[Operator] Good day everyone and welcome to the Fidelity Viewpoints® Webcast.

Before we begin there are some important housekeeping items to review. It's important to note that the statements and opinions on this call are those of Jurrien Timmer and are subject to change at any time based upon market and other conditions. Fidelity Investments cannot guarantee the accuracy or completeness of any statement or data.

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For opening remarks I would like to turn the presentation over to the moderator, Steve Gresham, Senior Vice President of the Private Client Group for Fidelity Investments. Please begin Steve.

[Steve Gresham] Thank you very much Operator. Good afternoon everyone and thank you for joining us. Because you are our most valued clients here in the Private Client Group we want to give you the best possible, up-to-date, real-time information and that's why we host these webcasts.

So we are very fortunate today to have, once again, Jurrien Timmer, Director of Global Macro for Fidelity and Co-Portfolio Manager for Fidelity® Global Strategies Fund.

Jurrien has more than two decades experience in the investment world and is an 18 year veteran at Fidelity. He plays a key role in Fidelity's Global Asset Allocation Group, where he specializes in global macro strategy and tactical asset allocation.

As an investment strategist and portfolio manager his work includes macroeconomic, technical and quantitative disciplines. Jurrien's research is widely used by Fidelity's portfolio managers and analysts.

And in addition to this internal role he is also a frequently quoted spokesman on investment matters to Fidelity's clients and associates. We are very excited that he has agreed to join us.

So with that, no further ado, let me welcome back Jurrien Timmer. Jurrien take it away.

[Jurrien Timmer] All right well thank you very much. Let me just get started here. It's a pleasure to be here.

So as some of you may know I am - I specialize in sort of global macro asset allocation and my job is to sort of make sense of all of the noise out there and try to find themes and patterns from a macro point of view. So I am not a stock picker, but I choose asset classes, regions, sectors, styles, etc. So as a Co-Manager of the Global Strategies Fund that is what we do here.

So just to give you a little flavor, I don't expect you to actually be able to see what's on this slide here, but it says, Mosaic Approach. And, you know, we aggregate lots and lots of data.

And as is the case in most of our lives there is a tremendous amount of information that comes through the Internet, TV, newspapers, what have you, and probably 95% of it is junk, it's waste. So our job is to try to find that 5% that's real. So that's what we do.

So if we go to slide 8, my approach is threefold in terms of investing. I look at multiple asset classes, I look at multiple timeframes and I use multiple disciplines. What that means is multiple asset classes, obviously is what it sounds like, it's equities; bonds; cash; currencies; commodities; gold, etc.

Multiple timeframes means that we look at the market cycle, which is - tends to be 3 to 12 months. Then we will look at long-term structural trends and then we will look at short-term technical opportunities should they exist.

Those three things together, as you can see on the slide, create the portfolio strategy. And by multi-discipline I mean that we look at the fundamentals, obviously, but we also look at technical and we also use quantitative methods. So this is a very holistic open-ended approach.

So if we can go to slide 9, the most important thing to get right is the market cycle. And this is probably the part that drives most of the asset class returns. The structural trends are important, the tactical opportunities are important, but really the big one are these - is figuring out where we are in the market cycle.

And so what you can see in this graphic here is basically an investment clock. And the things that I look at are the economy, so is the economy growing or not; and the rate of change, or the momentum. So if the economy is growing and it has positive momentum then we are in the upper right corner of this clock, which is a mid-cycle expansion.

If the economy is still growing, but the rate of growth is starting to diminish then we're in a late cycle slowdown. If the economy is shrinking and the rate of growth and the rate of change is getting worse then we're in a down cycle contraction, which is the bottom left. And if the economy is still shrinking, but the rate of change starts to improve, we are then in the early cycle reflation phase.

Those are the four quadrants of the market cycle the way I defined them and each one of them has its own specific profile.

Each one has its own profile in terms of whether you want to be overweighted or concentrated in equities versus bonds; whether you want to have cash, or commodities, or gold; whether you want small caps versus large caps; high yield bonds versus governments. Each corner has its own very unique profile.

And so figuring where we are, first of all it's easier said than done, but assuming for a moment that you can do that with perfect knowledge then everything else is easy because then you just fill in the blanks and say, "Okay I want to be more in equities, less in bonds. I don't want any cash. I want some commodities or not."

So my job is to try to figure out where we are and it's hard because, a, the data is never that clear. Yes you can stay on this slide that's fine. And, b, operate in a global environment.

So when the global economy is synchronized, as it was in '08 to the downside and '09 to the upside, it's more straightforward. But right now the global picture is very unsynchronized.

