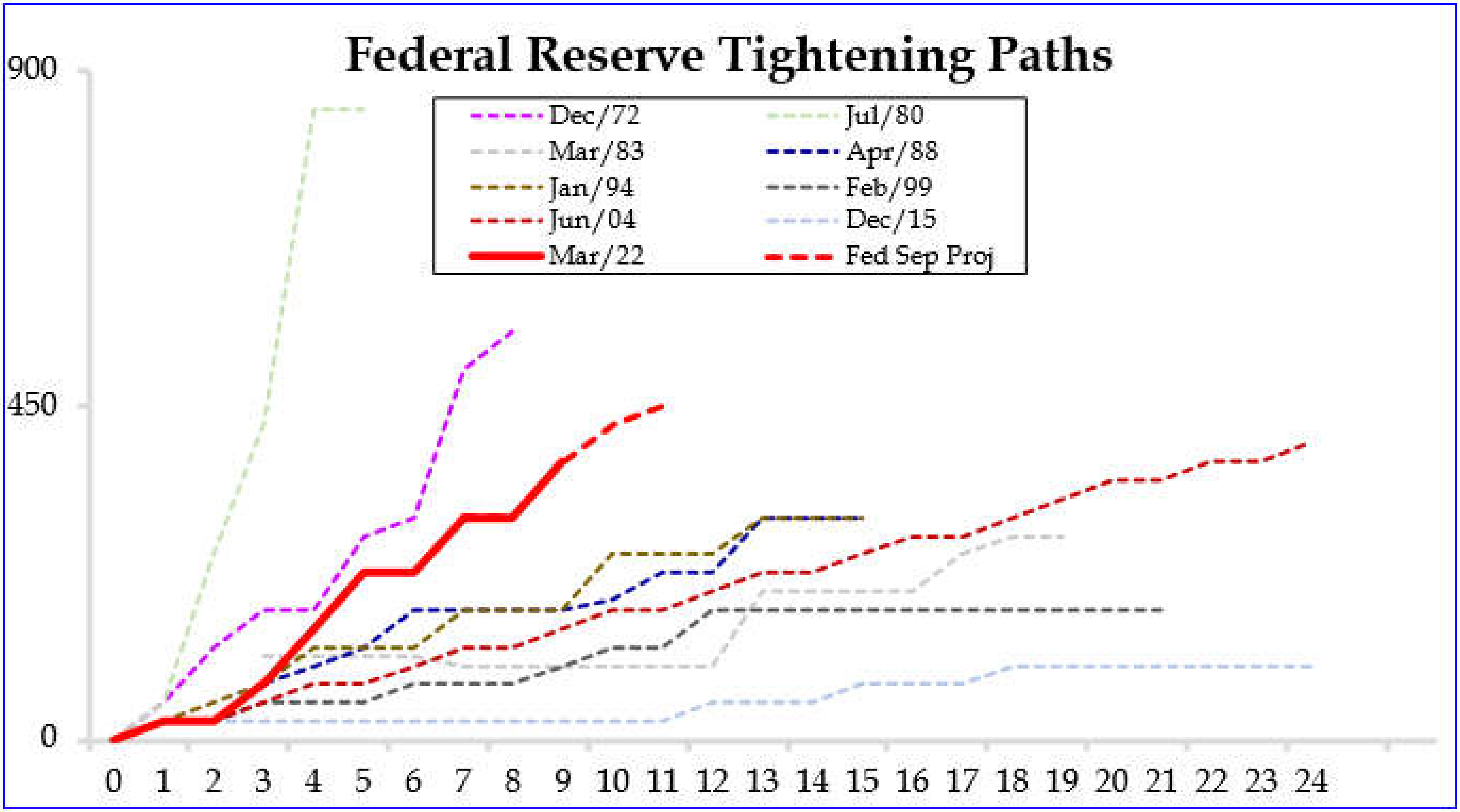
FIDELITY INSTITUTIONAL®

Investment Themes

Still waiting on what breaks first – the Economy or Inflation?

Spring 2023

The Fed's rate hike campaign has been unusually aggressive in its effort to weaken the economy and bring down inflation

