

Plenty of Fiscal and Monetary Stimulus! Has It Been Overdone?



How Do You Compare Investment Opportunities Around the World?

Stock Markets

Rising
Corporate
Earnings

Benign
Inflation/
Interest Rates
and Ample
Liquidity

Reasonable
Valuations

U.S. Stock Markets

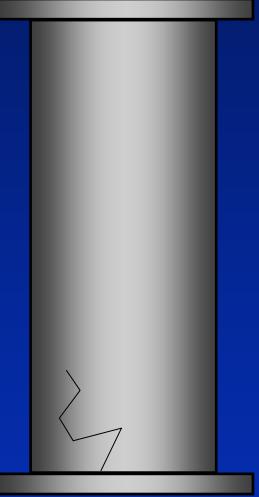
Rising
Corporate
Earnings

Benign
Inflation/
Interest Rates
and Ample
Liquidity

Reasonable
Valuations

Rising Corporate Earnings

Tailwinds



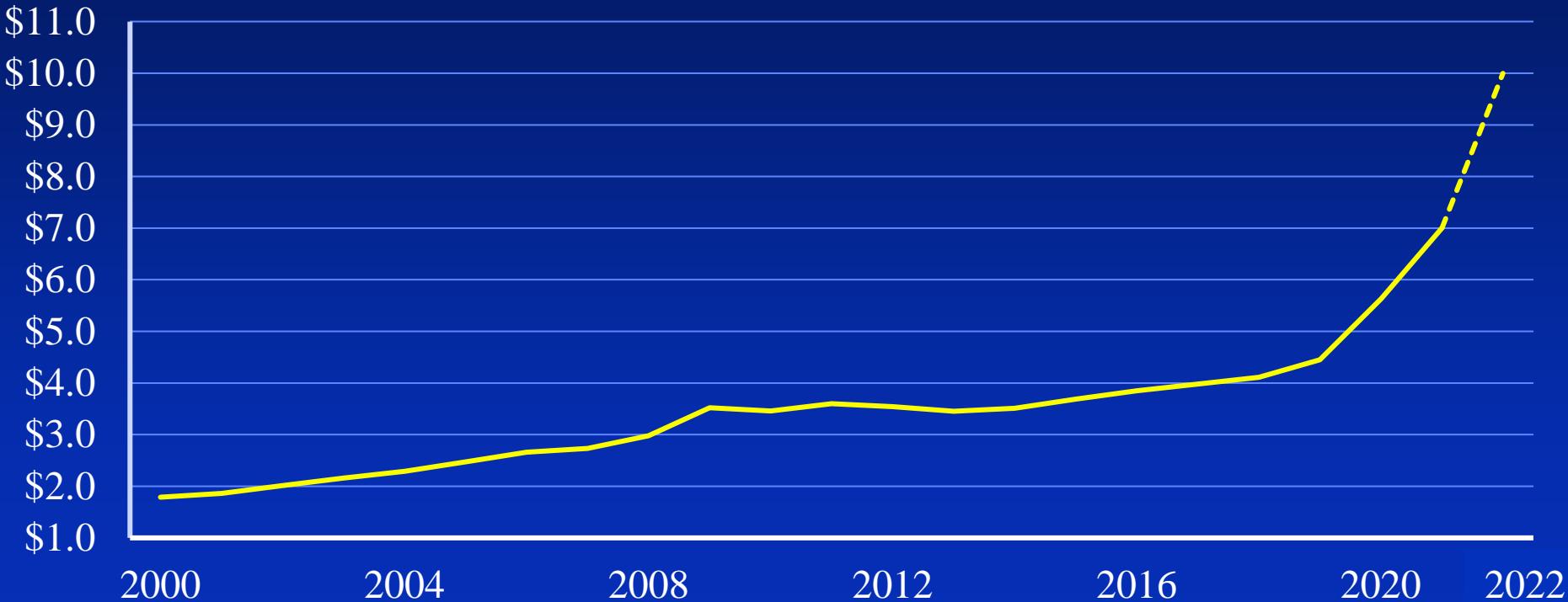
U.S. Net Worth \approx \$70T since GFC
Consumer Service Spending Blowing Out
HUGE Fiscal Response
HUGE Monetary Response

Headwinds

Delta Variant
Supply Chain
Regulatory Risk
Massive Debt Increase
Debt Ceiling
Tax Rates to Rise
Demographics
China Risks
World Event Risk