So the U.S. is growing fairly nicely at around 2 - 2.5%. I mean that's not great, but it's better than what we saw a few years ago of course. So the U.S. has been relatively stable. Europe has been a very big problem, as we all know. And it looked like it was getting better and now it seems to be getting worse. China is the other big engine in the global economy. That's still growing, at least according to the government data, at close to 8%, but I have some concerns there and I'll touch on that in a moment.

So I look at all of this evidence around the globe and I try to figure out how much weight to put on each of these four quadrants and that's what this chart shows. So you see that's kind of - that idealized sign curve, the blue line, and then using all of the evidence, the weight of the evidence, all of these indicators that I showed on that mosaic slide earlier, I determine how much weight to place on each quadrant.

And what you can see in this chart is that the green is the early cycle, the blue bar is the mid-cycle, the orange is late and the red is down and you can see from the empty bars behind it where we were a month ago and three months ago.

And what you can see is that the biggest quadrant is the late cycle and a month ago it was the mid-cycle. So the way this clock usually works it goes clockwise, like clocks do of course, from early, to mid, to late, to down, back to early, to mid, to late, to down. That's typically how it goes.

And what you can see in this chart is exactly that. It is going from left to middle, from middle to right, and from - and then on and on. And what this shows me is that the global economic momentum is starting to fade.

So the economy is starting to slow. In the U.S. it's still okay; Europe is weak; China, a lot of questions there; emerging markets in general fairly - weaker than they have been. And so this makes me a little bit more cautious about what's going on. But again the market cycle is sort of the key thing that I look at to make sure we're invested in the right way at the right time.

Now if we can go to slide 11 that touches on some of the structural trends. And this is more background context, if you will. What kind of secular regime are we operating in? And the way I see it there's four kinds of regimes.

One is we have this Goldilocks reflation where we have better growth, no inflation, easy monetary policy. That's kind of where we've been for the last four years since the bottom in 2009, at least in the U.S.

The other one is austerity deflation. That's where Europe was until last summer when the ECB came out with its very bold, you know, promise to make sure that they do whatever it takes to preserve the Euro, so that's a more bearish regime.

And then the bottom two are both inflation regimes, which certainly doesn't seem to be a problem right now because there really isn't any inflation, maybe there's inflation asset prices, but not in terms of, you know, goods and services.

But if we ever get to the point where the Fed has eased so much that it creates inflationary expectations then it becomes a question of do you get an inflationary boom or an inflationary bust, or a stagflation as they call it. So those are the structural backdrops.

Why don't we skip to slide 13 and let me get into my outlook. But before I do, I saw this posted somewhere on the Internet, I think, and it's just an interesting comparison of where we are now that the Dow and the S&P have been making new all-time highs versus the last time that happened, which was in October 2007.

And it's pretty interesting and it's not all good, but what you can see is that back in '07 when the S&P made a new high at 1,576 there were 6.7 million unemployed Americans. Today, same level for the S&P, but 13.2 million, twice as many.

Other points, you know, U.S. debt has gone from $9 trillion to $16 trillion. The 10-year treasury was at $460 back then. It's now at $190, actually it's at $170 now. Gold was at $748. Recently it went to $1,900 2 years ago and now it's at a little under $1,500. So it's interesting how price levels can be the same, yet the underlying reality can be totally different.

So what I want to talk about today is what I think are the major factors affecting equity prices. And if we go to slide 14 I'll show you there are 4 factors, the way I see it, that have driven the markets to new highs and they have created essentially a sweet spot.

The four factors are the economic momentum, monetary policy; the tape, otherwise known as the technical condition of the market; and sentiment. Now my thesis is that at least from a tactical point of view the sweet spot is turning a little sour. And I am going to give you some examples here.

So if we start with slide 15, slide 15 shows the global economic picture. If we can put that up please? And it shows what we call the PMI Index. So the PMI, and this is a little inside (baseball), I apologize, but the PMI is the Purchasing Manager's Index.

And these get released at the beginning of every month and it shows a survey of companies in various countries about whether their business is getting better or worse, whether their new orders are going up or down, what's happening to inventories, how many people they're hiring, etc., etc.

What you can see in this chart is a scatterplot and you can see the four quadrants, just like I said before, early cycle, mid-cycle, late cycle, down cycle, same idea. And you can see how the global picture is kind of morphing and moving around.

And so if you're in the upper right like the U.S. is that's good. That's mid-cycle. If you're in the bottom left like the Eurozone is that's bad. And what you can see in this slide is that, like I said before, the global economic picture is very fragmented right now. So the U.S. is in the upper right, Europe is in the bottom left and everybody else is sort of all over the place.

So this makes it kind of tricky to really come up with one single asset allocation strategy to say, “Okay I am going to have X percent in stocks, Y percent in bonds.” You have to really be more selective.

