

It Looks Like They Are Bringing More Alcohol to the Punch Bowl

COVID-19 Legislative Response

- **Phase 1** (3/16/20 passage) **\$7.7 billion**
 - **Phase 2** (3/18/20 passage) **\$192 billion**
 - **Phase 3** (3/27/20 passage) **\$1,800 billion**
 - **Phase 3.5** (4/23/20 passage) **\$484 billion**
 - **Phase 4** (YE 2020 passage) **~\$900 billion**
 - **Phase 5** (proposed Biden plan) **\$1,900 billion**
- Total** **~\$5.3 trillion**



Plenty of Monetary Stimulus!
Rise of the Wall Street Rebels
Geo and Domestic Political Tensions
Pandemic Economy
What to Do?



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How Do You Compare Investment Opportunities Around the World?



*U.S.
Stock Markets*

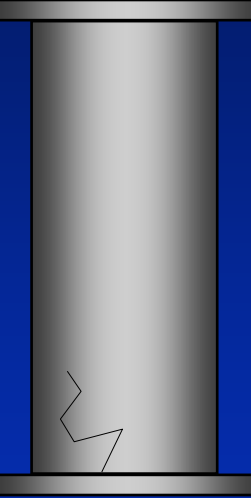
**Rising
Corporate
Earnings**

**Benign
Inflation/
Interest Rates
and Ample
Liquidity**

**Reasonable
Valuations**

Rising Corporate Earnings

Tailwinds



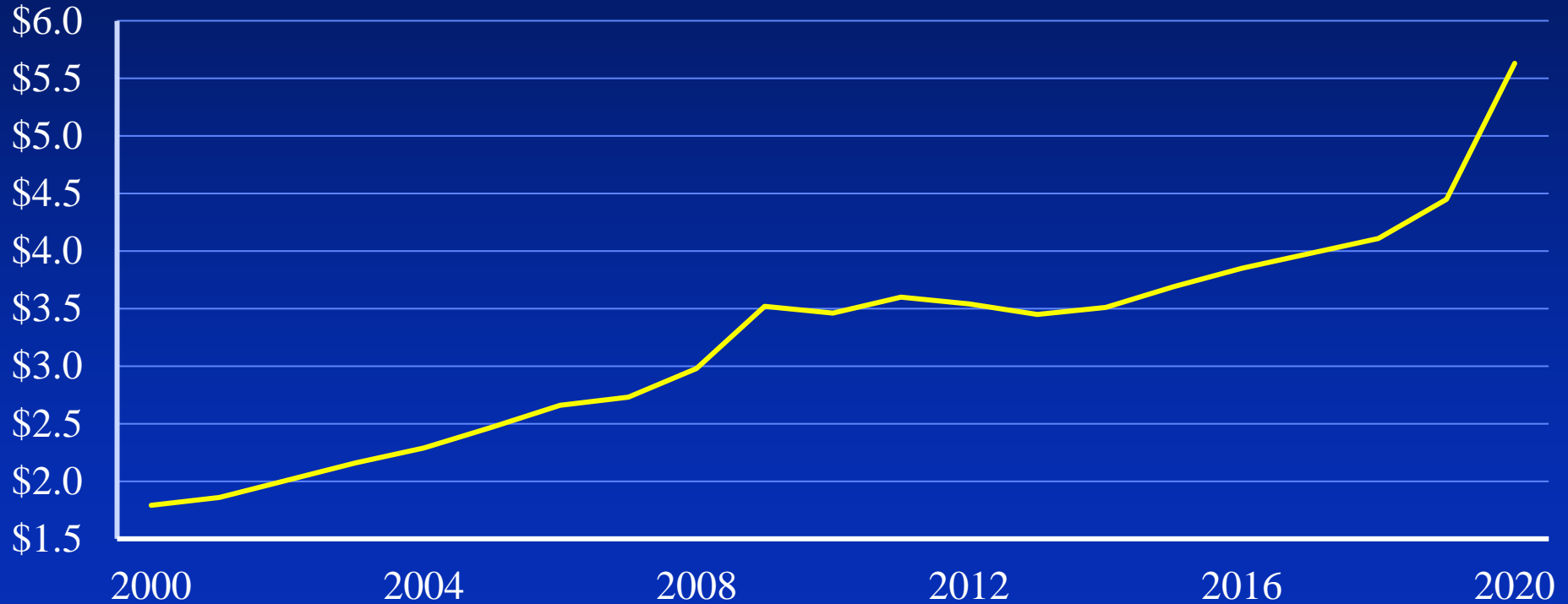
Vaccines Disbursement
U.S. Net Worth Up \$60T since GFC
E-Commerce Boom
Innovation Response to Pandemic
China Resurging
HUGE Fiscal Response
HUGE Monetary Response
Housing

Headwinds

Consumer Service Sector Collapse
Trade Wars/Supply Chain
Regulatory Risk
Rent Debt
Massive Debt Increase
Corporate Tax Rate ↗
Brexit
Demographics
World Event Risk

Federal Spending Juggernaut

U.S. Federal Spending (\$T)



Source: Statista.com, Pew Research, Office of Management and Budget, Bureau of the Fiscal Service, as of 9/16/2020.

Very Stimulative

Global Short Rates



Source: Cornerstone Macro, as of 10/28/2020.

Other Examples of Monetary Stimulus

- Central banks' balance sheets exploding (China, U.S., and EU +\$8 trillion y/y)
- U.S. consumer net worth +\$10 trillion y/y
- Government checks
- Bank accounts and savings rate at record levels

Fuel For the Markets!