Federal Spending Juggernaut

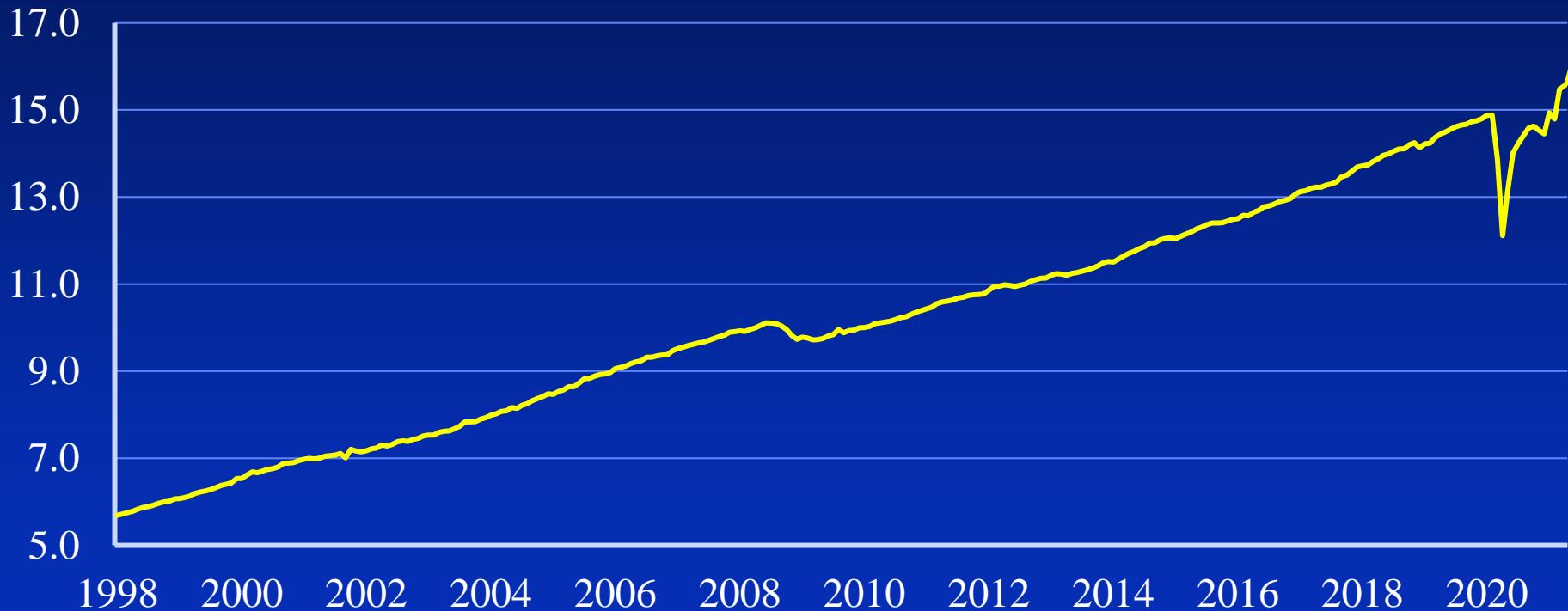
U.S. Federal Spending (\$T)



Source: Statista.com, Pew Research, Office of Management and Budget, Bureau of the Fiscal Service, as of 8/20/2021.

Roaring

U.S. Nominal Consumer Spending (\$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

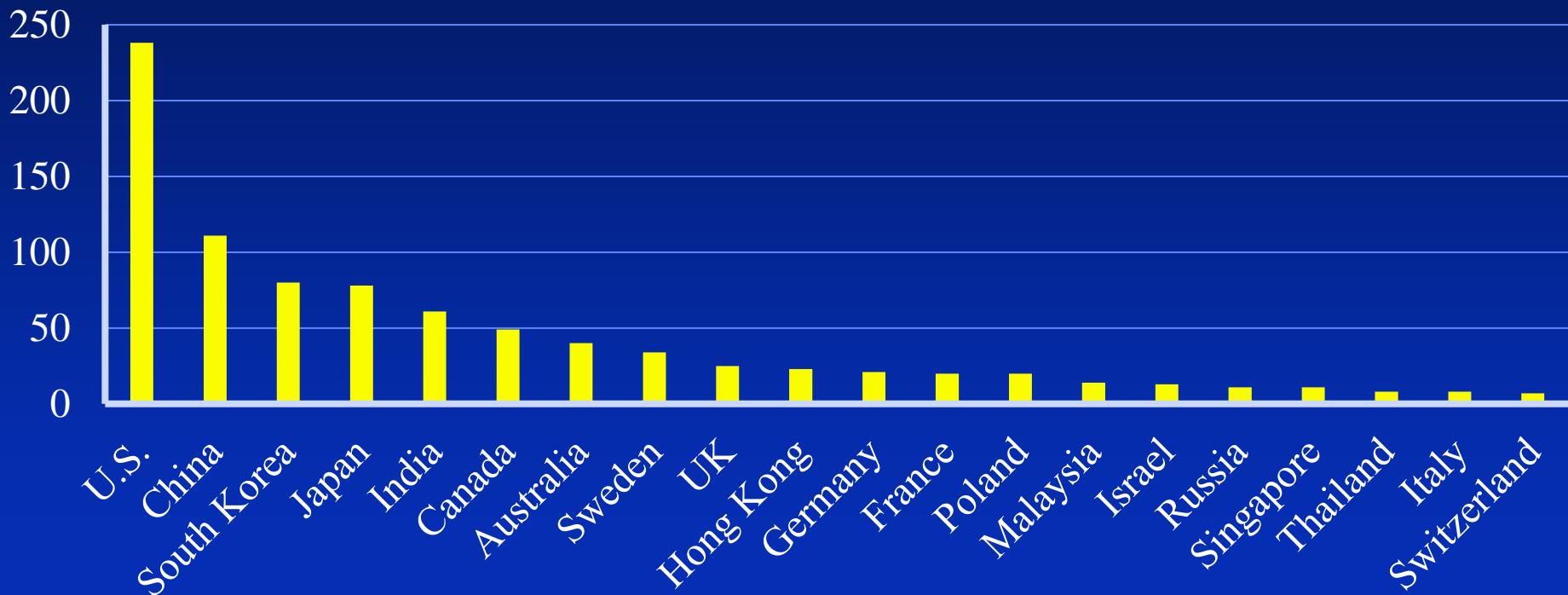
“Oracle Gains as Companies Shift to Storing Their Data on the Cloud,” WSJ

