

Late-Cycle Economies
Geopolitical Events
Trade Uncertainty
What to Do?



C. Bruce Johnstone

Managing Director, Fidelity Investments

Former Chief Investment Officer

Fidelity International Ltd.

Fidelity Investments

245 Summer Street

Boston, MA 02210



What's Weird? (Or Worse?)

Ya Think?

- 100-Year Austrian Bonds Yield 1% (Somebody Even Bought Argentine Century Bonds)
- Chinese Home Prices at 38x Median Income
- Beyond Meat Rose 800% After Its IPO
- “President Xi, who I like very much, said he wants to make a deal.” (Trump)
- Commodity Prices at Multi-Decade Lows
 - Natural Gas: \$2.50/mcf
 - Coffee: \$1/lb
 - Sugar: \$0.11/lb
- Hong Kong Economy/Tourism Collapsing
- \$13 Trillion of Negative-Yielding Sovereign Debt

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**

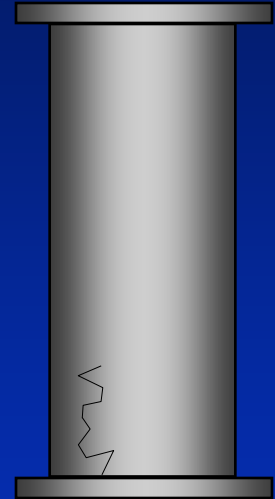
Rising Corporate Earnings

Tailwinds

Tax Reform/Fiscal Stimulus
World Monetary Policies
Consumer Net Worth
Pent-Up Housing
Deregulation
Back to the U.S.A.?

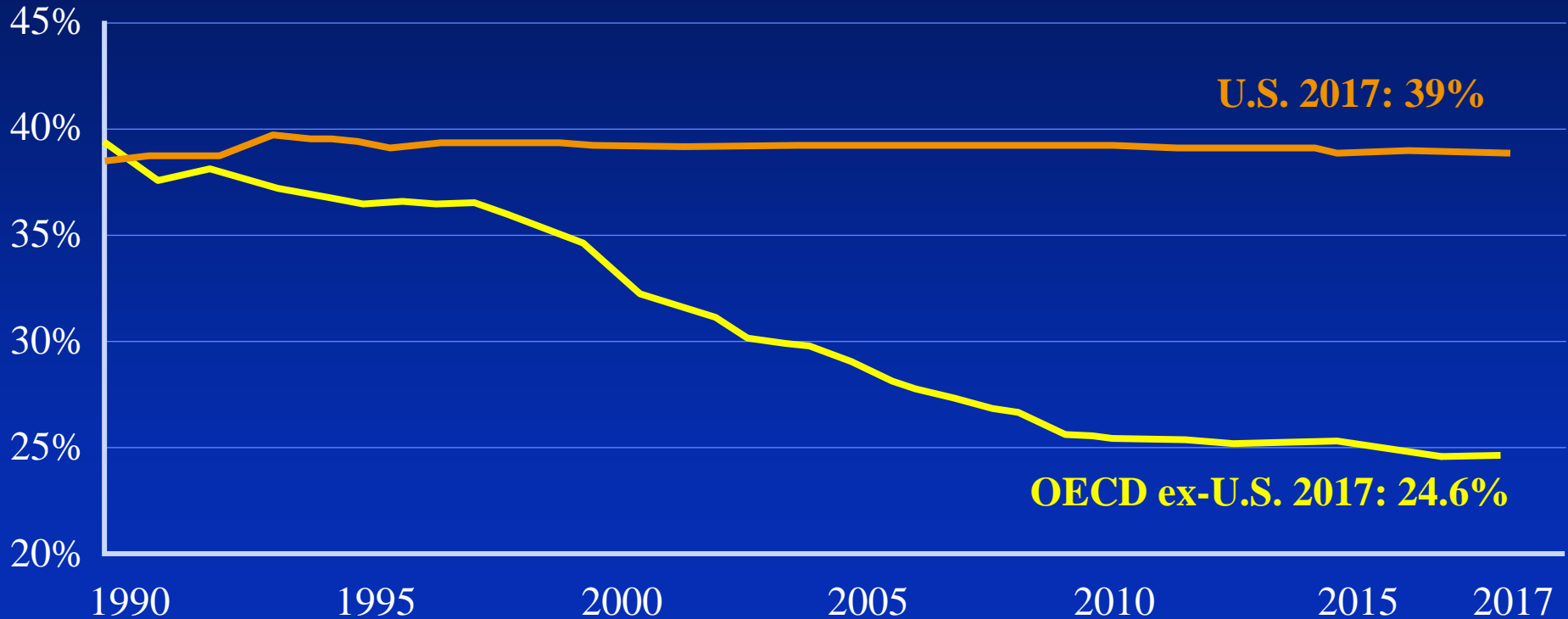
Headwinds

Trade Wars/Sanctions/China/Europe
Global Yield Curves Inverted
Margins Already High/Fewer Buybacks
Late-Cycle Economies/Soft Industrial
CEO Confidence
Brexit
Oil Prices/Heavy Truck Orders
Japan Exports/VAT
Political Move to the Left?
Record Debt
Demographics
World Event Risk
Disinflation



Why Corporate Tax Cut?

