit or guarantee against a loss.

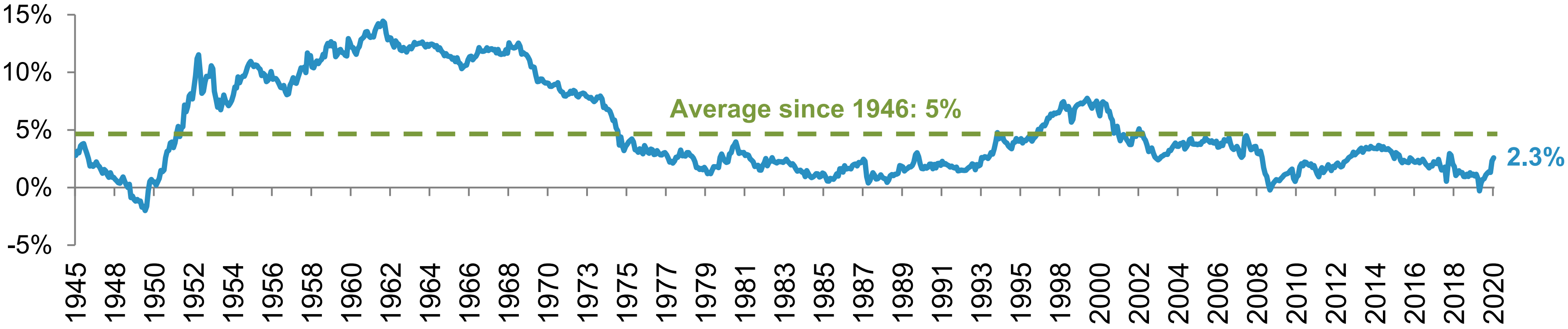
Q4 Stock Rally Accentuated Strong Year for Asset Returns

A reflation rally powered riskier assets to strong gains in Q4, with small cap and non-U.S. equities leading the way. For the year, the sharp second-half recovery led to above-average, double-digit returns for U.S. and emerging-market stocks. Safer assets also prospered, as gold and long-duration bonds benefited from monetary stimulus and a drop in real yields, and all bond categories generated solid returns.

	Q4 2020 (%)	1 Year (%)		Q4 2020 (%)	1 Year (%)
Gold	0.7	25.1	U.S. Corporate Bonds	2.8	9.4
U.S. Small Cap Stocks	31.4	20.0	Non-U.S. Developed-Country Stocks	16.0	7.8
U.S. Large Cap Stocks	12.1	18.4	Investment Grade Bonds	0.7	7.5
Emerging-Market Stocks	19.7	18.3	High Yield Bonds	6.5	6.2
U.S. Mid Cap Stocks	19.9	17.1	Emerging-Market Bonds	5.5	5.9
Long Government & Credit Bonds	1.7	16.1	Commodities	10.2	-3.1
Non-U.S. Small Cap Stocks	17.3	12.3	Real Estate Stocks	11.6	-8.0

20-Year U.S. Stock Returns Minus IG Bond Returns since 1946

Annualized Return Difference (%)



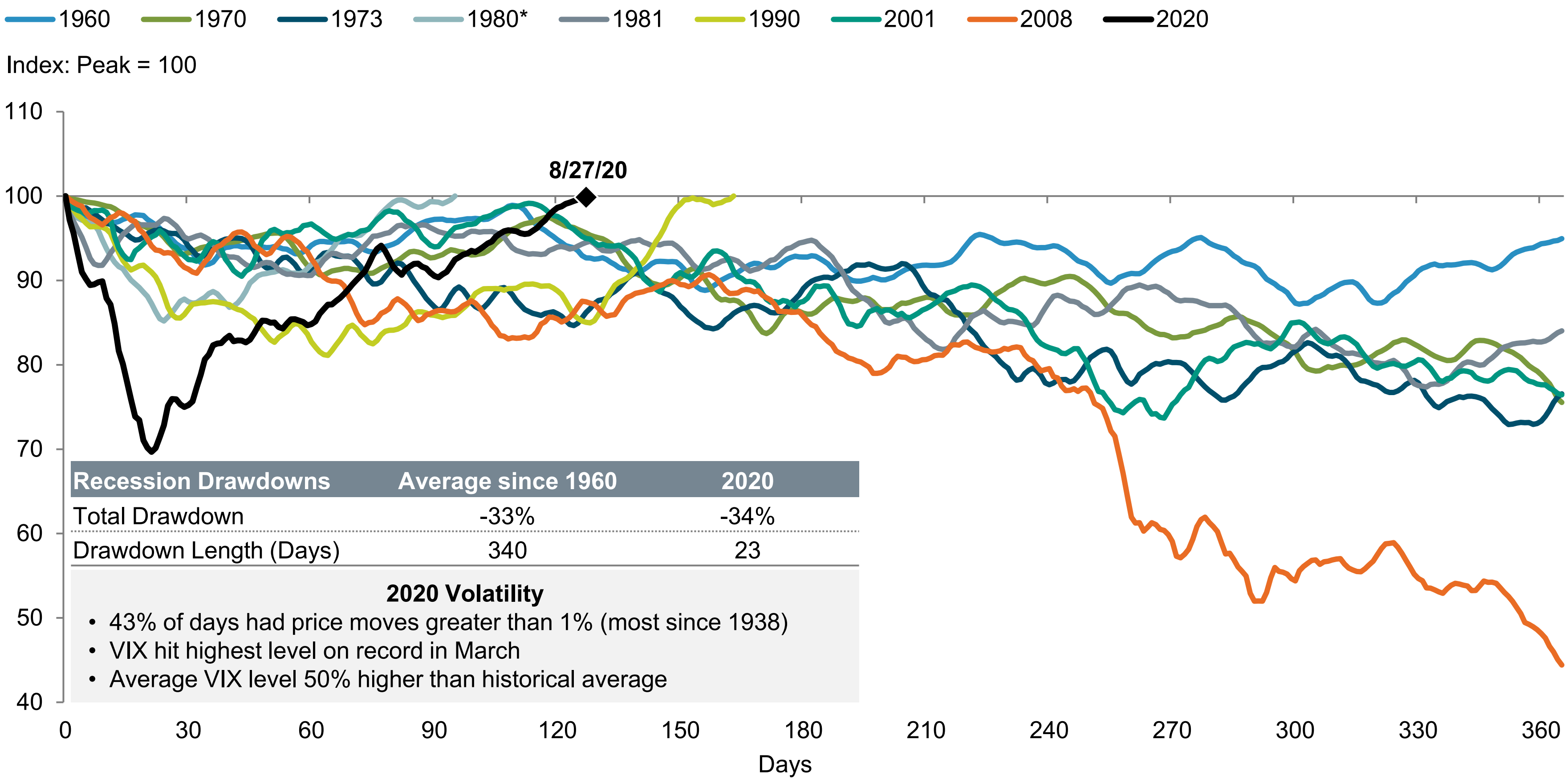
Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Assets represented by: Commodities—Bloomberg Commodity Index; Emerging-Market Bonds—JP Morgan EMBI Global Index; Emerging-Market Stocks—MSCI EM Index; Gold—Gold Bullion, LBMA PM Fix; High-Yield Bonds—ICE BofA High Yield Bond Index; Investment-Grade Bonds—Bloomberg Barclays U.S. Aggregate Bond Index; Non-U.S. Developed-Country Stocks—MSCI EAFE Index; Non-U.S. Small Cap Stocks—MSCI EAFE Small Cap Index; Real Estate Stocks—FTSE NAREIT Equity Index; U.S. Corporate Bonds—Bloomberg Barclays U.S. Credit Index; U.S. Large Cap Stocks—S&P 500®; U.S. Mid Cap Stocks—Russell Midcap® Index; U.S. Small Cap Stocks—Russell 2000® Index; Long Government & Credit Bonds—Bloomberg Barclays Long Government & Credit Index. Source: Bloomberg Finance L.P., Haver Analytics, Fidelity Investments Asset Allocation Research Team (AART), as of 12/31/20.