Stocks and Housing Have Loaded Bank Accounts (U.S. Household Net Worth, \$T)



Technology/Innovation to Drive Future U.S. Growth

Digital economy to foster growth

“Tesla’s Million-Mile Battery Plans Could Change Electric-Car Sector,” IBD

“Walmart launches drone delivery,” USA Today

“Remote Work Lifts Slack’s Sales,” WSJ

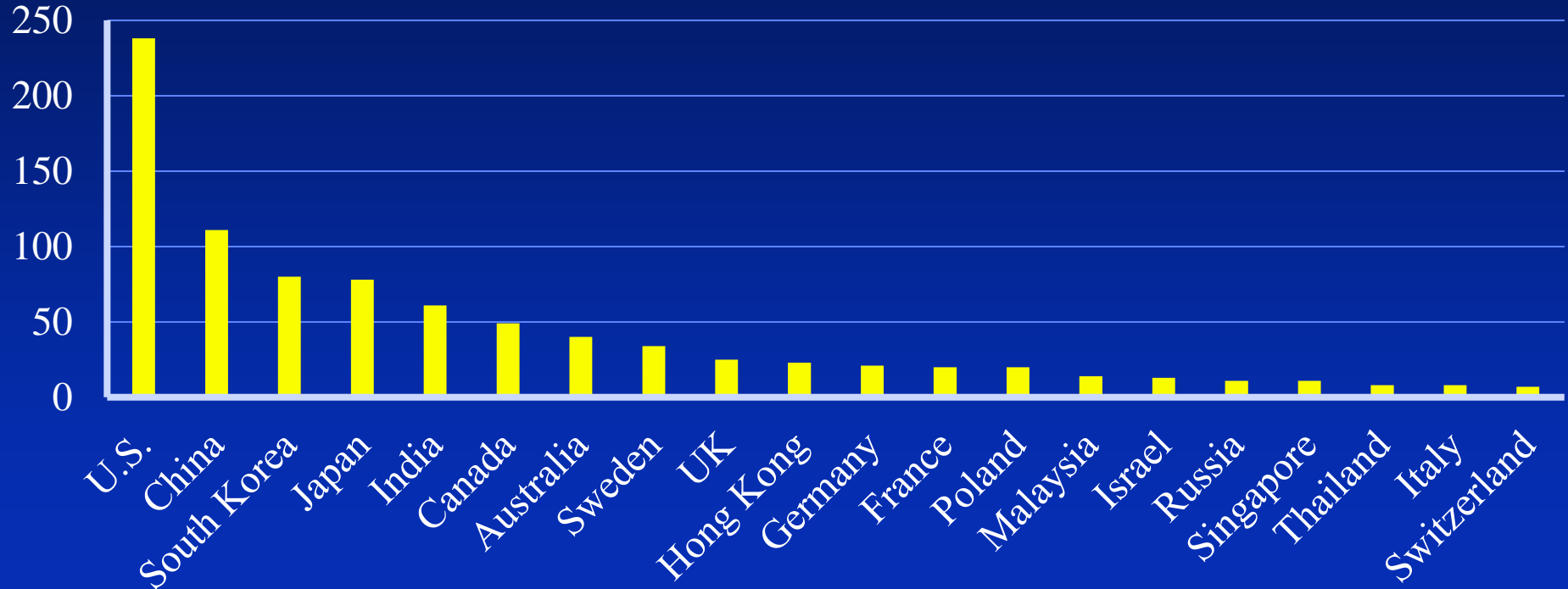
“Oracle Gains as Companies Shift to Storing Their Data on the Cloud,” WSJ

“Peloton, on a Roll, Widens Range,” WSJ

“These robots will do your housework. Top devices can vacuum, mop and mow your lawn,” USA Today

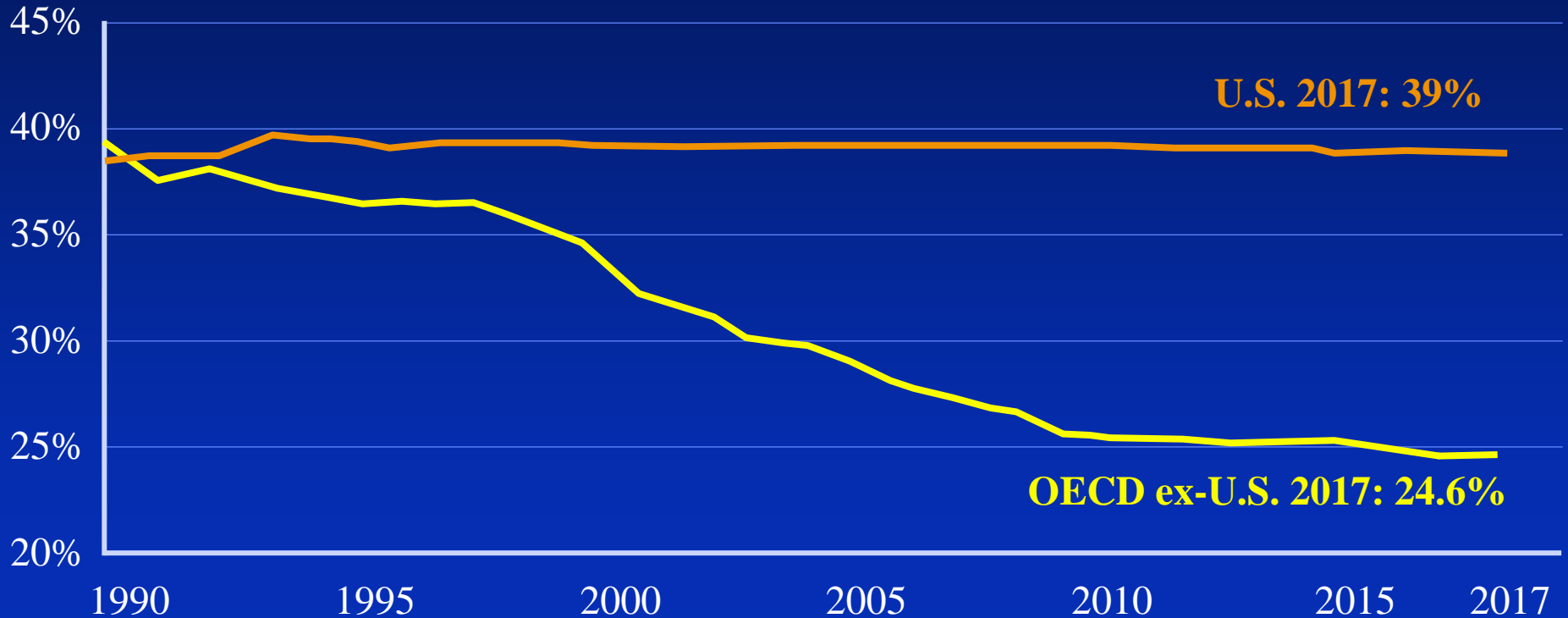
U.S. Leads Technology

Tech Companies per 1,000 World Tech Listings



Why Corporate Tax Cut?

