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Meet the Experts: Market & Economy Update with Fidelity

February 9, 2023

Speakers

Ted Wilson, CFA
Investment Committee
Lead, Consultant
Newfront

Brad Pineault, CFA
Capital Markets Strategist
Fidelity Investments

Agenda

01 Economy

02 Investment Markets

03 Inflation

04 Interest Rates

05 Recession

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CMSG Weekly Market Update

2023: From Challenge to Opportunity

Spring 2023

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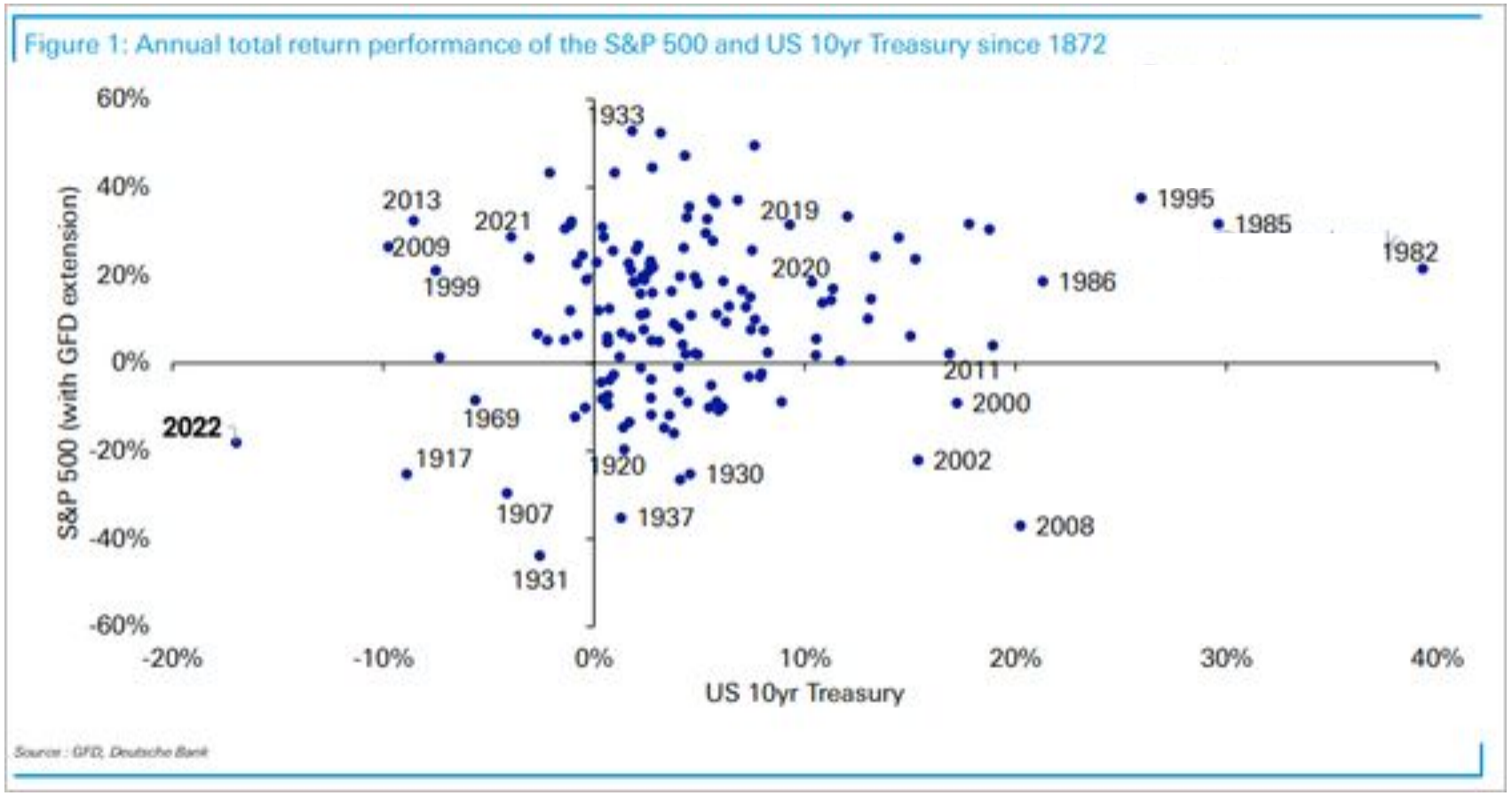
Both stocks and bonds down >15%, a first in 150 years