Fidelity INVESTMENTS

Historic Market Volatility in 2020

By several measures, U.S. stock prices experienced one of the most volatile years in history. Compared with other recessionary sell-offs in recent decades, 2020 marked the swiftest drop as well as the quickest, sharpest bounce back to prior peak. The entire year was characterized by large, frequent daily price swings in both directions, and implied volatility remained elevated throughout.

U.S. Stock Market Drawdowns during Recessions (1960–2020)



Recession Drawdowns	Average since 1960	2020
Total Drawdown	-33%	-34%
Drawdown Length (Days)	340	23

2020 Volatility

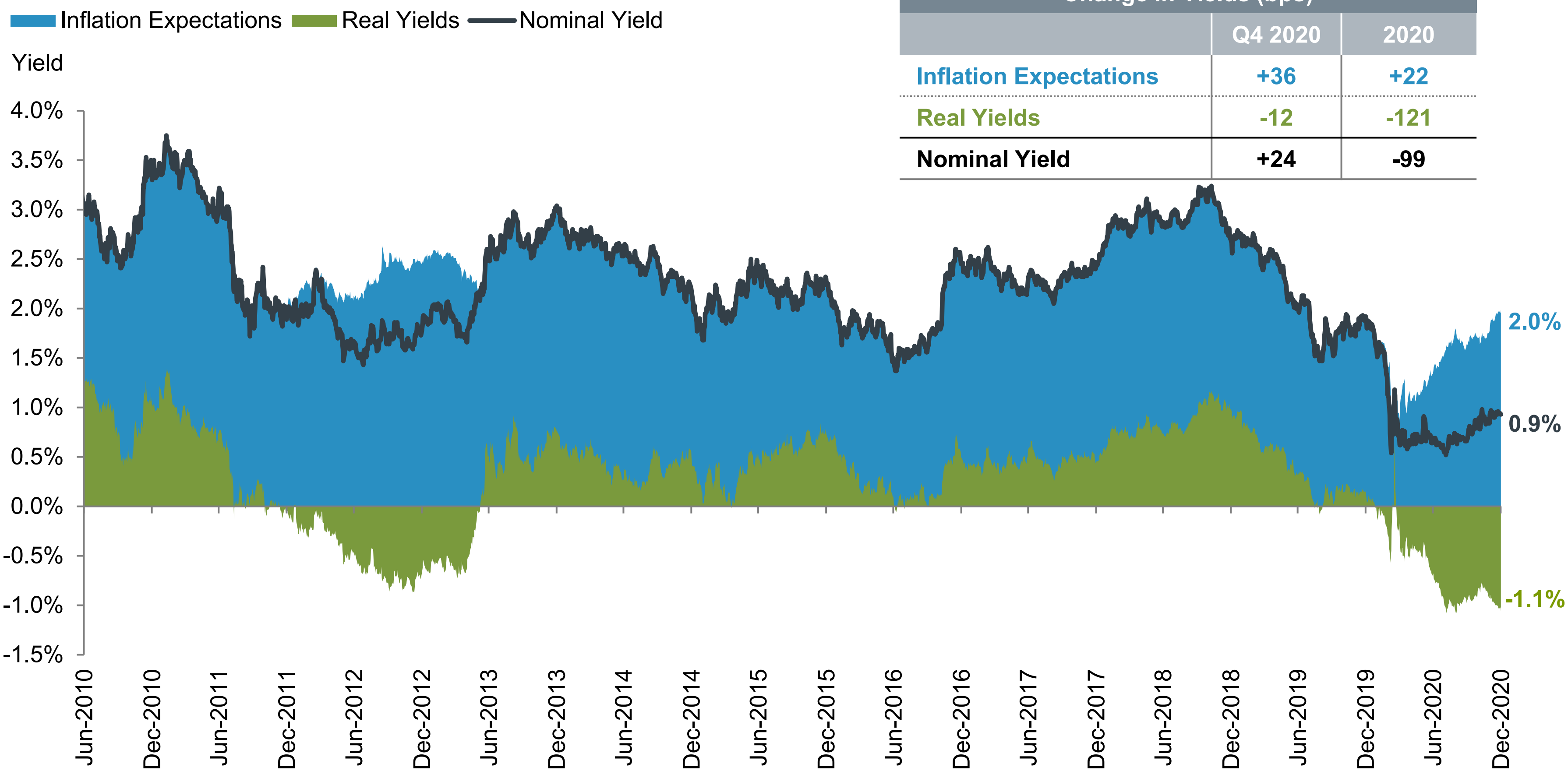
- 43% of days had price moves greater than 1% (most since 1938)
- VIX hit highest level on record in March
- Average VIX level 50% higher than historical average

* Since the 1973 peak is not regained until after the 1980 recession, the 1980 line starts at its near-term high on 2/20/80. Index: S&P 500®. Lines represent a 5-day moving average, table uses daily values, and 1973 recession not included in average for return to peak. All indexes are unmanaged. You cannot invest directly in an index. **Past performance is no guarantee of future results**. Source: Standard & Poor's, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/20.

Bond Yields Ticked Up but Remained Near Record Lows

U.S. 10-year Treasury yields rose about 20 basis points during Q4 but remained roughly one percentage point lower versus 2020's start. Inflation expectations continued to recover and finished at their highest levels of 2020. The real cost of borrowing remained deeply negative, although the most negative real yields in U.S. history occurred during periods of monetary accommodation and higher inflation in the late 1940s and the mid-1970s.

10-Year U.S. Government Bond Yields



Change in Yields (bps)	Q4 2020	2020
Inflation Expectations	+36	+22
Real Yields	-12	-121
Nominal Yield	+24	-99

 Bps: basis points. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/20.

Global Business Cycle in a Maturing Recovery

The U.S. and most major economies enter 2021 in maturing recoveries. Some face near-term, virus-related headwinds, whereas China's progression is advanced due partly to its quicker emergence from lockdowns. Activity remains below 2019 levels in most countries, but the prospect of a vaccine-assisted full reopening over the coming year has us constructive on continued broadening of the global economic expansion.

Business Cycle Framework

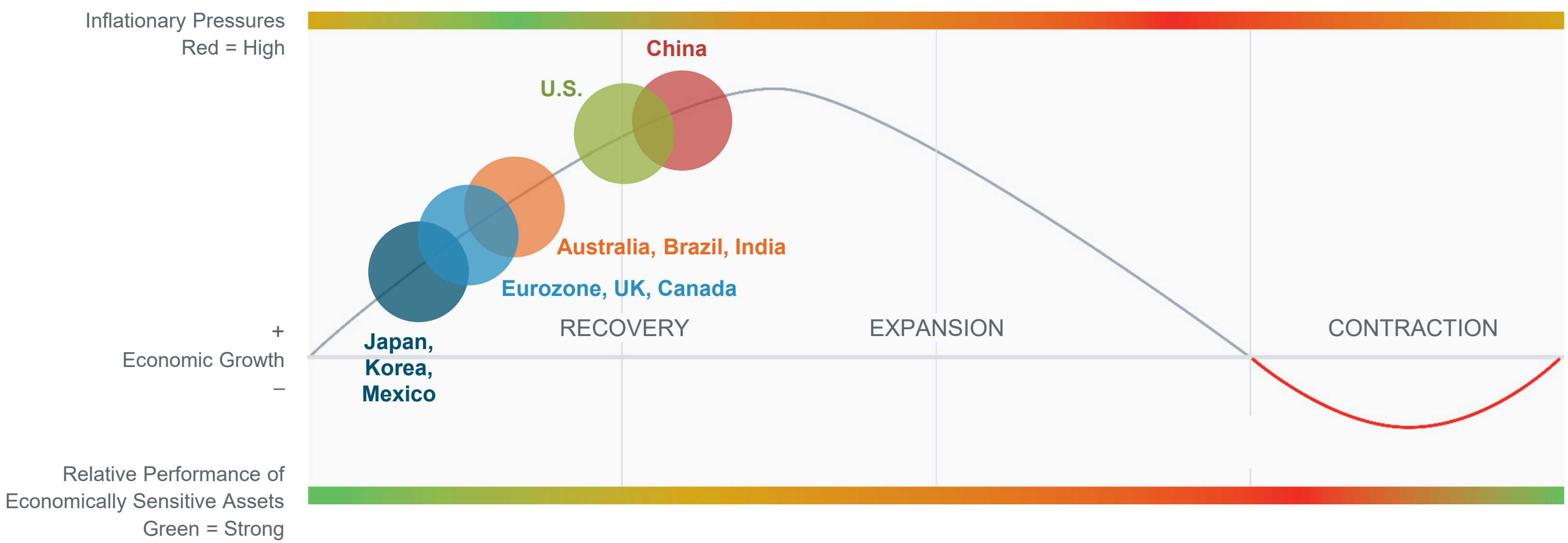
Cycle Phases

EARLY
- Activity rebounds (GDP, IP, employment, incomes)
- Credit begins to grow
- Profits grow rapidly
- Policy still stimulative
- Inventories low; sales improve