So coming back to the market cycle stuff from earlier, and if we can go to slide 16 please, we have different sets of indicators. So the one I just showed you these are monthly numbers and they tend to move more slowly. The chart I am showing you now are part of what we call higher - high frequency economic data. So these are weekly data that move around faster.

So as many of you probably know, the economic cycle tends to last about four or five years, but within that longer cycle there are smaller cycles. And what this chart shows you is exactly that smaller cycle. And what you can see, towards the left you can see that large job and that was the credit crisis in 2008, then a big recovery in ’09 and ’10.

And ever since we have been sort of going through this up and down phase every 10 or 11 months. And look where we are now. We are right at the point where, at least over the past three years, the economy has started to slow.

Now I am not predicting a recession, I am not predicting an end to the entire business cycle, but we have a clear tendency over the past three years that in the winter of the market the economy appears to be strong, and then in the spring it appears to be weakening, and then in the summer you get sort of the slowdown.

And maybe this year it's different. Certainly a lot of economists are saying that this year will be different, but from this chart it tells me that, you know, even if it's different I am going to sort of give this cycle the benefit of the doubt.

So from my point of view the economy is slowing globally. The U.S. still the best house in a bad neighborhood, as the saying goes. Europe and emerging markets look a lot weaker. So in our asset allocation that's where we have been concentrating on maybe selling here and there, not so much in the U.S.

If we can go to slide 17 please? This is a picture of the European market, so the top panel is the MSCI Europe Equity Index and the bottom panel shows the Citigroup Economic Surprise Index for Europe.

And so what this index shows, and this index exists for many countries, you know, U.S.; Europe; China; Japan, you name it, and then line is rising it means that economic data are coming in stronger than consensus and when the line is falling they come in weaker than consensus. And what this chart shows is a very clear slowdown in economic momentum in Europe.

If we can go to the following slide, you see exactly the same thing happening in the emerging markets, again, a very big drop off there. And for those of you who are more technically inclined, who look at charts, you can see in the top that is the MSCI Emerging Market Equity Index. That is what we call a trend break and that is not typically a very good thing to see if you are invested in that market. So a pretty pronounced slowdown across the board really.

All right so that's the economy. Let's go to slide 19 please. Let's move on to the next one and that's monetary stimulus. So if we go to slide 20 now, it seems that the only thing we really need to do these days is to pay attention to what the Fed is doing and if the Fed is buying assets with printed money then you just close your eyes, hold your nose and you go along or you buy risk assets.

And as this chart shows that has basically worked. So if you go back - if you look at this chart the bars is actually - that's actually the KVY, which is the Value Line Equal Weighted Equity Index. The blue line is the Fed's System Open Market Account.

So when the Fed is printing money and buying assets, as it's doing in QE right now, and as it did in '09 and then again in 2010, 2011, when that blue line goes up it means the Fed is buying assets with printed money. And you can see a very obvious relationship here that when the blue line goes up so does the stock market and when the blue line stops going up the market almost immediately corrects. So that's a pretty clear pattern.

So right now the line is going up. We know that the Fed has committed to printing $85 billion a month and buying treasuries and mortgage backed securities with that money and that it's open ended and that we don't really know when it's going to end, if ever.

Although the consensus on the street is that they're going to start tapering these purchases in the second half and they're going to stop them altogether next year and then in a couple of years they are going to raise rates. But, you know, I have my doubts that they're going to be raising rates any time soon.

But this is sort of the Pavlovian response that the Fed has created in the market. And so this is one of the four factors that remains a very big positive and maybe in the face of an economic slowdown, like we seem to be having, maybe this will be enough to keep the market strong.

Now if we go to page 21, why is the Fed being so bold and aggressive even though the economy appears to be chugging along and now the housing market appears to be getting better as well? This chart to me explains it very simply and effectively.

So if you look at the top panel the blue line is the unemployment rate. So it peaked at about 10% back in '09. It's now at 7.6%. So that's pretty good news right? Well if you look underneath the hood you will see in the bottom panel the labor force participation rate.

So this is the number of people either employed or looking for work. This line continues to go down, so more and more people are exiting the labor force. And it doesn't really matter whether the economy is expanding or not because this line has been going down for the past four years.

Now the Fed knows this, it's concerned about this. And they are right to be concerned because if you adjusted the unemployment rate for the fact that there are so many fewer people looking for work you get the red line on top, which is basically a fitted unemployment rate based on the employment to population ratio. And on that basis the unemployment rate would be not 7.6%, but 10.4%.

So from my point of view the Fed is not going to be tightening any time soon, maybe not for years. And so this is what the Fed is very concerned about. This is why the

Fed is being so aggressive. And the question is can the Fed do anything about this? You know, these are structural trends in the labor force of this country and it remains to be seen whether the Fed can do anything about that.