U.S. Was at a Huge Disadvantage



Deregulation!

Pages in the Federal Register



Source: Bloomberg, Bianco Research, as of 9/16/2020.

China Resurges

Focusing on growth engines

“Experts: Country to build fintech hubs, focusing on R&D of blockchain technology and digital electronic payment systems.” China Daily

“New airplane manufacturer to compete with Airbus and Boeing.” China Daily

“Technology spend: 10,000 5G base stations/week; AI; quantum computing; robots.” China Daily

“Auto Sales in China Advance at Rapid Pace,” WSJ

“Daimler rules out expansion at home. Mercedes owner to invest in growing China market,” FT

“Opening-up efforts to be intensified. Ministry: Foreign investment will be further increased,” China Daily

“Xi commits to further ease market access to promote world economy’s recovery.” China Daily

“Foreign trade results better than expected. Exports strong, backed by new growth engines such as services.” China Daily

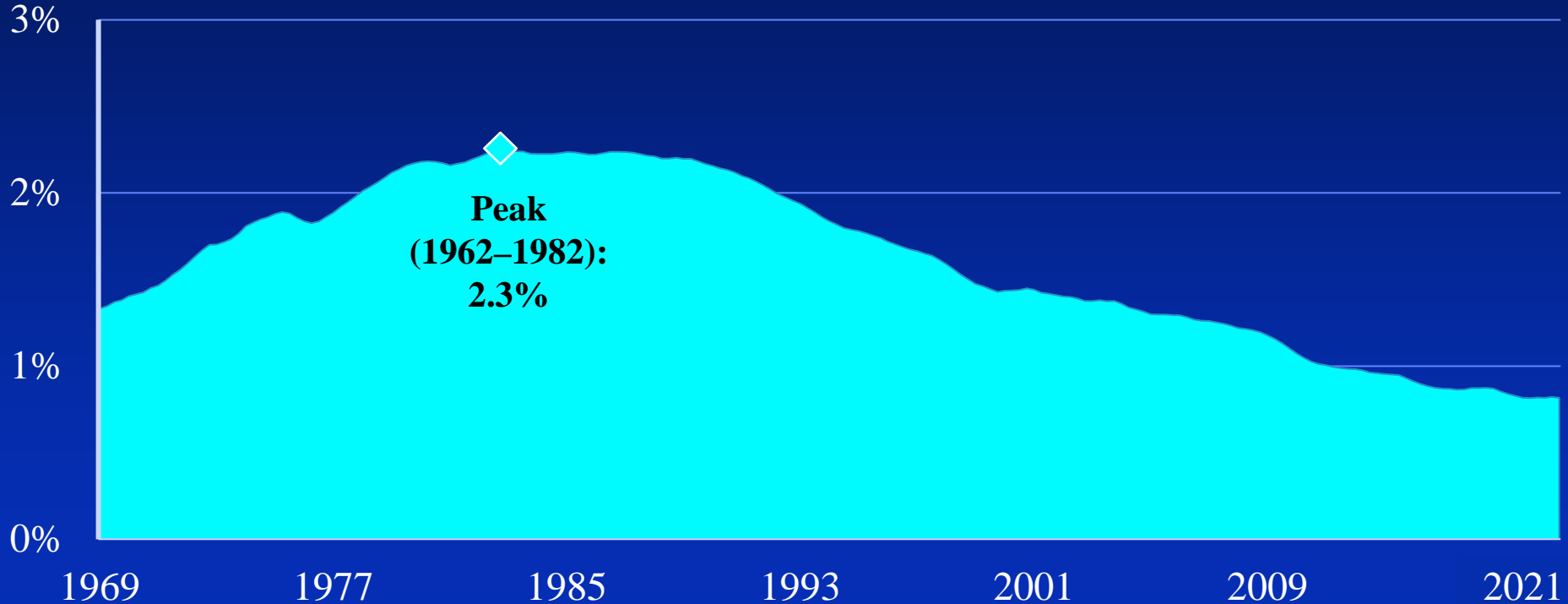
Consumer Service Sector Collapse

Weekly GDP Tracker (4-Week Average, Year-over-Year %)