MID
- Growth peaking
- Credit growth strong
- Profit growth peaks
- Policy neutral
- Inventories, sales grow; equilibrium reached

LATE
- Growth moderating
- Credit tightens
- Earnings under pressure
- Policy contractionary
- Inventories grow, sales growth falls

RECESSION
- Falling activity
- Credit dries up
- Profits decline
- Policy eases
- Inventories, sales fall

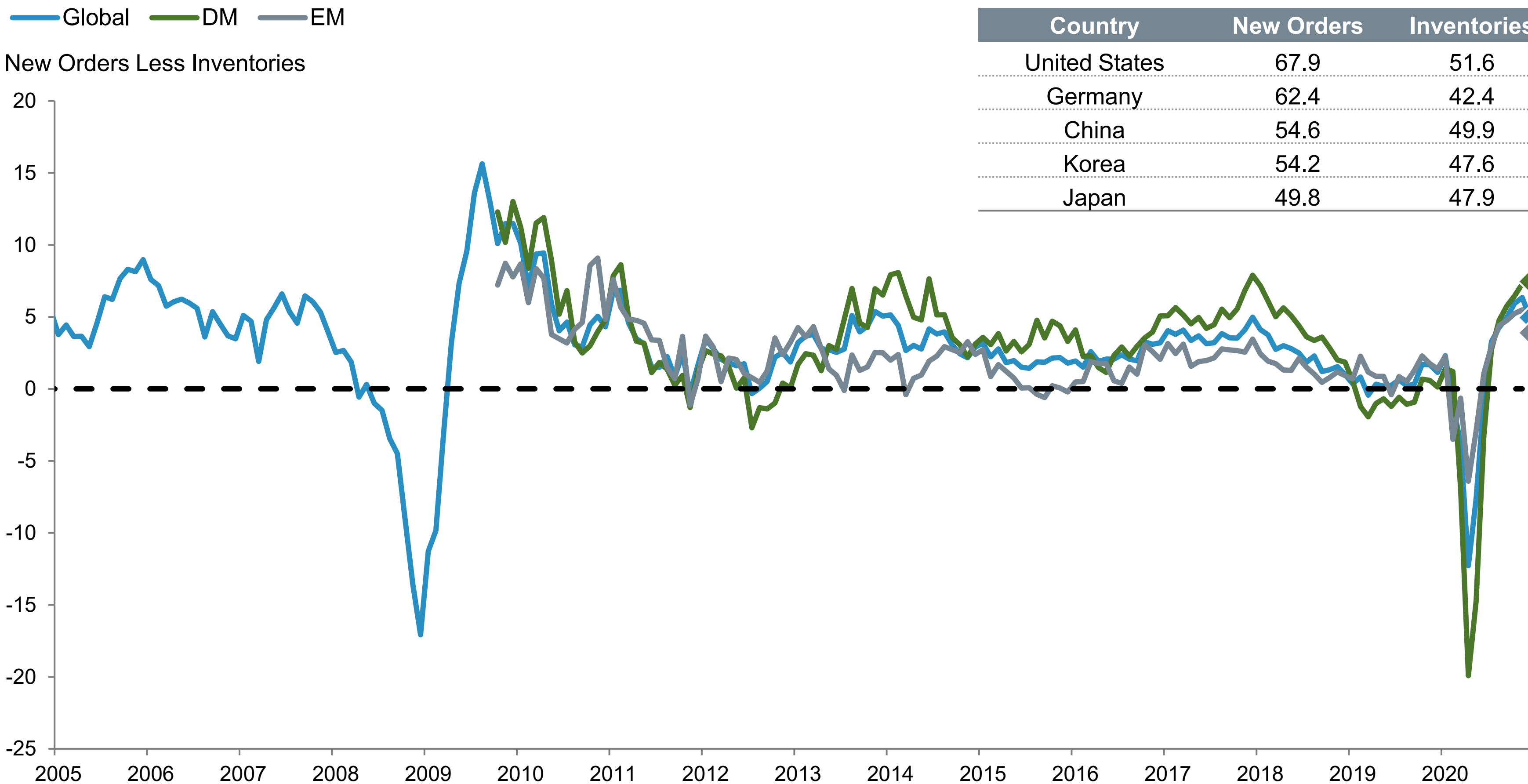


Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of 12/31/20.

Synchronized Global Rebound in Manufacturing

Healthy levels of manufacturing bullwhips—leading indicators that measure the gap between the demand from new orders and the supply from existing inventories—point to an ongoing rebound in global industrial activity. The manufacturing recovery has been broad-based and unusually rapid across regions, due partly to increased demand for household and technology goods as virus-related restrictions curbed mobility.

Global Manufacturing Bullwhips



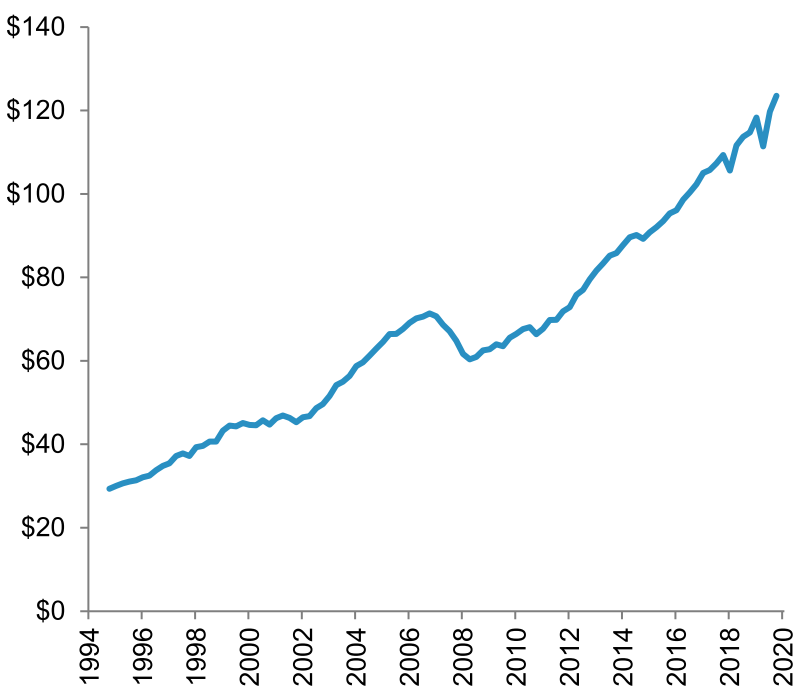
Country	New Orders	Inventories
United States	67.9	51.6
Germany	62.4	42.4
China	54.6	49.9
Korea	54.2	47.6
Japan	49.8	47.9

PMI: Purchasing Managers Index. New orders and inventories are sourced from country level PMIs. **Graph:** Source: ISM, HIS Markit, Haver Analytics, Fidelity Investments (AART), as of 12/31/20. **TABLE:** Source: Caixin, ISM, IHS Markit, Haver Analytics, Fidelity Investments (AART), as of 12/31/20.