U.S. Was at a Huge Disadvantage



Back to the U.S.A.?

Just Beginning?

- Corporate Tax Cut
- Tariffs/Other Barriers
- Better Inventory Control
- Closer to End Markets
- Supplier Risk Reduction
- North American Energy Boom
- “Made in the U.S.A.”
- Wage Costs Elsewhere Rising!

Deregulation!

Pages in the Federal Register



Source: Bloomberg, Bianco Research, as of 10/30/2019.

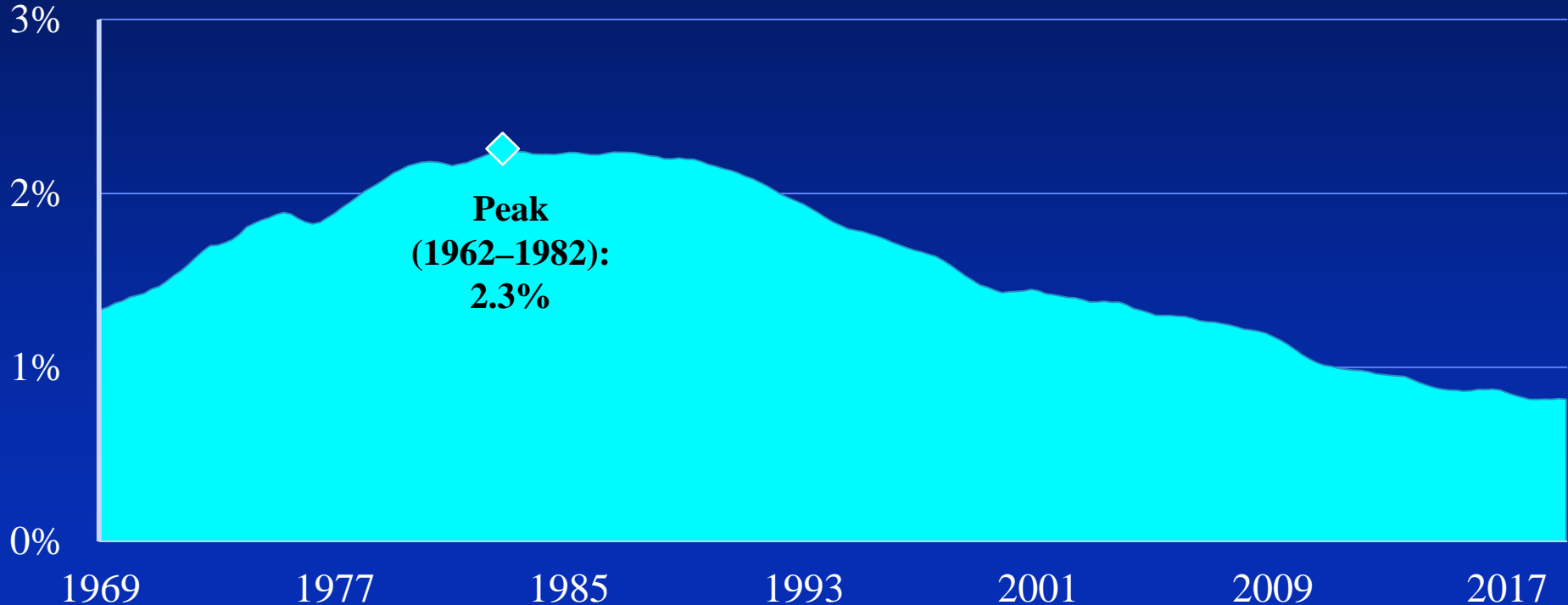
Is the U.S. Consumer Improving?

(70% of GDP)

- Job Openings / Layoffs Way Down
- Wages Better
- Sustainable Wealth Reversal?
- Debt Service Burden Low
- Wide Array of Free Online Apps, Services

Slower U.S. Economic Growth Likely over the Long-Term

Labor Force Contribution to Real GDP (YOY Growth, 20-Year Average)