Slower U.S. Economic Growth Likely

Labor Force Contribution Peaked 40 Years Ago

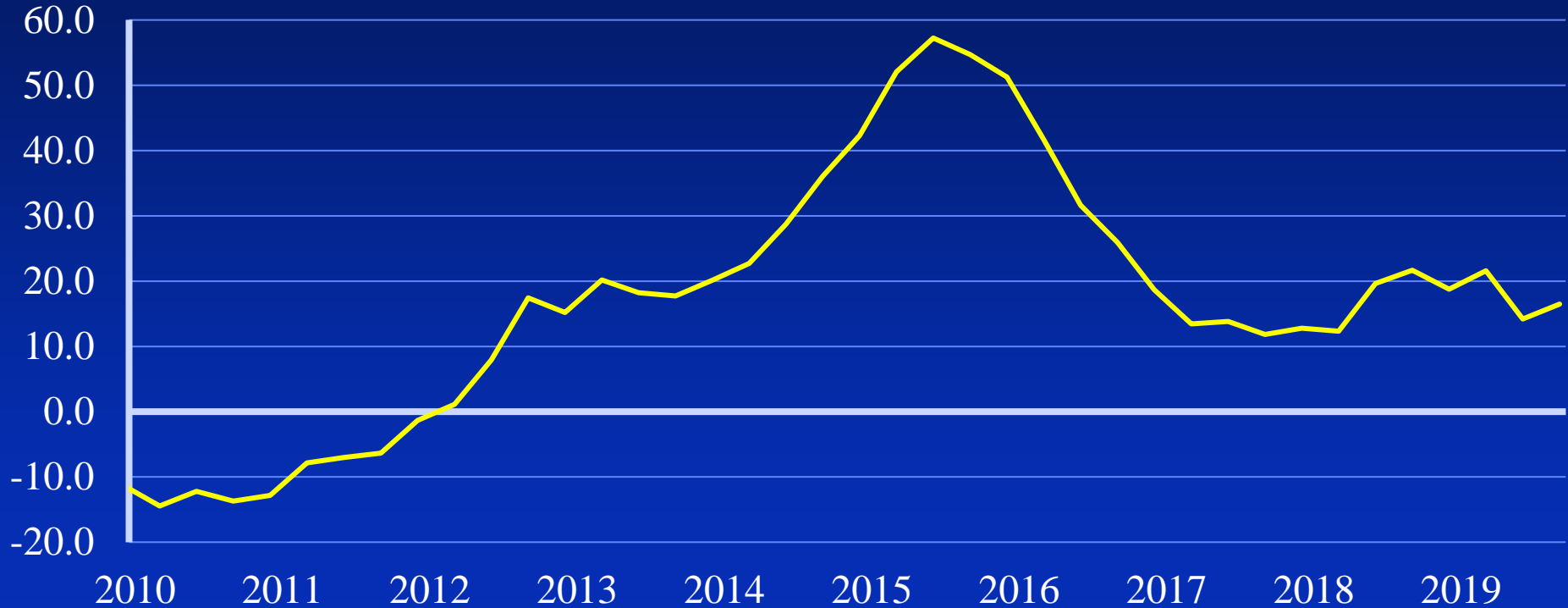


Blue Ripple for Democrats

Fiscal Stimulus	Some renewal of CARES/other
Taxes	Some increases
Health Care	Drug price pressure
Institutional	Unlikely to change filibuster or pack courts
Environment	Regulations/executive orders
Energy	Slower phase-out of fossil fuels
Executive Orders/Actions	Many

Worrisome

China Commercial Banks: Non-Performing Loans (Year-over-Year Growth, %)



The China Trade Challenge

- U.S. companies must share cutting-edge technology (must form local joint venture)
- Outright theft of intellectual property
- Non-tariff barriers (inspections, ownership limits, technical standards, subsidies, licensing)
- Cyber theft
- Rare earth bans?

Earnings Growth: Typically 7%, Slowed 2008-2016; Accelerated 2017-2019, Then Pandemic. What Now?



*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates.

Source: Yardeni, as of 9/18/2020.

Benign Inflation / Interest Rates / Ample Liquidity

Positives



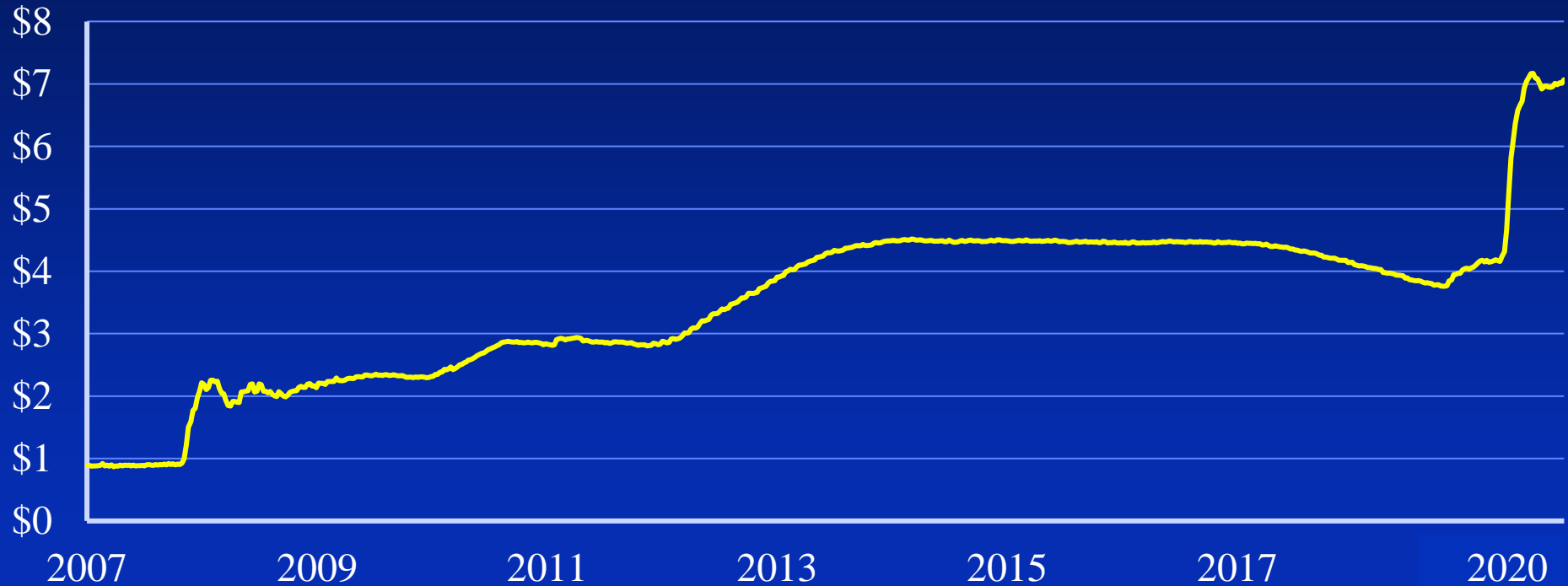
Pandemic Recession
Central Banks' Monetization
Federal Reserve Monetization/Rates
Trade Wars Slow GDP
The Amazon Effect
Aging Demographics
Technology

Risks

Budget Deficits Skyrocketing
Central Bankers Overprint
Huge Underfunded Liabilities
Massive Debt
Reflation... Then Inflation?
Inflation Expectations Are 2.6%

Quantitative Easing (Money Printing)

Fed Balance Sheet (\$T)



E-Commerce Boom

U.S. Employment (millions): Retail vs. Nonstore Retail



State & Local Government Unfunded Pension Liabilities (\$B)



Economy Improving, But... Inflation Pickup Ahead?

