Q4 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'd like to share with you some of our perspectives on the most recent developments in the markets and in the economy, as well as our outlook for the rest of 2014.

Well, in the third quarter of 2014 we actually had pretty lackluster performance across the board for many asset categories.

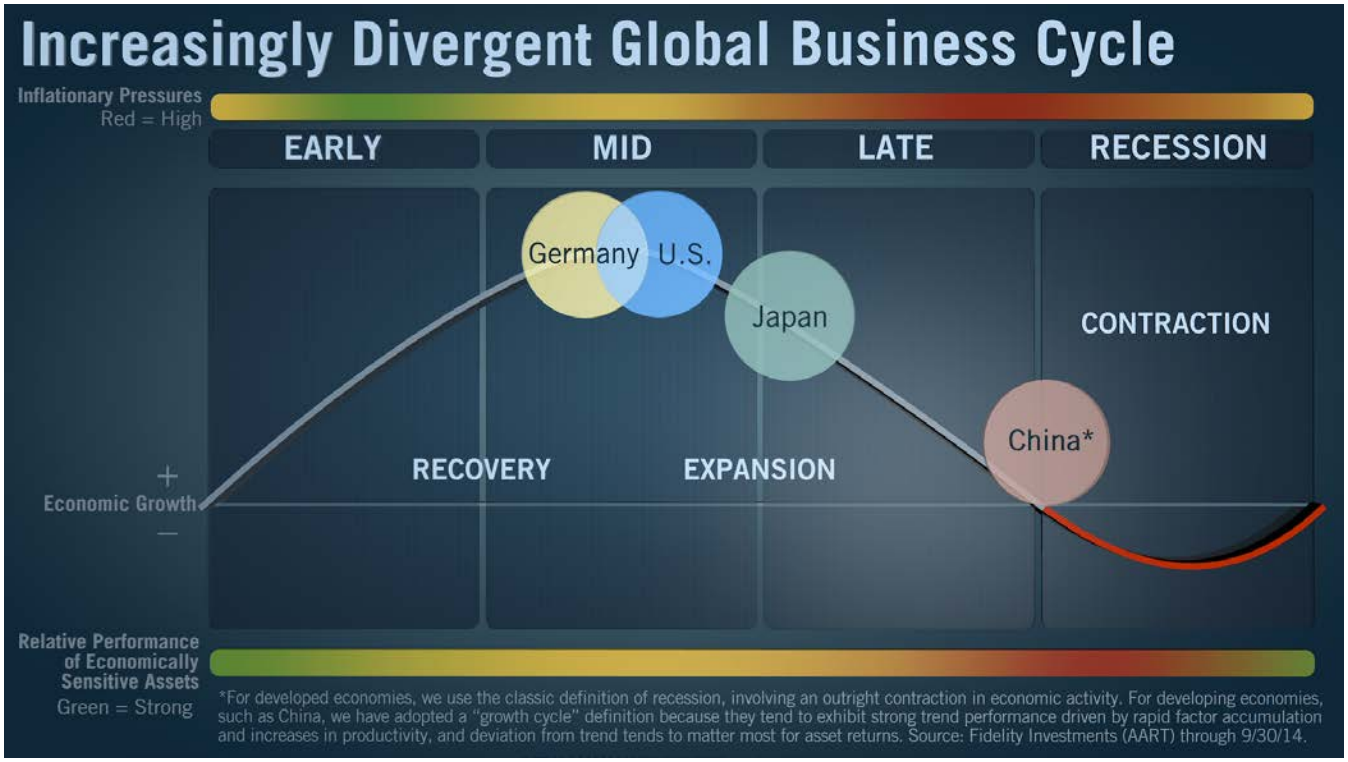
Lackluster Performance Across Most Asset Categories