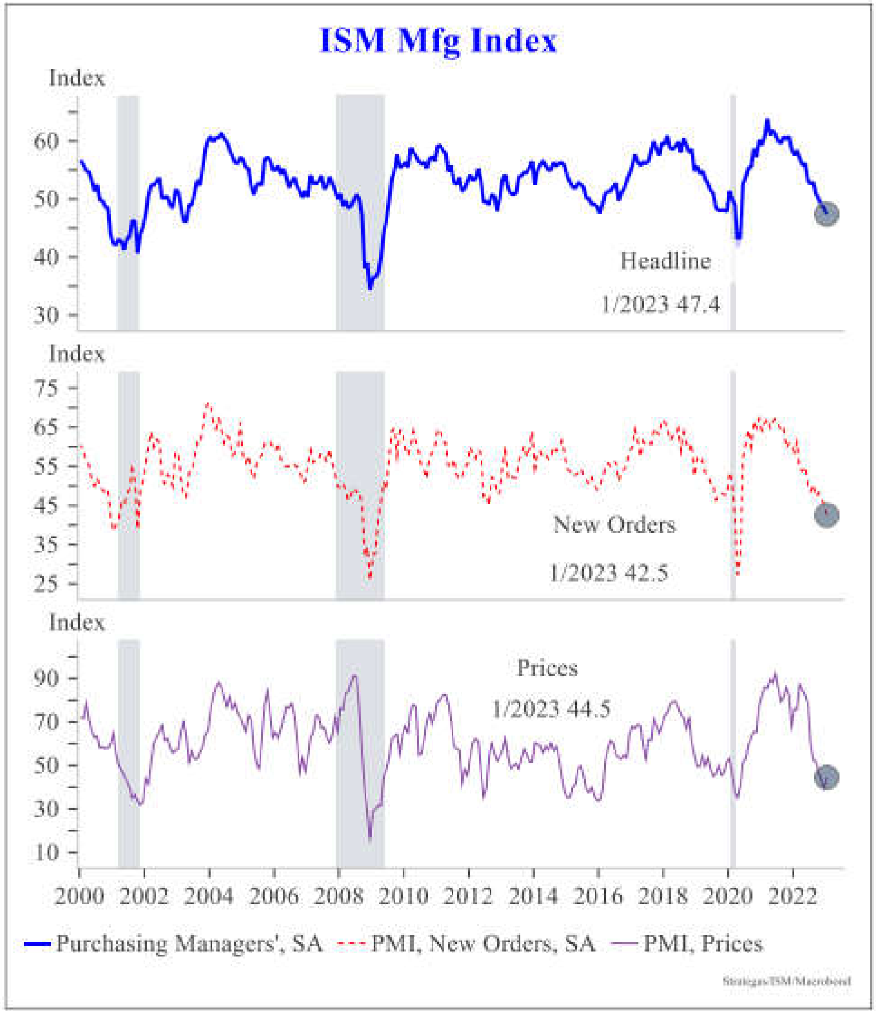


Source: Strategas, 02/14/2023

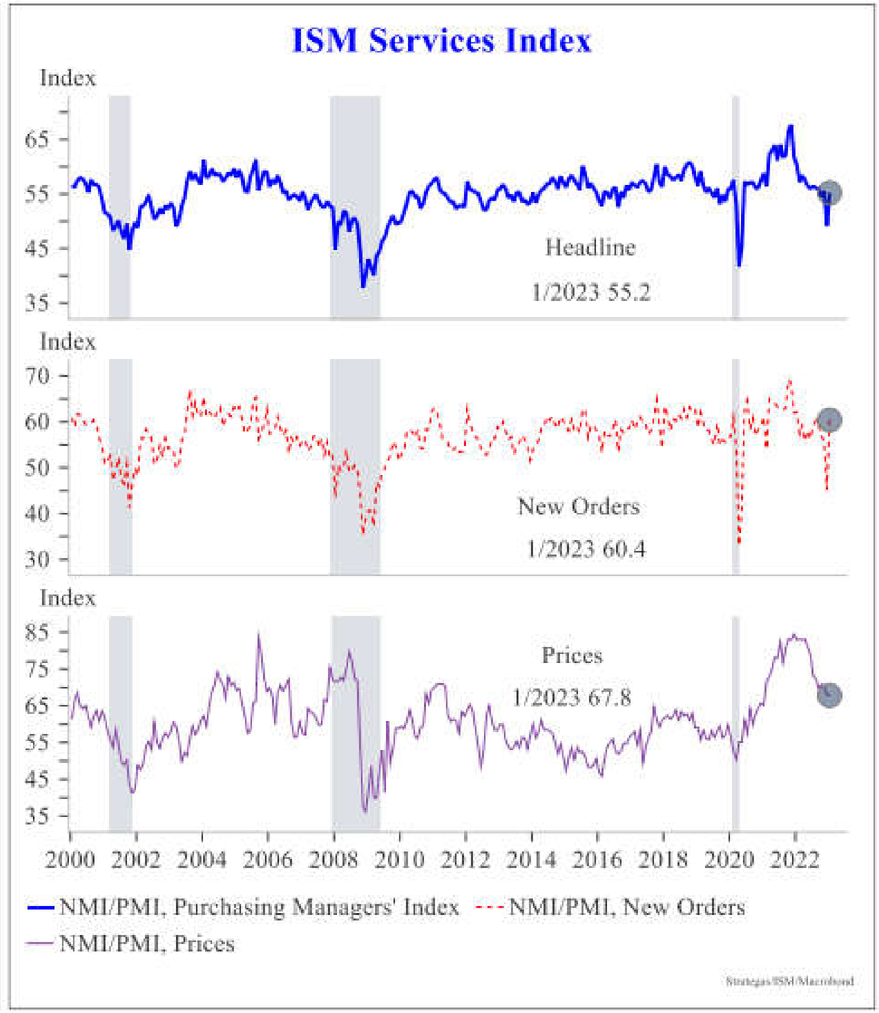
 For Investor Use

The Fed's actions have slowed down activity on the business side significantly

Manufacturing

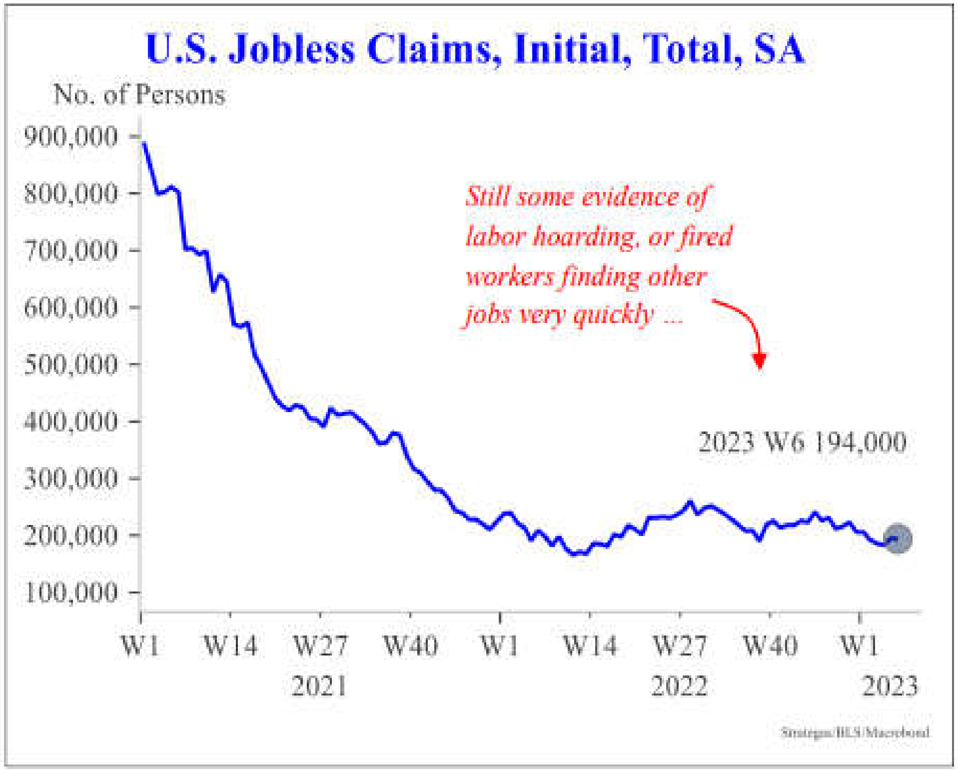


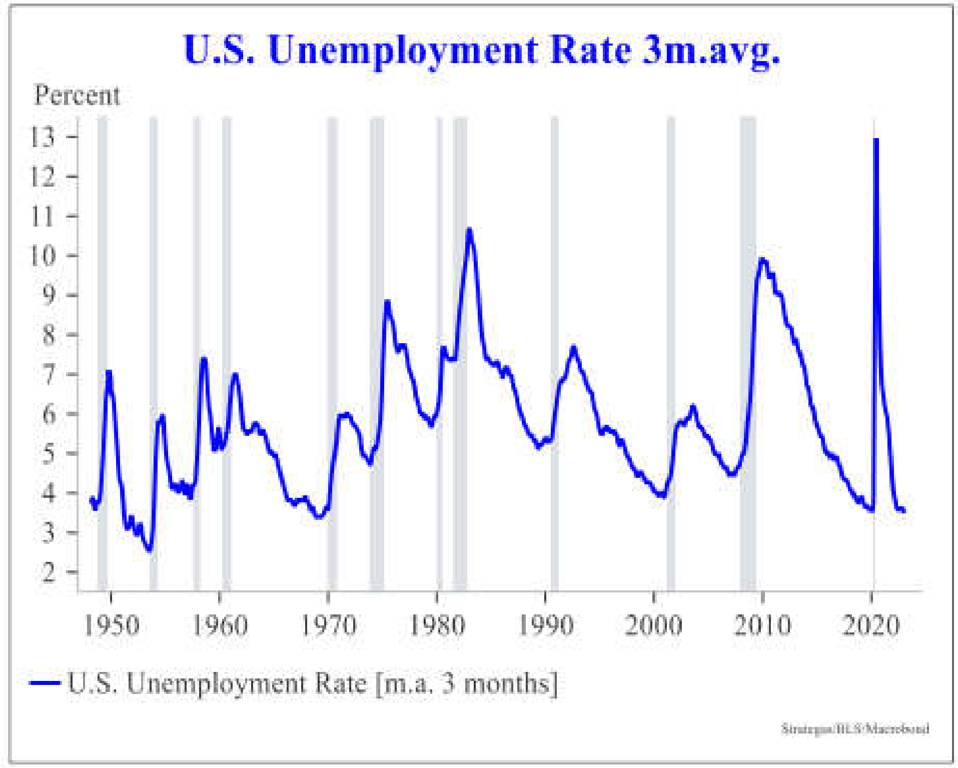
Services



Source: Strategas Research as of February 3, 2023

While the U.S. consumer has been supported by a very strong labor market



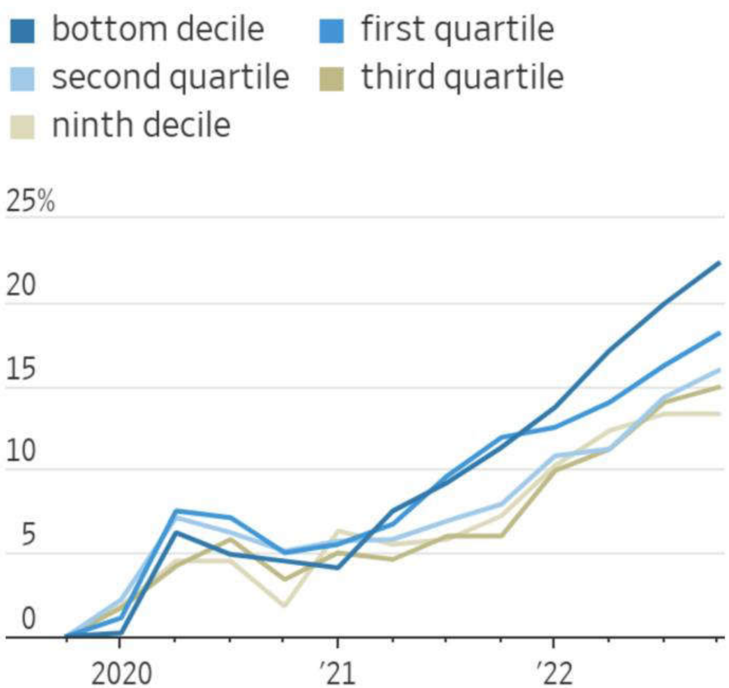


Source: Left: Strategas as of 02/16/23, Right: Strategas as of 02/06/2023

Which has contributed to better wages and higher net worth

Weekly Earnings

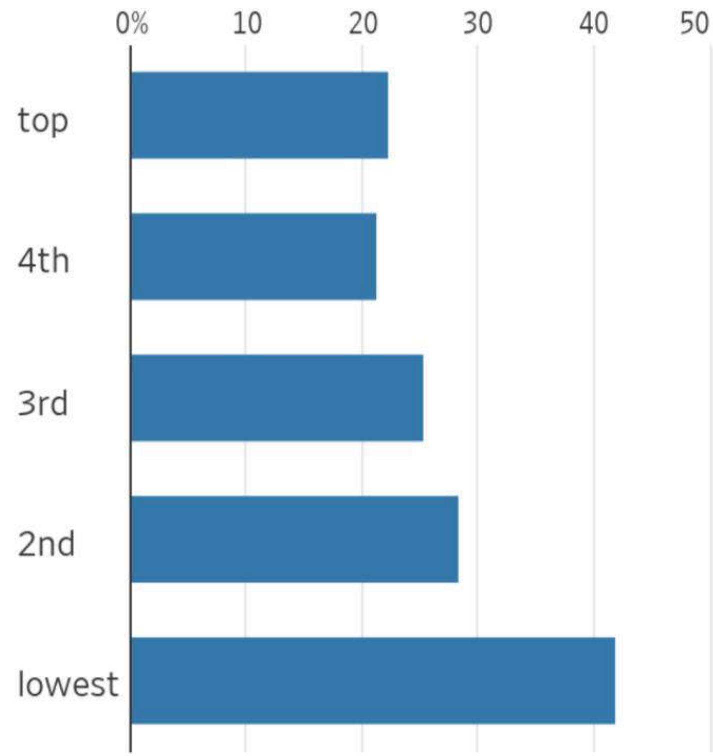
Change in usual weekly earnings since 4Q 2019



Note: Reflects upper limit of earnings of full-time wage and salary workers in each group
Source: Labor Department