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

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

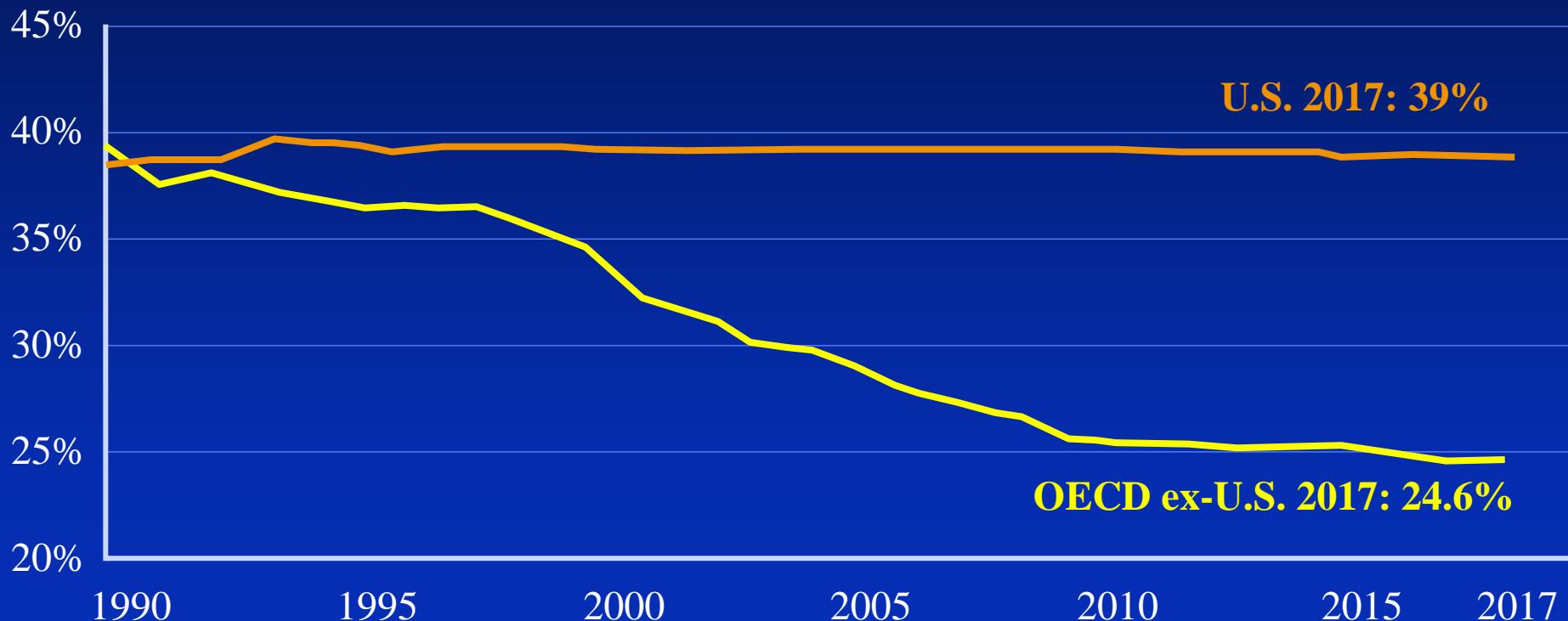
U.S. Leads Technology

Tech Companies per 1,000 World Tech Listings



Why Corporate Tax Cut?

U.S. Was at a Huge Disadvantage



Deregulation!