Inflation Expectations



Not Just Our Central Bank

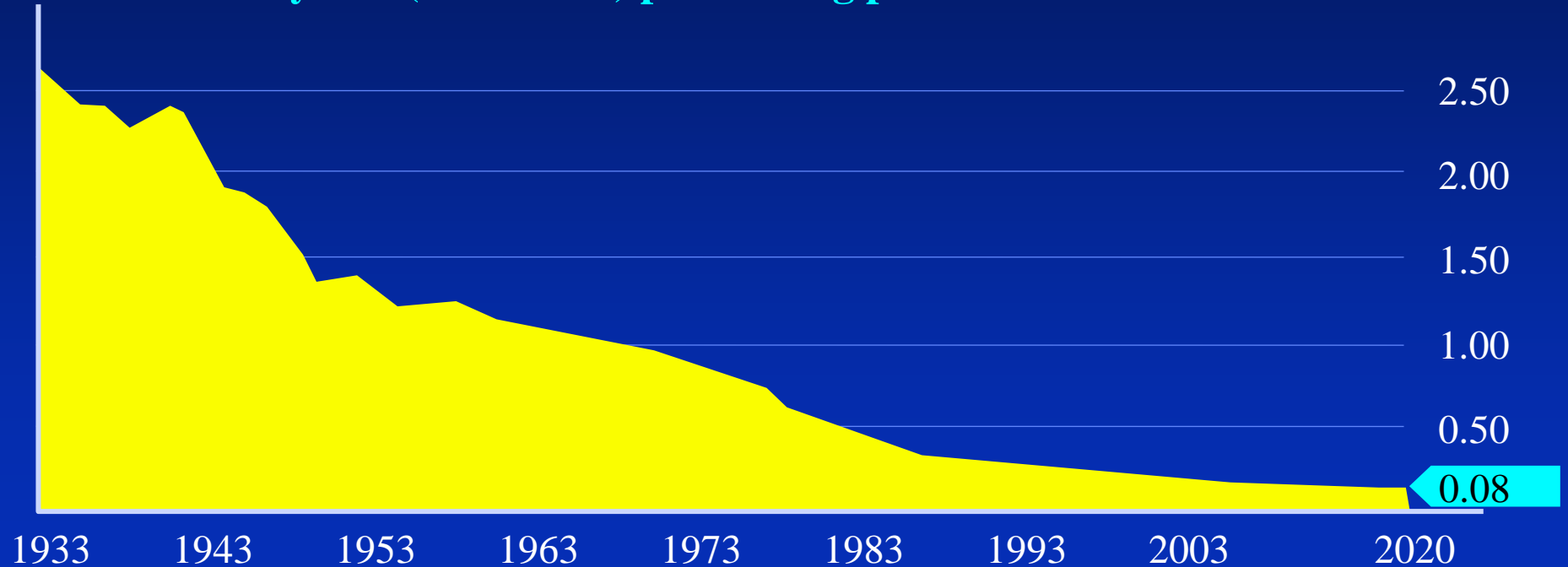
Balance Sheets (Fed, ECB, BoE, BoC)



From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2020)

87 years (1933-2020) purchasing power of USD down 97%



Reasonable Valuations

Positives

Net Worth/Savings Skyrocket

Ultra-Low Interest Rates

Stocks Yield >>> Bonds

Trading Costs Low

Liquidity Plentiful

Vaccine

Risks

Economies/Profits Sluggish

Biden Transition?

Insider Selling HIGH

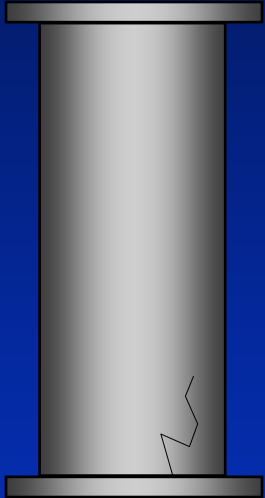
Peru Issued 100-Year Bonds

Bull/Bear Ratio at Extreme

Speculation Rising

Stocks Not Cheap

World Event Risk



Plenty of Cash

Total Money Market Fund Assets (\$T)



Surplus Cash Entering the Market

Americans Are Saving BIG

Americans are spending less...

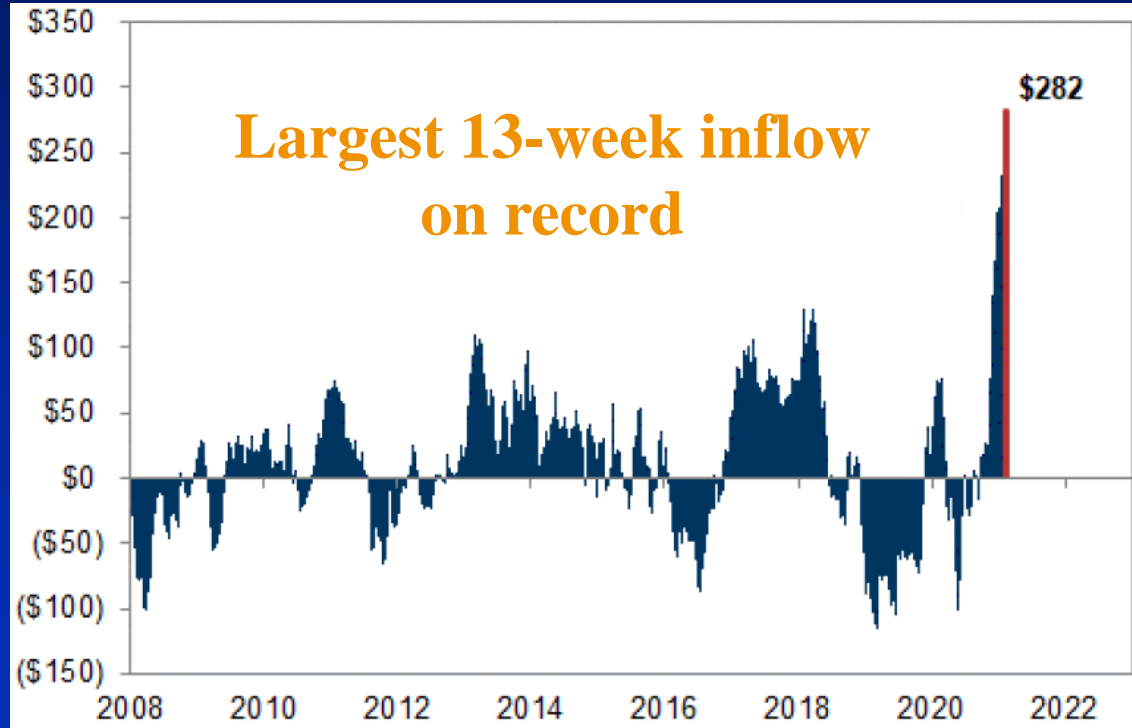
...and earning more.