Net Worth

Change in household net worth by income quintile, 4Q 2019 to 3Q 2022



Source: Federal Reserve

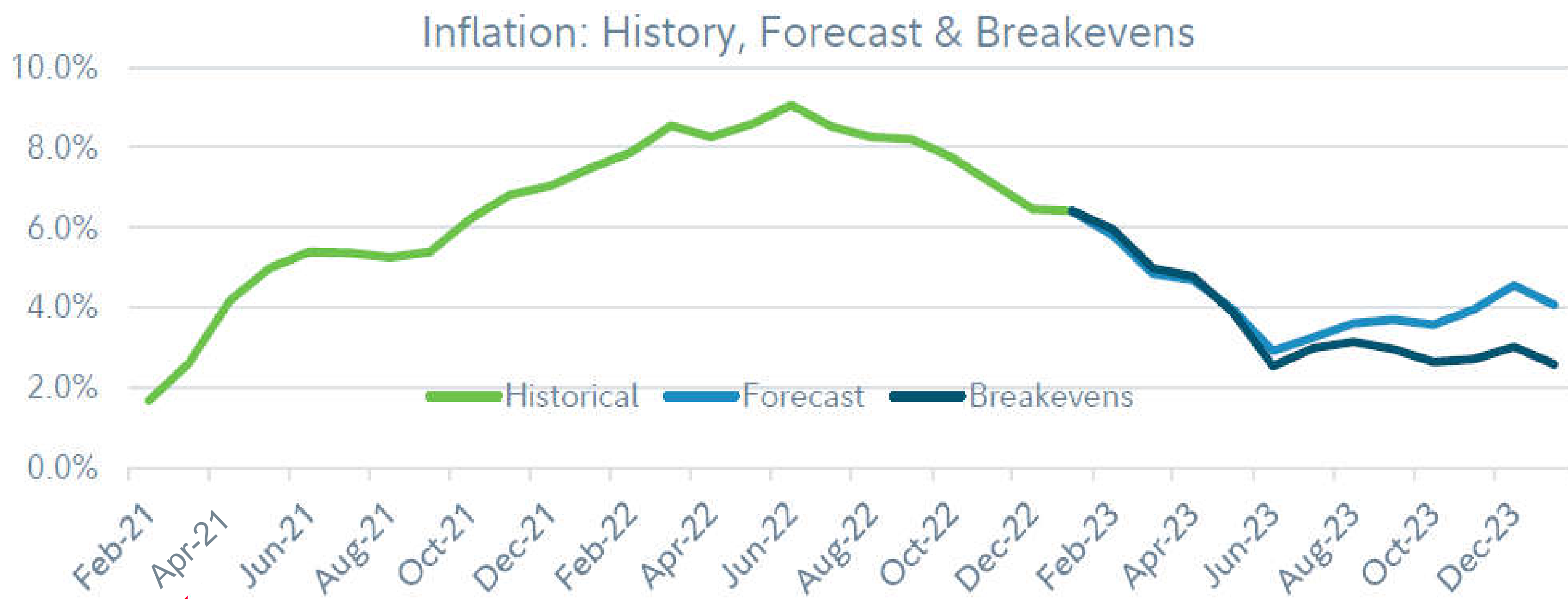
Source: Left: Bureau of Labor Statistics as of 12/31/2022, Right: Federal Reserve as of 09/30/2022

Translating into a stronger level of consumption

Real Personal Consumption Expenditures

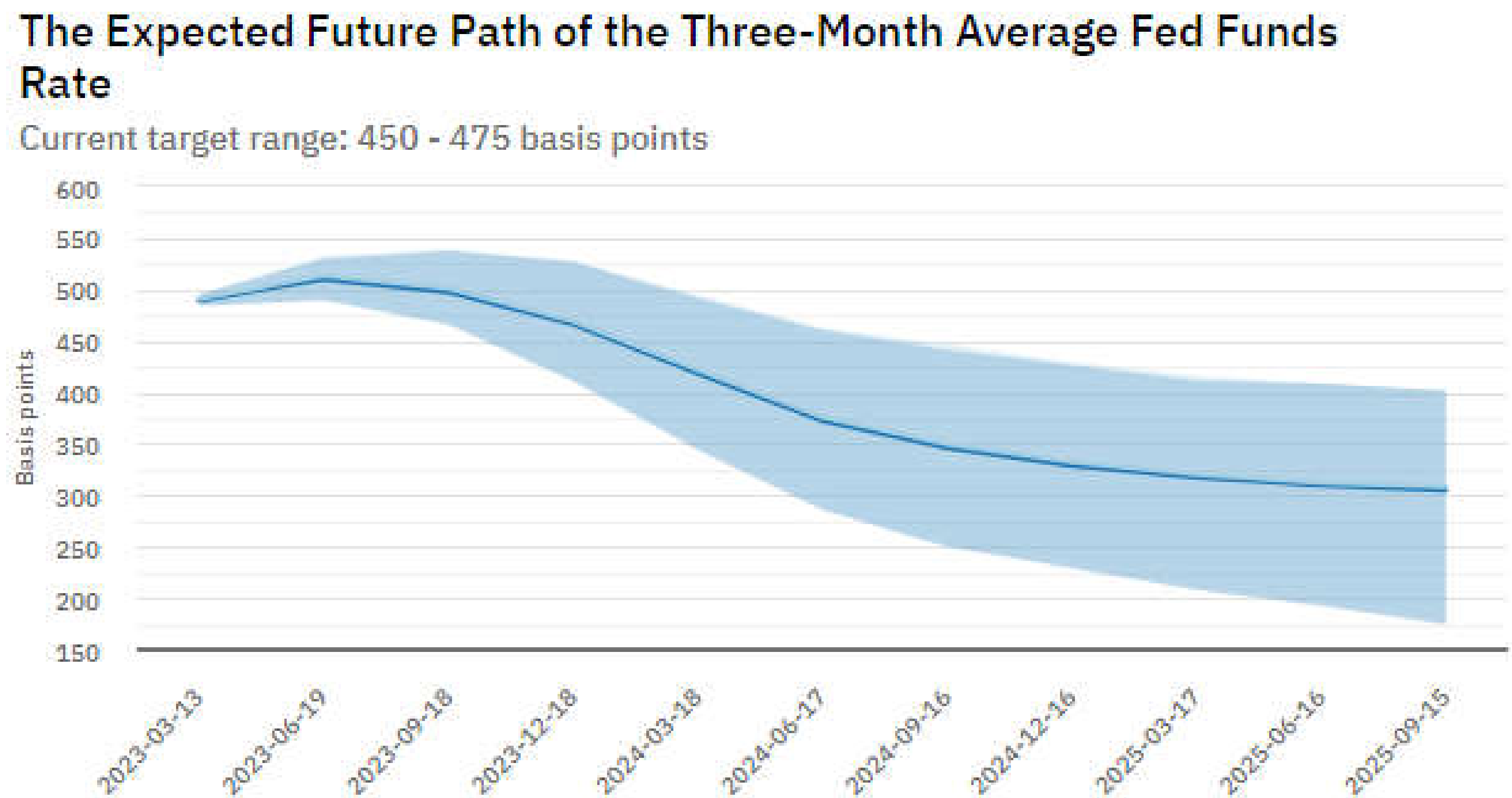
Source: Federal Reserve Bank of St. Louis, December 2022

Inflation has probably peaked, but is likely to remain elevated at a higher level than the market expects



CPI: Consumer Price Index. Commodity prices are represented by the Bloomberg Commodity Index (BCOM) and their hypothetical changes over the next year are assumed to occur equally throughout the year. Source: Bureau of Labor Statistics, Bloomberg, Haver Analytics, Fidelity Investments (AART), as of 02/16/23.

With CPI remaining higher and the economy being resilient, the Fed is expected to raise rates further



Source: Atlanta Fed, as of 02/13/2023

U.S. is currently in late cycle and a recession this year appears increasingly likely

Business Cycle Framework

Cycle Phases

EARLY
- Activity rebounds (GDP, IP, employment)
- Credit begins to grow
- Profits grow rapidly
- Policy still stimulative
- Inventories low; sales improve

MID
- Growth peaking
- Credit growth strong
- Profit growth peaks
- Policy neutral
- Inventories, sales grow; equilibrium reached

LATE
- Growth moderating
- Credit tightens
- Earnings under pressure
- Policy contractionary
- Inventories grow, sales growth falls

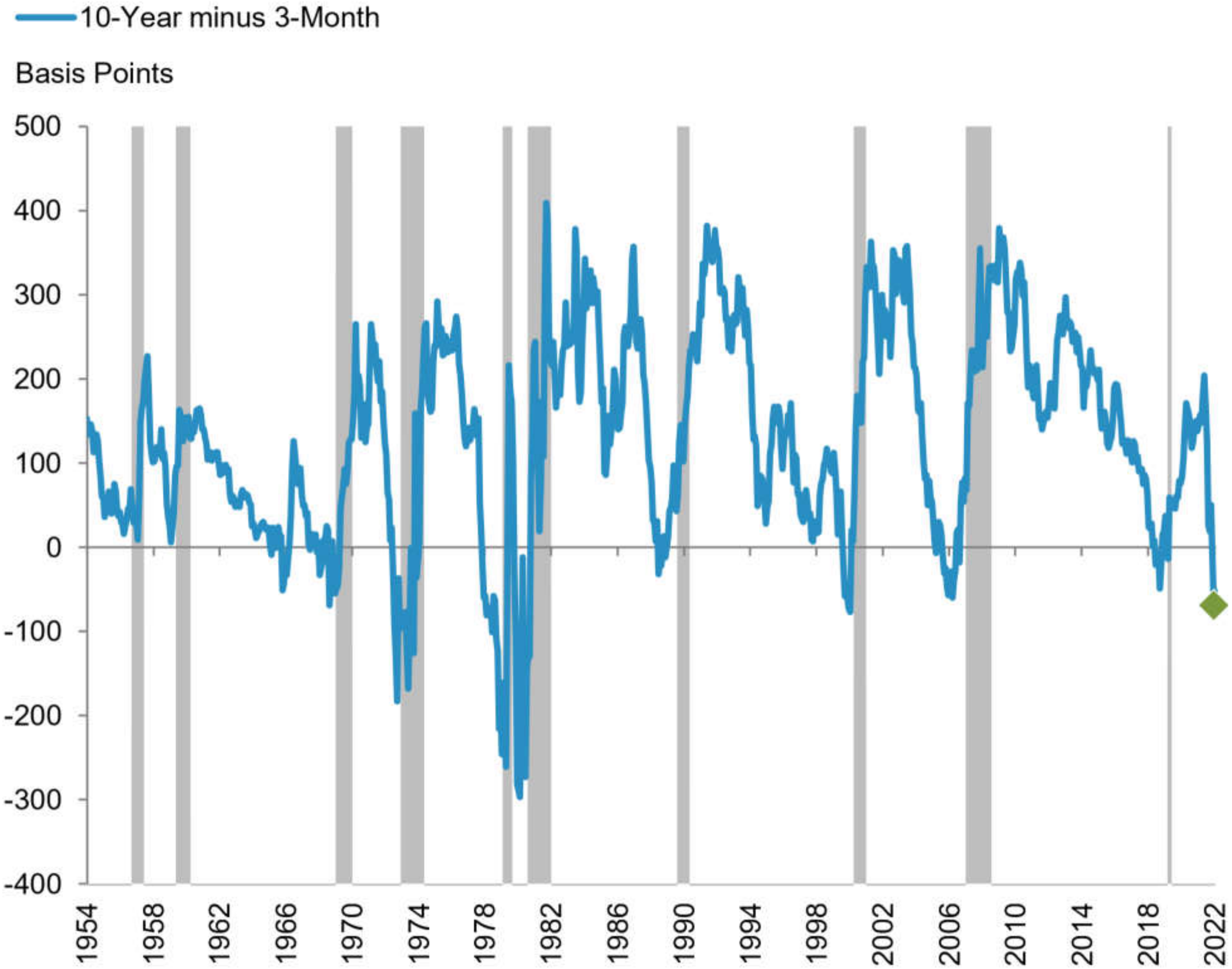
RECESSION
- Falling activity
- Credit dries up
- Profits decline
- Policy eases
- Inventories, sales fall

A growth recession is a significant decline in activity relative to a country's long-term economic potential. Note: The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset 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.