Past performance is no guarantee of future results

Source: Deutsche Bank Research, as of 01/05/2023

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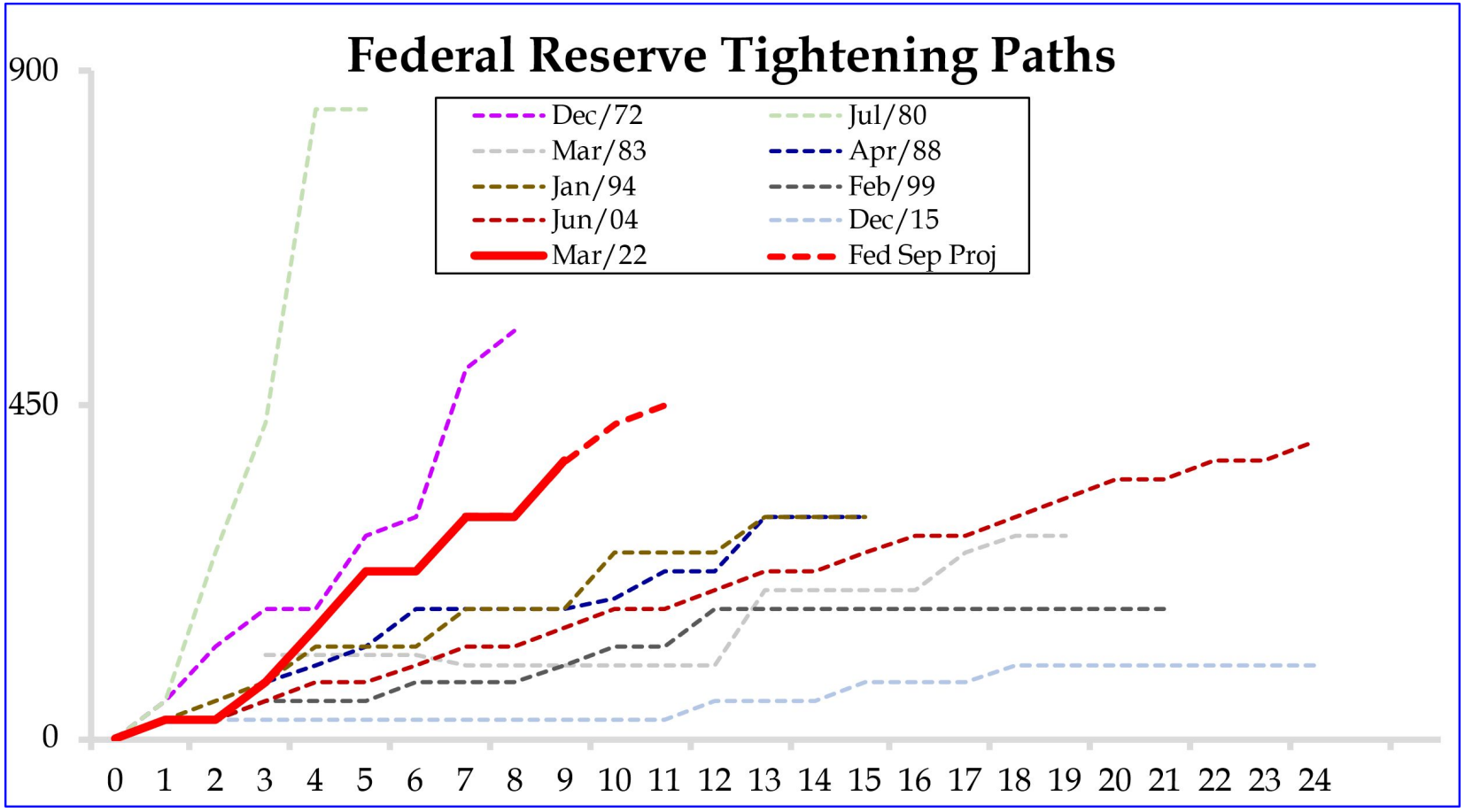
This downside was caused by the Fed's unusually aggressive rate hike campaign in 2022



Source: Strategas Research Partners Bloomberg, 10/27/2022

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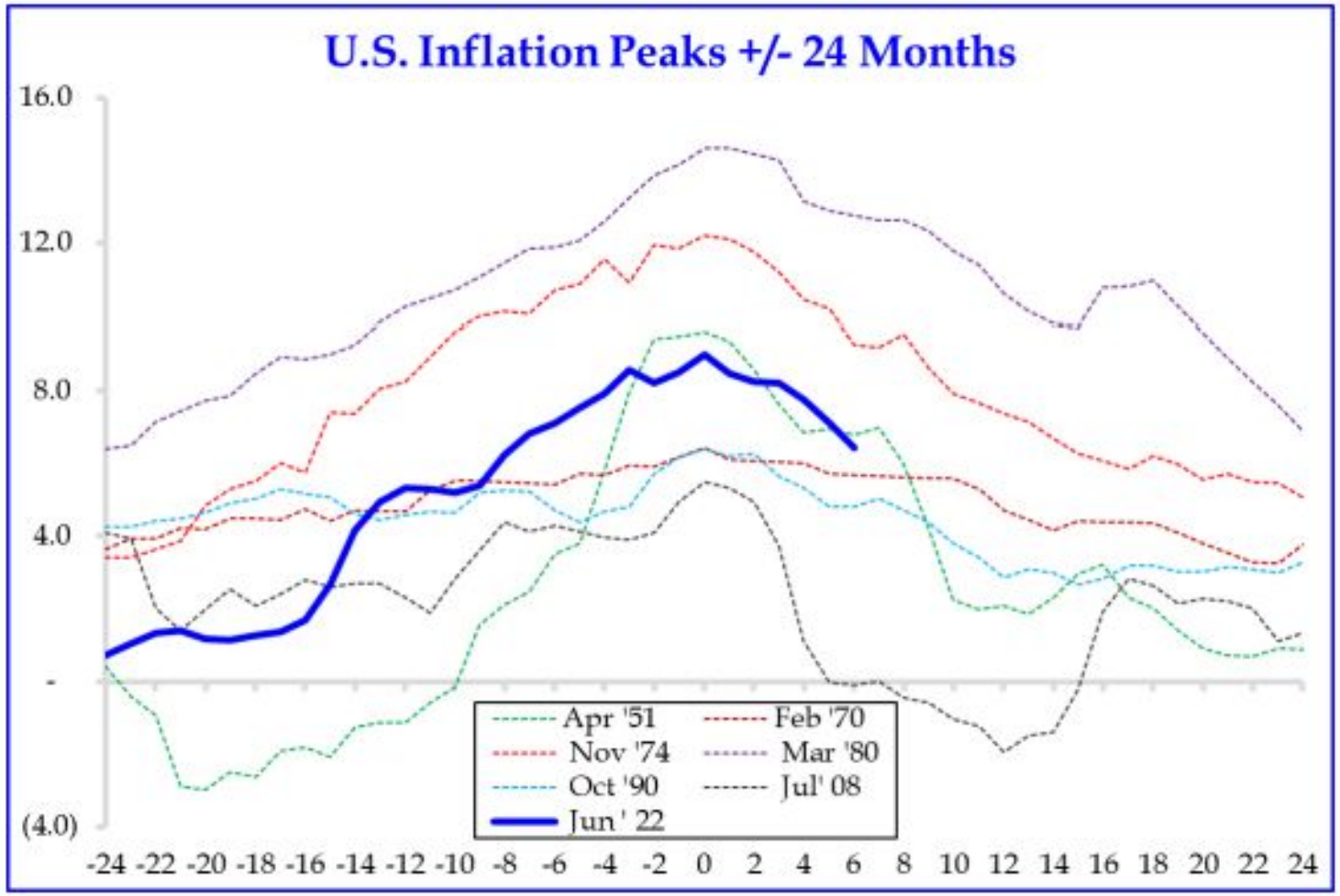
Which was induced by surging inflation. Historically, inflation seems to drop just as quickly