American personal savings
+\$1.56 trillion
(a 173% increase from 2019)

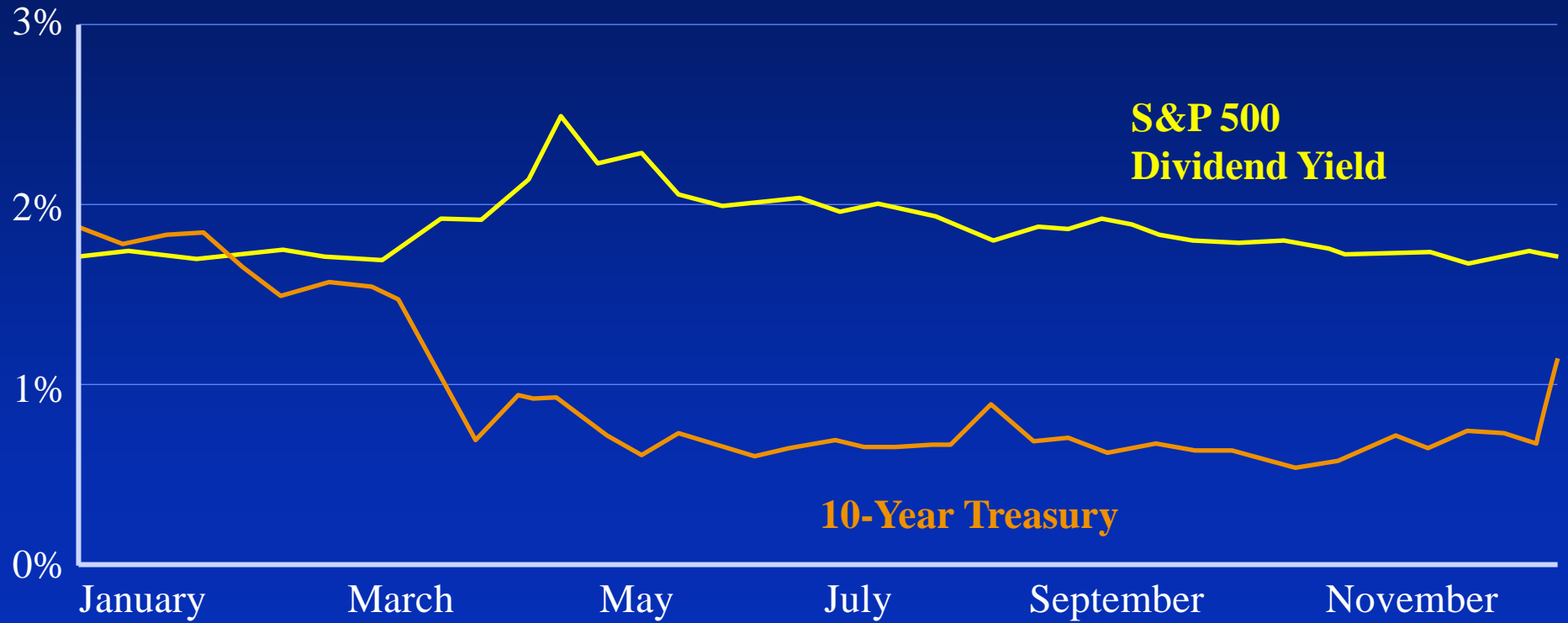
Flow Show: Money Pouring into Global Equity Funds

Flows into Global Equity Funds (rolling 13-week periods, \$B)



Bond Yields Still Below Equity Funds

Another advantage of stocks vs. bonds



Source: Wall Street Journal, as of 2/3/2021.

Let's Look at the Numbers...

Then & Now: August 1982 vs. February 2021

	August '82	Current
Fed Funds Rate	10.25%	0.1%
10 Year UST Yield	13.6%	1.15%
Trailing S&P 500 P/E	8.8 x	27.0 x
Price to Book	1.0 x	2.9 x
Dividend Yield	6.6%	1.7%
Top Marginal Tax Rate	50%	37%
Capital Gains Tax Rate	20%	23.8%

Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP



Speculation?

- IPOs have exploded
- Wall Street rebels mania: Bitcoin, silver, Gamestop, etc.
- Options volume

Socialism Momentum

Growth AND Valuations at Risk

- Venezuela an example
- Innovation depends on respect for creativity and wealth
- Socialism targets the values, rights, and assets of successful entrepreneurs
- Government imposition of price/loan rate/rent/exchange controls **ALWAYS** causes shortages and economic decline

Authoritarian Expansion via Nationalism/Surveillance/ Repression of Dissent/Manipulation

(Control/Stability/Security vs. Democracy/Privacy)

Countries with Autocratic Leadership

Russia	Philippines	Nicaragua	Eritrea
China	Italy	Guatemala	Ethiopia
Iran	Austria	Mozambique	Libya
Saudi Arabia	Moldova	Uganda	Togo
Hungary	Romania	Lebanon	Zimbabwe
Poland	Czech Republic	Israel	Central African Republic
Turkey	Kazakhstan	Egypt	Kuwait
Cambodia	Singapore	Malaysia?	United Arab Emirates
Thailand	Tanzania	Myanmar	Morocco
Brazil?	Venezuela	Nigeria	Belarus
North Korea	Cuba	Sudan	Uzbekistan
Syria	Laos	South Sudan	Azerbaijan
India?	Paraguay	Equatorial Guinea	Tajikistan

Would You Feel Comfortable and Confident Running a Country at Age 70?