As the Yield Curve has inverted

Treasury Yield-Curve Spread



Yield-Curve Inversions since 1950 (10-year minus 3-month)

Occurred before the last 8 recessions

Occurred twice without a recession (1966,1998)

Peak inversion ranged from 35 to 373 basis points

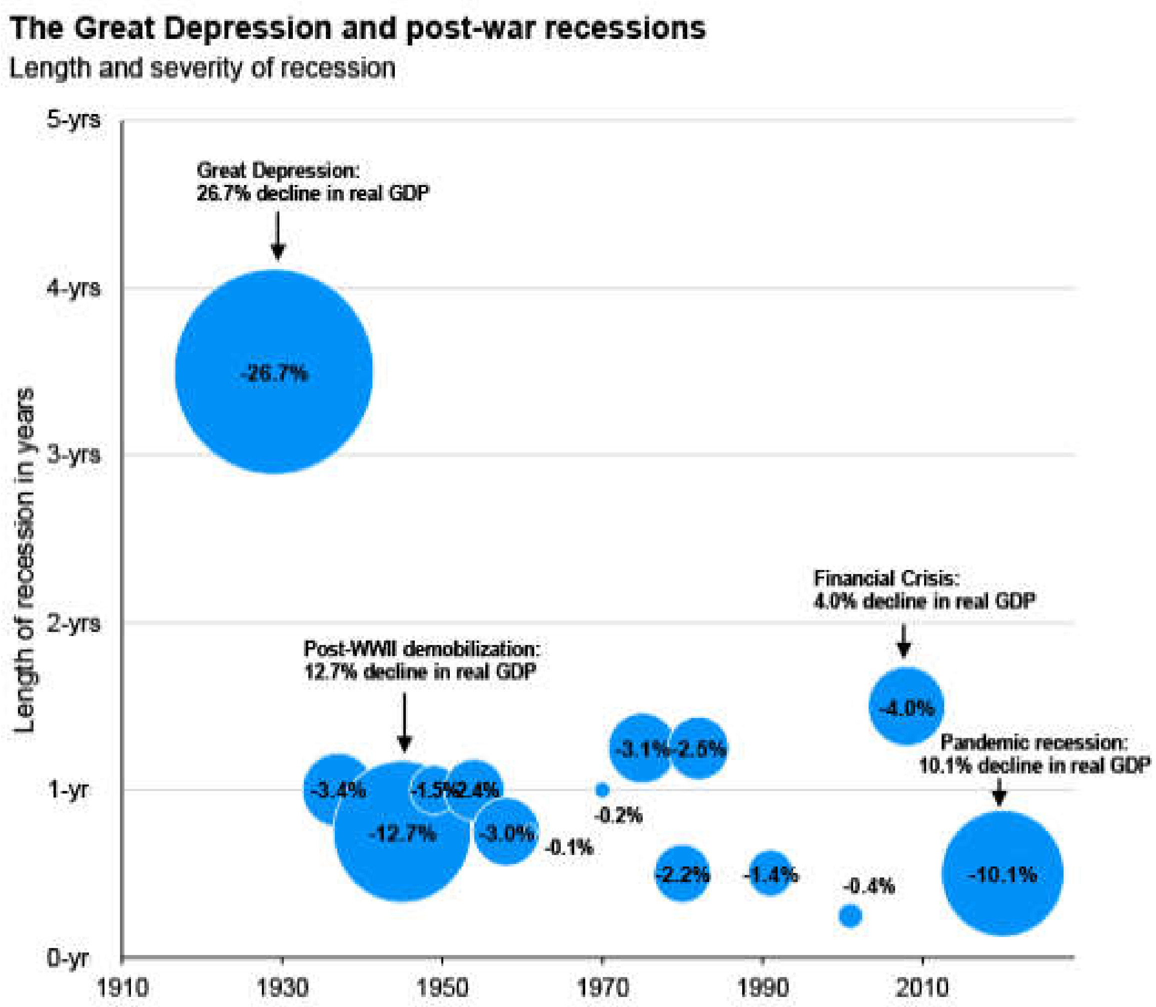
Recessions started 4 to 21 months after, averaging ~1 year

-53 bps
as of 12/31/22

Source: U.S. Federal Reserve Board, NBER, Haver Analytics, Fidelity Investments (AART), as of 12/31/22.

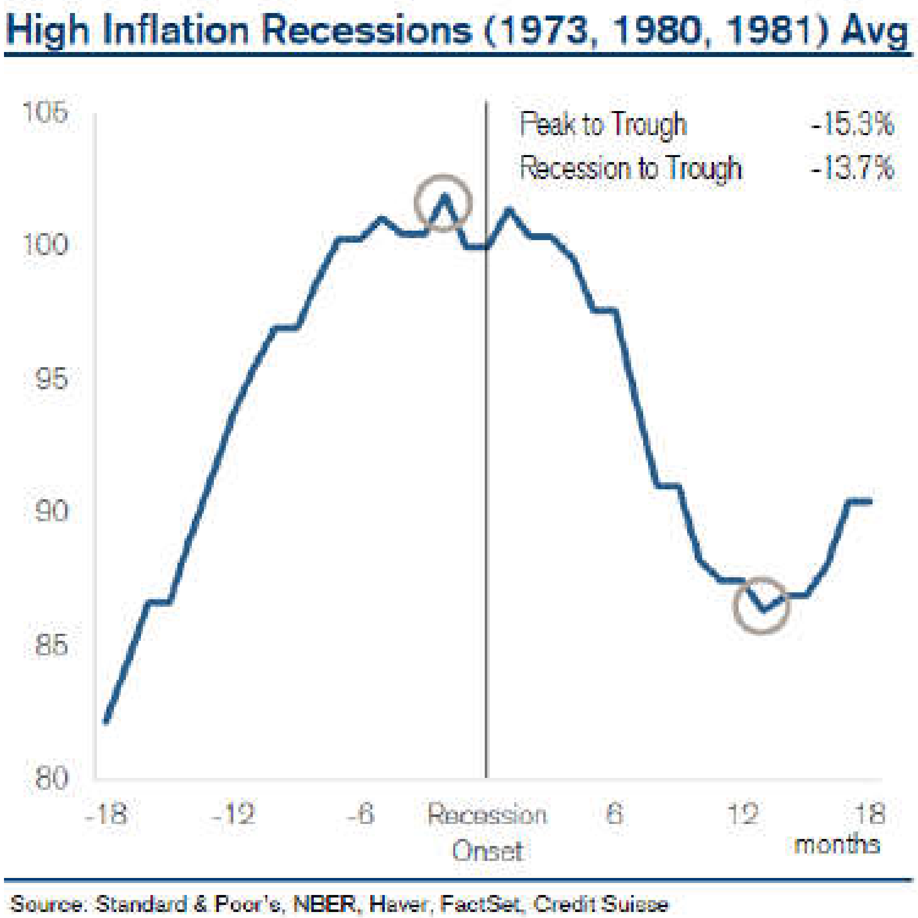
Given the increasing likelihood of a recession, let's examine briefly what one could expect

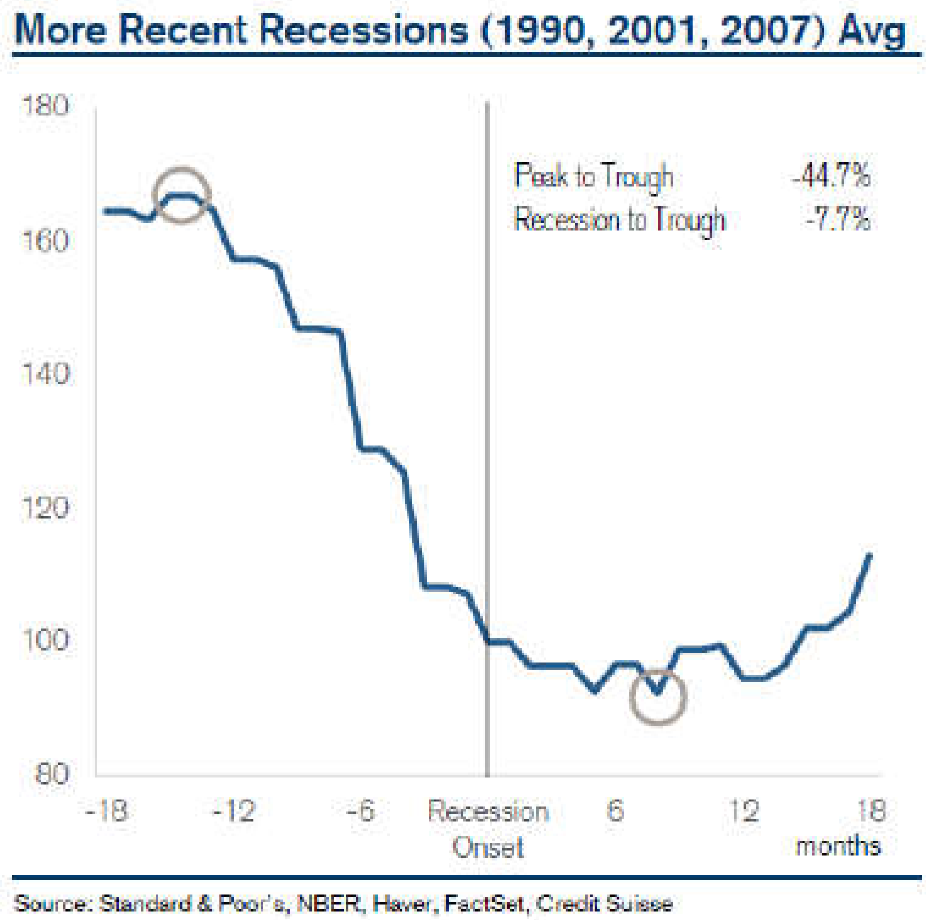
If we do go into a recession, the last two ones are probably the wrong comparisons (a milder one appears more likely)



