IRU SCRIPT – Q2 2024

Denise Chisholm, Director of Quantitative Market Strategy, Fidelity Investments

Investors have been feeling good about earnings, the economy, and business related to artificial intelligence, driving a 10.6% first-quarter gain for the S&P 500.

So, are stocks now getting too expensive?

Let's compare the valuations of stocks versus bonds. We can do that by looking at the yield on the 10-year Treasury note compared with the S&P 500's earnings yield.

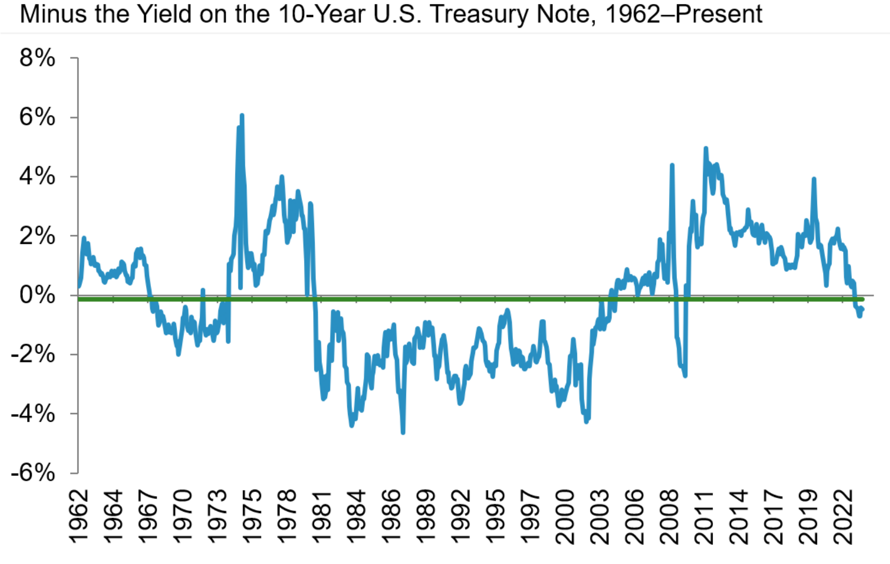
The higher the line on this chart, the cheaper stocks are versus bonds.

As of January, the earnings yield on the S&P 500 was about the same as the yield on the 10-year Treasury, putting relative valuations near the middle of their range since 1962. So stocks are *not* overpriced compared to bonds, according to this metric.

And that could be good for stock prices. After relative valuations were at similar levels in the past, the S&P 500 advanced over the next 12 months about three-quarters of the time.

Stocks remain reasonably priced relative to bonds

Relative Valuation Based on Average Stocks' Trailing Earnings Yield
Minus the Yield on the 10-Year U.S. Treasury Note, 1962–Present

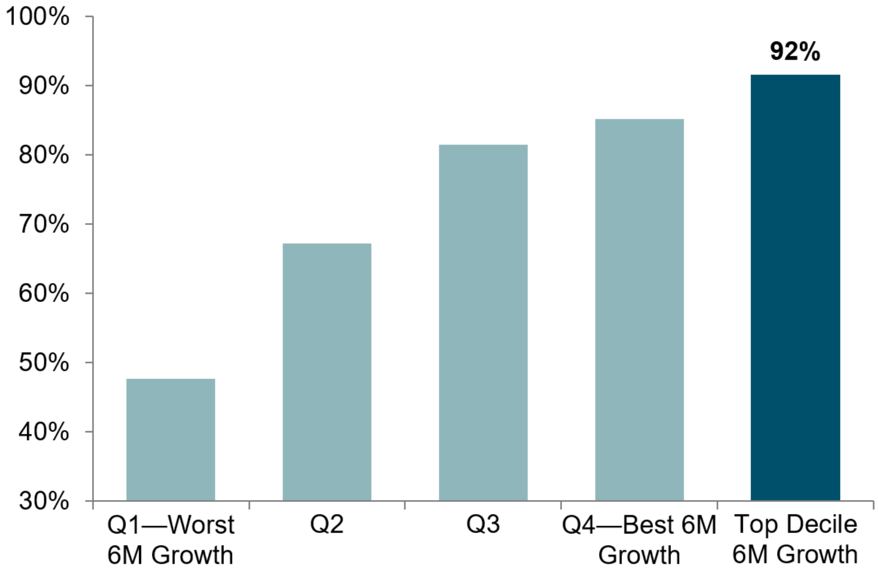


Past performance is no guarantee of future results. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 3/31/2024. Data analyzed monthly since January 1962. Analysis based on the S&P 500. Trailing earnings yield: Average ratio of S&P 500 companies' earnings per share to their stock price, based on last-12-month earnings. The chart depicts that stocks' recent valuations are just slightly higher than that of bonds, based on the earnings yield minus bond yields. The green line is the average since 1962.