Source: Strategas as of December 2022

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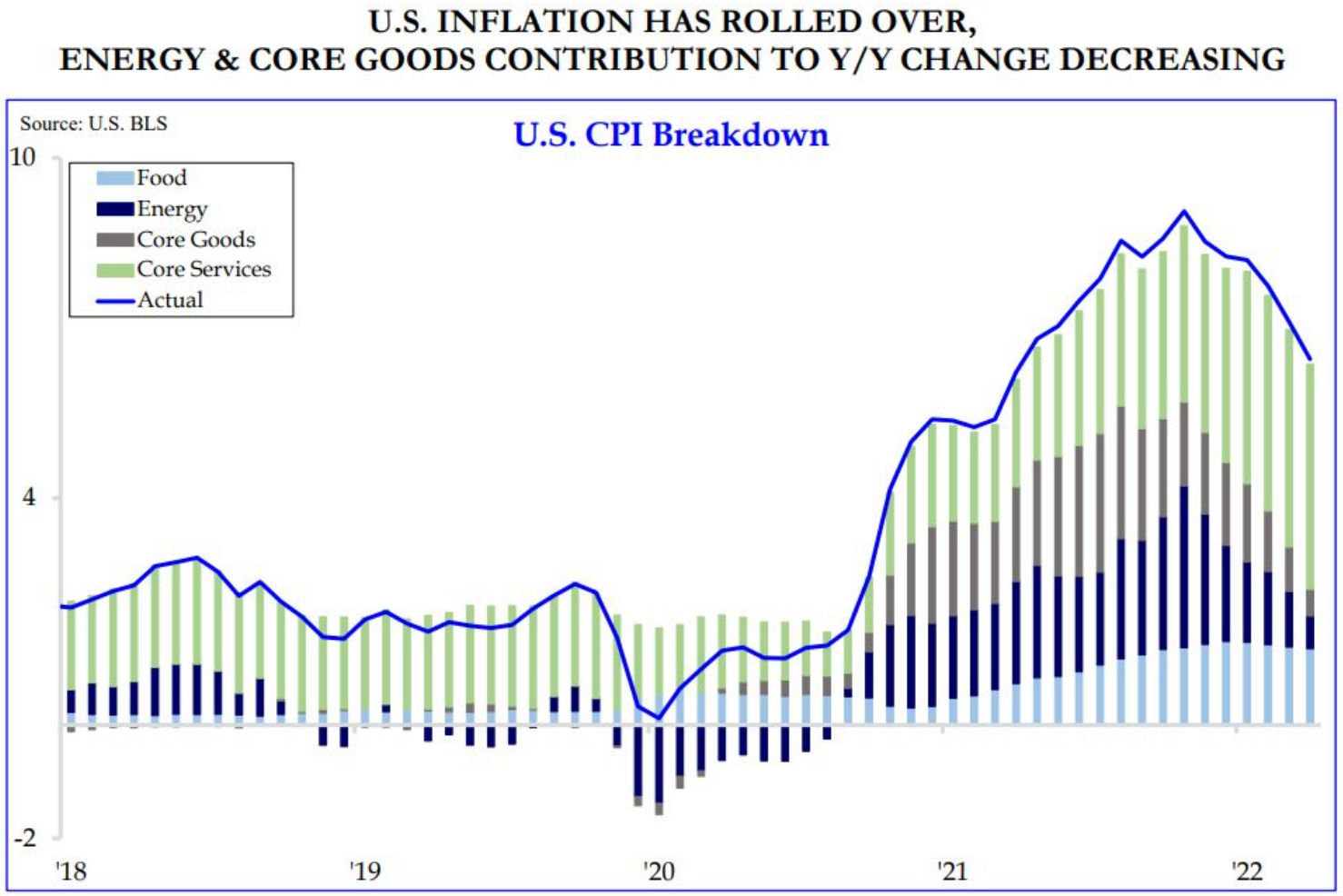
This can be seen in the inflation components