Source: J.P. Morgan Asset Management, as of 08/31/22

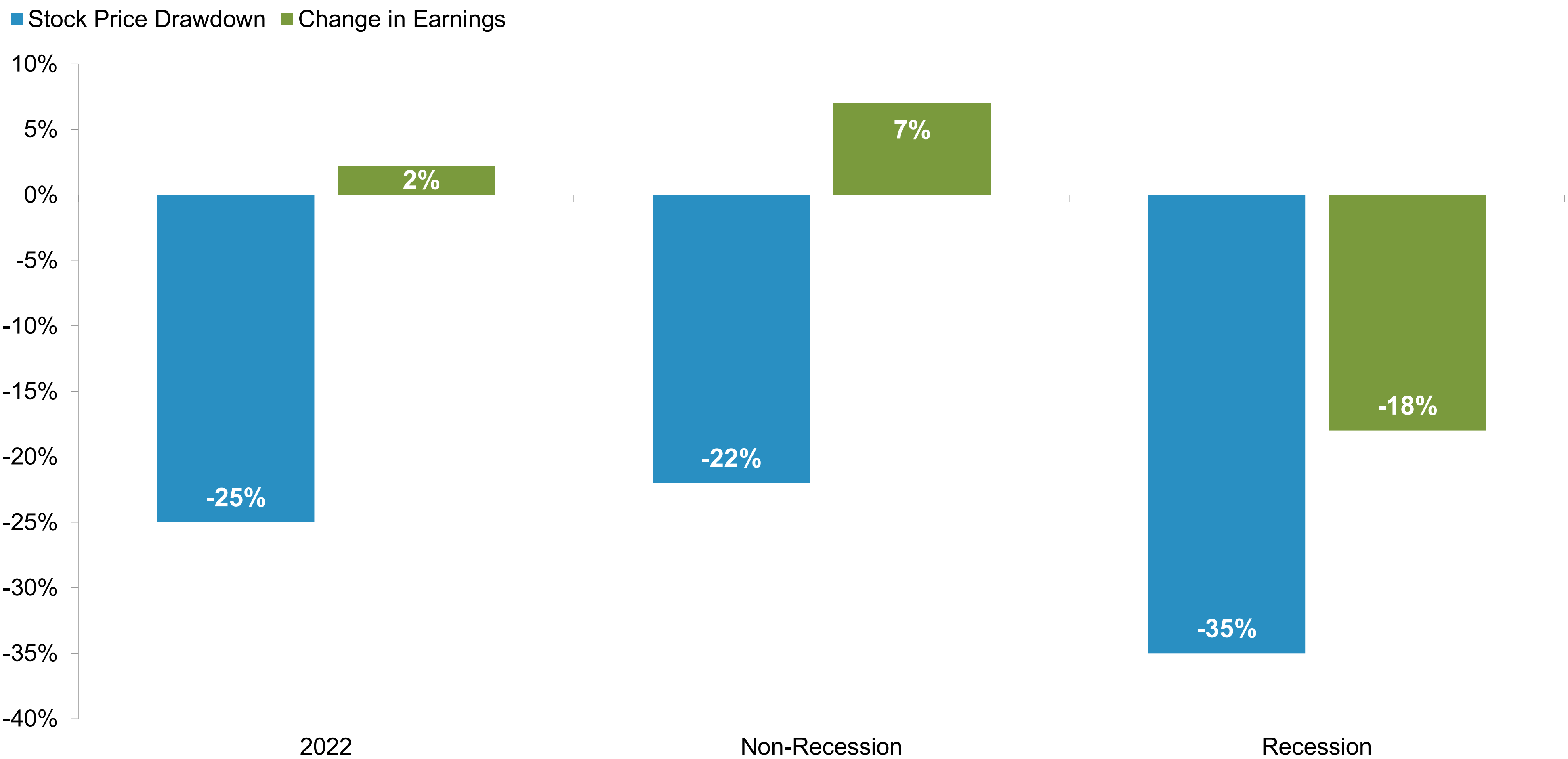
Fortunately, corporate profits have declined a lot less during recessions in times of high inflation





Source: Credit Suisse, as of 08/25/22.

From an equity market perspective, the average drop is larger than the one we have already experienced

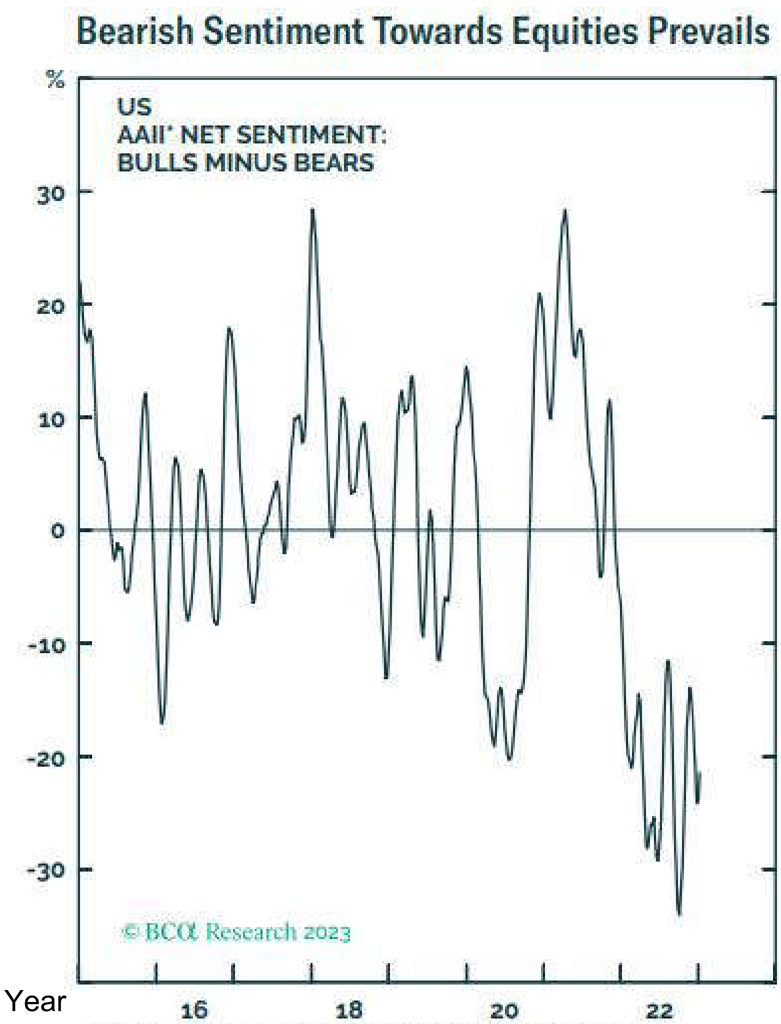


Past performance is no guarantee of future results. It is not possible to invest directly in an Index. Index performance is not meant to represent that of any Fidelity mutual fund.

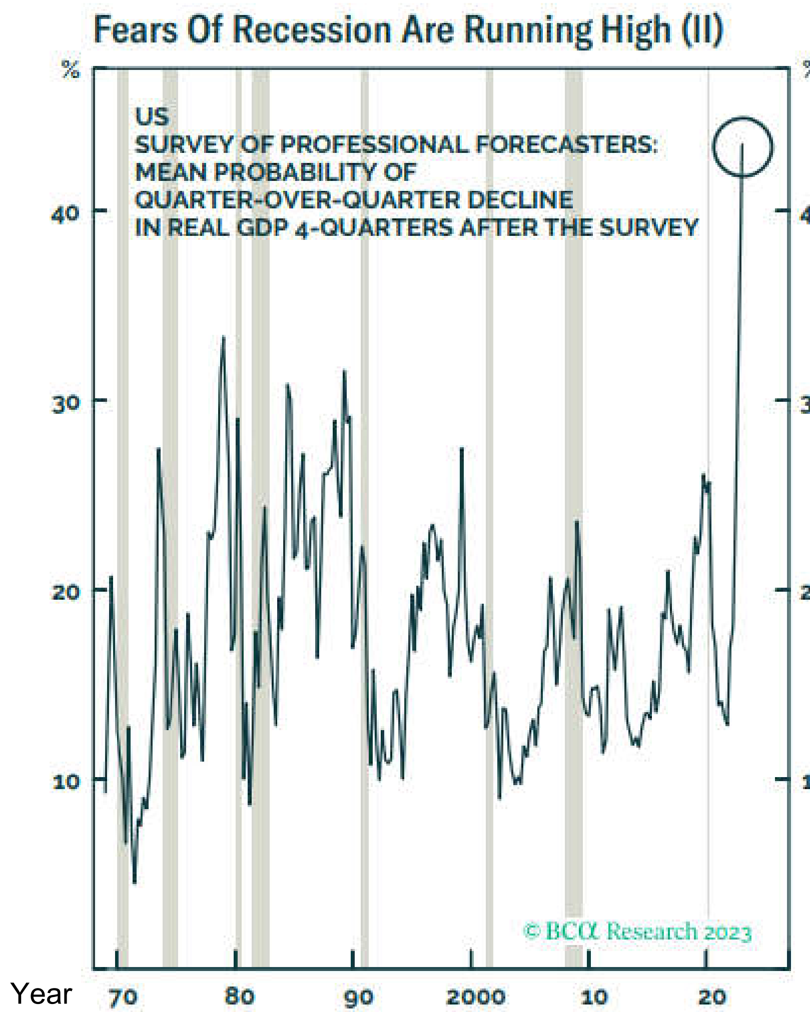
Price changes include intraday trading for the S&P 500 index. 2022 change in earnings is the consensus forecast for 2023. Source: NBER, FactSet, Bloomberg Finance LLC, Haver Analytics, as of 12/31/22.