Meanwhile, a big increase in new manufacturing orders suggests earnings growth could be strong over the coming months. Growth in new orders typically indicates an economic expansion, which historically tends to boost corporate earnings. The ISM Manufacturing New Orders index rose sharply in the six months through January, posting gains in the top decile of its range since 1968. Historically, a top-decile six-month increase in this index has signaled expanding earnings over the next 12 months 92% of the time.

Earnings historically tended to advance after strong growth in new orders

Historical Odds of Positive NTM EPS Growth in Quartiles and Deciles of Prior Six-Month Percent Change in ISM Manufacturing Index New Orders, 1968–Present

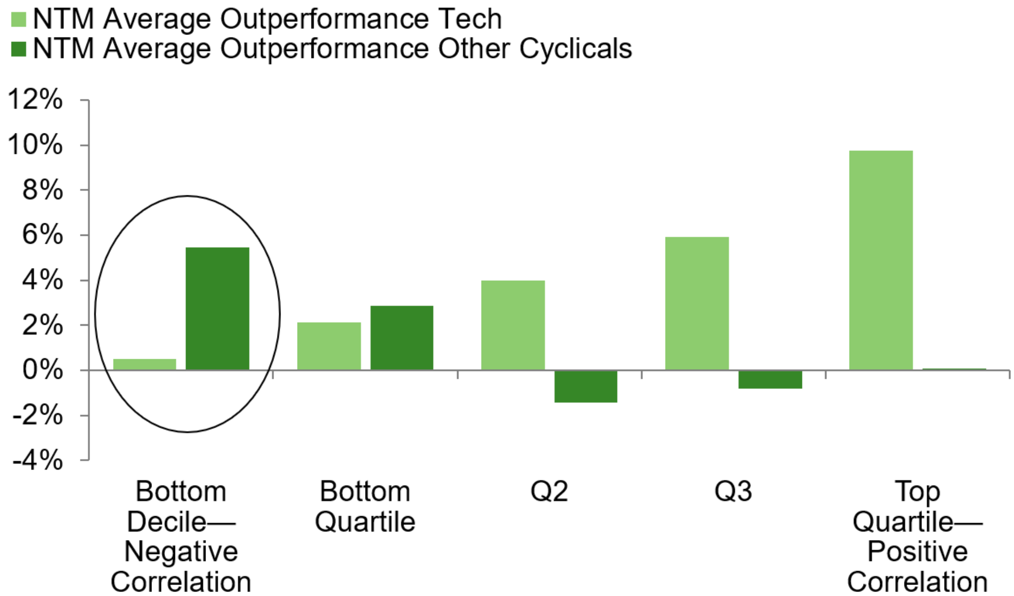


Past performance is no guarantee of future results. ISM: Institute for Supply Management. Data analyzed monthly since January 1968. Sources: Haver Analytics, FactSet,
Fidelity Investments, as of 1/31/2024. NTM: Next twelve months. EPS: Earnings per share. Analysis based on Fidelity top U.S. 3,000 stocks by market capitalization.

Technology stocks have propelled much of the market's recent gains. In fact, during the 12 months through February, technology had historically low correlations to other sectors—apart from communications services and consumer discretionary, which tend to be closely related to tech. The discrepancy between tech and most of the rest of the market has worried some investors. But after previous periods in which tech had comparable sector correlations, market strength broadened, and other cyclical sectors took the lead.

Other cyclicals have gained after similar periods

Average NTM Outperformance in Quartiles and Deciles of Technology Correlation to Other Sectors (ex Consumer Discretionary and Communications), 1962–Present