Source: Strategas Research Partners as of January 11, 2023

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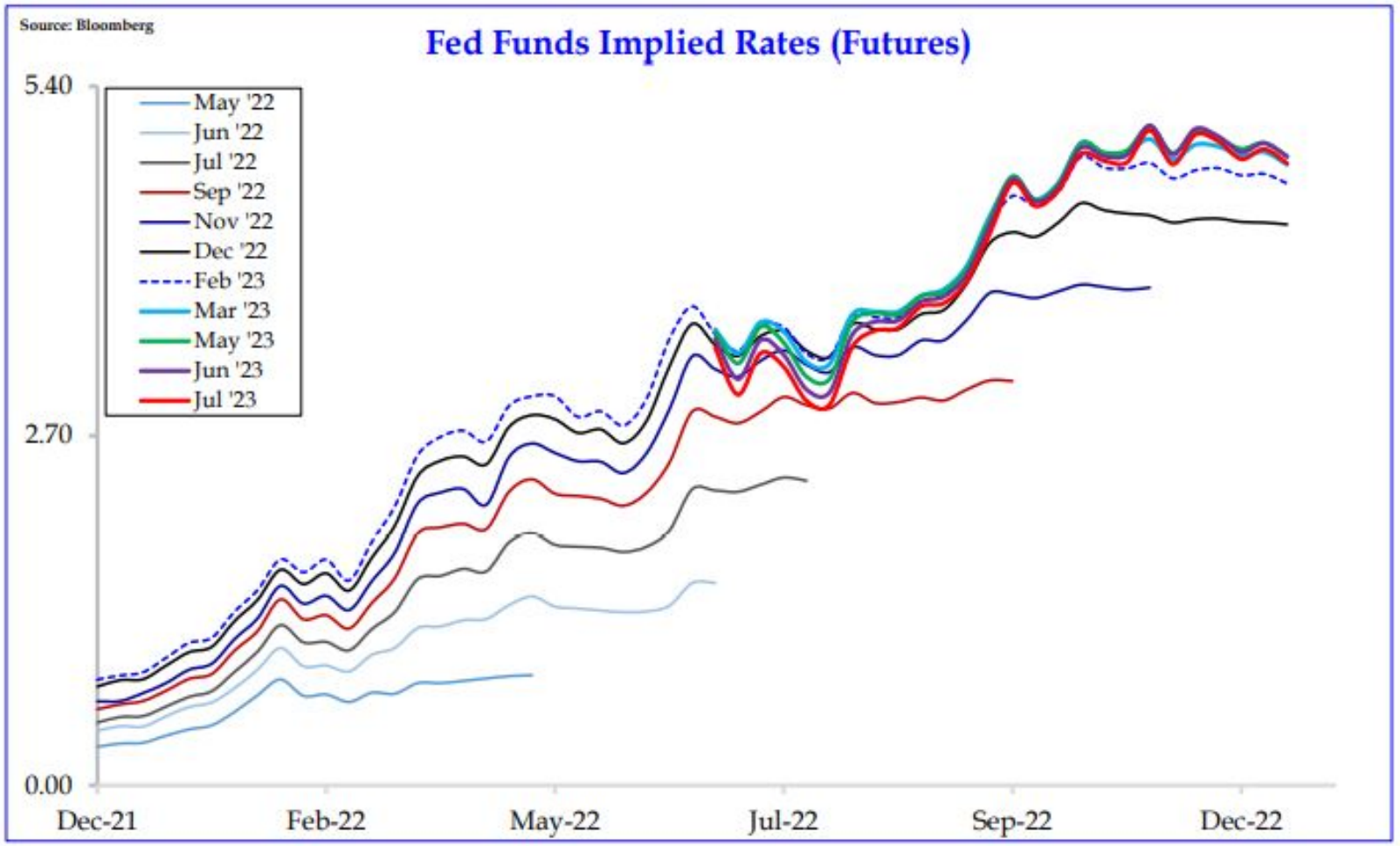
Peak Fed Funds Rate seems to be Imminent

DESPITE THE FED'S OWN PROJECTIONS (WHICH WENT UP) …
MARKET IMPLIED RATES FALLING AFTER THE FOMC MEETING



Source: Bloomberg, 12/16/2022

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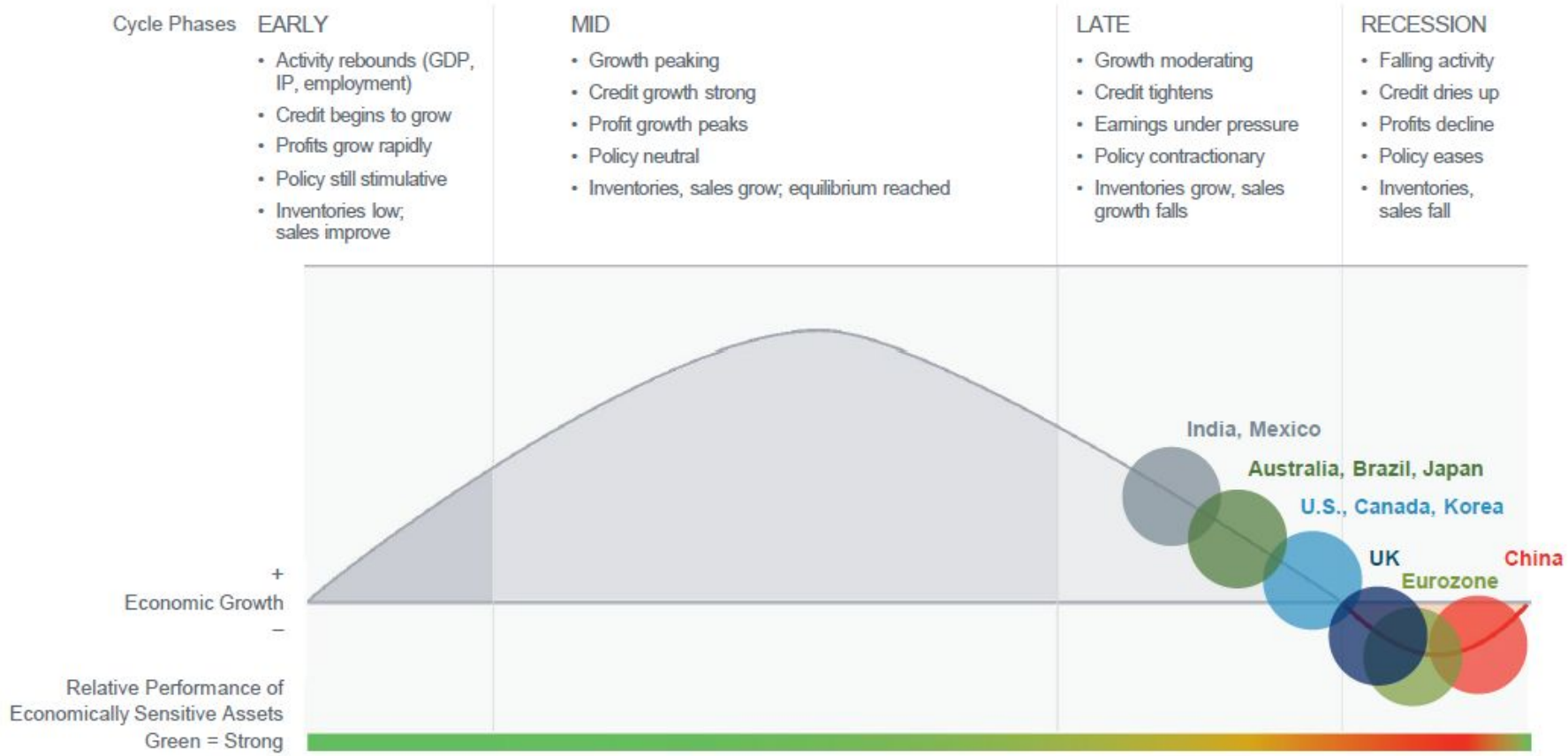
These rate hikes have put the U.S. economy solidly into late cycle with an increased chatter of potential recession