U.S. Asset Rally, Stimulus, and Savings Provide a Cushion

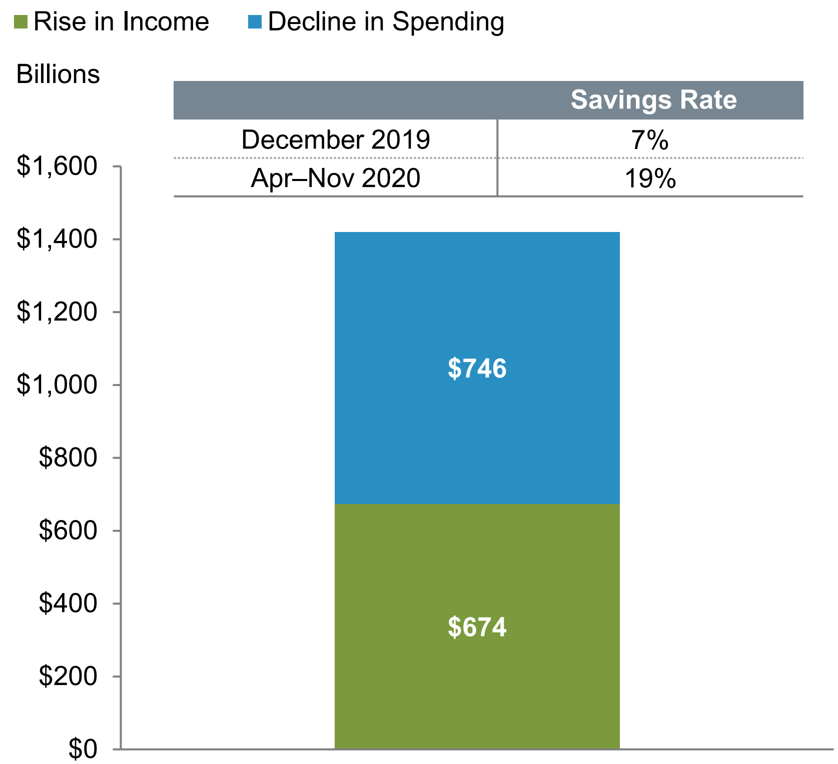
In aggregate, U.S. consumers are better situated to weather the near-term economic lull, making a double-dip recession unlikely, in our view. The broad-based rise in prices for financial assets and housing boosted U.S. household net worth by more than 10% from March to September of 2020. Consumers accumulated more than $1.4 trillion of excess savings during 2020 due to reduced spending plus income gains from fiscal stimulus.

Household Net Worth



Excess Personal Savings (2020)

	Savings Rate
December 2019	7%
Apr–Nov 2020	19%

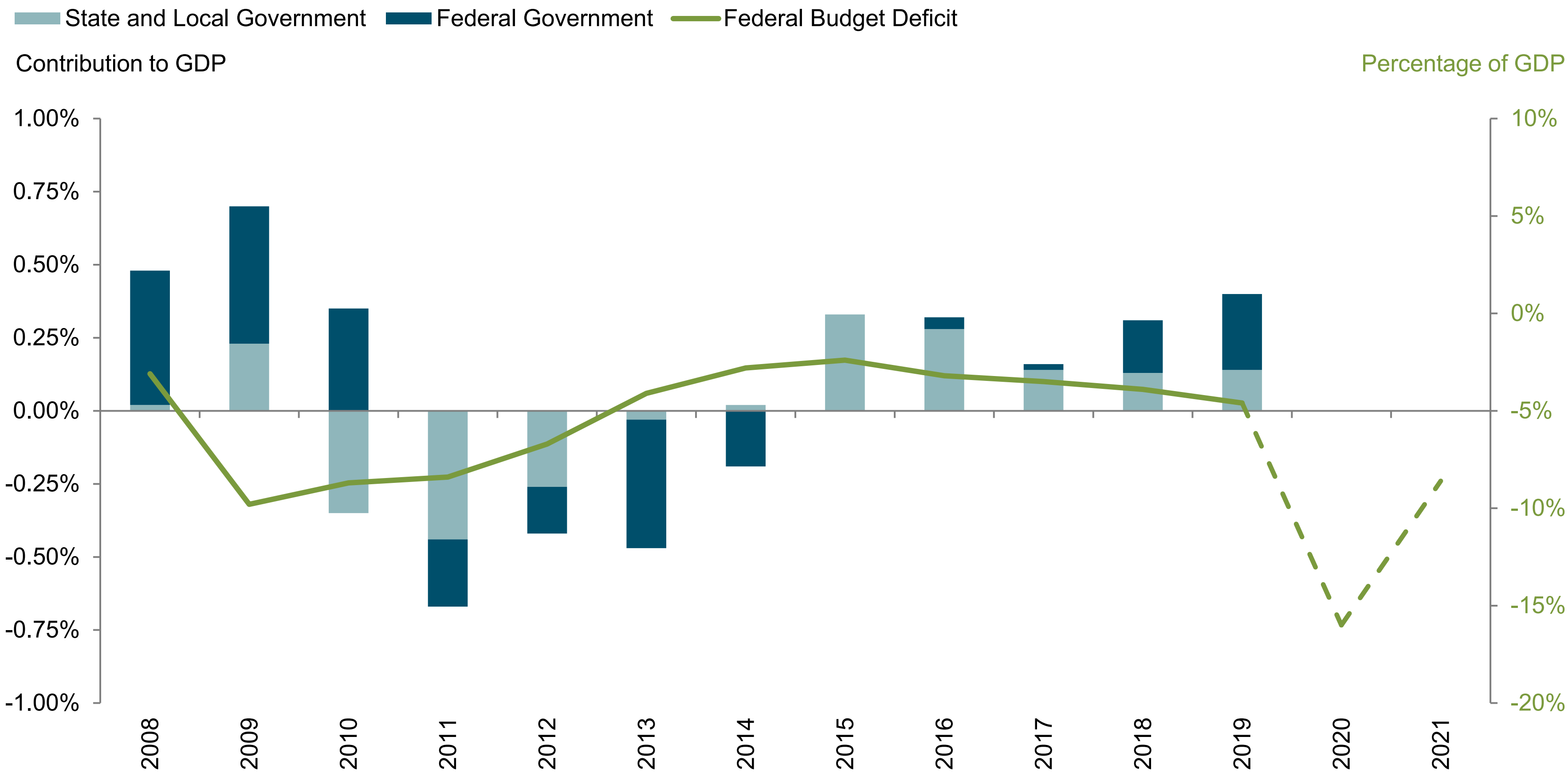


LEFT: Households and nonprofit organizations. Source: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), as of 11/30/20.
RIGHT: Bureau of Economic Analysis, Haver Analytics, Fidelity Investments (AART), as of 11/30/20.

More Fiscal Stimulus Approved, More May Be on the Way

At the end of 2020, the U.S. government approved roughly $900 billion of additional emergency fiscal stimulus, providing important support to counter pandemic-limited economic activity. Absent additional support, the very large 2020 fiscal deficit is projected to tighten during 2021. Coupled with severe budget shortfalls among state and local governments, ongoing federal support may be needed to avoid a fiscal drag on the economy.