• Malaysia	Mohamad	96	• Japan	Suga	73
• Cameroon	Biya	88	• Israel	Netanyahu	72
• Palestinians	Abbas	86	• India	Modi	71
• Vatican	Francis	85	• Russia	Putin	69
• Iran	Khamenei	82	• China	Xi	68
• U.S.	Pelosi	81	• S. Korea	Moon	68
• U.S.	Sanders	80	• Mexico	Obrador	68
• U.S.	McConnell	79	• Turkey	Erdogan	67
• U.S.	Biden	79	• Germany	Merkel	67
• U.S.	Trump	75			

World Event Risk

Potential Disasters

China / Trade / Taiwan / Hong Kong / Hegemony
Syria / Lebanon / Iraq / Kurdistan / Refugees
Cyber Warfare
Trade Wars
Iran Deal / Nuclear Proliferation
North Korea / South Korea
Russia: Ukraine / Turkey / Syria / Treaties
Pakistan / India
Thailand
Venezuela / Chile / Bolivia / Peru
Europe / Brexit / Catalonia / Grexit?
Israel / Palestine
Sino-Russian Entente
Biden Transition / Divided Government
Democracies Regressing / Socialism Advancing?
Vaccine Risk?
Saudi Succession / Autocracy
Egypt / Tunisia / Libya / Yemen / Ethiopia / Kenya
ISIS
Decentralized / Dispersed Technology / Unlimited Information
Environmental: CO2 / Water Levels / Garbage / Fires
Weaponization of Space / AI Robots and Drones / Laser Weaponry

Possible Successes

Vaccines
Israel / Sunni Relations
Trade Breakthrough
Tech Breakthrough / Energy Renaissance
South Asia?
Eurozone / Brexit
Japan?
Taiwan / China??
Israel / Palestine Talks
Afghanistan
North Korea
India / Pakistan / China
Charles / Camilla
William / Kate
Thorium / Graphene / Vanadium
Ireland Reunification?
Middle East Democracy
Immunotherapies

Brainstorm: Make the Private Sector Soil “Fertile”

(Incentives for Growth, Anyone?)

- Raise the retirement age
- More tax reform: carbon/VAT?
- Free-market pricing of water
- Scrap “prevailing wage” laws
- Develop comprehensive energy policy (wind / solar)
- Higher user fees (highways, airports, seaports, mass transit, etc.)

Brainstorm: Instructions to Washington...

“Get the Country Moving Again”

(Openness / Productivity of Federal Government)

- Sync House and Senate schedules with 3 (5-day) workweeks in D.C. and one at home
- Encourage/recruit legal immigration
- GAAP accounting – FOR GOVERNMENTS
- Incentives for infrastructure revitalization
- Revamp War on Drugs
- Educate the population (e.g., value of internet, phone technology)
- Manage expectations (growth IS going to be slower)

Brainstorm: More Instructions to Washington

(More Incentives to Grow the Country?)

- Continue reorg of K-12, with “competition” and “choice” the key ideas
- Kill crop/ethanol subsidies
- Transparency... Consumer must “feel” the cost of healthcare / fees for healthy outcomes
- Have D.C. folks subject to our laws/regs – not theirs – and teach them FINANCE
- Harden the national electric grid
- Rebuild our sense of a common American identity by expanding national service
 - Every young person to be expected to provide a year of military or civilian service, in return for 2 years of public college

How to Cope?

Income & Growth

- Capital & Income Fund
- New Markets Income Fund
- Convertible Securities Fund
- Financials?
- Global E/I
- Option Writing?
- Small Cap Value
- 2-Year Treasuries
- Preferred Stocks
- China Bonds (10-Yr: 3%)

Growth

- Block-Chain Tech
- Home Workspaces / Telehealth
- Quantum Computing
- Sensors / Actuators
- Int'l Small Cap Opps
- EV Infrastructure / Solar / Batteries
- Cyber Security / Drones / AI
- Video Production
- Genome / DNA / CRISPR Tech
- Small Cap Discovery
- Emerging Market Discovery
- Waste Management

Other

- Commodities
- Refinance Mortgage
- Quality Closed End
- ESG
- Japan?
- Europe?
- GM?
- Natural Resources?
- Korea

Refinance!

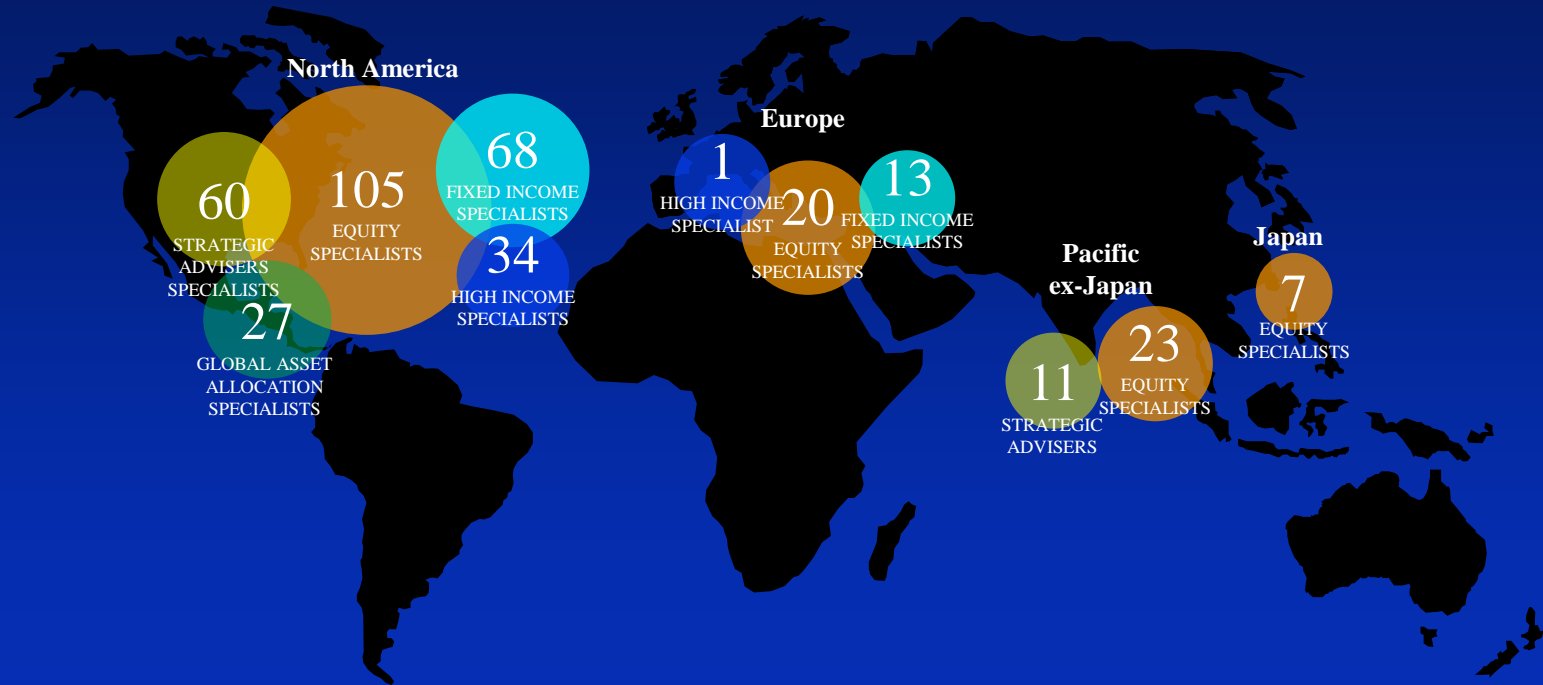
U.S. 30-Year Mortgage Rate (%)