Business Cycle Framework



A growth recession is a significant decline in activity relative to a country's long-term economic potential. Note: The diagram above hypothetical illustration of the business cycle, the patter et returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one.

Source: Fidelity Investments (AART), as of 12/31/22

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Yes, sentiment has not been great for consumers, yet they continue to spend

U.S. CONSUMER SENTIMENT SURVEYS WEAK, BUT REAL CONSUMER SPENDING STILL NOT RECESSIONARY

Source: Strategas as of December 2022

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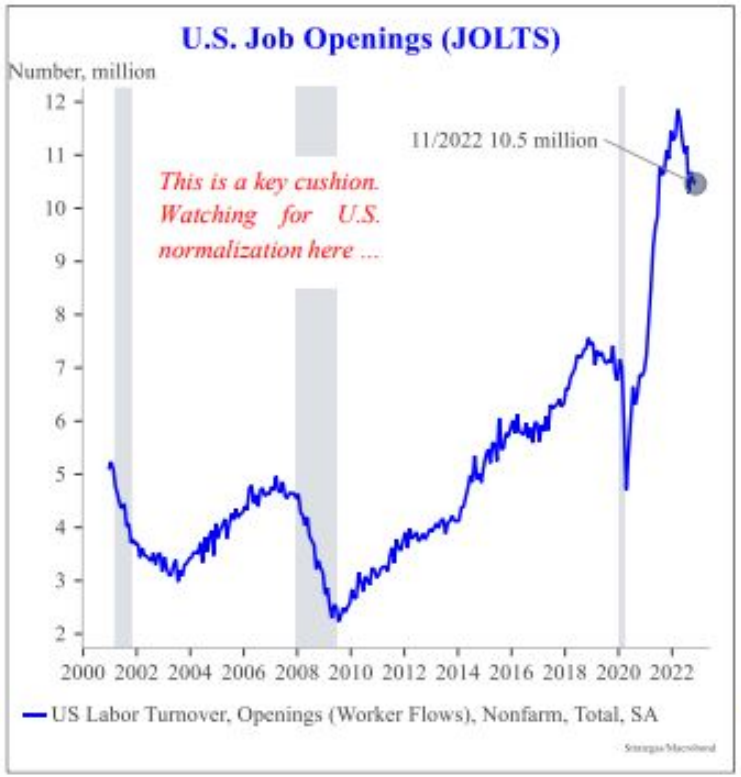
The strong labor market has certainly helped

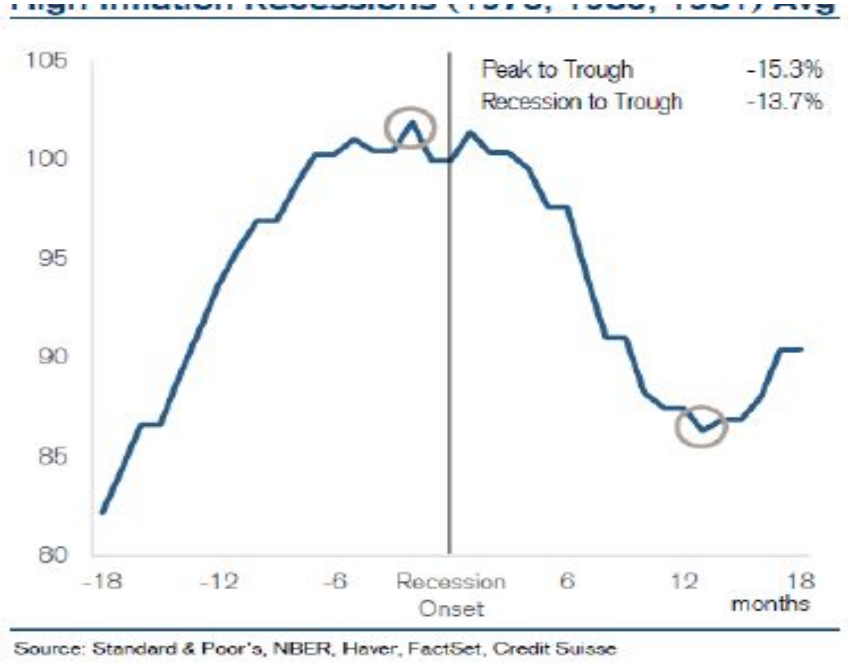
A LOT OF HOPE HINGES ON THIS GAP…
THE FED'S PLAN IS STILL TO DISMANTLE JOB OPENINGS BEFORE JOBS