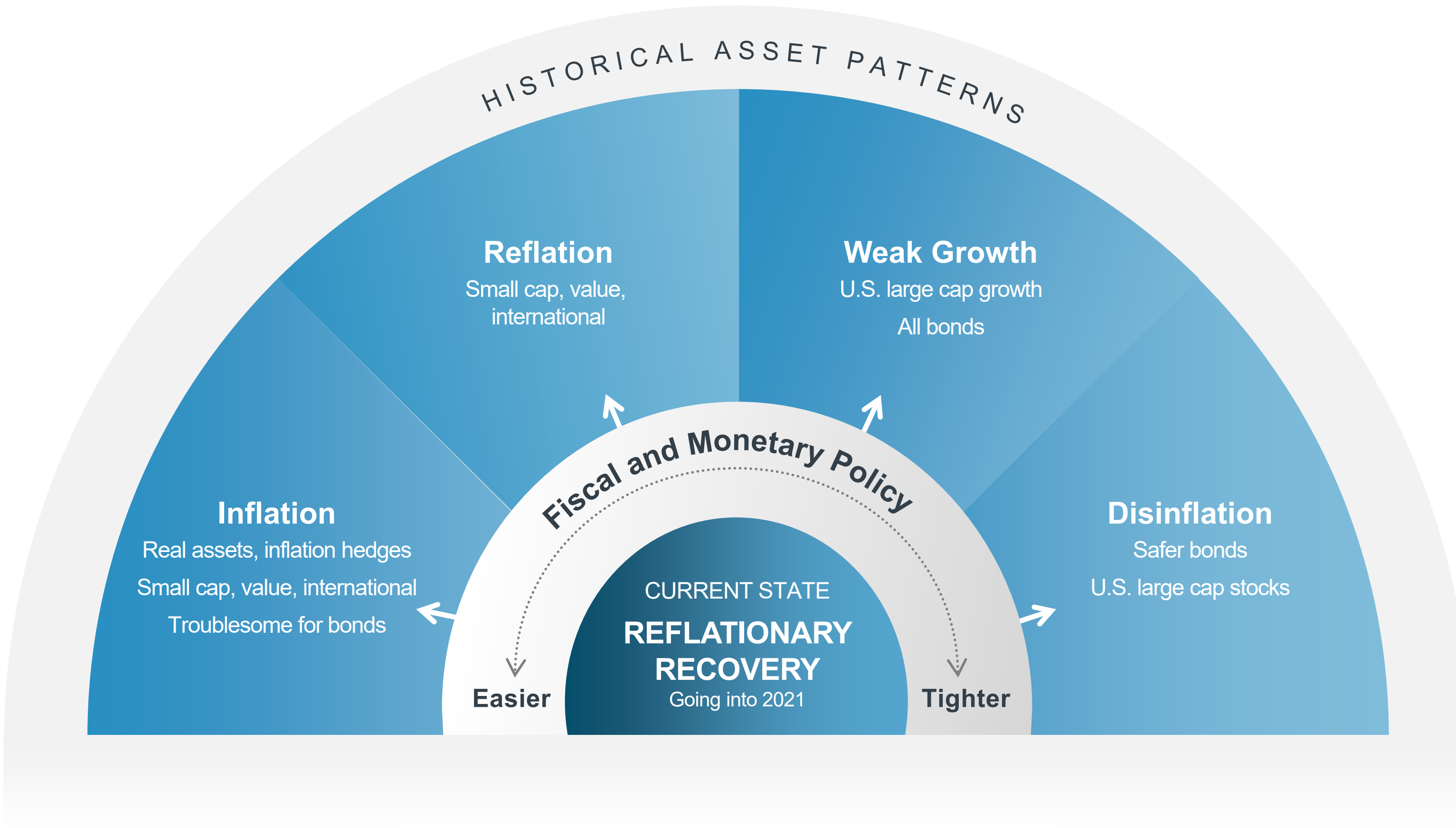
U.S. Federal Fiscal Deficit and Government Impact on GDP



GFC: The great financial crisis of 2007–2008. GDP: Gross domestic product. Source: Congressional Budge Office (CBO), Bureau of Economic Analysis, Haver Analytics, Fidelity Investments (AART); as of 12/31/20. 2020 and 2021 Budget Deficits are CBO projections.

Policy and Inflation Direction Critical to 2021 Outlook

Markets enter 2021 with a reflationary recovery dynamic. As economic reopening occurs, patterns may be influenced by the trajectories of policy, inflation, and real interest rates. More accommodative monetary and fiscal policies could generate inflationary pressure, whereas a move toward policy normalization could result in a growth disappointment. We expect the potential for elevated volatility in 2021.



Continued Broad-Based Recovery across Asset Categories

Almost all asset categories posted positive returns for Q4, with leadership shifting toward small cap and value stocks, non-U.S. markets, and sectors such as energy and financials. Even so, large cap U.S. growth, including tech stocks, still finished atop the 2020 leaderboard. Riskier fixed income credit segments such as high yield and EM debt maintained their strong rally in Q4, but long-duration bonds and TIPS were ahead for 2020 overall.

U.S. Equity Styles Total Return

	Q4	2020
Growth	12.4%	38.3%
Small Caps	31.4%	20.0%
Large Caps	12.1%	18.4%
Mid Caps	19.9%	17.1%
Value	17.2%	2.9%

U.S. Equity Sectors Total Return

	Q4	2020
Info Tech	11.8%	43.9%
Consumer Discretionary	8.0%	33.3%
Communication Services	13.8%	23.6%
Materials	14.5%	20.7%
Health Care	8.0%	13.4%
Industrials	15.7%	11.1%
Consumer Staples	6.4%	10.7%
Utilities	6.6%	0.5%
Financials	23.2%	-1.8%
Real Estate	4.9%	-2.2%
Energy	27.8%	-33.7%

International Equities and Global Assets Total Return

	Q4	2020
ACWI ex USA	17.0%	10.7%
Japan	15.3%	14.5%
EAFE Small Cap	17.3%	12.3%
EAFE	16.0%	7.8%
Europe	15.6%	5.4%
Canada	13.9%	5.3%
EM Asia	18.9%	28.4%
Emerging Markets	19.7%	18.3%
EMEA	16.3%	-6.9%
Latin America	34.8%	-13.8%
Gold	0.7%	25.1%
Commodities	10.2%	-3.1%

U.S. Equity Factors Total Return

	Q4	2020
Momentum	9.9%	22.0%
Quality	10.7%	16.5%
Low Volatility	8.6%	12.7%
Size	21.8%	9.2%
Value	14.3%	9.2%
Yield	16.7%	3.1%