	Q3 2014 (%)	YTD (%)		Q3 2014 (%)	YTD (%)
U.S. Large-Cap Stocks	1.1%	8.3%	Real Estate Stocks	-2.5%	13.4%
U.S. Treasury Bonds	0.3%	3.1%	Emerging-Market Stocks	-3.4%	2.7%
Investment-Grade Bonds	0.2%	4.1%	Non-U.S. Developed-Country Stocks	-5.8%	-1.0%
U.S. Corporate Bonds	0.0%	5.7%	U.S. Small-Cap Stocks	-7.4%	-4.4%
Emerging-Market Bonds	-1.7%	7.3%	Gold	-7.8%	0.7%
U.S. Mid-Cap Stocks	-1.7%	6.9%	Non-U.S. Small-Cap Stocks	-7.8%	-2.5%
High-Yield Bonds	-1.9%	3.6%	Commodities	-11.8%	-5.6%

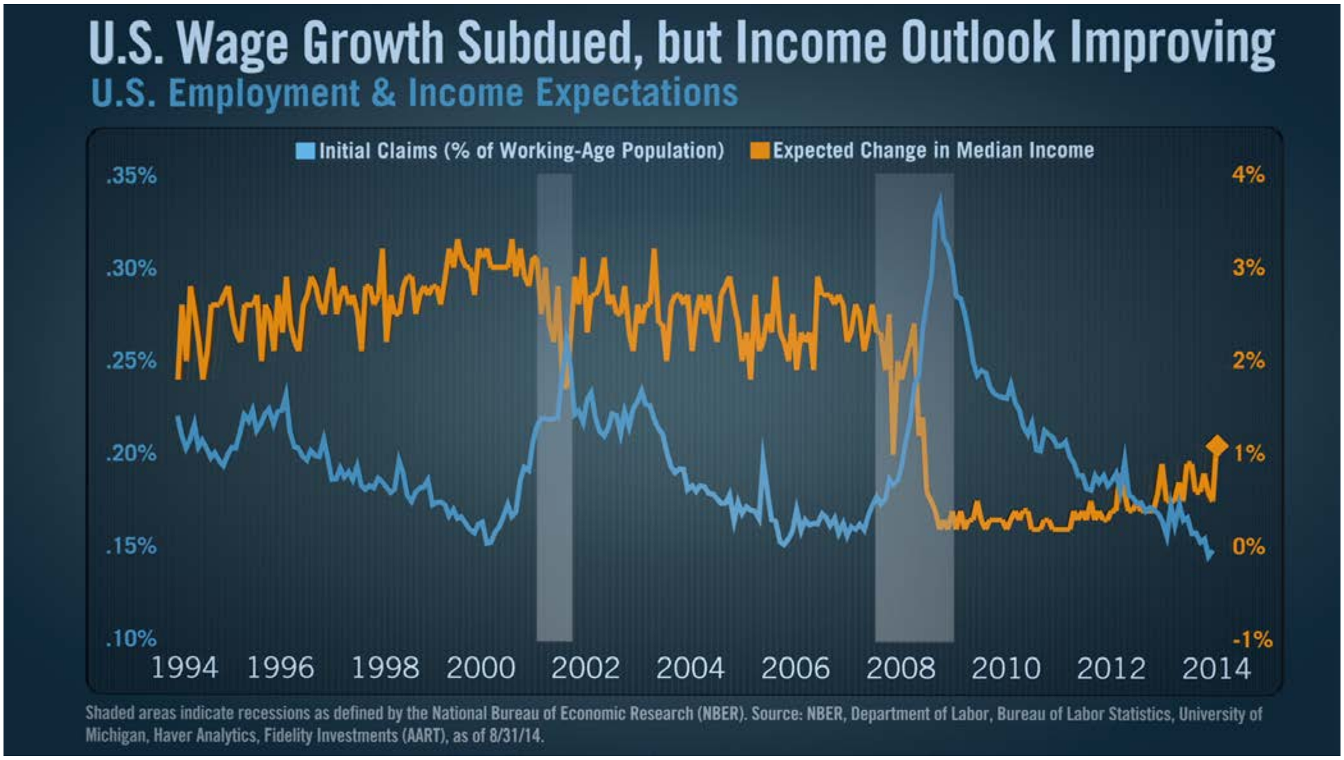
Past performance is no guarantee of future results. It is not possible to invest directly in an index. See appendix for important index information. Assets represented by: Commodities – Bloomberg Commodity Index; Emerging-Market Bonds - JP Morgan EMBI Global Index: Emerging-Market Stocks - MSCI EM Index; Gold – Gold Bullion, LBMA PM Fix; High Yield Bonds – Bank of America Merrill Lynch (BofA ML) High Yield Bond Index; Investment-Grade Bonds – 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 – Barclays U.S. Credit Index; U.S. Large-Cap Stocks – S&P 500 Index; U.S. Mid-Cap Stocks – Russell Midcap Index; U.S. Small-Cap Stocks – Russell 2000 Index; U.S. Treasury Bonds – Barclays U.S. Treasury Index. Source: Bloomberg Finance L.P., Haver Analytics, Fidelity Investments (AART), as of 9/30/14.