Manufacturing Slumping

Global Manufacturing PMI



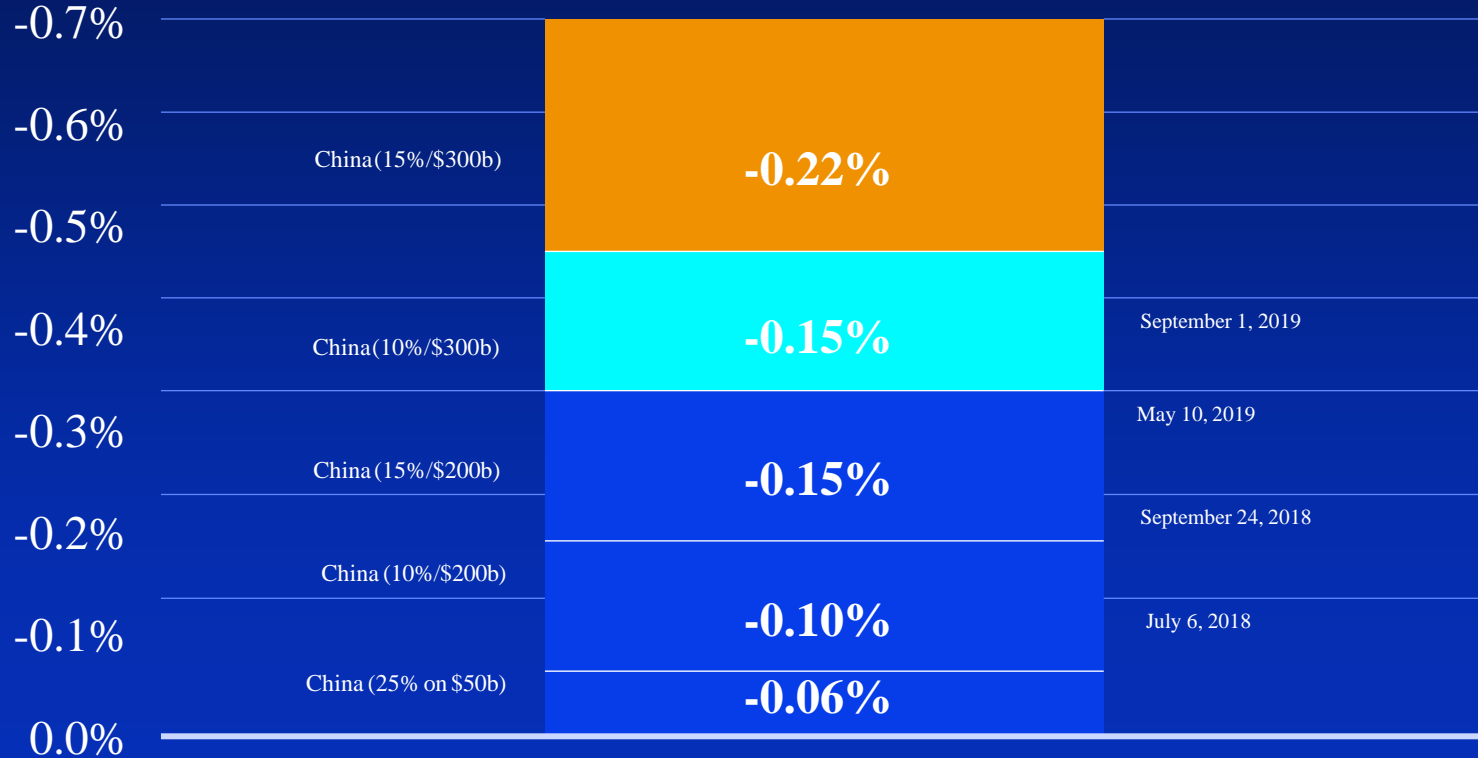
S&P 500 Reported Profit Margin (%): Q3 vs. 4-Quarter Trailing Average



Source: Standard & Poor's Corporation, Yardeni, as of 8/8/2019.