Fixed Income Total Return

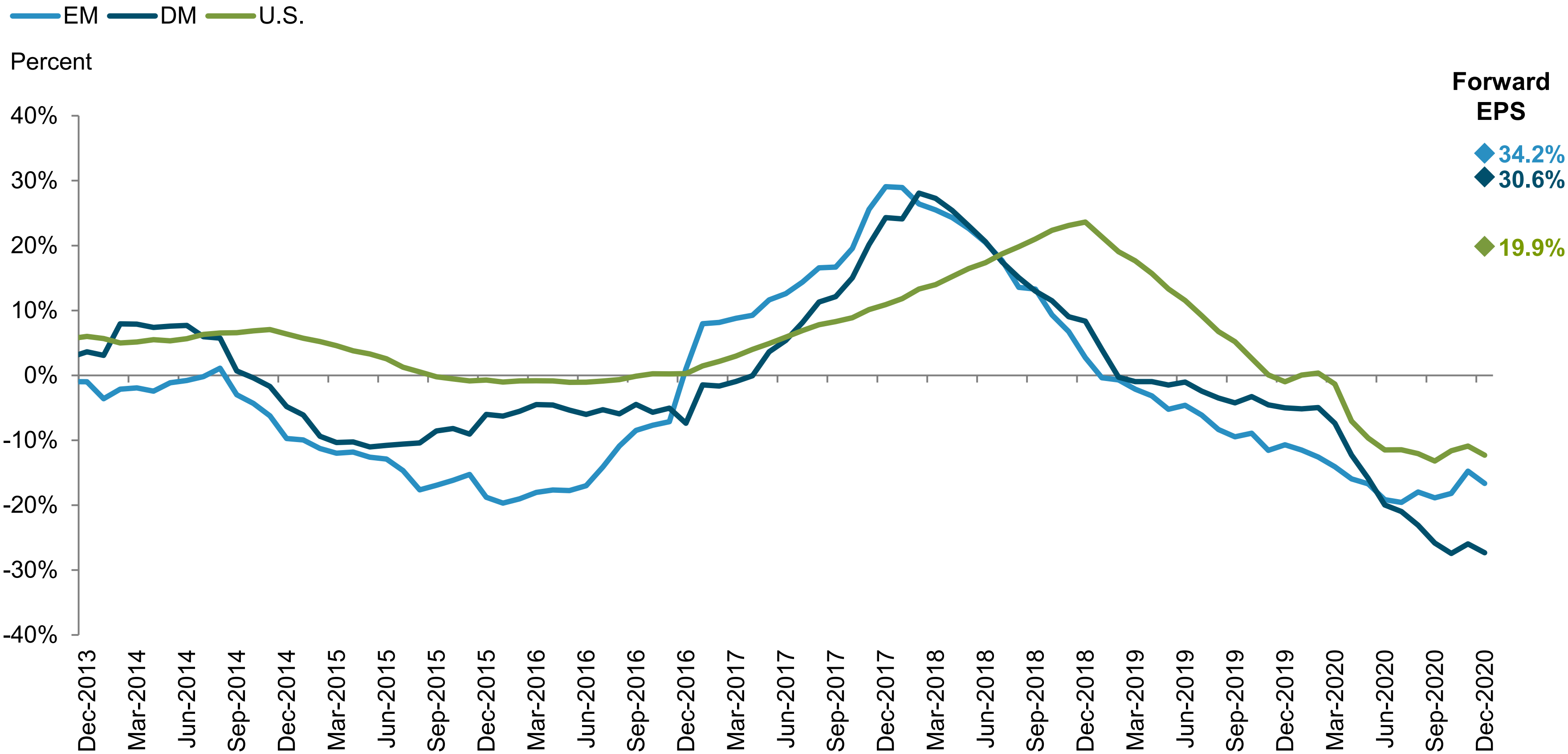
	Q4	2020
Long Govt & Credit	1.7%	16.1%
TIPS	1.6%	11.0%
Credit	2.8%	9.4%
CMBS	1.0%	8.1%
Treasuries	-0.8%	8.0%
Aggregate	0.7%	7.5%
High Yield	6.5%	6.2%
EM Debt	5.5%	5.9%
Agency	0.0%	5.5%
Municipal	1.8%	5.2%
ABS	0.4%	4.5%
MBS	0.2%	3.9%
Leveraged Loan	3.8%	3.1%

EM: Emerging Markets. EMEA: Europe, the Middle East, and Africa. For indexes and other important information used to represent above asset categories, see Appendix. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. Sector returns represented by S&P 500 sectors. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in more diversified baskets of securities. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/20.

Expectations of a Strong Global Earnings Growth Rebound

Trailing earnings remained in negative territory, with all major regions ending the year with double-digit declines. Forward expectations continued to improve, indicating hope that earnings will rebound sharply over the next 12 months, with double-digit growth rates in all regions, led by emerging markets.

Global EPS Growth (Trailing 12 Months)

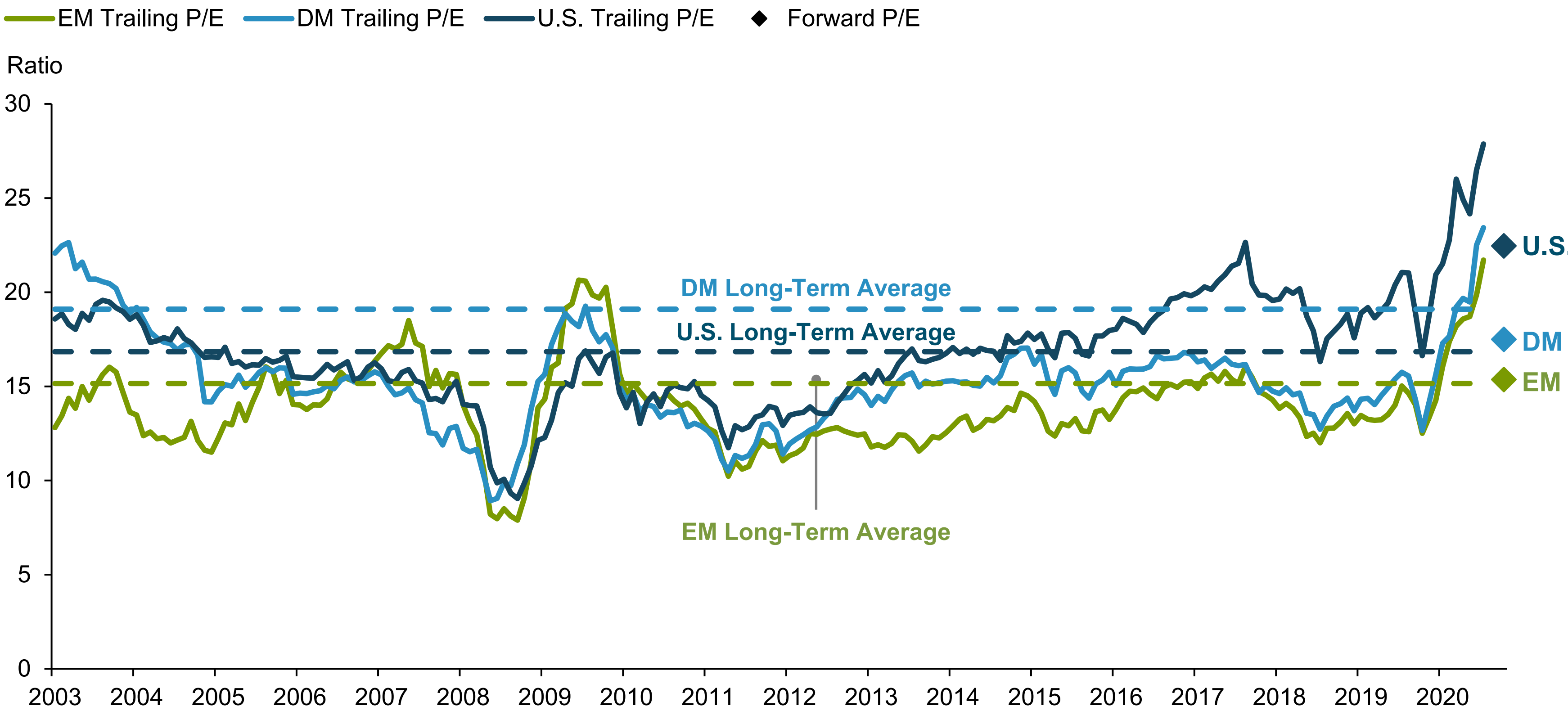


Past performance is no guarantee of future results. DM: Developed Markets. EM: Emerging Markets. EPS: Earnings per share. Forward EPS: Next 12 months expectations. Source: MSCI, Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/20.

Equity Valuations Became Even More Elevated

With stock prices rising and earnings still cyclically depressed, equity valuations rose to multi-decade highs. Price-to-earnings ratios across all major global regions finished the year well above their long-term historical valuation averages. Forward-looking P/E ratios indicate expectations for the U.S. to remain above its long-term historical average while non-U.S. developed and emerging markets move back closer to theirs.