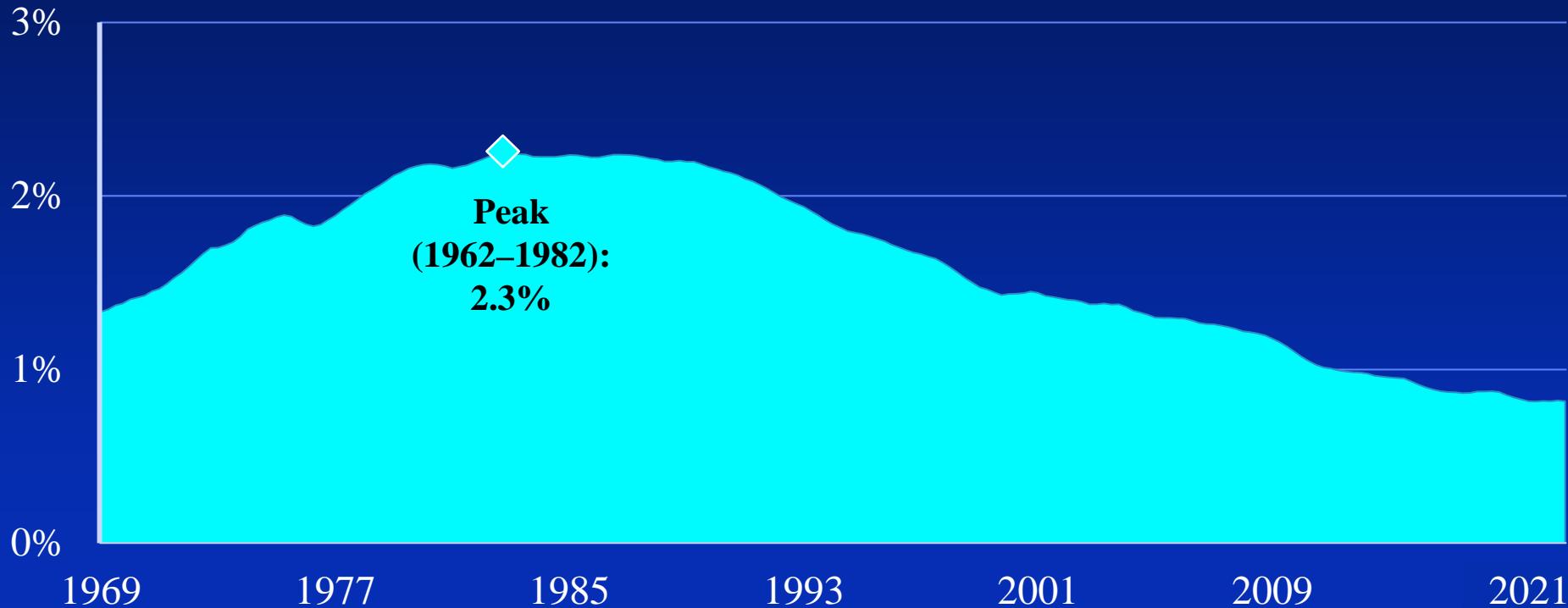
Pages in the Federal Register



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

Slower U.S. Economic Growth Likely

Labor Force Contribution Peaked 40 Years Ago



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 12/28/2020.

China Stifling Growth?

- “Common prosperity”
- “Do it for the Party”
- “De-emphasize profits”
- Anti-celebrity/anti-wealth/anti-monopoly
- Property tax? Inheritance tax?
- Judiciary risk rising
- Hong Kong real estate risk
- Evergrande credit risk HUGE

Worrisome

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



Source: Cornerstone Macro, as of 6/2/2021.

China Consumer Risks

Future growth slowdown very possible

- Demographics
- Household debt at 59% of GDP
- Household debt-to-income ratio of 130%
- Residential housing comprises three-quarters of Chinese household wealth
- Residential real estate prices as percent of income highest in the world
- Very poor pension plans (must increase retirement age)

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, Surging Now



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

Source: Yardeni, as of 8/20/2021.

Benign Inflation / Interest Rates / Ample Liquidity

Positives

Central Banks' Monetization
Federal Reserve Monetization/Rates
Trade Wars Slow GDP
Aging Demographics
Technology

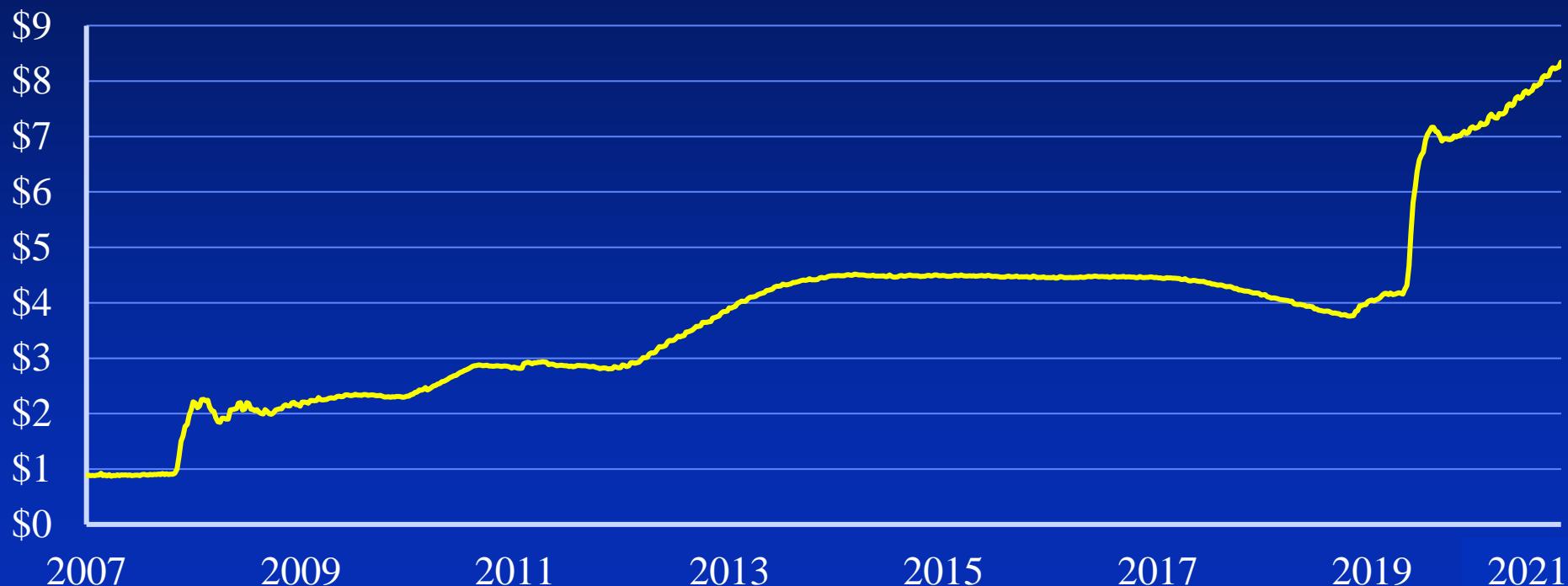
Risks

Budget Deficits Skyrocketing
Central Bankers Overprint
Huge Underfunded Liabilities
Labor Shortage
Inflation Expectations RISING



Quantitative Easing (Money Printing)

Fed Balance Sheet (\$T)



Source: Federal Reserve, as of 8/20/2021.