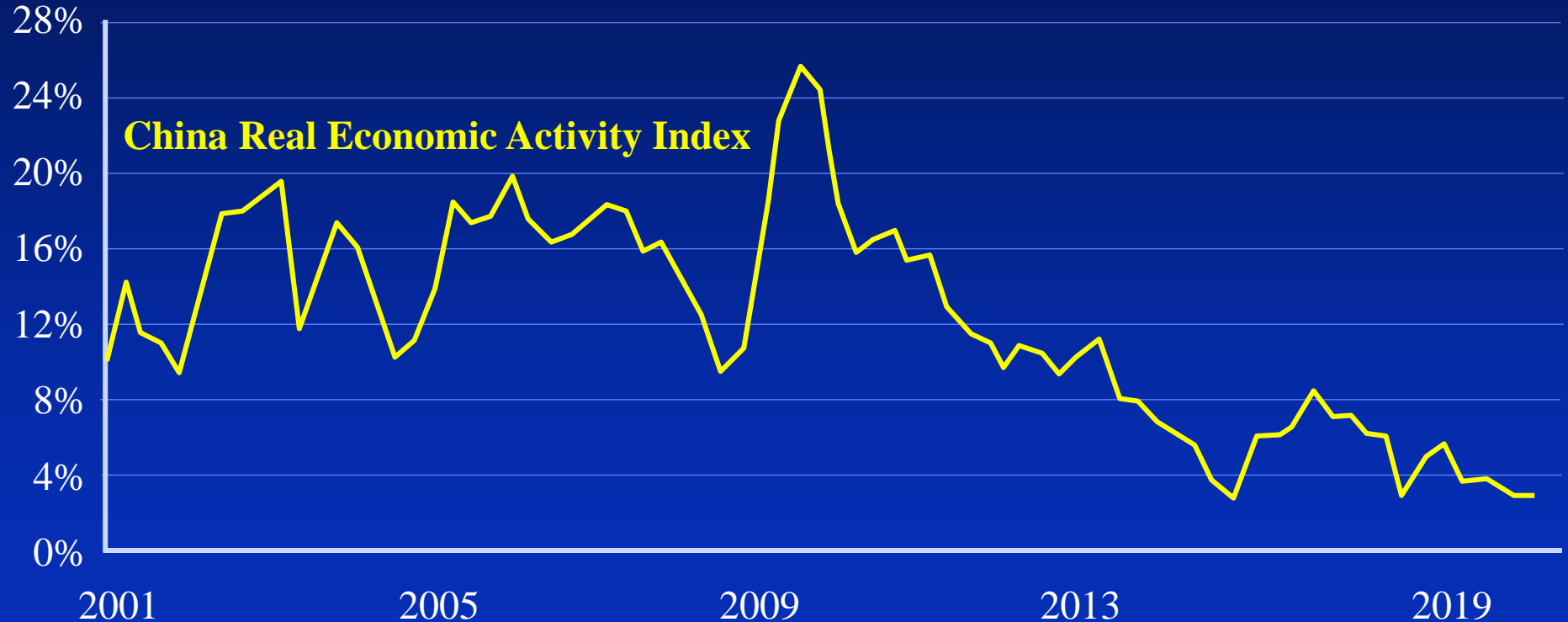
Cold War Redux

U.S. Tariffs (Imposed and Threatened) as a % of U.S. GDP



Worse Than Tiananmen Square

More Reliable Than What China Posts



Hong Kong Plunge

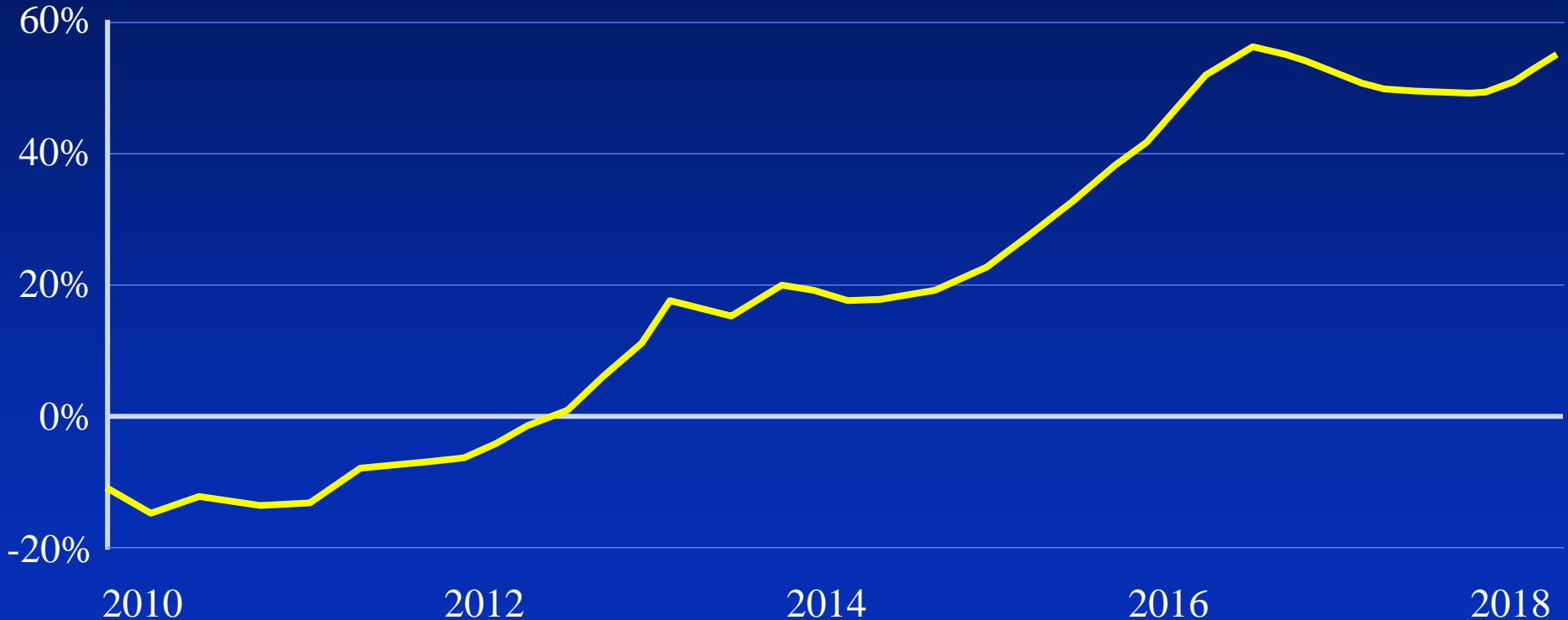
Manufacturing PMI



Source: Cornerstone Macro, as of 10/30/2019.

Worrisome

China Commercial Bank: Non-Performing Loans (Year-over-Year Growth)



Source: Cornerstone Macro, as of 8/8/2019.

The China Trade Challenge

Huawei

- 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?

China's Seven Deadly Sins

Peter Navarro Interview with Chris Wallace

- “Stop stealing intellectual property.”
- “Stop forcing technology transfer.”
- “Stop hacking U.S. computers to steal trade secrets.”
- “Stop dumping products into our markets and putting U.S. firms out of business.”
- “Stop heavy subsidies to state-owned enterprises.”
- “Stop sending fentanyl to the U.S.”
- “Stop currency manipulation.”