Global Stock Market P/E Ratios

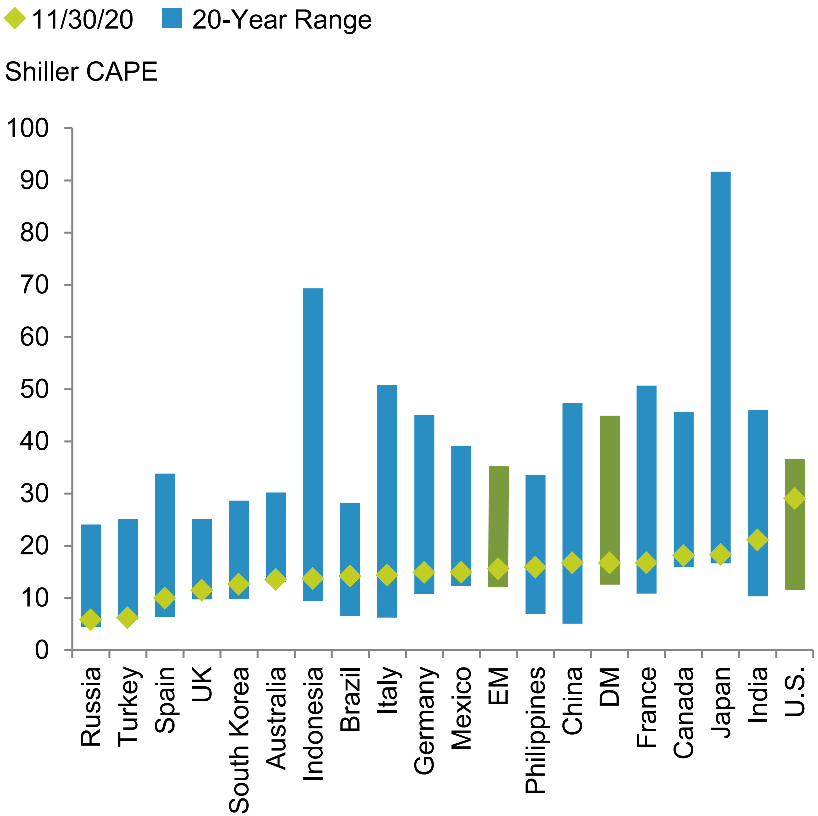


DM: Non-U.S. Developed Markets. EM: Emerging Markets. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Price-to-earnings ratio (P/E): stock price divided by earnings per share. Also known as the multiple, P/E gives investors an idea of how much they are paying for a company's earnings power. Long-term average P/E for Emerging Markets includes data for 1988–2017; for Non-U.S. Developed Markets, 1973–2016; for the United States, 1926–2017. Indexes: DM—MSCI EAFE Index; EM—MSCI EM Index; United States—S&P 500. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 12/31/20.

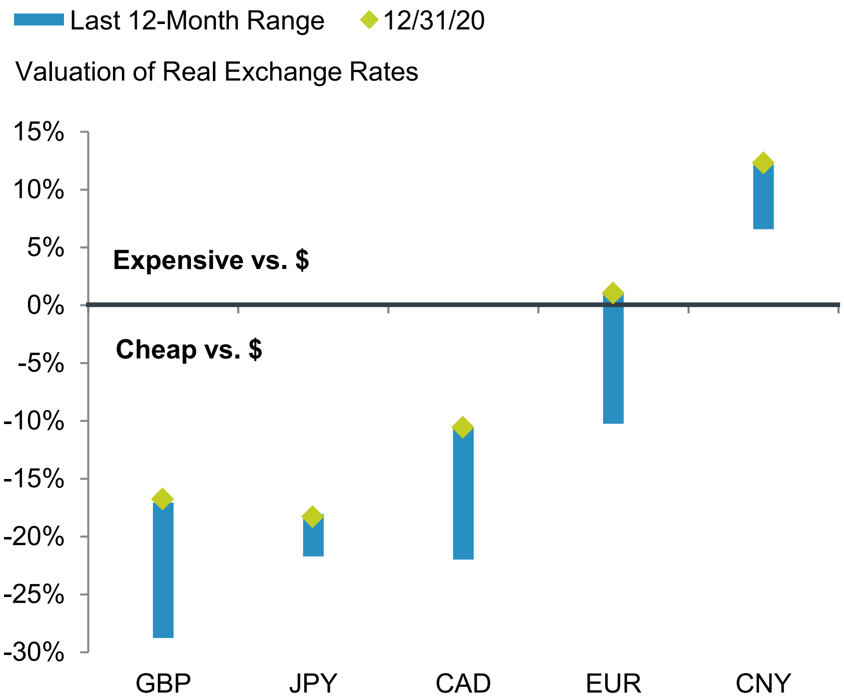
Dollar Dropped, but Non-U.S. Currencies Still Attractive

Cyclically adjusted P/E (CAPE) ratios for non-U.S. equities remained below U.S. valuations, indicating an attractive long-term backdrop for non-U.S. stocks. The U.S. dollar experienced a broad-based decline in 2020, and other primary currencies such as the euro and Japanese yen ended at the upper bound of their 12-month ranges. The dollar, however, still appears relatively expensive against most major currencies.

Cyclically Adjusted P/Es



Valuation of Major Currencies vs. USD

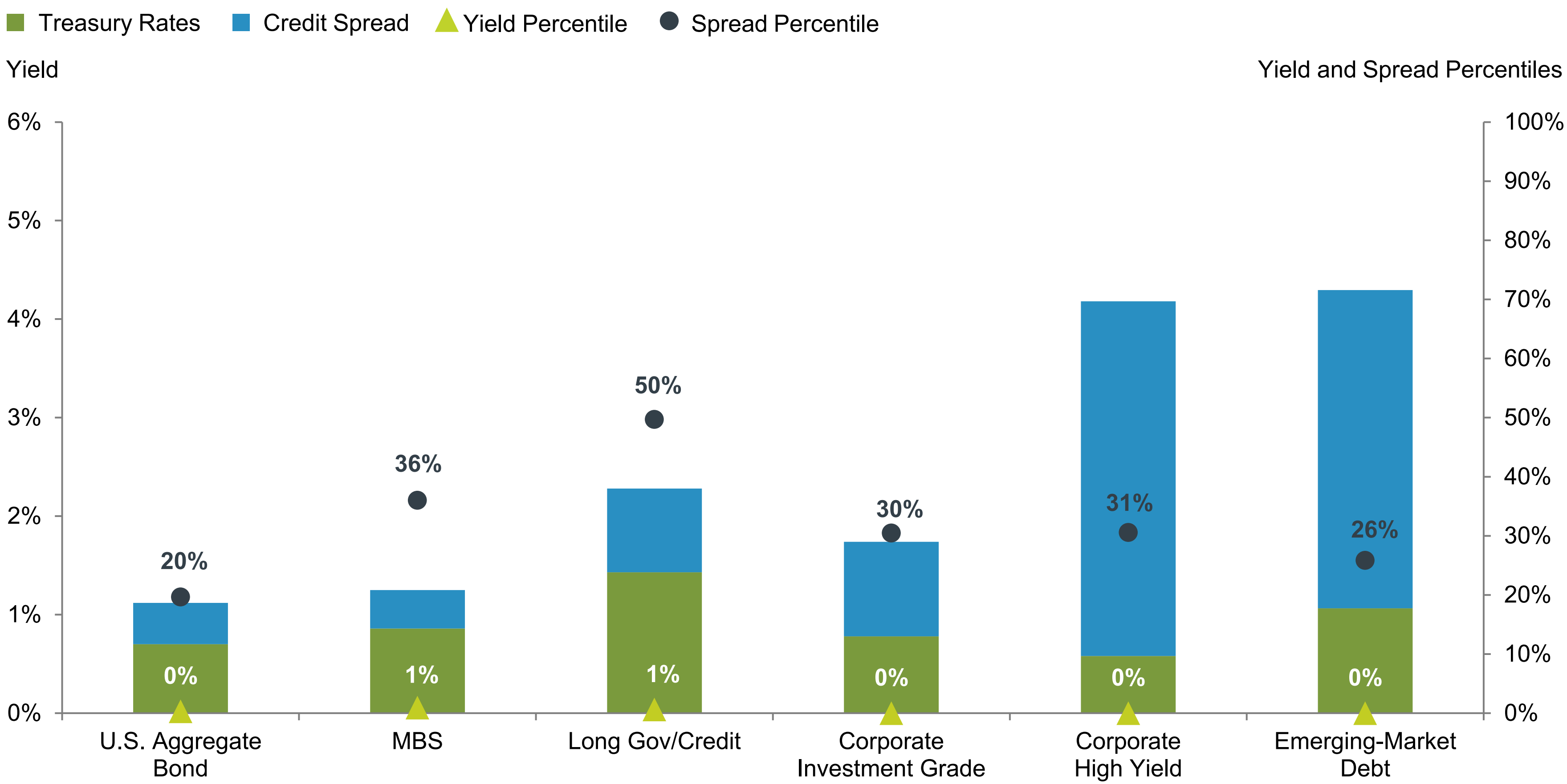


DM: Developed Markets. EM: Emerging Markets. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. **LEFT:** Price-to-earnings (P/E) ratio (or multiple): stock price divided by earnings per share, which indicates how much investors are paying for a company's earnings power. Cyclically adjusted earnings are 10-year averages adjusted for inflation. Source: FactSet, countries' statistical organizations, Haver Analytics, Fidelity Investments (AART), as of 11/30/20. **RIGHT:** GBP—British pound; JPY—Japanese yen; CAD—Canadian dollar; EUR—euro; CNY—Chinese yuan. Source: Federal Reserve Board, Haver Analytics, Fidelity Investments (AART), as of 12/31/20.