Not Just Our Central Bank

Balance Sheets (Fed, ECB, BoE, BoC)



Interest Rate Risk?

Fed Balance Sheet (\$T) vs. 10-Year Treasury Yield (inverted)



Source: Macro Mavens and St. Louis Fed, as of 9/10/2021.

Yikes

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



Source: MacroMavens, as of 6/3/2021.

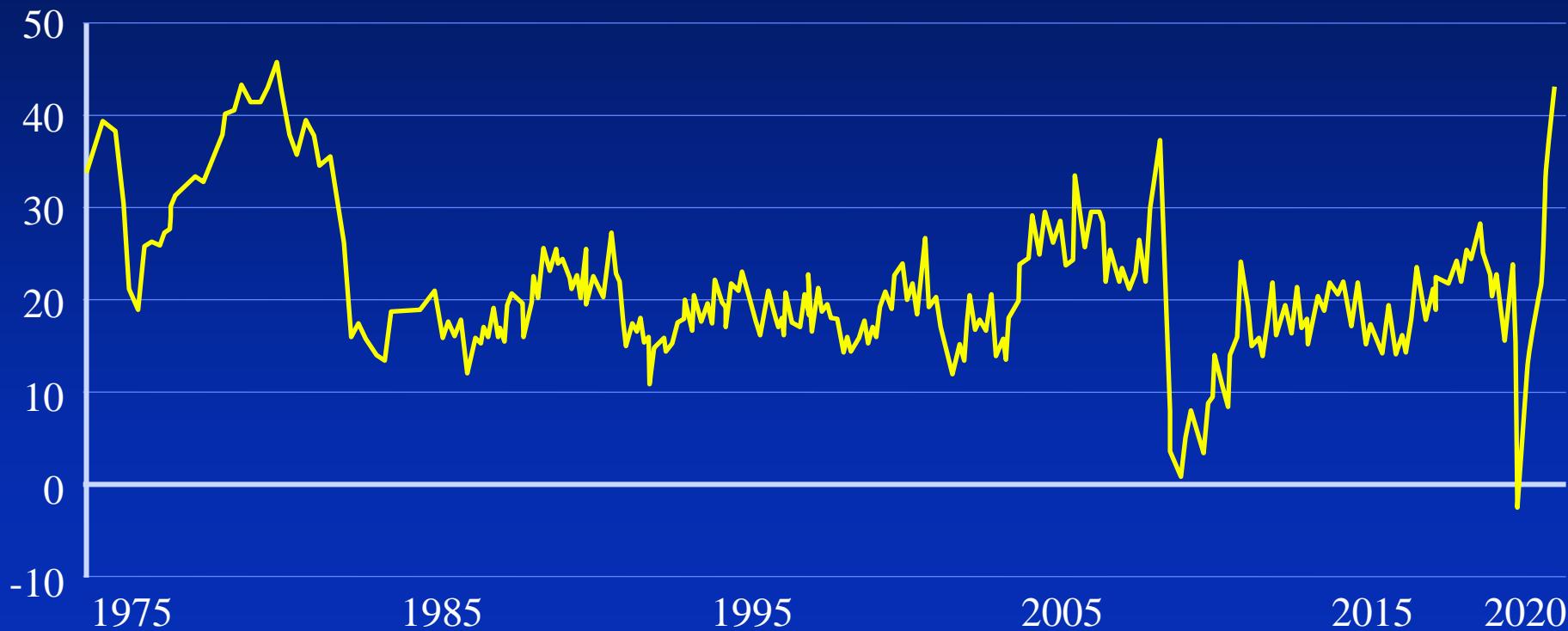
Workers Have Gained Power

U.S. Job Openings (Millions)



Retailers' Survey of Pricing Power Has Skyrocketed

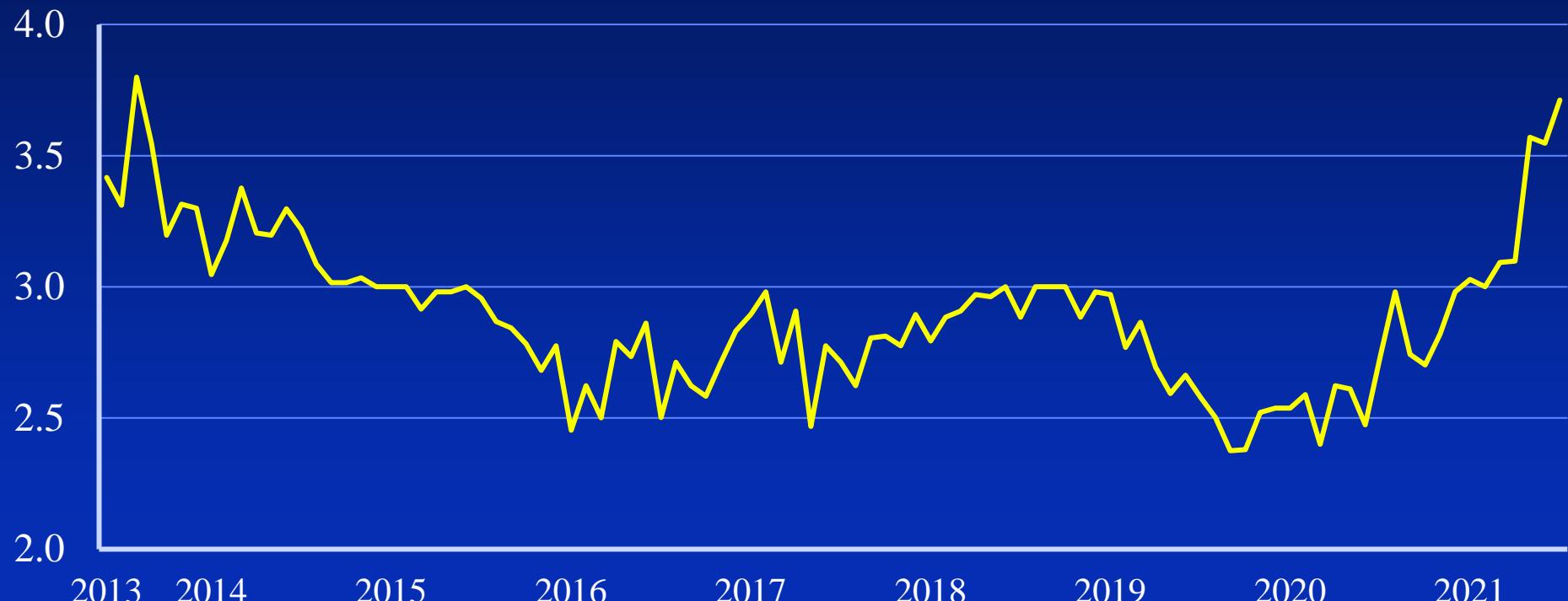
Percent Planning to Raise Average Selling Prices