Outside the United States, we had really disappointing economic results and this along with a stronger value of the U.S., dollar weighed on the performance of non-U.S. equities and commodity prices. Here in the U.S. large cap stocks as well as investment-grade bonds held up pretty well. They posted modest gains, but overall, many of the other categories—riskier bond and equity categories—didn't do as well and even posted declines. So a mixed bag for the third quarter, but the good news is through the first nine months of the year we still have broad-based gains across most asset classes.

Our outlook for the economy then always starts globally with our business cycle framework, and it's important to keep in mind here that the best phases of the cycle from our perspective for stocks and other economically sensitive asset classes are in the early phase recovery or the mid-cycle expansion. Outside the United States, though, it's a lot more mixed. We have the European economy for the most part in mid-cycle, but it's been a sort of stagnant mid-cycle slowdown in recent months. We think it'll pick up a little bit as the credit conditions and monetary conditions continue to improve, though they'll probably still stay slow. Japan is facing a lot of late-cycle pressures and really has not had an economy that has recovered very well after the consumption tax hike in the spring. And our biggest worry continues to be in China. China is facing some slowing pressures, but the big picture over the medium term for China is it still has that elevated risk of financial crisis due to the very extended credit cycle and high asset prices in the property sector. So, in the near term, very concerned about the property sector not stabilizing, and we've seen prices and activity start to fall there. So, when you look together at the world outside the United States, it's been a weak global environment with disinflation and falling commodity prices.



In the U.S. economy, however, we have a mid-cycle environment which is pretty benign. One of the things that continues to improve in the U.S. economy are the labor markets. Unemployment is coming down and we've actually seen unemployment new claims fall to their lowest levels in modern history relative to size of the workforce. We're also seeing very incipient signs of wage growth as consumers now are starting to expect a little more income over the next year than they have in recent years, where it's been at very depressed levels. And we put that together with the low inflation, it's a reasonable outlook now for better income growth on an inflation-adjusted basis and potentially better consumption growth going forward.