While this very challenging economic backdrop warrants considering defensibly oriented portfolio positioning, there are reasons not to be overly risk off.

1. A recession could be priced in already as sentiment is already bearish and recession expectations high



* AMERICAN ASSOCIATION OF INDIVIDUAL INVESTORS.
NOTE: SERIES SHOWN SMOOTHED EXCEPT FOR LATEST DATA POINT.



SOURCE: FEDERAL RESERVE BANK OF PHILADELPHIA, SURVEY OF PROFESSIONAL FORECASTERS.
NOTE: SHADED AREAS DENOTE NBER-DESIGNATED RECESSIONS.

Source: BCA 1/6/2023

2. A drop in corporate earnings doesn't necessarily lead to lower equity prices.

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

Source: Bloomberg, Evercore ISI Research

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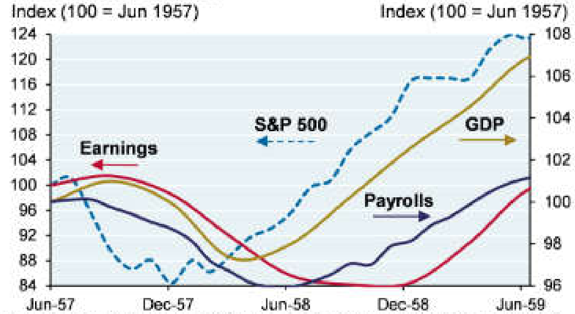
Source: Bloomberg, Evercore ISI Research as of 01/06/23

3. Equity Markets bottom before anything else

Historical order of Bottoming

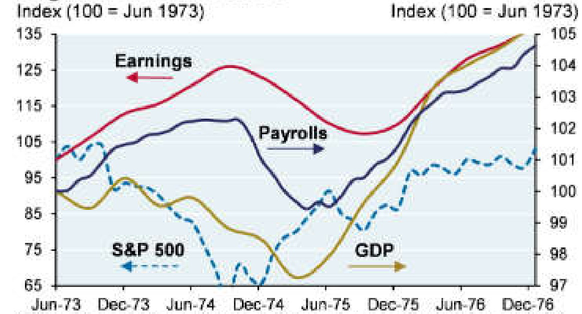
1. Equity Markets
2. GDP
3. Payrolls
4. Corporate Earnings

Eisenhower recession



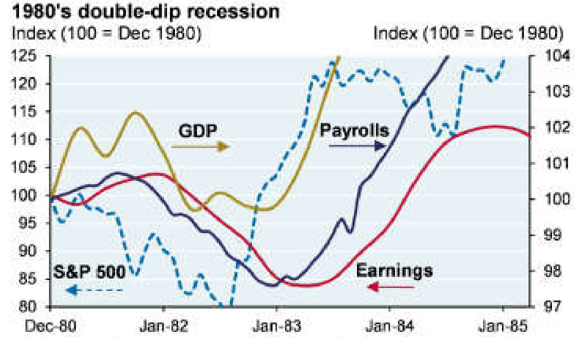
Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Stagflation era of the 1970's



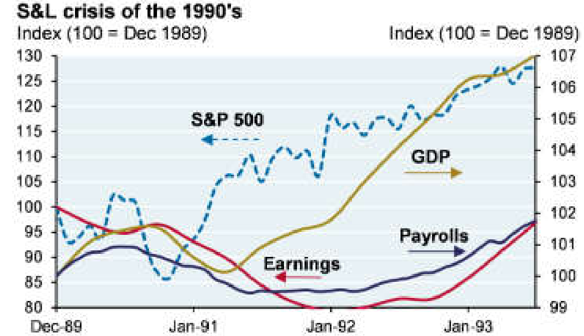
Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

1980's double-dip recession



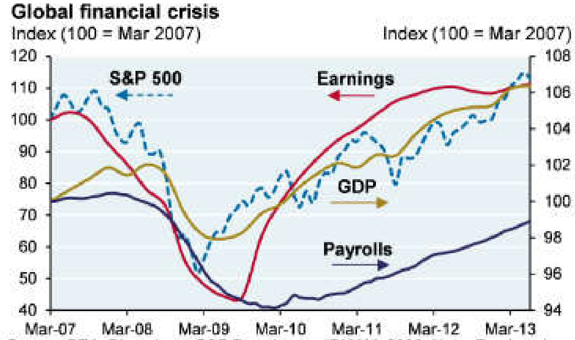
Source: BEA, Bloomberg, Robert J. Schiller, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

S&L crisis of the 1990's



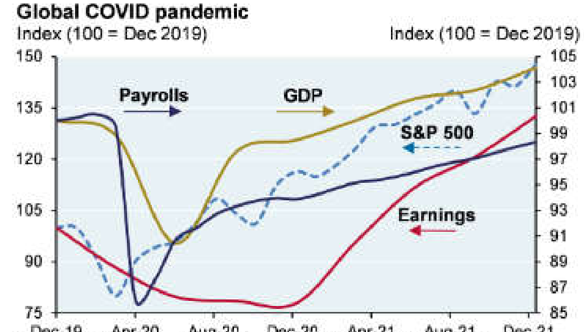
Source: BEA, Bloomberg, S&P Dow Jones, JPMAM. 2022. Note: Earnings is represented by S&P 500 EPS rolling 4Q avg.

Global financial crisis



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

Global COVID pandemic



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.

4. And those equity market recoveries have been quick

Bear Markets: How Deep Is Your Loss?

Length and depth of the latest S&P 500 bear markets

Start	End	Length of bear market (in months)	Length of recovery (in months)	S&P 500 decline
Jan 11, 1973	Oct 3, 1974	21	69	-48%
Nov 28, 1980	Aug 12, 1982	20	3	-27%
Aug 25, 1987	Dec 4, 1987	3	20	-34%
Jul 16, 1990	Oct 11, 1990	3	4	-20%
Mar 24, 2000	Oct 9, 2002	31	56	-49%
Oct 9, 2007	Mar 9, 2009	17	49	-57%
Feb 19, 2020	Mar 23, 2020	1	5	-34%
Jan 3, 2022*	?	?	?	-22%

* ongoing; as of market close on June 13, 2022

Sources: Yahoo Finance, Goldman Sachs, Statista

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Source: Statista, 06/18/2022

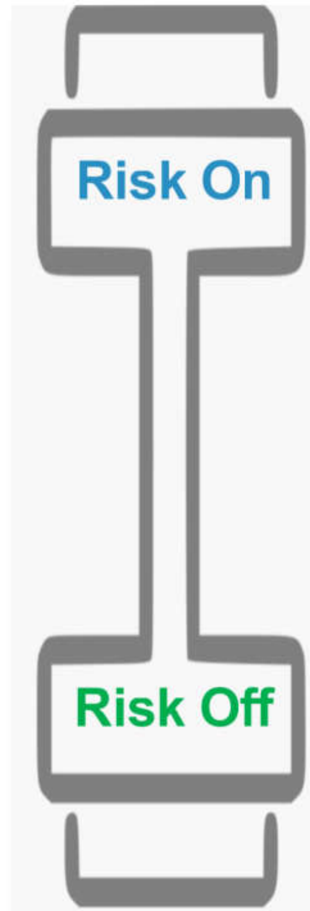
Given the uncertainties ahead, a generally defensive portfolio allocation with a commodity overweight could be appropriate

EQUITIES

- Slight underweight to equities with broad diversification through all style boxes and international markets; as long as it is unclear if the Fed's actions lead to a recession or merely a mid-cycle slowdown.

- Emphasize secular trends
  - *Innovation (technology, healthcare)*
  - *Demographic shifts (emerging economies)*
  - Deglobalization

FIXED INCOME



Some exposure to credit sensitive sectors to generate income.

Investment grade bonds for diversification and potential downside mitigation. At these levels bonds should act like "bonds" again.

OTHER CONSIDERATIONS: Commodities as a Portfolio Diversifier

Diversification and asset allocation do not ensure a profit or guarantee against a loss.

