NOVEMBER 2020

Fixed Income **Monthly**

FOR INVESTMENT PROFESSIONALS ONLY

Fidelity INTERNATIONAL

FIXED INCOME **MONTHLY**

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Bond investments: Fixed income funds invest in bonds whose price is influenced by movements in interest rates, changes in the credit rating of bond issuers, and other factors such as inflation and market dynamics. In general, as interest rates rise the price of a bond will fall. The risk of default is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may, therefore, vary between different government issuers as well as between different corporate issuers.

Corporate bonds: Due to the greater possibility of default an investment in a corporate bond is generally less secure than an investment in government bonds.

High yield bonds: Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of the Fund investing in them.

Overseas Markets: Some fixed income funds may invest in overseas markets. The value of the investment can be affected by changes in currency exchange rates.

Currency Hedging: Currency hedging is used to substantially reduce the risk of losses from unfavourable exchange rate movements on holdings in currencies that differ from the dealing currency. Hedging also has the effect of limiting the potential for currency gains to be made.

Emerging Markets: Fund investing in emerging markets can be more volatile than other more developed markets.

Derivatives: Some fixed income funds may make use of derivatives and this may result in leverage. In such situations performance may rise or fall more than it would have done otherwise. The fund may be exposed to the risk of financial loss if a counterparty used for derivative instruments subsequently defaults.

Hybrid securities: Hybrid securities typically combine both equity and debt sensitivities and exposures. Hybrid bonds are subordinated instruments that have equity like characteristics. Typically, they include long final maturity (or no limitation on maturity) and have a call schedule increasing reinvestment risk. Their subordination typically lies somewhere between equity and other subordinated debt. As such, as well as typical 'bond' risk factors, hybrid securities also convey such risks as the deferral of interest payments, equity market volatility and illiquidity. Contingent convertible securities ("CoCos") are a form of hybrid debt security that are intended to either convert into equity or have their principal written down upon the occurrence of certain 'triggers' linked to regulatory capital thresholds or where the issuing banking institution's regulatory authorities considers this to be necessary. CoCos will have unique equity conversion or principal write-down features which are tailored to the issuing banking institution and its regulatory requirements.

Other: Fidelity Funds do not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. Investors should note that the views expressed may no longer be current and may have already been acted upon.

Strategy Summary

The FIXED INCOME MONTHLY provides a forward-looking summary of the medium-term views from the Fidelity Fixed Income team. Our investment approach is multi-strategy, with portfolio managers given clear accountability and fiduciary responsibility for all investment decisions in a portfolio. Given this portfolio manager discretion, there may at times be differences between strategies applied within a fund and the views shared below. We believe in managing portfolios with a mix of active investment strategies, including top-down and bottom-up, such that no single strategy dominates risk in a fund.

Rates	– –	–	=	+	++
Duration			●		
UST Rates				→	●
EUR Rates - Core		●			
EUR Rates - Periphery		→	●		
GBP Rates			→	●	

Main views

- Preference for US Treasuries, with large US fiscal stimulus less likely and the Fed providing a strong support to the market.
- Cautious on European rates on the back of valuations.
- Tactically pared back our underweight in Periphery with the market that will look ahead to the December ECB meeting.
- Increased UK Gilts exposure, driven by our quant model inputs.

Inflation	– –	–	=	+	++
Breakeven Inflation			●	←	
IL – USD			●	←	
IL – EUR			●	←	
IL – GBP			●	←	
IL – JPY				●	

- Moved to neutral in most market ahead of the US elections.
- Longer term constructive on US breakevens, as structural drivers are still supportive.
- UK breakevens starting to look expensive after the recent widening and given a challenging outlook for the UK economy.

Investment Grade Credit	– –	–	=	+	++
Investment Grade Credit Beta			●		
USD IG			●		
EUR IG			●		
GBP IG			●		
Asian IG (USD)				●	

- Neutral on EUR and US IG, on the back of valuations, following the strong rebound since March.
- Pared back risk in GBP IG due to rising Brexit risks.
- Constructive on Asian IG, thanks to positive technicals, a better fundamental backdrop than other regions, and still attractive valuations.

Financial and Corporate Hybrids	– –	–	=	+	++
Financial and Corporate Hybrids				●	
Contingent Convertibles					●
Investment Grade Corporate Hybrids				●	

- AT1s screen as attractive, policymakers will keep banks whole even as fundamentals come under pressure.
- Corporate Hybrids have underperformed on the back of excess supply and now offer very attractive compensations and low default risk.