Now it's not enough that the Fed is being aggressive. If you go to page 22, the Bank of Japan is now joining the party as well. So here you see the Japanese stock market and what I show in the green line is the value of the yen against the dollar, but on an upside down scale, so on a reverse scale.

So you probably all know, but what happened recently is that Shinzo Abe was elected Prime Minister and he went to the Bank of Japan and said, "Enough of this, you know, this very slow deflationary environment. We want to make something happen here. You need to start targeting positive inflation and do whatever it is you need to do to get there."

And of course what they need to do to get there is what the Fed has been doing, what the ECB did last year, and that is print money. And you can see that in the bottom panel, which is the blue line, which is the Bank of Japan's balance sheet. So the balance sheet is now starting to explode higher. That is causing the yen to go down, so on this chart on the reverse scale it shows it's going up and you can see that the stock market is following suit exactly.

So now the Bank of Japan is doing a monetary experiment, which is really unlike anyone's ever seen. They are actually going to double the monetary base in like two years, I think. I mean, you know, this is a major developed country. It is the second largest economy, or third largest, in the world. And, you know, I mean countries just don't do things like that.

And it's almost like a one-upmanship right? Because in '09 the Fed went big with QE1, then last year the ECB said, "We can do better than that." so they did OMT, or at least they promised OMT. Then literally a few weeks later the Fed came back and said, "Well we'll show you. We're going to do QE3, open-ended QE." And now Japan is basically pointing its nose at the Fed saying, "You guys are all a bunch of amateurs. We can do even better than that. We're going to double the monetary base."

So this is what gets people worked up about currency debasement, and the race to the bottom, and comparative devaluations, and etc., etc., and the possibility that eventually we may have a currency war. So I think it's a little too early to be worried about a currency war, but over the long-term it's entirely possible.

If we can go to page 23, I want to just touch on gold because gold really plays into this whole currency debasement thing because for me, and for many investors, gold is nothing more than a currency, a hard currency. It's not about inflation, or deflation, or this or that, it's simply a currency that cannot be printed.

And there are many ways to value gold in my opinion. You can look at central bank balance sheets; you can look at foreign exchange reserves. This chart here is one particular method and it shows the Nominal TIPS Yield plotted upside down on a reverse scale.

And you can see that the price of gold tends to follow the inverse of the Nominal TIPS Yield, which makes sense because gold prices respond to real rates. And if the

Fed needs to stay easy for longer it needs to keep rates negative, real rates negative, for longer, which should be a positive for gold.

Now we all know what happened to gold last week. It went to $1,322 in a couple of days. It fell very, very sharply, very, very quickly. It shows you, or at least it shows me, that gold is a very much a manipulated market. It's very easy to corner the gold market because it's small and if central banks get involved they can move - they can try to move a lot of gold in a very short period of time.

But what I look at are these valuation metrics and so if you look at that TIPS Yield it suggests that gold should be at $2,000 or so. Instead it has fallen to almost $1,300. Now it's up - it's been up since then. It's now $1,425. But to me gold remains an attractive asset class, especially down here at these levels because if gold does what it really should have done, based on what central banks are doing around the world, it should be significantly higher.

All right go to 24, the next one is the tape, or the technical condition, so let's go to 25 now. So this is very interesting. So the S&P is up here. It's at 1,562.50 today. The Dow is up here, it's at 14,567, very, very close to its all-time highs.

But if you look under the surface things do not look as good as they appear. And this is a hallmark of markets that start to fragment. So if you think about how markets top and how they bottom, the bottoms are these big violin V-shaped things where everything bottoms at the same time, it goes down hard, it goes up hard. Tops tend to be different. They tend to be more fragmented, more gradual and, you know, if anyone's a cyclist out there think of it as a peloton of riders and one-by-one riders start dropping out of the peloton because they can't keep up. That's sort of how I envision tops to take place.

And what you can see in this chart is exactly that. So the bottom - the top is the S&P, the bottom are a number of key bellwethers, so Eurozone banks; the 10-Year Treasury Yield; copper; the Shanghai Composite in China; emerging market stocks; the German DAX; and the Russell 2000. And one-by-one they are sort of rolling over.

So the question is why isn't the S&P and the Dow rolling over while all of these other ones are rolling over? And I think there's a couple of reasons for it. One, we do have the money printing press on right now and that's favoring these large indices.

But more importantly I think people are looking for safety in yield. Bond yields are getting more fully valued, you know, treasuries are 170, you know, high yield bonds are like at 5% or 6%. So investors are running out of options because the Fed is - keeps forcing them out to take more risk.

And so I think investors are now focusing correctly on dividend paying stocks, large cap, mega cap stocks because they have, a, dividends; and, b, lower betas than the market does. So that's keeping these broad indices higher.