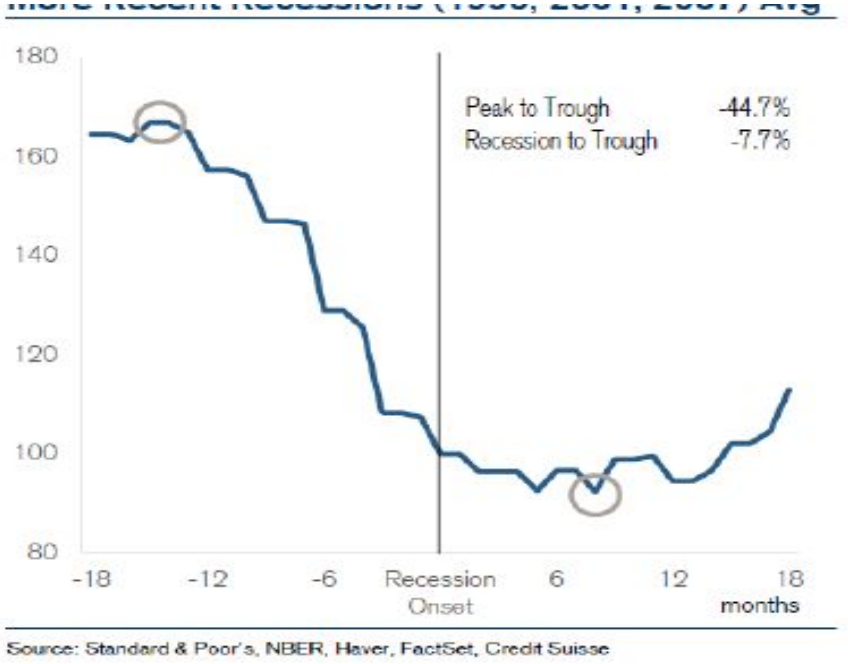


Source: FRED, 01/06/2023

High Inflation Recessions have been “different”

Earnings have been stronger in a high inflation recession





Source: FactSet

Even if Earnings Do Drop, the Market May Not Follow

Figure 1: Earnings Down, Stocks Up, Not a Rarity – 2023 Blueprint

Source: Bloomberg, Evercore ISI Research

Past performance is no guarantee of future results

Source: Bloomberg, Evercore ISI as of January 6, 2023

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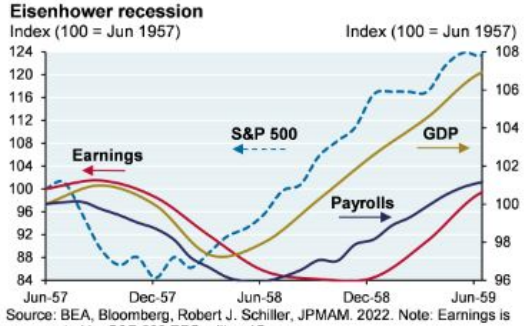
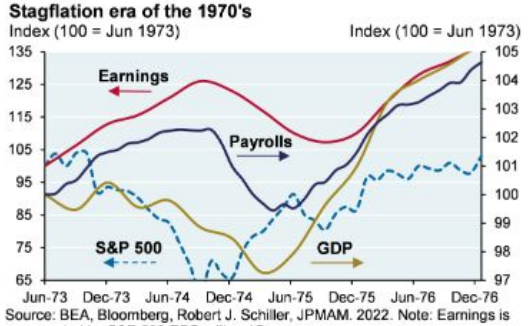
Historically, Equity markets bottom before anything else

Historical order of Bottoming

1. Equity Markets
2. GDP
3. Payrolls
4. Corporate Earnings



Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.



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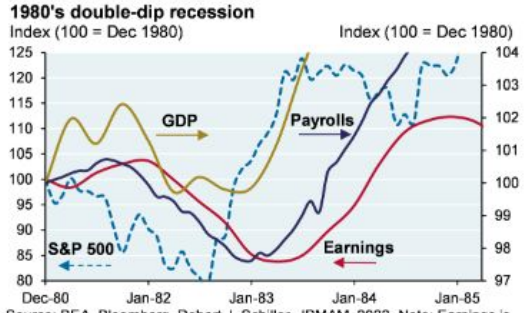

Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

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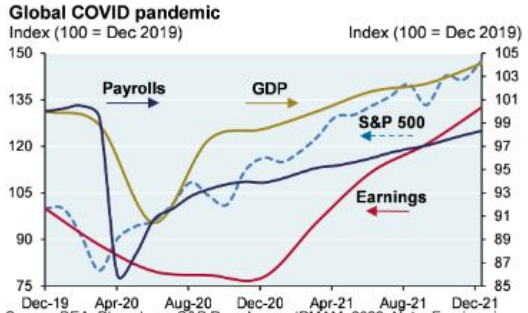

Source: BEA, Bloomberg, S&P Dow Jones, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund.

Source: JP Morgan as of 10/21/2022.