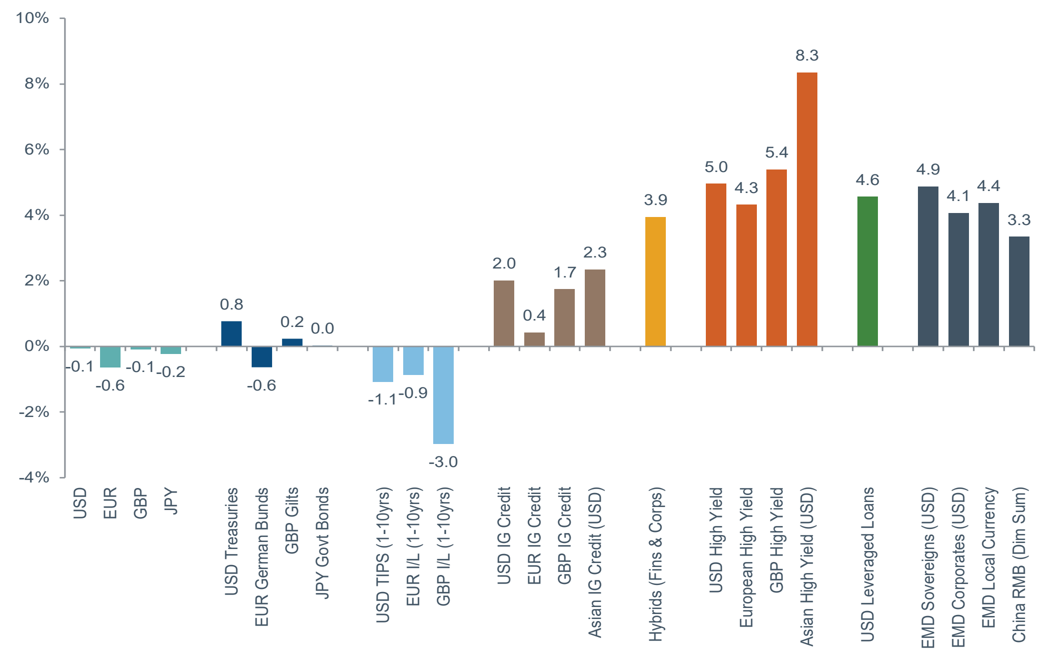
High Yield	– –	–	=	+	++
High Yield Credit Beta				●	
US High Yield				●	
European High Yield				●	
Asian High Yield				●	

- US spreads remain attractive, but we are cautious on US election outcome. Fed backstop reinforces our positive stance.
- Remain constructive on European HY, with the European default environment expected to be more benign than the US.
- Asia HY remains attractive on valuation grounds. We see any spread widening as an opportunity to add.

Emerging Markets	– –	–	=	+	++
EM Hard Currency Sovereign Debt					●
EM Hard Currency Corporate Debt				●	
EM Local Currency Duration				●	
EM FX					●
China RMB Debt				●	

- EM debt supported by an easy global monetary policy, ongoing demand for yield and a weaker USD.
- EMFX still undervalued, while the USD likely to remain on the backfoot.
- Local Currency duration supported by low central bank rates, with CPI increases in EM likely to be temporary.

Yields across fixed income asset classes



Past performance is not a reliable indicator of future results. The value of investments and the income from them can go down as well as up so you may get back less than the amount originally invested.

Source: Fidelity International, Bloomberg, JPM and ICE BofA Merrill Lynch bond indices. 5 November 2020. Shows yield to worst for high yield and EM, yield to 3yrs for USD Loans, real yield for inflation-linked bonds, yield to maturity for all other asset classes. The Yield to Maturity (also known as the Redemption Yield) is the anticipated return on a bond / fund expressed as an annual rate based on price / market value as at date shown, coupon rate and time to maturity. The redemption yield is gross of any charges and tax. Yield to Worst: is the lowest potential yield that can be received on a bond considering all potential call dates prior to maturity. Hybrids universe defined as 50% Corporate Hybrids and 50% Financial Hybrids indices.

Summary of returns as at 31 October 2020 (%)

Government	1 Month	YTD	2019	2018	2017	2016
US Treasuries	-1.0	8.1	7.0	0.8	2.4	1.1
EUR Bunds	0.9	3.5	3.1	2.4	-1.4	4.1
UK Gilts	-0.6	7.5	7.3	0.5	1.9	10.6
Inflation Linked						
USD	-0.7	9.1	8.8	-1.5	3.3	4.8
EUR	0.9	1.1	6.0	-1.4	1.3	3.8
GBP	0.6	10.6	6.5	-0.3	2.3	25.2
Investment Grade Corporate						
USD	-0.2	6.4	14.2	-2.3	6.5	6.0
EUR	0.8	1.5	6.3	-1.1	2.4	4.8
GBP	0.1	4.8	10.8	-2.0	4.9	11.7
Asian Dollar	0.0	6.1	11.5	-0.1	5.3	4.6
Financial and Corporate Hybrids						
Contingent Convertibles	0.4	0.8	17.6	-3.7	14.4	7.3
Investment Grade Corporate Hybrids	0.1	0.2	14.2	-4.6	12.1	7.1
High Yield						
US	0.5	0.2	14.4	-2.3	7.5	17.5
European	0.4	-1.5	13.8	-3.9	7.4	10.3
Asia	0.3	2.8	13.2	-3.3	6.1	15.2
Emerging Markets						
EM USD Sovereigns	0.0	-0.5	15.0	-4.3	10.3	10.3
EM USD Corporates	0.3	2.8	13.1	-1.6	8.0	9.7
EM Local Currency (USD unhedged)	0.4	-5.9	13.5	-6.2	15.2	9.9
China RMB	0.3	3.2	5.6	5.2	5.1	4.1