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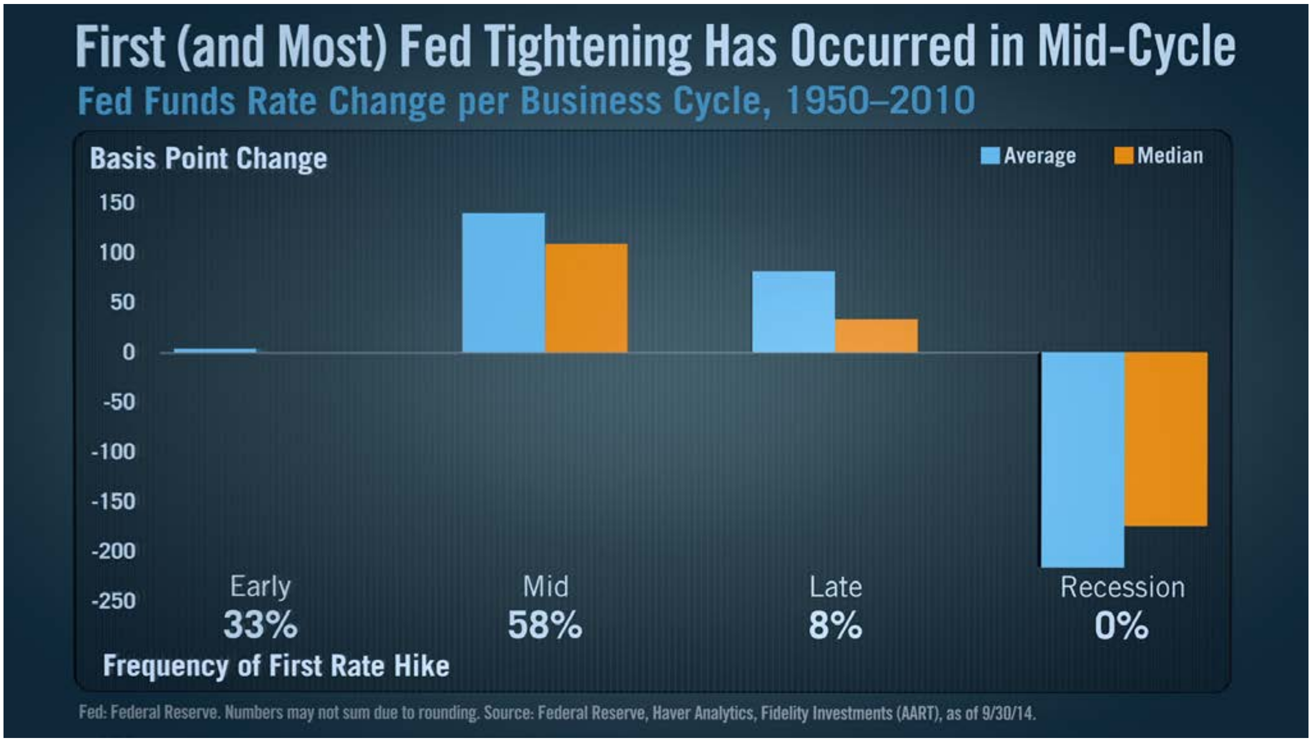

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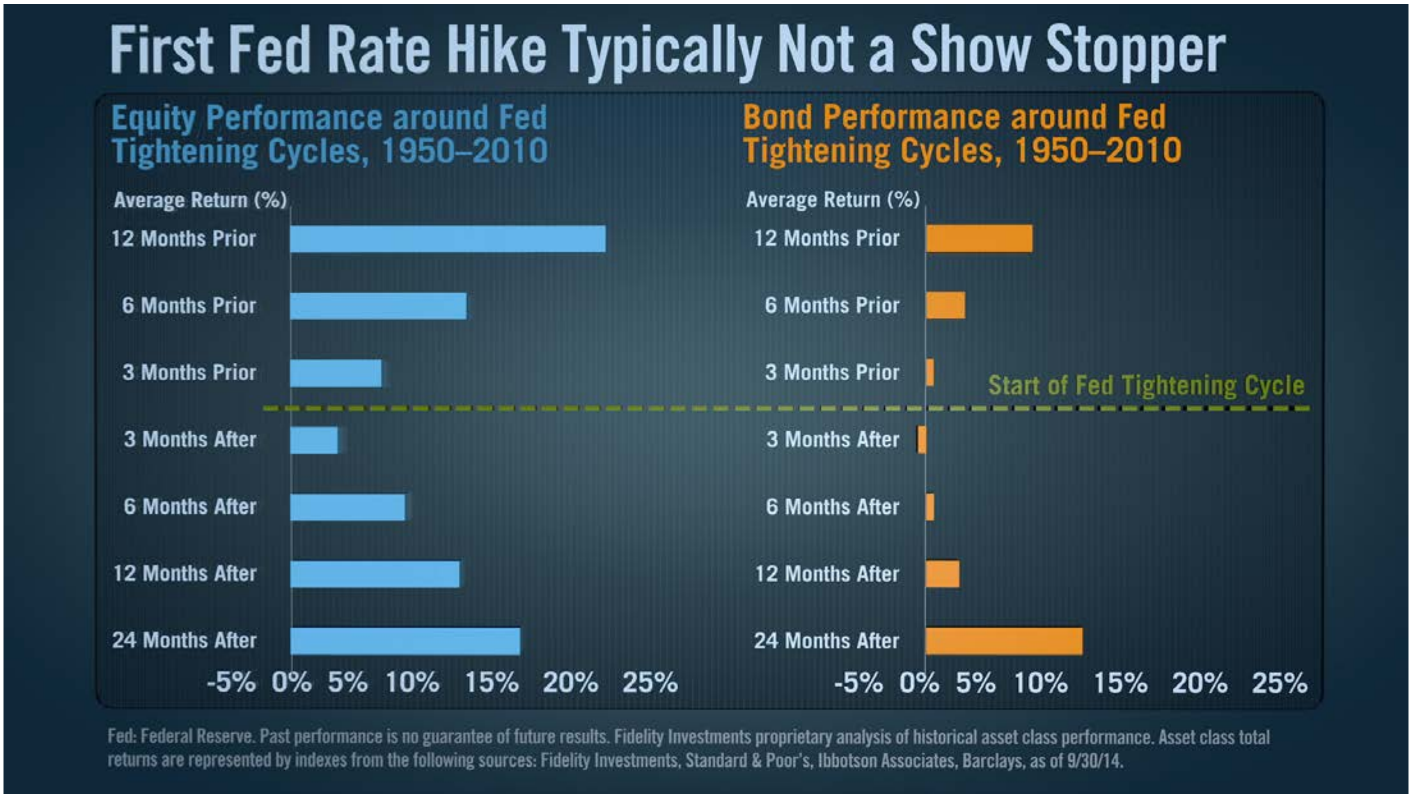