And the other thing is that we all know what happened in Cyprus, you know, a month or so ago where people's deposits were basically taken away from them in the banks in Cyprus. That probably, and rightfully, creates a fear that, you know, your money may not be safe everywhere you look. I mean there is banks and then there is banks. And I think that flight to safety, if you will, also favors these very big, well respected, multi-national companies that also tend to pay dividends. And those are the companies that tend to be dominating the Dow and the S&P. So there is a number of reasons why we're seeing this divergence, but underneath the surface things are not as - quite as good as they look.

Let me got to page 27, one of the examples of this is the price of copper or industrial metals in general. Page 27 please. What you can see is the global stock market and you see the price of industrial metals. I am not seeing the chart on my screen, but I am going to assume that it's there.

And you can see how in the past those two lines were exactly equal and over the past few months, or even the past year or so, they have started to diverge. So technically there is definitely some signs of fragmentation.

Now let's go to page 28, that's the last factor and that's sentiment. Then we go to page 29, so we were hearing lots and lots about the Great Rotation at the beginning of the year. We're not hearing anything about it anymore because for the simple reason that there really is no Great Rotation.

So this chart shows cumulative flows into mutual funds and ETF's in equities, bonds and money markets and they are indexed from the October 2007 high in the stock market. And you can see that we have had - we have seen some very good flows this year, so the blue line in the middle is finally ticking up to above zero.

But the Great Rotation argument is that this money is coming out of bonds because all of these people are in bonds and they are not getting any yield, so they are finally going to move into equities. And there is no evidence whatsoever that that's happening because the line at the top, which is the flows into bond funds, continues to go up. The only line that's been going down is money markets and that kind of makes sense, so no Great Rotation.

Now go to page 30, this is a very simple metric that I follow to measure sentiment. The blue line is a sentiment survey for equities measuring how many bulls there are in the stock market, minus how many bulls there are in the bond market.

And as you know, treasuries are kind of the opposite of stocks. They have a negative beta, so they are the safe asset stocks, or the risk asset. So when you measure the difference in sentiment between the two it tends to correlate pretty closely between the relative performance of stocks versus bonds, which is the line in red at the bottom there.

And what you can see is the kind of sentiment extreme that we have seen time and again. And usually when an extreme like that occurs bonds will actually start outperforming equities.

So let me conclude by showing you slide 31, which is basically a number of existential questions that at least I'm asking. There's a question about the fiscal reckoning, you know, the, you know, the sequestration, debt ceiling, all of this stuff that's out there, $100 trillion in unfunded liabilities that we haven't even started to work out yet. How are we going to get out of this? What is that going to do to the dollar? What will that do to interest rates?

That is a big unanswered question. Nobody seems to care right now about sequestration or anything else. And, you know, I don't know maybe they're right, maybe they're wrong, but over the next decade or two this is going to be a very big issue because this is when Medicare payments are truly going to go through the roof and we are going to get to a point in a not so distant future that literally all of the budget in Washington will go to entitlements and interest on the debt, everything. I mean that's still ten plus years away, but we know the day is coming and we're going to have to deal with it sooner or later, so that's one.

The other one is QE's unintended consequences. So what if we get a recession and the Fed already is full out with all of its tools what is the Fed going to do? It's not going to have any tools left in the toolkit. What if the Fed over eases and does it so much that it unleashes inflationary expectations and then it can't put the genie back in the bottle? Then what do you do?

What if the Fed creates bubbles with all of this QE where it pushes all of these investors, like you on the phone, out of safe assets into riskier assets and then those assets become inflated and you get a bubble? You know, these are all very good questions. What happens to the Eurozone? Does the Euro hold together or does it breakup? What happens to China? Is that a massive infrastructure in a credited bubble that's ready to burst?

So those are the concerns, but on the bullish side, you know, we've - the market has been going sideways for 13 years. Eventually it's going to go up again and maybe the breakouts we're seeing is exactly the start of that. It's entirely plausible. I've done work on this.

You know, when we have these secular bear markets where the market goes sideways the compound annual return is 1%. When you have secular bull markets, which tend to happen for long periods of time, the compound rate of return is 18%, just a complete game changer.

This notion of an American renaissance, you know, we have all of this cheap gas while other countries don't. What does that do to our economy, to our energy intensive industries? Does this create a whole new insourcing renaissance where China's labor is now more expensive than Mexico's labor? So that's a very big theme as well.

And then, you know, the other two, this notion of central banks being completely committed to not having another '08 or another Great Depression and do you really want to fight the Fed, or the ECB, or the Bank of Japan?