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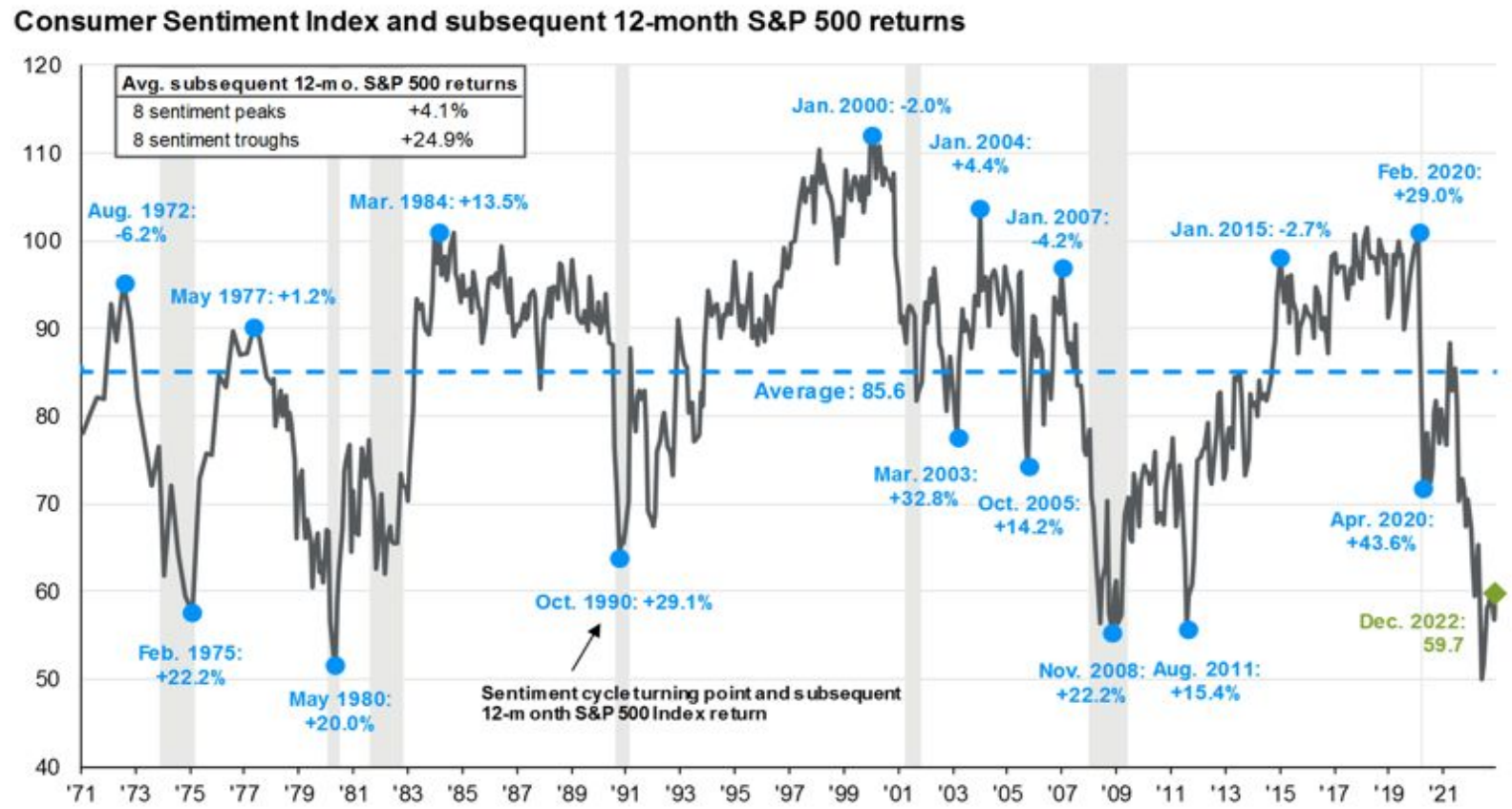
Consumer Confidence bottoming has been good for the stock market



Source: FactSet, Standard & Poor's, University of Michigan, J.P. Morgan Asset Management.
Peak is defined as the highest index value before a series of lower lows, while a trough is defined as the lowest index value before a series of higher highs. Subsequent 12-month S&P 500 returns are price returns only, which excludes dividends. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of December 31, 2022.

ASSET MANAGEMENT

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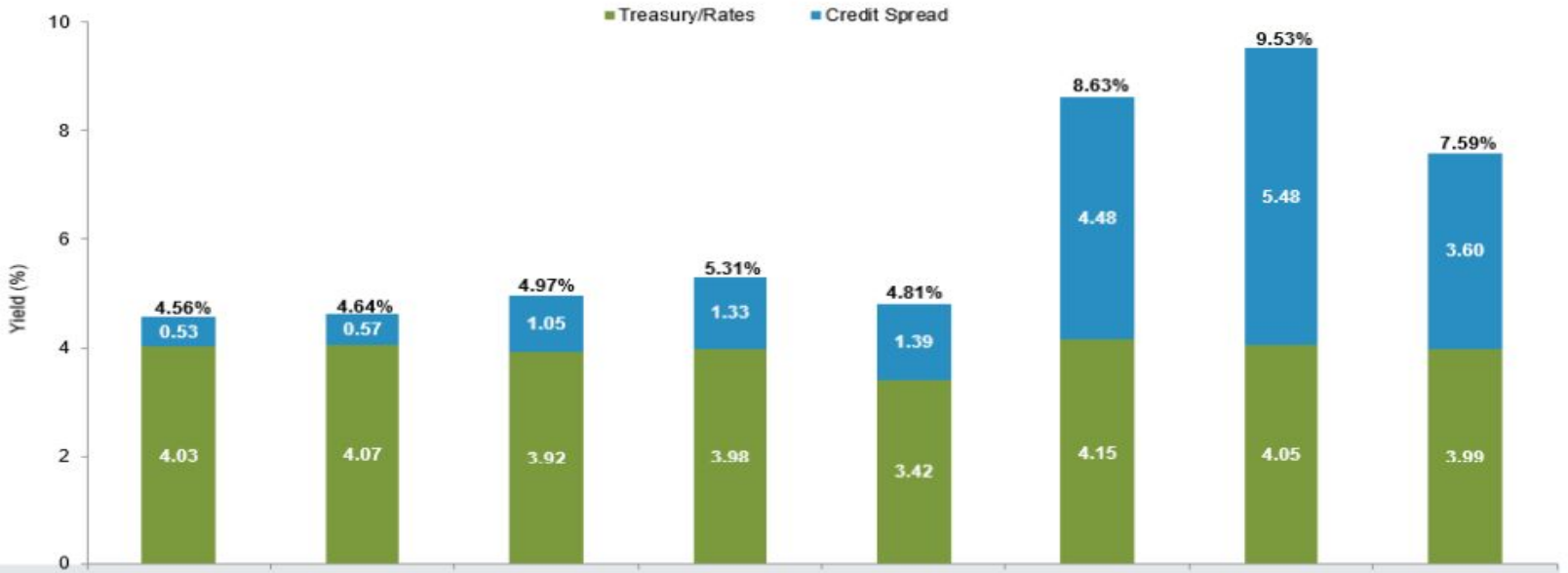
More opportunities in fixed income