Last, but not least, don’t forget the historically attractive value proposition of the U.S. equity market

Receive:	Tolerate:
~8% annual return	3 corrections of 5% per year
	1 correction of 10% per year
	1 correction of >15% once every 3 years
	1 correction of >20% once every 6 years

S&P 500 “batting average” (i.e. % of positive calendar years) since 1926: ***73.7%***

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

Source (“Receive”): macrotrends.net, via Investopedia; Source (“Tolerate”): RIMES, Standard & Poor’s; Source (“batting average”): Forbes, Steve Vernon; all as of 10/29/2021

Detailed Strategies and Funds to Consider in 2022

EQUITIES

Fidelity Advisor Growth Opportunities (FAGCX)

Fidelity Advisor New Insights (FINSX)

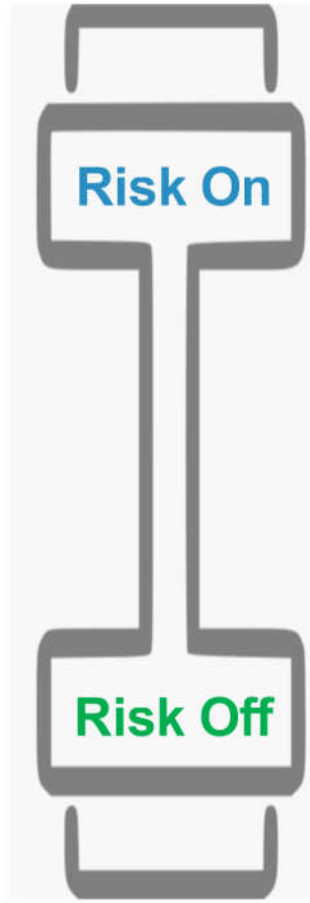
Fidelity Advisor International Capital Appreciation (FCPIX)

Fidelity Advisor Focused Emerging Markets (FIMKX)

Small Cap Funds (FCIGX, FCDIX, FCVIX)

Fidelity Advisor Healthcare (FHCIX)

Fidelity Advisor Strategic Dividend & Income (FSIDX)



FIXED INCOME

Fidelity Advisor Strategic Income (FSRIX)

Fidelity Advisor Real Estate Income (FRIRX)

Fidelity Advisor Floating Rate High Income Fund (FFRIX)

Fidelity Advisor Total Bond (FEPIX)

Fidelity Advisor Investment Grade Bond (FGBPX)

Fidelity Advisor Intermediate Municipal Income (FZIIX)

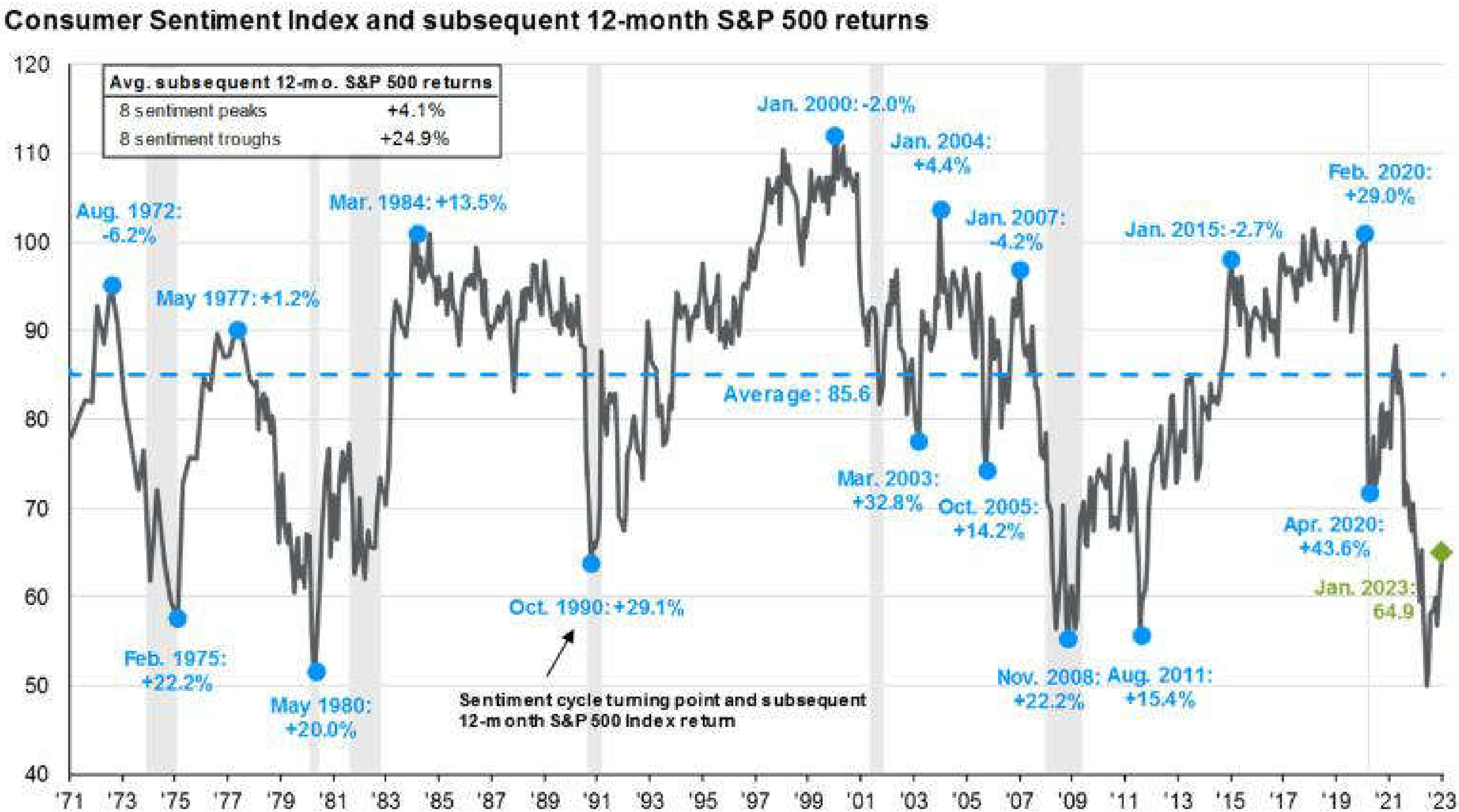
OTHER CONSIDERATIONS

Fidelity Advisor Global Commodities Stock Fund (FFGIX)

Diversification and asset allocation do not ensure a profit or guarantee against a loss. Please see the end of this presentation for important fund disclosures.

Appendix

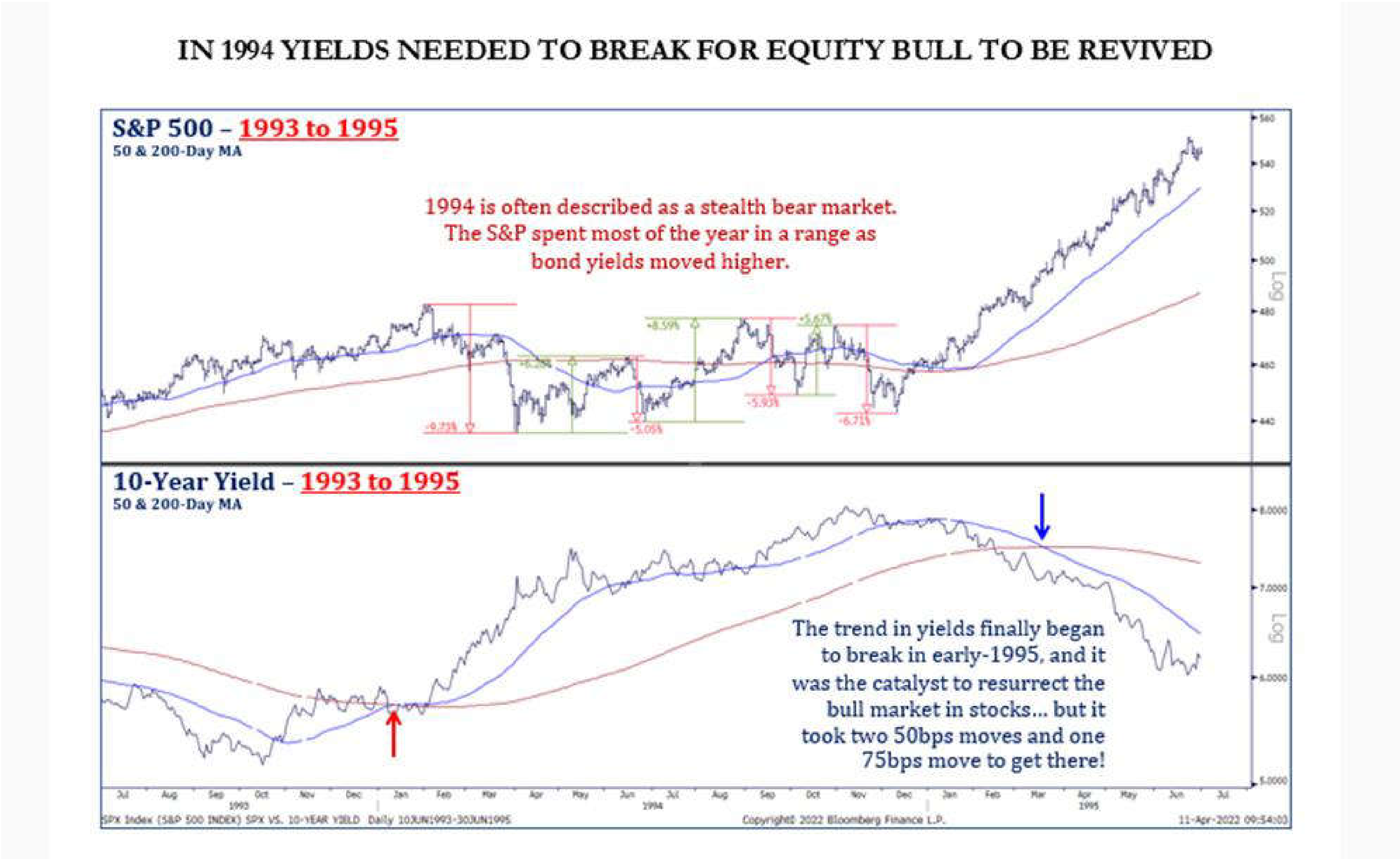
Consumer Confidence bottoming has been good for the stock market



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 January 31, 2023.