When you look back at past patterns when the Fed moved toward a tightening phase, you can see that it really has not necessarily meant a tremendous turnaround in the way stocks and bonds have performed. Stocks traditionally have pretty good returns both a year before as well as a year after the Fed starts to hike rates. Bonds have had more volatility in and around the start of the hiking cycle, but two years after the Fed starts to raise rates have actually had, usually, pretty decent returns.

So, when you put this all together, our outlook is the following: we do think that as we go forward, slow global growth environment as well as the moving closer to the Fed tightening cycle is going to increase the volatility that we're seeing in the asset markets— certainly compared to the low volatility we've had over the past year or two. However, we think the U.S economy continues to provide a pretty supportive place for U.S. equities to do relatively well. And on the bond side, we really don't think even when the Fed starts to hike interest rates we don't think there's going to be a dramatic spike in interest rates, and investment-grade bonds tend to still be an important place to diversify an overall portfolio.

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Past performance is no guarantee of future results.

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

Generally, among asset classes, stocks are more volatile than bonds or short-term instruments and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed income security sold or redeemed prior to maturity may be subject to loss.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities). Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Lower-quality fixed income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

Index Definitions

BofA ML High Yield Bond Index is an unmanaged index that tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Barclays U.S. Aggregate Bond Index is a broad-based, market-value-weighted benchmark that measures the performance of the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Barclays U.S. Credit Bond Index is a market value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

Barclays U.S. Treasury Bond Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more.

Bloomberg Commodity Index measures the performance of the commodities market. It consists of exchange-traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

FTSE National Association of Real Estate Investment Trusts (NAREIT) All REITs Index is a market capitalization-weighted index that is designed to measure the performance of all tax-qualified REITs listed on the NYSE, the American Stock Exchange, or the NASDAQ National Market List.

JPM® EMBI Global Index, and its country sub-indices, tracks total returns for traded external debt instruments issued by emerging-market sovereign and quasi-sovereign entities.

MSCI Emerging Markets (EM) Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in emerging markets.

MSCI Europe, Australasia, Far East Index (EAFE) is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in developed markets, excluding the U.S. and Canada.

MSCI EAFE Small Cap Index is a market capitalization-weighted index that is designed to measure the investable equity market performance of small cap stocks for global investors in developed markets, excluding the U.S. and Canada.

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.

Russell Midcap® Index is a market capitalization-weighted index designed to measure the performance of the mid-cap segment of the U.S. equity market. It contains approximately 800 of the smallest securities in the Russell 1000 Index.

The London Bullion Market Association (LBMA) publishes the international benchmark price of gold in USD, twice daily. **A purchasing managers' index (PMI)** is a survey of purchasing managers in a certain economic sector. A PMI over 50 represents expansion of the sector compared to the previous month, while a reading under 50 represents a contraction, and a reading of 50 indicates no change. The Institute for Supply Management ® reports the U.S. manufacturing PMI ®. Markit compiles non-U.S. PMIs.

The S&P 500® Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of The McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

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