Source: Cornerstone Macro, as of 12/28/2020.

Global Breadth Means Identifying Better Opportunities

Leveraging the work of over 360 research professionals around the globe*



*Research professionals include both research analysts and associates. Source: Fidelity Investments as of 12/31/2020. Data is unaudited. These figures reflect the resources of Fidelity Management & Research Company a U.S. company, and its subsidiaries.

U.S. Equity Returns by FMR Research Rating

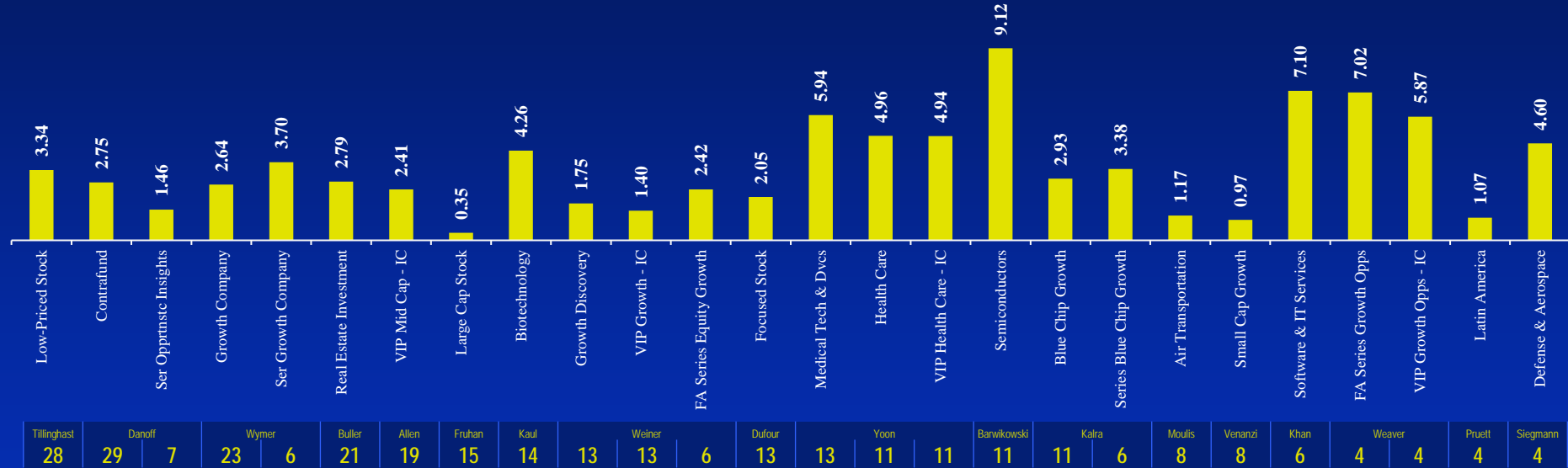
Domestic Equity (DJ US Total Stock Market) Ratings Return, 3-Year



Source: FMR Performance Attribution, as of 12/31/2020.

Fidelity's Actively Managed Equity Funds Outperform!

Funds with PMs with >4 Years of Fund Tenure Beating the S&P 500 by 30bps or More, Annualized Over PM Tenure



Average annual outperformance, excess return percent against the S&P 500, 26 Equity Funds with at least 30 bps (0.30%) of annual active return over current PM tenure. Minimum tenure of 4 years shown. If multiple managers run a fund, lead manager name is shown, unless the fund is team run, then the team name is shown. Source: FMR Co., as of 12/31/19. Includes changes in share price and reinvestment of dividends and capital gains. Analysis excludes funds with sales charges. **Current performance may be higher or lower than that quoted. Visit institutional.fidelity.com or call your investment professional for most recent month-end performance.** Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold.

Don't Short the United States

(America the Beautiful / Social Capital Huge)

- Work Ethic/Resilience/Flexibility/Choice/Mobility
- Innovation/Ingenuity/Risk profile (think Silicon Valley)
- Capitalistic system fosters competition
- Intellectual and financial magnet
- Competitiveness (deep/liquid capital markets, rule of law, property rights)
- Rehabilitation, not liquidation (via Chapter 11)
- Superior infrastructure (shipping, inventory costs)
- Accounting transparency
- Universities
- Lots of natural gas/fresh water/geographically removed/river network
- Freedoms (ideas, suffrage, religion, immigrants)

Conclusion

- Keep your goals in sight
- Review your portfolio regularly / rebalance
- Use a financial representative to help you in choices / asset allocation



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