Old Days of China “Super-Growth” Are History?

Short-Term Outlook Soft, But...

- Property Bubble
- Infrastructure Bubble?
- Excess Consumer Stuff / Saturation
- Heavy Debt / Loan Losses
- Hong Kong / Taiwan / Uighurs
- Subsidies to SOEs Under Attack
- “Social Credit Scorecard” (Internet Censorship/Monitoring)
- Xi Enshrined “Core Leader”
- Pollution
- Demographic Dilemma
- Military Threats

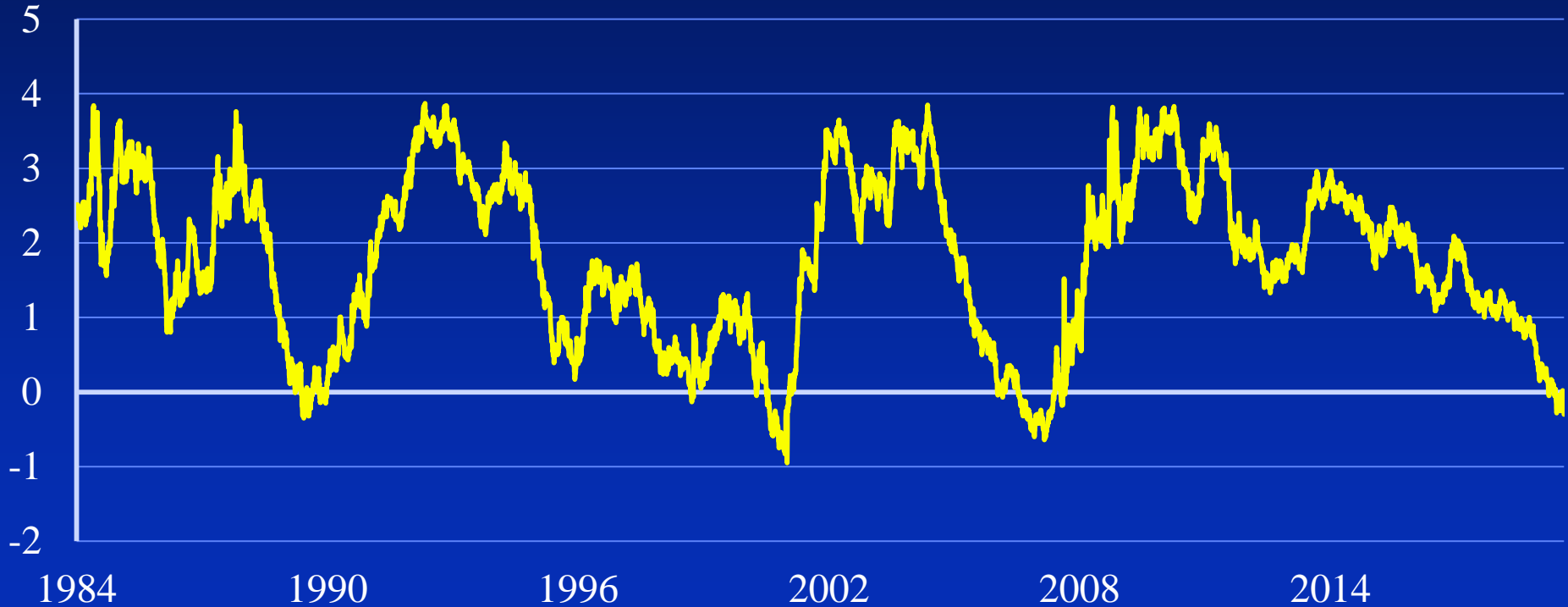
Capital Spending at Risk

U.S. CEO Confidence Index



Inverted Yield Curve

U.S. 10-Year Treasury Yield Minus U.S. 3-Month Treasury Yield (%)



Earnings Growth: Sluggish for 8 Years, Then A Burst, Then Slowing



*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates.
Source: Yardeni, as of 10/30/2019.

Benign Inflation / Interest Rates / Ample Liquidity

Positives

Trade Wars Slow GDP Growth

Flight to Safety

The Amazon Effect

Lower Bond Yields Elsewhere

Aging Demographics

Gov't Pressure on Drug Prices

Oil and Gas Prices Down

Home Rentals

WeWork

Technology on Costs

Risks

Near Term: Tariffs & CPI

Huge Underfunded Liabilities

World Gov't Budget Deficits Growing

Central Bankers Have Overprinted?