So when I put all of this together my conclusion is that right now, at least from a tactical point of view, I am cautious. I think the economy is slowing down. The technical look a little toppy, sentiment is at a one-sided extreme. So I am a little cautious here over the next month or two that the stock market, after a hell of a run, can maybe go down 10%.

But the one factor of those four that continues to be a positive, and that's monetary policy, maybe that's the only one we need to look at. And I'm not saying that we do, but so far the market seems to be levitating on the basis of easy money. And, you know, that's something that should not be underestimated.

So with that I'll turn it back over to Steve. Thank you for listening.

[Steve Gresham] Okay Jurrien thank you very much and thanks again for joining us and the information that you just shared. So we have a lot of questions, as usual.

So why don't we pick up where you left off a moment ago talking about what the central banks have to work with. So we have a question that says, "We have seen aggressive monetary action from all of the leading central bankers of the world, Europe with whatever it takes, the Fed with QE Infinity and most recently Japan targeting 2% inflation with a dramatic increase in the monetary base. So the question is what additional tools do the central bankers of the world have at their disposal if the actions taken to-date don't generate growth?"

[Jurrien Timmer] Yes and that's a very good question and it's not even so much about growth, but it's about the markets because the central banks have made it very clear that they are trying to bring markets up.

And so I think the next month or two are going to be very important tests that because we seem to be heading into the same kind of backdrop as we did a 1 year ago, 2 years ago, 3 years ago, at exactly this time, which is that spring slowdown that causes a 10% plus correction in equity markets.

Now the last couple of years when we had that correction the Fed was not printing, neither was the ECB or the Bank of Japan. So maybe that was one of the reasons the markets went down in those past three years. This time the Fed is printing, so by that measure one could expect that even with the economy slowing and the technical being a little sloppy here that perhaps we're not going to see the correction, or we'll see it, but the S&P only goes down 3%, while the Russell 2000 goes down 7%, or something like that. You know, it's that slide I showed with these various other indicators sort of rolling over even though the S&P stays up.

So if that's the case that will be just more reinforcement for the Fed and other central banks that what they're doing is working. So any time the market goes down they'll just do more of it. If we end up having a significant correction, 10% plus, in the weeks ahead despite the fact that the Fed is printing then that will be a whole different can of worms because then the market will realize that even the Fed with its $85 billion a month is unable to keep asset prices up.

Now I am not saying that that's what's going to happen, but that will be an important tell whether central bank policy is still effective. If it shows to be non-effective, which is what your question alludes to, I don't know what else they can really do.

You know, the Fed can do more of the same but, you know, that's really all they can do. They can't go out and buy equities, for instance, that's not in their mandate, although I guess, you know, if there's a will there's a way, I guess. Certainly the Bank of Japan is buying equities and is buying REITS, as well as Japanese government bonds.

I guess I am mostly concerned about Europe because Europe is actually undergoing a passive tightening. And what I mean by that is that last year the ECB printed a whole bunch of money, expanded its balance sheet to lend money to troubled banks. Now those banks are paying those loans back, which is a good thing.

But it's still forcing - it's still making the central banks, the ECB's, balance sheets shrink and that is a form of tightening, whether it's passive or active. The ECB can lower rates but, you know, in this day and age of money printing that only has so much teeth.

So I am mostly worried that the ECB is going to be powerless to stop the economy from getting even worse than it is. And you have to remember that OMT is only a promise. In order for the ECB to do OMT, or for those of you who don't know, Outright Monetary Transactions, which basically means they would buy sovereign debt from the periphery, in order for them to do that a country like Spain has to come to the ECB or to the Eurozone government to ask for help.

And when it does it has to sign an MOU, or a Memorandum of Understanding, and basically they sign over their sovereignty and they have to do whatever the Troika says. And the Troika is basically the European commissioned IMF and the ECB.

Now after what we saw happen in Cyprus where people's money got actually confiscated from their bank deposits I find it hard to believe that any country in their right mind is going to ask for a bailout because, you know, next thing, you know you have a run on the banks.

So the OMT remains a promise, but not a reality and that's probably the way the ECB wants it. They don't want to have to actually use it. But, you know, the ECB doesn't really have a lot of options here and if the economy does spiral further that's the one I am most worried about.

[Steve Gresham] So if global markets have become highly correlated and with the world economies in different stages of the business cycle do you expect markets to continue to be highly correlated or could there be differences in here, which would lead to a divergence in market performance or volatility?

[Jurrien Timmer] Well I mean they are correlated because we live in this sort of binary macro, you know, it's either all really good or it's all really bad kind of world. But it's - but, you know, different markets move in different ways.

So, you know, emerging markets stocks are down on the year. The S&P is up, whatever, 11% or something like that, so that's not correlated at all. That's actually in the opposite direction. Now on any given day chances are that if the S&P is up, Europe is up, Japan is up, EM is up, but they all go up and down to different degrees and you see this now in commodities.