Source: National Federation of Independent Business, Haver Analytics, as of 7/27/2021.

Longer-Term Expectations Soaring

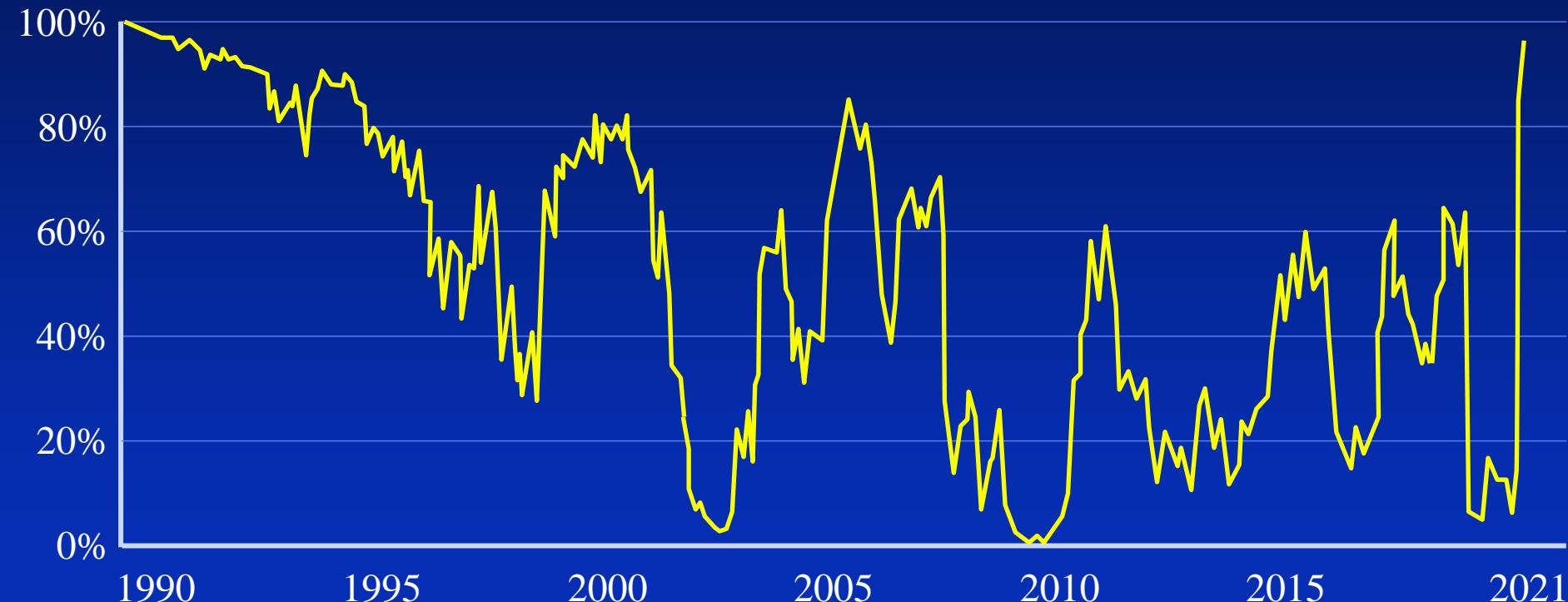
U.S. Inflation Expectations, Three Years Ahead



Source: New York Fed, as of 8/10/2021.