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



Quantitative Easing (Money Printing)

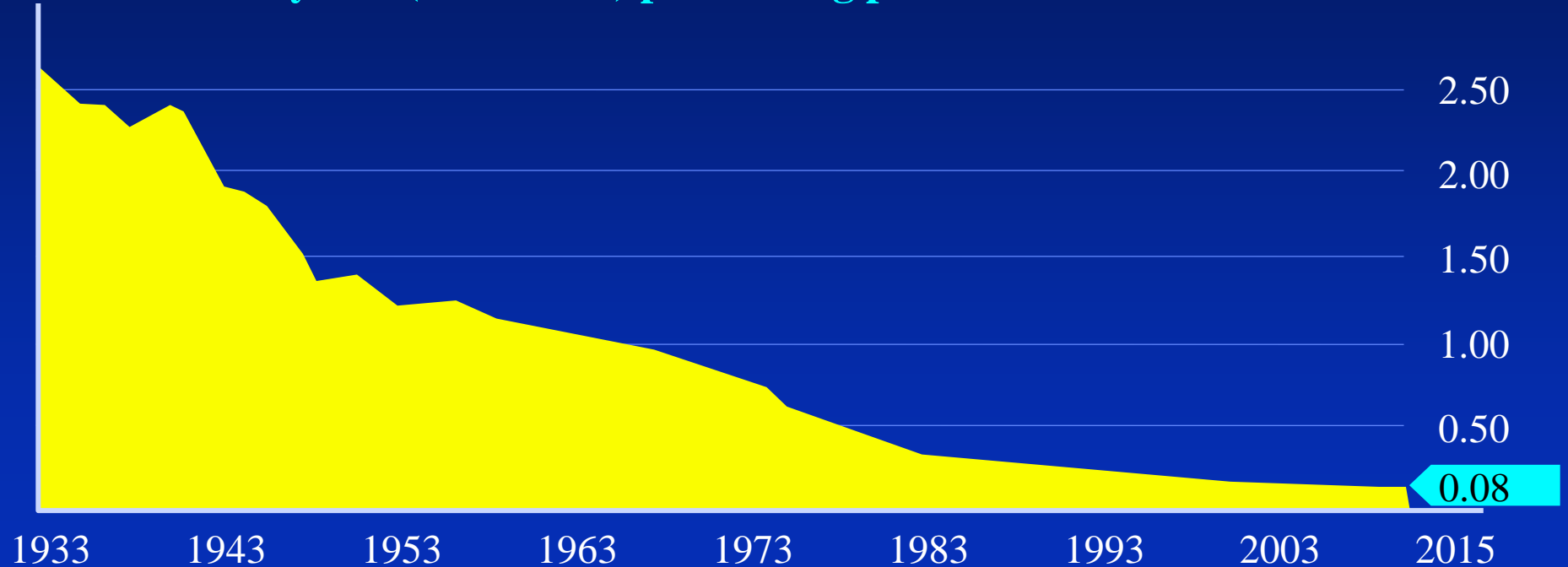
Combined Balance Sheet of the “Big Four” Central Banks (Fed, ECB, BoJ, BoE)



From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2018)

85 years (1933-2018) purchasing power of USD down 97%



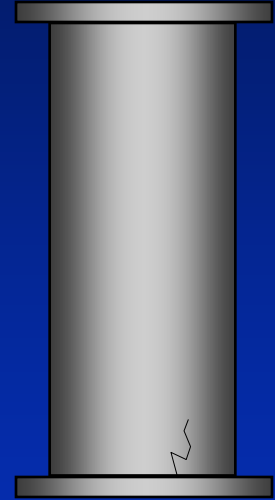
Reasonable Valuations

Positives

Ultra-Low Interest Rates
Aging Demographics
Sentiment Bearish
Trade Breakthrough????

Risks

Trade Wars
Economies/Profits Slowing
Border/D.C. Rivalry
Trump Volatility?
Election Rhetoric
Socialism Momentum
Unicorns
Weaponry Technology
World Event Risk



Let's Look at the Numbers...

Then & Now: August 1982 vs. November 2019

| | August '82 | Current |
|------------------------|-------------------|----------------|
| Fed Funds Rate | 10.25% | 1.62% |
| 10 Year UST Yield | 13.6% | 1.8% |
| Trailing S&P 500 P/E | 8.8 x | 18.5 x |
| Price to Book | 1.0 x | 2.8 x |
| Dividend Yield | 6.6% | 1.9% |
| 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



Do Trump's Narratives Have Long-Term Effects?

On Individuals/Organizations/Countries

- Mercurial/Impulsive
- Belittles/Praises/Tweets
- Threatens/Exaggerates/Welcomes
- No multi-country deals/Yes bilateral deals
- Summit proposals/Sanctions
- Plunging confidence in institutions
- Tariffs imposed... for now/Or eliminated?

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 and exchange controls **ALWAYS** causes shortages and economic decline

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

| | | | | | |
|----------------|-----------|----|------------|-----------|----|
| • Malaysia | Mohamad | 94 | • Israel | Netanyahu | 70 |
| • Cameroon | Biya | 86 | • India | Modi | 69 |
| • Palestinians | Abbas | 84 | • Russia | Putin | 67 |
| • Vatican | Francis | 83 | • China | Xi | 66 |
| • Iran | Khamenei | 80 | • S. Korea | Moon | 66 |
| • U.S. | Pelosi | 79 | • Mexico | Obrador | 66 |
| • U.S. | Sanders | 78 | • Turkey | Erdogan | 65 |
| • U.S. | McConnell | 77 | • Germany | Merkel | 65 |
| • U.S. | Biden | 77 | • Japan | Abe | 65 |
| • U.S. | Trump | 73 | | | |

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 |

Too Much Technology Available?