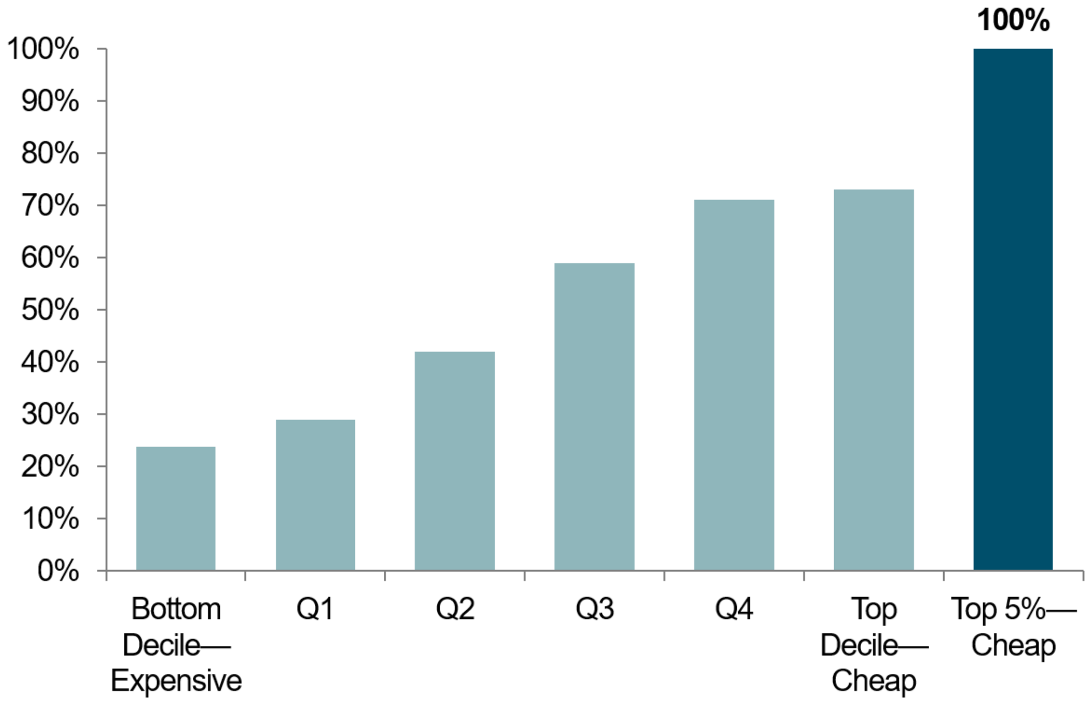
Past performance is no guarantee of future results. Data analyzed monthly since January 1962. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 2/29/2024. NTM: Next twelve months. Cyclical sectors include communication services, consumer discretionary, energy, financials, industrials, materials, real estate, and technology.

Here's something to note: Small caps look very inexpensive compared with large caps. As of February 2024, small stocks' relative valuations were in the cheapest 5% of their range since 1990, based on the book yields of the Russell 2000 and the S&P 500. Every other time small-cap stocks' relative valuations were this cheap, they outperformed large caps over the next 12 months.

Mid caps look almost as inexpensive compared to large caps, so they might present opportunities to investors who are intrigued by potential bargains but concerned about small caps' risks.

Low relative valuations have signaled outperformance

Odds of Russell 2000 Outperforming S&P 500 in Relative Valuation Quartiles & Deciles, December 1990–Present, Average NTM Rolling



Past performance is no guarantee of future results. Data analyzed monthly since December 1990. Analysis based on the S&P 500 and the Russell 2000. Sources: Haver Analytics, FactSet, Fidelity Investments, as of 2/29/2024. NTM: Next twelve months. There were five instances in the top 5% in this period analyzed.

For more information about our views on current market trends and sector investing, please read our complete Investment Research Update for the quarter. Thank you.

Information provided in, and presentation of, this document are for informational and educational purposes only and are not a recommendation to take any particular action, or any action at all, nor an offer or solicitation to buy or sell any securities or services presented. It is not investment advice. Fidelity does not provide legal or tax advice.

Before making any investment decisions, you should consult with your own professional advisers and take into account all of the particular facts and circumstances of your individual situation.
Fidelity and its representatives may have a conflict of interest in the products or services mentioned in these materials because they have a financial interest in them, and receive compensation, directly or indirectly, in connection with the management, distribution, and/or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the authors and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

References to specific investment themes are for illustrative purposes only and should not be construed as recommendations or investment advice. Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

This piece may contain assumptions that are "forward-looking statements," which are based on certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different from those described here.

Past performance is no guarantee of future results.

Investing involves risk, including risk of loss.

Book Yield calculates the yield to maturity, or the coupon return plus amortization, of a fixed-income investment.

The Russell 2000 Index is a market capitalization-weighted index designed to measure the performance of the small-cap segment of the US equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.

The S&P 500 is a stock market index tracking the stock performance of 500 of the largest companies listed on stock exchanges in the United States.

All indexes are unmanaged. You cannot invest directly in an index. Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Because of its narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies. Sector investing is also subject to the additional risks associated with its particular industry.

Communication Services sector is defined as companies that facilitate communication or provide access to entertainment content and other information through various types of media.

Consumer Discretionary sector is defined as companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles.

The technology industries can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants, and general economic condition.

Fidelity Investments® provides investment products through Fidelity Distributors Company LLC; clearing, custody, or other brokerage services through National Financial Services LLC or Fidelity Brokerage Services LLC (Members NYSE, SIPC); and institutional advisory services through Fidelity Institutional Wealth Adviser LLC.

Personal and workplace investment products are provided by Fidelity Brokerage Services LLC, Member NYSE, SIPC.

Institutional asset management is provided by FIAM LLC and Fidelity Institutional Asset Management Trust Company.

1142550.1.0