Fixed Income Yields and Spreads

Percentiles and OAS



Percentile Rank	U.S. Aggregate	Securitized	Local Authorities	U.S. Corp IG	International Credit	U.S. Corp HY	Lev Loan	EMD
Yield Rank	98	96	97	95	95	85	96	95
Spread Rank	57	73	30	48	64	45	73	70

Percentile ranks based on month-end data from January 2009 – November 2022

Source: Bloomberg and S&P, as of 11/30/2022.
Note: Leveraged Loan is based on YTM (yield to maturity) and Spread to Maturity. The green portion of leveraged loan represents London Interbank Offered Rate (LIBOR). All others use YTW (yield-to-worst) and OAS (option-adjusted-spread). Yields and spreads are represented by the Bloomberg U.S. Aggregate Bond Index, Bloomberg U.S. Securitized Index, Bloomberg U.S. Aggregate Local Authorities Index, Bloomberg Corporate Investment Grade Index, Bloomberg Global Credit Index, Bloomberg U.S. Corporate High Yield Index, S&P/LSTA Leveraged Performing Loan Index, and Bloomberg Emerging Markets USD Aggregate Index. It is not possible to invest directly in an index. All market indices are unmanaged. Not intended to represent the performance of any Fidelity fund.

Source: Bloomberg as of 11/30/2022

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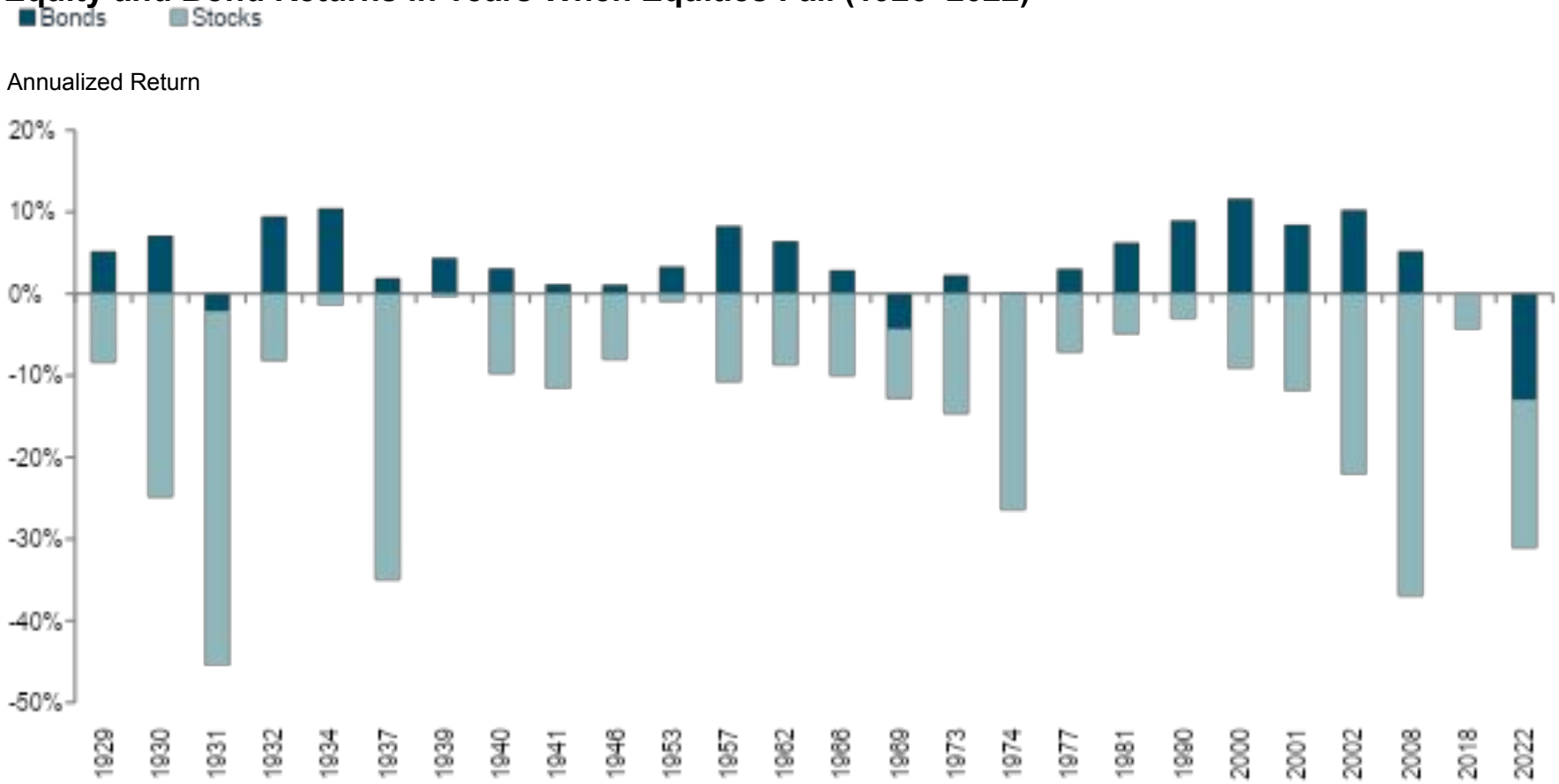
Revisit the construction of the 60/40 portfolio

In 2022, broad measures of the two largest U.S. asset categories – large-cap stocks and investment-grade bonds – both posted double-digit losses for the first time in modern history (since 1926). Historically, the bond market often registered a gain during the calendar years that equity prices declined, making 2022 the most challenging year in history for portfolio diversification.

Equity and Bond Returns in Years When Equities Fall (1926–2022)



Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against a loss. Fidelity Investments proprietary analysis of historical asset class performance is not indicative of future performance. U.S. large cap stocks represented by the S&P 500 index and Investment Grade Bonds represented by the Bloomberg US Aggregate Bond Index

Source: Fidelity Investments (AART), Haver Analytics, as of 12/31/22.

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Thank you

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