U.S. No Longer THE Military Power – Space Hegemony Disappears

- 5G intrusion inevitable/data integrity at risk
- Dirty networks
- Hypersonic missiles
- Speed-of-light lasers
- Miniaturization of drones
- Jamming capability/cyber warfare
- Robotic guided munitions (AI)

World Event Risk

Potential Disasters

Syria / Lebanon / Iraq / Kurdistan / Refugees
Trade Wars
China / Trade / Taiwan / Hong Kong / Hegemony
North Korea / South Korea
Russia: Ukraine / Turkey / Syria / Afghanistan / Treaties
Pakistan / India
Venezuela / Chile / Bolivia
Iran Deal / Nuclear Proliferation
Brexit / Catalonia / Grexit?
Border Wall / Shutdown / D.C. Volatility
Israel / Palestine
Sino-Russian Entente
Democracies Regressing / Socialism Advancing?
Saudi Succession / Autocracy
Egypt / Tunisia / Yemen / Angola / Kenya
ISIS
Cultural: Cheating / Spying / Fear / Marijuana?
Cyber Warfare / Laser Warfare Weaponry
Decentralized / Dispersed Technology / Unlimited Information
Environmental Concerns: Water Levels / Garbage / Fires
Weaponization of Space / AI Robots and Drones

Possible Successes

Greece Sold Bonds
Trade Breakthrough
Cheap Stock Markets?
Tech Breakthrough / Energy Renaissance
South Asia?
Eurozone / Brexit
Japan?
Israeli / Sunni Relations
Taiwan / China??
Israel / Palestine Talks
U.S. Natural Gas / Shale Oil Potential
Afghanistan
North Korea
India / Pakistan
Charles / Camilla
William / Kate
Harry / Meghan / Archie
Thorium / Graphene / Vanadium
IRA / Northern Ireland
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 (natural gas / 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
- 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
- Everybody has to sacrifice

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

Growth

- Block-Chain Tech
- Water / Ag Plays
- Quantum Computing
- Sensors / Actuators
- Int'l Small Cap Opps
- Energy Infrastructure / Solar / Batteries
- Cyber Security / Drones / AI
- Video Production
- Genome Sequencing / Stem Cell Tech
- Small Cap Discovery
- Emerging Market Discovery
- Waste Management

Other

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

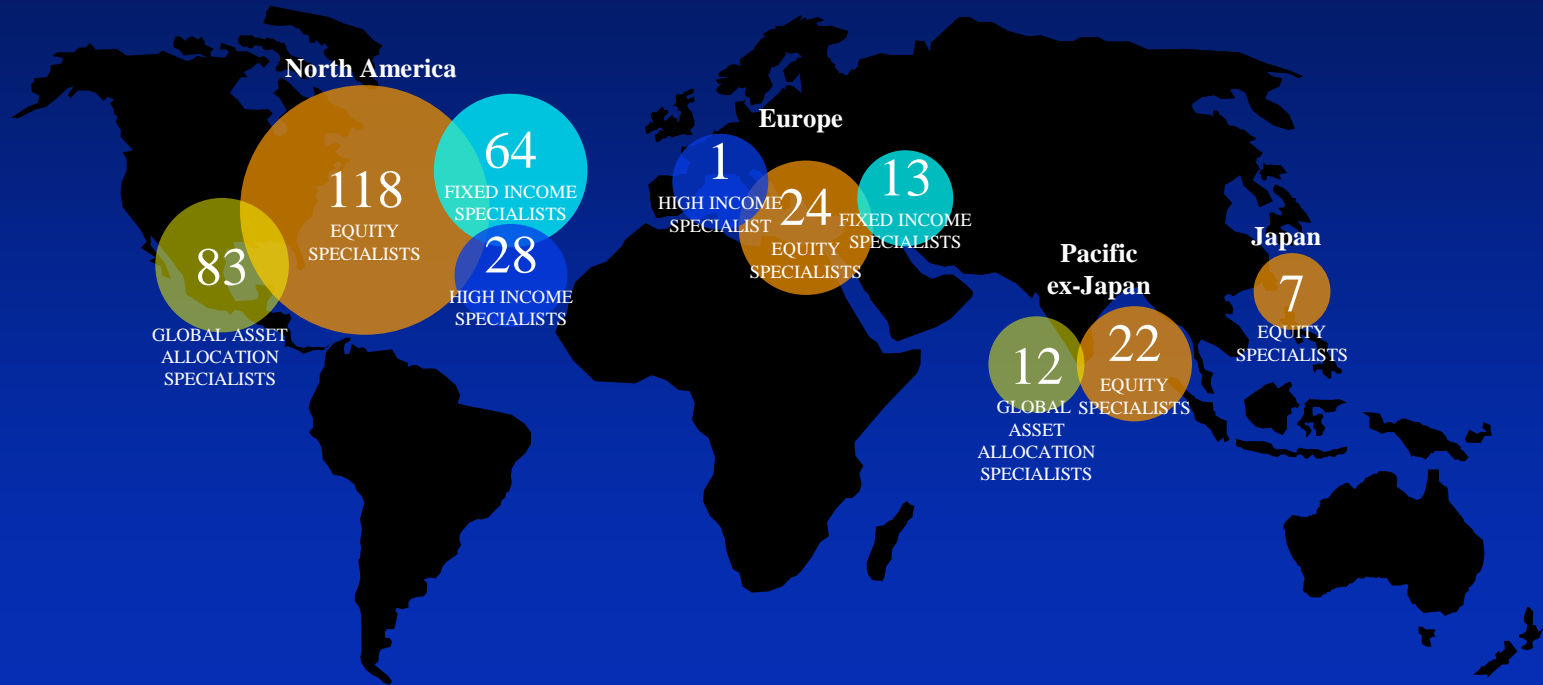
Refinance!