Highest in 30 Years

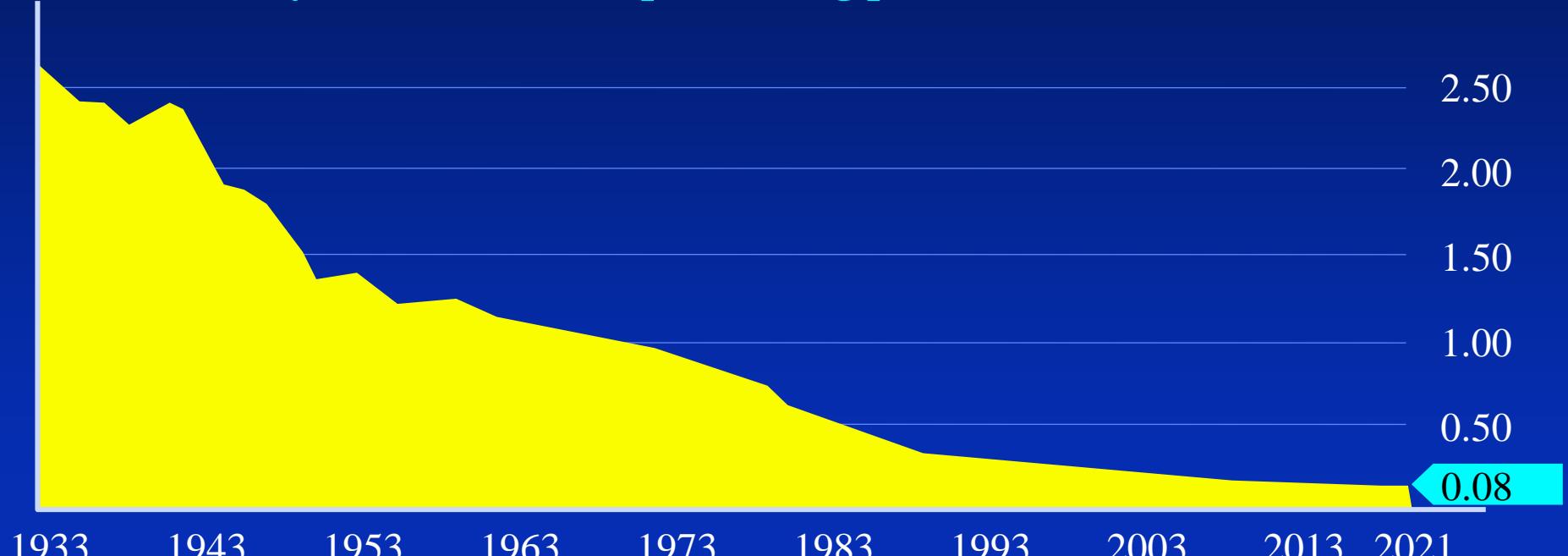
Core CPI (Year-over-Year, Percentile Rank since 1990)



From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2021)

88 years (1933-2021) purchasing power of USD down 97%



Reasonable Valuations

Positives

Net Worth/Savings Skyrocket

Ultra-Low Interest Rates

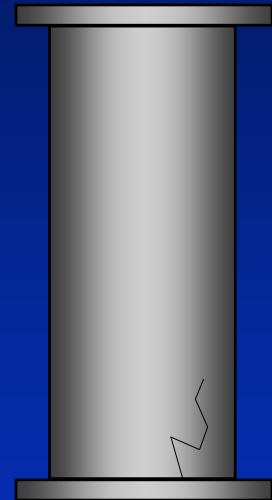
Risks

Insider Selling HIGH

Speculative Trading

Stocks Not Cheap

World Event Risk



Fuel For the Markets... U.S. Household Net Worth, \$T

Stocks and Housing Have Loaded Bank Accounts



Plenty of Cash

Total Money Market Fund Assets (\$T)



Source: St. Louis Fed, as of 6/2/2021.

Let's Look at the Numbers...

Then & Now: August 1982 vs. September 2021

	August '82	Current
Fed Funds Rate	10.25%	0.1%
10 Year UST Yield	13.6%	1.29%
Trailing S&P 500 P/E	8.8 x	28.0 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



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 has caused shortages and economic decline

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

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

Countries with Autocratic Leadership

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

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

• Malaysia	Mohamad	96	• U.S.	Trump	75
• Cameroon	Biya	88	• Japan	Suga	73
• 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

World Event Risk

Potential Disasters

China / Trade / Taiwan / Hong Kong / Hegemony

Israel / Palestine

Iran / Syria / Lebanon / Iraq / Kurdistan / Afghanistan

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?

Sino-Russian Entente

Biden Transition / Divided Government

Democracies Regressing / Socialism Advancing?

Vaccine Risk?

Saudi Succession / Autocracy

Egypt / Tunisia / Libya / Yemen / Ethiopia / Kenya

ISIS / Taliban

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

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/reg – 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

- Blockchain 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?
- Natural Resources?
- Water Sustainability Fund
- North Korea
- Crypto

Refinance?