Commodities used to be lockstep with risk assets like equities. Copper is way, way down, gold is way, way down, but equities are up. So it is becoming more fragmented and that's because the global economic picture has become far less synchronized.

So the world is changing, which provides opportunities for people like myself who do asset allocation for a living, or stock pickers at the various equity funds here at Fidelity, that there are more opportunities to differentiate.

So there are definitely opportunities because the markets have become less correlated, but they still - they're still correlated and if we do get into some sort of a crisis mode, and I am not saying that we are, but if we had a shock to the system I can assure you that all markets, all equity markets, will probably go in lockstep once again.

[Steve Gresham] Given some of the discussion that you had earlier in the presentation you talked a lot about commodities. One of our listeners wondered if you think the commodity super cycle is over and if so what are the prospects for it to end on the global economy?

[Jurrien Timmer] The super cycle is a very good question. The average commodity super cycle of the secular bull market over the past 100 plus years, or 200 years, it tends to run about 13 to 18 years. This one started in ’01 and it may have ended in 2011, so that’s only 10 years. So that’s short, but at the same time it certainly looks like it’s over.

And I think at the core of this is China’s growth model. Right, so China has been growing 10% per year for 30 years. It is now struggling to grow even at 8%, which of course, you know, by our standards is huge, but if you think about how much lending is going on in China and how little growth that’s producing now versus what it did maybe 5 years ago there’s definitely a slowdown going - underway in China.

And that makes sense because the law of large numbers just tells you that you can’t always grow at 10% because you’re going to grow parabolically into infinity, so you can’t do that. So when I look at China’s growth story spilling over into emerging markets and I look at Europe’s weakness it certainly looks to me like the commodity super cycle is over, or at least is going through a very long pause.

But my gut feel is, and again it's hard to really quantify this because you only have a few samples over history to tell you, it seems like it's over to me. But again I'm talking about things like base metals, maybe energy. Agriculture, I'm not so sure because that, I think, is more of a supply situation. So if we have another drought maybe Ag goes up. Gold is different because that's currency in my book, but I am thinking mostly about base metals and energy at this point.

[Steve Gresham] Could maybe restate your view on China's growth and think about how you would place them as a growth engine for the global economy or are they going to grow at a more sort of "developed" market pace?

[Jurrien Timmer] Yes, so my sense is that, you know, the U.S. has been sort of steady and that the two major factors for the market picture have been Europe and China. Now we know Europe is bad, but we also know the ECB has kind of put, you know, a put option under the market saying it will come in and buy bonds if it needs to.

So for me the wildcard here is China. You know, the Chinese government says the economy grew at 7.7%, but those are government statistics and frankly I have no idea whether those are even close to reality or not because if you look at some of the key indicators like the price of, you know, steel rebar, for instance; or iron ore, they are all very, very weak. And it tells you - it suggests that maybe growth is actually far slower.

And then when you think about all of the credit growth that has occurred, so here's a staggering statistic, in the first quarter total financing in the economy was up something like $6 trillion Yuan, or the equivalent of 48% of GDP. I mean those are mindboggling numbers and all of that credit growth only were able to produce a 7.7% GDP. That to me is a little disconcerting.

So my fear is that China's growth story is basically ending and that they're going to have trouble. And that's one of the reasons why we're out of commodities and it's also why the emerging market picture doesn't look as good as it was.

So I am not counting on China being a growth engine anymore. I am looking at the U.S. as being stable, growing slowly, but growing. And I look at China as very volatile, you know, like a tall building built on a poor foundation, maybe it stays up, maybe it doesn't. And then Europe, signs of things getting less bad, which so far I am not seeing. So overall it's a mixed, and like I said before, very fragmented picture.

[Steve Gresham] Okay thank you. What are the other signs the Fed would be looking to determine when to tighten or begin to pull back QE? You mentioned the unemployment rate, any other indicators?

[Jurrien Timmer] They are focused almost exclusively on unemployment and they have made that very clear. Now if inflation becomes a problem then by their dual mandate they really should tighten on that basis, but my sense is that the Fed will kind of explain away any rise in inflation that we may or may not see and continue to focus on unemployment.

So what the Fed's dilemma will be is let's say the unemployment rate goes to 7% or 6.5%, but the employment to population ratio stays highly elevated. What are they going to do then? Nobody knows. You know, and you see this dissension among the

Fed numbers that there's a large group in the Fed now becoming more and more vocal about wanting to taper QE. So they want to keep buying, but buy less.

I am not so sure that that's going to happen because the people who run the Fed, you know, Bernanke, Yellen, etc., every speech they make is pretty dovish. So I am not holding my breath for the Fed to stop this anytime soon, but if they do it would be either unemployment going way down, or inflation going way up, or some combination of the two.