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



Global Breadth Means Identifying Better Opportunities

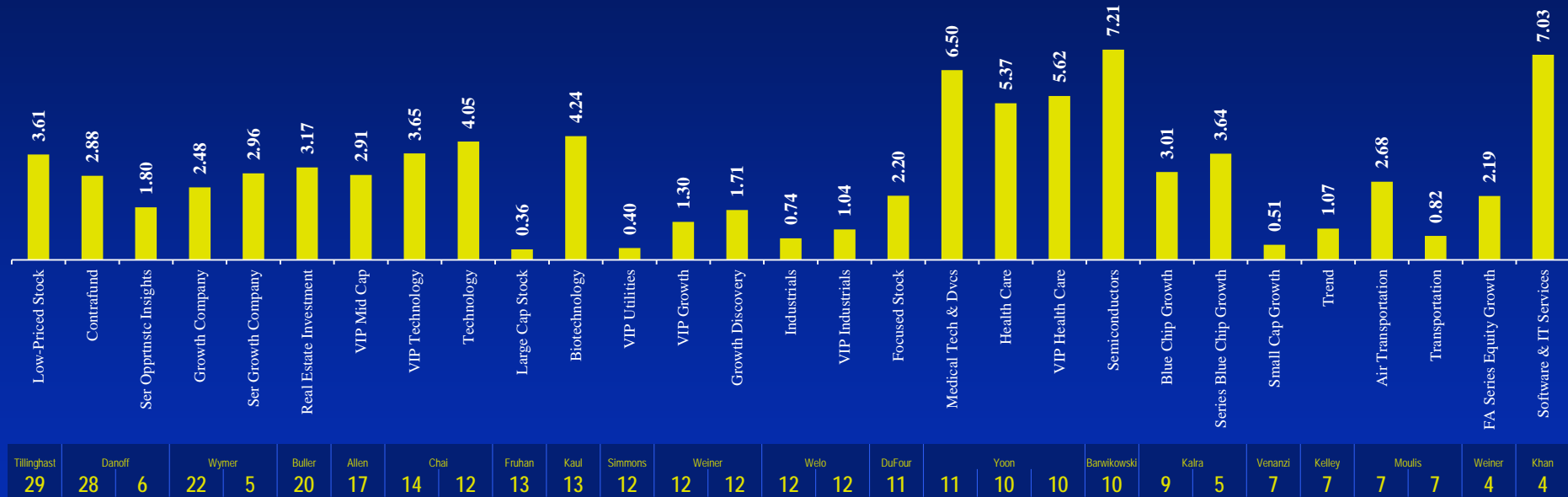
Leveraging the work of over 350 research professionals around the globe*



*Research professionals include portfolio managers, research analysts and associates as of 12/31/2018.

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



| | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------------|--------|-------|--------|-------|------|--------|------|---------|--------|------|--------|------|---------|-------------|------|---------|--------|--------|--------|------|---|---|---|---|---|---|---|---|
| Tillinghast | Danoff | Wymer | Buller | Allen | Chai | Fruhan | Kaul | Simmons | Weiner | Welo | DuFour | Yoon | Simmons | Barwikowski | Kala | Venanzi | Kelley | Moulis | Weiner | Khan | | | | | | | | |
| 29 | 28 | 6 | 22 | 5 | 20 | 17 | 14 | 12 | 13 | 13 | 12 | 12 | 12 | 12 | 12 | 11 | 11 | 10 | 10 | 10 | 9 | 5 | 7 | 7 | 7 | 7 | 4 | 4 |

Average annual outperformance, excess return percent against the S&P 500, 29 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 12/31/2018.

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)



PAST PERFORMANCE IS NOT INDICATIVE OF FUTURE RESULTS.

The S&P 500[®], a market capitalization-weighted index of common stocks, is a registered service mark of the McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation.

All indices are unmanaged and performance of the indices include reinvestment of dividends and interest income, unless otherwise noted, are not illustrative of any particular investment and an investment cannot be made in any index. You cannot invest directly in an index.

The information presented reflects the opinions of Bruce Johnstone, Managing Director, Fidelity Investments, for Fidelity Brokerage Services LLC as of 10/30/2019.

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.

Fidelity Brokerage Services LLC, Member NYSE, SIPC 900 Salem Street, Smithfield, RI 02917

The Fidelity Investments and the Pyramid Design logo is a registered service mark of FMR LLC.

© 2019 FMR LLC. All rights reserved.