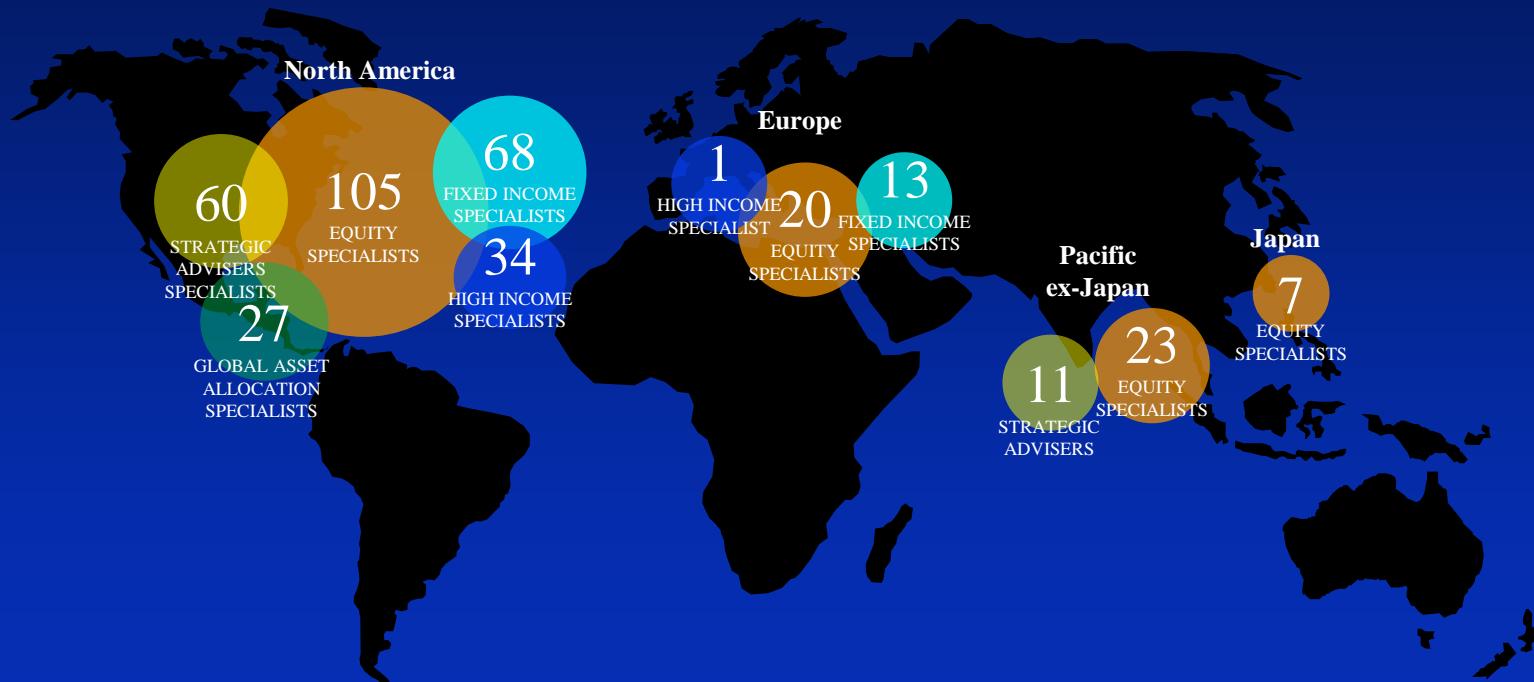
U.S. 30-Year Mortgage Rate (%)



Source: Cornerstone Macro, as of 6/2/2021.

Global Breadth Means Identifying Better Opportunities

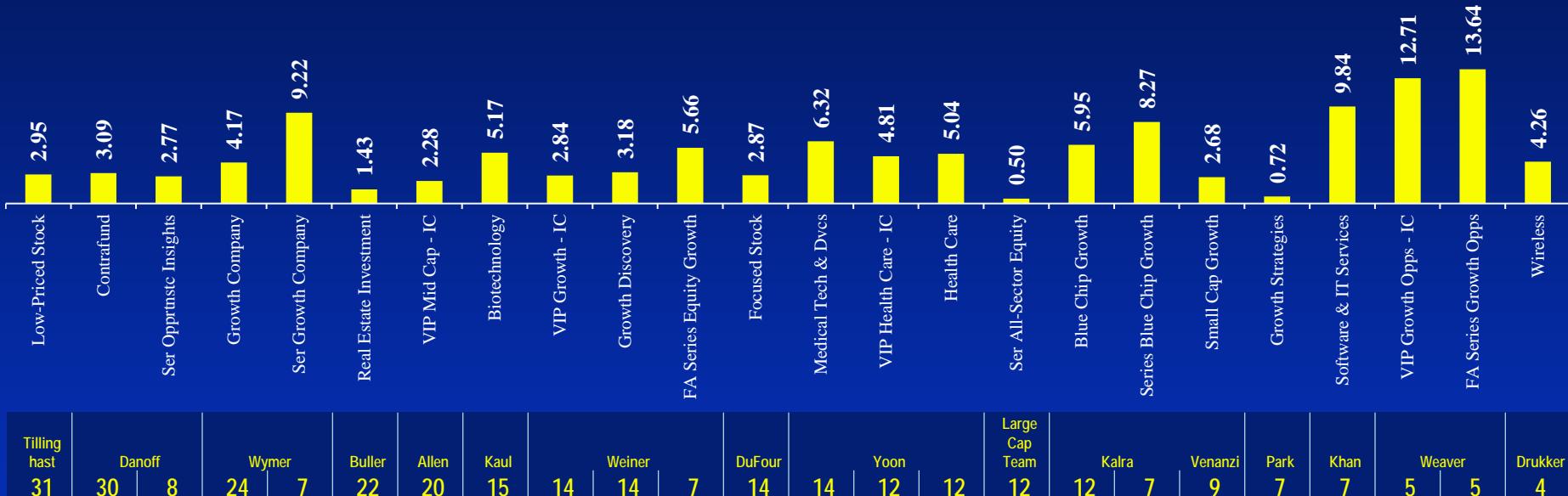
Leveraging the work of over 360 research professionals around the globe*



*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.

Fidelity's Actively Managed Equity Mutual Funds Have Outperformed!

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



Average annual outperformance, excess return percent against the S&P 500, 24 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 12/31/20. 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)



Before investing, consider the funds' investment objectives, risks, charges, and expenses. Contact Fidelity for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.

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 9/10/2021.

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.

© 2021 FMR LLC. All rights reserved.

856361.5.0