Yields Near All-Time Lows as Spreads Tightened Further

Credit spreads tightened across fixed income asset classes for the third quarter in a row, with almost all categories finishing the year below their long-term averages. During 2020, extraordinary central bank accommodation in both the Treasury and credit markets put downward pressure on both rates and spreads, helping push bond yields in high-quality debt categories near their lowest levels on record.

Fixed Income Yields and Spreads (1993–2020)



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indexes are unmanaged. See Appendix for important index information. Percentile ranks of yields and spreads based on historical period from 1993 to 2020. MBS: mortgage-backed securities. Source: Bloomberg Barclays, Bank of America Merrill Lynch, JP Morgan, Fidelity Investments (AART), as of 12/31/20.

Performance Rotations Underscore Need for Diversification

The performance of different assets has fluctuated widely from year to year, and the magnitude of returns can vary significantly among asset classes in any given year—even among asset classes that are moving in the same direction. A portfolio allocation with a variety of global assets illustrates the potential benefits of diversification.

Periodic Table of Returns

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
32%	14%	26%	56%	32%	35%	35%	40%	5%	79%	28%	8%	20%	39%	28%	5%	21%	38%	0%	36%	38%
26%	8%	10%	47%	26%	21%	33%	16%	-20%	58%	27%	8%	19%	34%	14%	3%	18%	30%	-2%	31%	20%
12%	5%	4%	39%	21%	14%	27%	12%	-26%	37%	19%	4%	18%	33%	13%	1%	18%	26%	-2%	26%	18%
8%	2%	-2%	37%	18%	12%	22%	11%	-34%	32%	18%	4%	18%	32%	12%	1%	12%	22%	-3%	26%	18%
-1%	-2%	-6%	31%	17%	7%	18%	7%	-36%	28%	17%	2%	16%	23%	11%	1%	12%	15%	-4%	26%	14%
-3%	-4%	-9%	31%	11%	5%	16%	6%	-36%	27%	16%	2%	16%	19%	6%	0%	11%	15%	-4%	22%	8%
-5%	-4%	-15%	29%	11%	5%	12%	5%	-37%	26%	15%	0%	16%	7%	5%	-4%	9%	13%	-9%	22%	8%
-9%	-12%	-16%	28%	9%	5%	11%	2%	-38%	20%	15%	-4%	15%	3%	3%	-4%	8%	9%	-11%	18%	6%
-14%	-20%	-20%	24%	8%	4%	9%	-1%	-38%	19%	12%	-12%	11%	-2%	-2%	-5%	7%	8%	-11%	14%	3%
-22%	-20%	-22%	19%	7%	3%	4%	-2%	-43%	18%	8%	-13%	4%	-2%	-4%	-15%	3%	4%	-11%	9%	-3%
-31%	-21%	-28%	4%	4%	2%	2%	-16%	-53%	6%	7%	-18%	-1%	-10%	-17%	-25%	2%	1%	-14%	8%	-8%

Legend

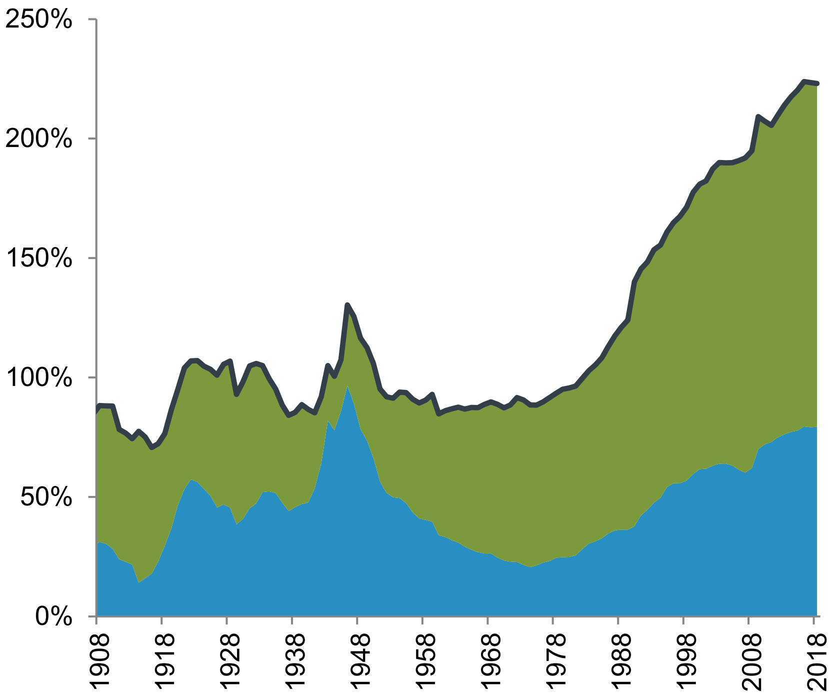
- Growth Stocks
- Small Cap Stocks
- Large Cap Stocks
- Emerging-Market Stocks
- 60% Large Cap 40% IG Bonds
- Foreign-Developed Country Stocks
- Investment-Grade Bonds
- High-Yield Bonds
- Value Stocks
- Commodities
- REITs

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 indexes are unmanaged. See Appendix for important index information. Asset classes represented by: Commodities—Bloomberg Commodity Index; Emerging-Market Stocks—MSCI Emerging Markets Index; Non-U.S. Developed-Country Stocks—MSCI EAFE Index; Growth Stocks—Russell 3000 Growth Index; High-Yield Bonds—ICE BofA U.S. High Yield Index; Investment-Grade Bonds—Bloomberg Barclays U.S. Aggregate Bond Index; Large Cap Stocks—S&P 500 index; Real Estate/REITs—FTSE NAREIT All Equity Total Return Index; Small Cap Stocks—Russell 2000 Index; Value Stocks—Russell 3000 Value Index. Source: Morningstar, Standard & Poor's, Haver Analytics, Fidelity Investments (AART), as of 12/31/20.

Rising Debt: Will Policy Response Be Inflationary?

The dramatic worldwide rise in public and private debt in recent decades reflects monetary and fiscal policymakers' proclivity to use low interest rates and government support in an attempt to boost growth rates. While technology and other factors have kept inflation in check, we believe greater policy experimentation and "peak globalization" trends will eventually cause long-term inflation to rise faster than expected.

Global Debt as a Share of GDP



Possible Secular Impact on Inflation

Secular Factors	Possible Developments	Risks to Inflation
Policy	Fed targets higher inflation	⬆
	More stimulative fiscal policy	⬆
Aging Demographics	Elderly people:	
	• Spend less (reducing demand)	⬇
	• Work less (reducing supply)	⬆
Peak Globalization	More expensive goods/labor	⬆
Technological Progress	More robots, Amazon effect	⬇

LEFT: Source: Bank of International Settlements, International Monetary Fund, Maddison Project, Fidelity Investments (AART), and the Jordà-Schularick-Taylor Macrohistory Database, compiled by Oscar Jordà, Moritz Schularick, and Alan M. Taylor. Accessed through www.macrohistory.net, as of 12/31/18. **RIGHT:** Source: Fidelity Investments (AART), as of 3/31/20.