But the Fed knows full well that if it does that the bond market may have a pretty violent reaction and, you know, the Fed cannot afford interest rates to go up because that would kill the housing recovery, at least presumably. So the Fed at some point may be in a real bind.

Right now it's not because inflation's not a problem and the unemployment rate is still high. But, you know, a year from now who knows? I think at that point it will be a very important test for the Fed to thread the needle.

[Steve Gresham] So how about what development or developments, technical or otherwise, would cause you to conclude the current secular bear market has in fact ended?

[Jurrien Timmer] Well if you want to get real technical about it you would need to see the S&P make a new all-time high in real term, so in inflation adjusted terms because ultimately one of the hallmarks of a secular bear market is that the market goes down in inflation adjusted terms.

But, you know, the inflation adjusted S&P is 2,000, so that's still 400 points away. I would say that if we can survive this soft patch here and these underlying indicators that I showed earlier that have been sort of falling by the wayside, if those start to improve again and all of the sudden we're at S&P, you know, let's say above 1,600, then I'm, you know, I will certainly have very much an open mind that maybe the secular tide has turned.

And I am very open minded for - about it. I even wrote about it back in January in Viewpoints. It's entirely plausible because the average secular bear is 14-1/2 years and this one is 13 years in, so it is bound to end sooner or later. And the major averages are making new all-time highs. So it is quite plausible that a new secular bull has begun.

And if that's the case then that will be something to watch because if you start compounding not at 1% a year, but at 18% a year, you know, you're going to see real improvements in the major averages very, very quickly. So with that I think we can end it here.

[Steve Gresham] Great. All right Jurrien thank you very much. Thank you again for joining us. We certainly appreciate your commentary and your insights today.

I would of course also like to thank all of our clients for attending the event, excellent thoughts and questions as always. As a reminder, if there are questions that come up after the call today please contact a Fidelity Investments associate to discuss those questions.

In addition, we are very excited to extend an invitation to you for the next *Fidelity Viewpoints®* Webcast. That will take place on Monday, May 20. Fidelity portfolio managers, Jim Morrow and John Roth will be with us. They will talk about their perspectives on equities as an asset class and they will also be discussing their view about the ongoing rally in stocks.

Invitations for this event will be mailed on May 8, and you may register for the event in the coming weeks at fidelity.com/viewpointswebcast. So we hope you will join us for that.

So thank you again everyone. It's Steve Gresham from the Private Client Group. Please remain on the line for some important disclosures to follow from the Operator. Thanks again.

[Operator] Before we go, I have some important information pertaining to what you've just heard.

The information presented reflects the opinions of Jurrien Timmer, Director of Global Macro, for Fidelity Asset management as of April 22, 2013. These opinions do not necessarily represent the views of Fidelity or any other person in the Fidelity organization and are subject to change at any time based upon market or other conditions. Fidelity disclaims any responsibility to update such views. These views may not be relied on as investment advice and, because investment decisions for a Fidelity fund are based on numerous factors, may not be relied on as an indication of trading intent on behalf of any Fidelity fund.

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Dow Jones Industrial Average, published by Dow Jones & Company, is a price–weighted index that serves as a measure of the entire U.S. market. The index comprises 30 actively traded stocks, covering such diverse industries as financial services, retail, entertainment, and consumer goods.

The PMI is a composite index based on the diffusion indexes for the following five indicators at equal weights:

- New Orders (seasonally adjusted) 20%
- Production (seasonally adjusted) 20%
- Employment (seasonally adjusted) 20%
- Supplier Deliveries (seasonally adjusted) 20%
- Inventories 20%

A PMI index over 50 represents growth or expansion within the manufacturing sector of the economy compared with the prior month. A reading under 50 represents contraction, and a reading at 50 indicates an equal balance between manufacturers reporting advances and declines in their business.

MSCI Europe Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of the developed markets in Europe.

The Citigroup Economic Surprise Indices are objective and quantitative measures of economic news. They are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance been beating consensus. The indices are calculated daily in a rolling three-month window. The weights of economic indicators are derived from relative high-frequency spot FX impacts of 1 standard deviation data surprises. The indices also employ a time decay function to replicate the limited memory of markets.

The Value Line Index is equally weighted and arithmetically averaged based on the price change of each of the index's 1650 component stocks from the previous day's close. Source: Kansas City Board of Trade

Deutscher Aktienindex (DAX) 100 is a market capitalization–weighted index of 100 most heavily traded stocks in the German market.

The Russell 2000 Index is a market capitalization–weighted index designed to measure the performance of the small-cap segment of the U.S. equity market . It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.
The Shanghai Stock Exchange Composite Index is a market capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

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