But a recession is not a forgone conclusion as "Soft landings" have happened - most recently in 1994



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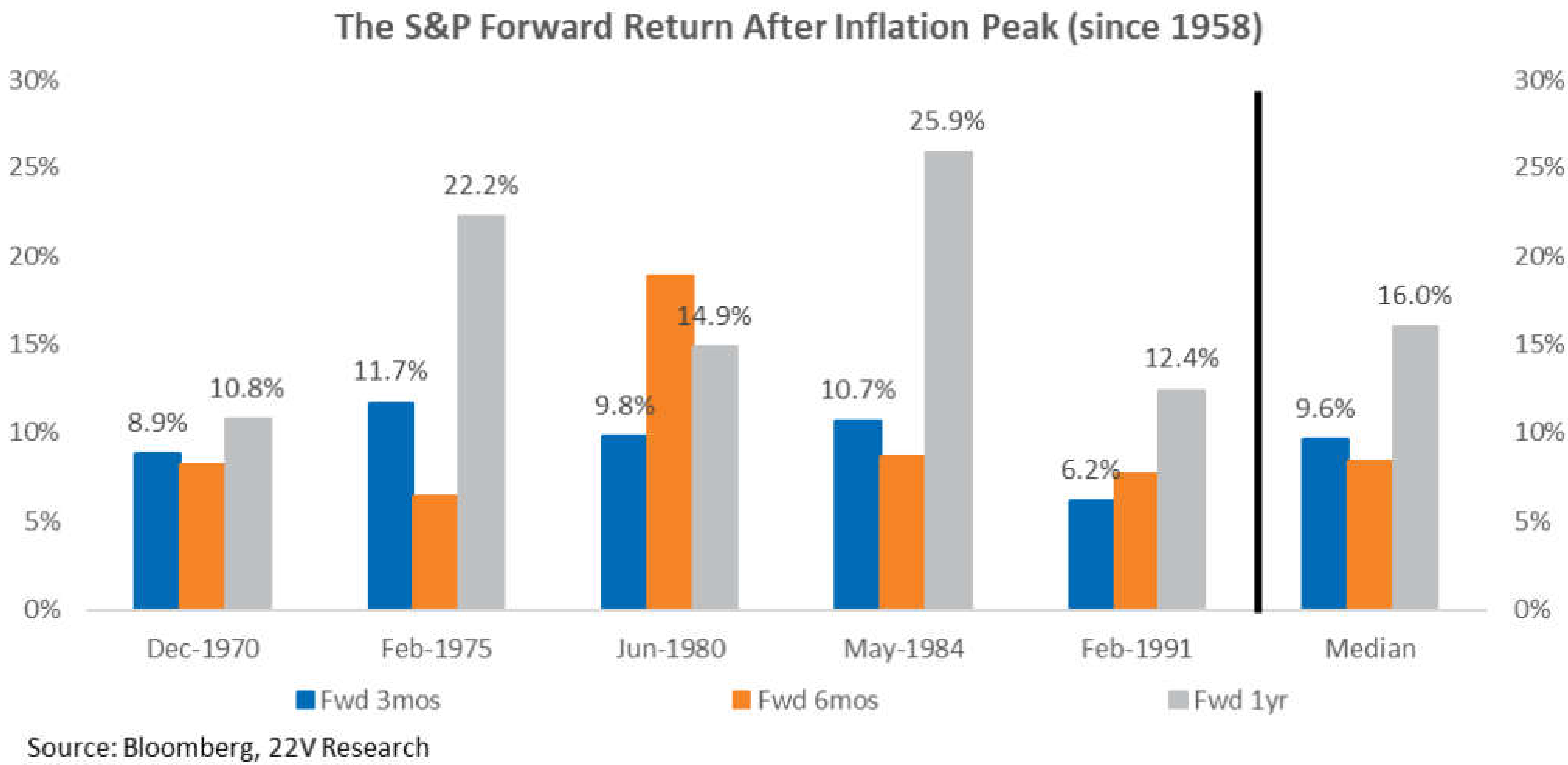
Source: Strategas, as of 09/23/2022

Also, S&P Returns are usually positive after inflation peaks



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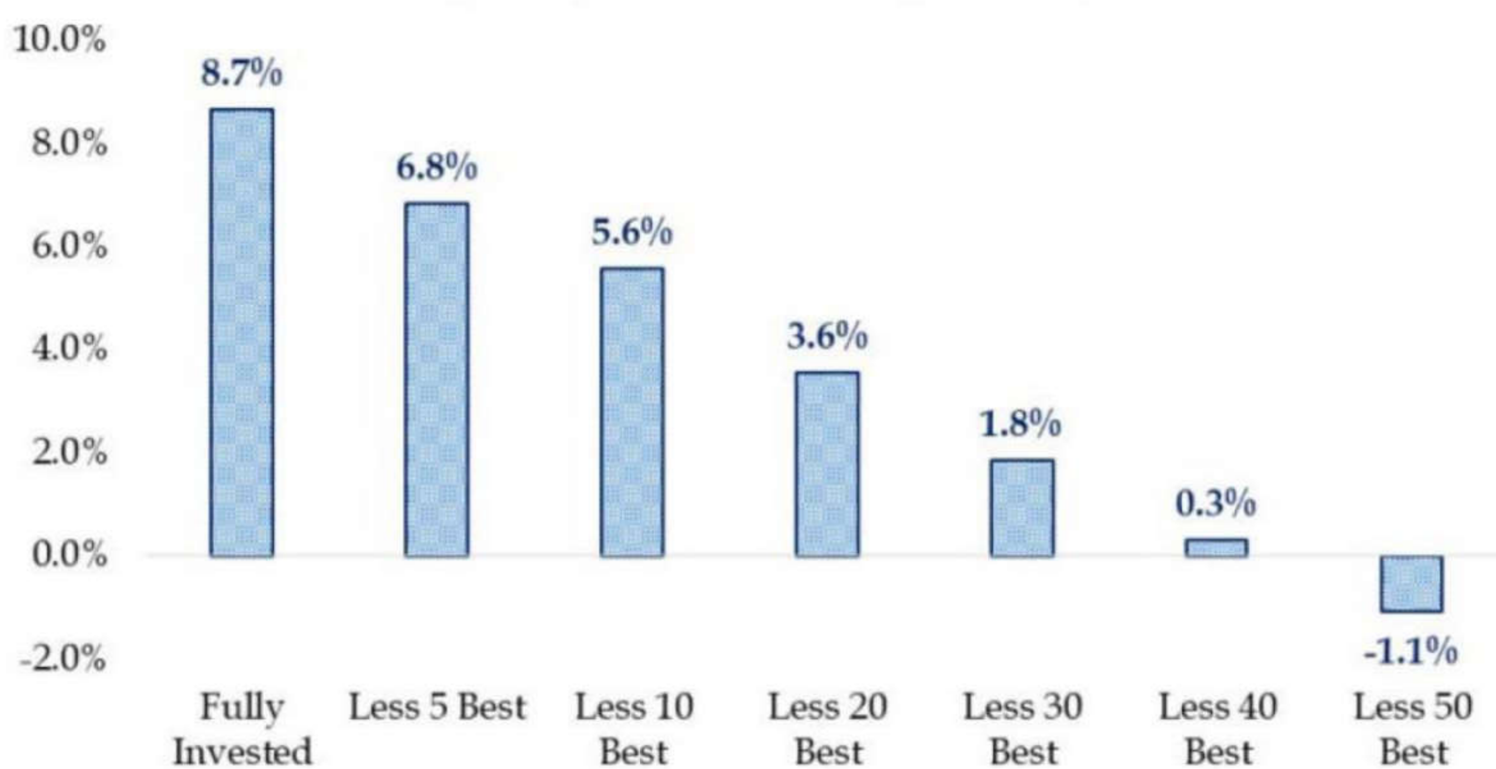
Source: Bloomberg, 22V Research

And if a rebound rally should occur, missing it could be expensive as it is often "About Time in the Market, Not Timing the Market"

S&P 500 Compound Annual Growth Rate
(January 1, 1995-February 28, 2022)

<u>Invest $100k 1/1/95:</u>

- $951K if you stayed fully invested the entire time.
- $590K if you missed the 5 best days.
- $435K if you missed the 10 best days.



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

Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit, and default risks for both issuers and counterparties. (Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.) Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds.

Sector funds can be more volatile because of their narrow concentration in a specific industry.

The FA Total Bond, FA Strategic Income, Fidelity Advisor Investment Grade Bond, FA Strategic Dividend and Income, and FA Intermediate Municipal Income funds can invest in securities that may have a leveraging effect (such as derivatives and forward-settling securities) that may increase market exposure, magnify investment risks, and cause losses to be realized more quickly.

FA Intermediate Municipal Income: The municipal market is volatile and can be significantly affected by adverse tax, legislative, or political changes and the financial condition of the issuers of municipal securities. Income exempt from federal income tax may be subject to state or local tax. All or a portion of the Fund's income may be subject to the federal alternative minimum tax. Income or fund distributions attributable to capital gains are usually subject to both state and federal income tax.

FA Real Estate Income: Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry.

FA Small Cap Growth: The securities of smaller, less well-known companies can be more volatile than those of larger companies. Growth stocks can perform differently from the market as a whole and other types of stocks and can be more volatile than other types of stocks.

Fidelity Advisor Stock Selector Small Cap Fund: The securities of smaller, less well-known companies can be more volatile than those of larger companies.

Fidelity Advisor Small Cap Value: The securities of smaller, less well-known companies can be more volatile than those of larger companies. Value stocks can perform differently than other types of stocks and can continue to be undervalued by the market for long periods of time.

FA Growth Opportunities: Growth stocks can perform differently from other types of stocks and the market as a whole and can be more volatile than other types of stocks.

FA Health Care: The health care industries are subject to government regulation and reimbursement rates, as well as government approval of products and services, which could have a significant effect on price and availability and can be significantly affected by rapid obsolescence and patent expirations.

FA Floating Rate High Income: Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds. Floating rate loans may not be fully collateralized and therefore may decline significantly in value. Fixed income investments entail interest rate risk (as interest rates rise bond prices usually fall), the risk of issuer default, issuer credit risk and inflation risk. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks.

FA Global Commodities Stock Fund: Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The energy, metals, and agriculture industries can be significantly affected by commodity prices and consumption, world events, import and export controls, worldwide competition, government regulations, and economic conditions. The fund may have additional volatility because it can invest a significant portion of assets in securities of a small number of individual issuers.

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