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Macro and Rates Overview

Monthly Review

- 10-year US Treasury yields rose to an 8-month high as data pointed towards economic growth gaining momentum, expectations of additional fiscal stimulus, and a convincing Democratic win in the US Presidential race
- 10-year German Bund yields fell to the lowest level in over six months, amid rising COVID-19 cases.
- Despite the Brexit led uncertainty, UK Gilt yields rose over the month as the government announced further stimulus measures.

Strategy	– –	–	=	+	++
Duration			●		
UST Rates				→	●
EUR Core		●			
EUR Periphery		→	●		
GBP Rates			→	●	

Outlook

COVID-19 and US elections drove markets in October. Despite a surge in new infection cases and renewed lockdown measures across many countries, we saw government bond yields climb on the month, led by US Treasuries, as investors priced in a higher probability of a Democratic sweep in the November elections.

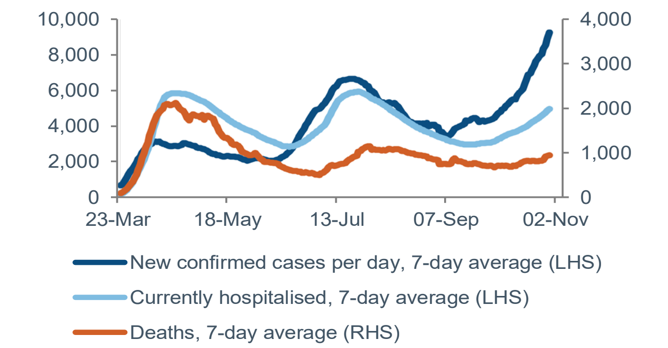
The US election was, in the end, a much closer contest than initially envisaged and after a prolonged scrutiny, Joe Biden was finally declared President of the United States. The election outcome was not the decisive landslide that Democrats had hoped for, with uncertainty that still lingers. if Trump fails to concede and follows through on his announcement to advance his case to the Supreme Court, we may be looking at weeks or even months of sparring and headlines, Moreover, while Republicans are likely to retain control of the Senate, leaving Congress divided, the race still hangs in the balance as a run-off for two seats is now required in Georgia, and the results won't be known until January 5th. While the results are still pending, a divided Congress is now much more likely than before the election. This suggests that the opportunity for a potential Biden administration to push through transformative fiscal spending in excess of USD 5 trillion over the next four years is slipping away. Barring a shocking reversal of fortune in the Senate races, Democratic ambitions will be constrained, with an implied four-year spend of USD 1.5 -2.5 trillion (gross and net), weakening growth prospects for the US economy. The case for a "blue wave" reflationary trade appears less likely now as a result. On the other hand, we are seeing a sharp rise in COVID-19 case across the US. Indeed, a number of states have already imposed new restrictions on movement and travel, and we believe this will ultimately have a stronger impact than the election outcome on consumption and growth in the near term.

With fiscal stimulus expectations now revised lower, and a still challenging growth outlook due to COVID-19, the Fed will have to once again pick up the baton in supporting the economy. We expect the central bank to retain an easing bias and potentially further ease policy in December, depending on how financial conditions evolve until then. In addition to switching to buying longer duration bonds, the Fed might have to increase the pace of asset purchases and strengthen forward guidance to help mitigate the impact of the impending fiscal cliff. This backdrop should remain supportive for US Treasuries, after the recent rise in yields, as markets price out reflation trades and go back to focusing on the now familiar themes of flatter curves, muted inflation expectations and lower rates volatility, in line with the "Japanification" scenario that we have been monitoring for some time.

Over in Europe, similar themes prevail. Several countries have announced a new raft of containment measures and lockdowns as a result of rising COVID-19 cases. After some tentative signs of recovery as countries reopened in the summer, the European economy will face meaningful headwinds once again. Like the Fed, the ECB remains the key actor in support of the economy, with further easing expected at the December meeting allowing purchases to continue uninterrupted until the end of 2021. Compared to our US Treasury view, our stance in European government bonds is more nuanced, despite the sizeable ECB support that is still to come. Valuations in semi-core and peripheral debt are not particularly attractive at current levels, with flat yield curves, negative yields in most markets and tight spreads versus German Bunds in both semi-core and Periphery. While we remain cautious as a result, on a tactical basis, we have pared back our underweight in peripheral debt, with the market that will look ahead to the December ECB meeting, and start pricing in further stimulus measures.

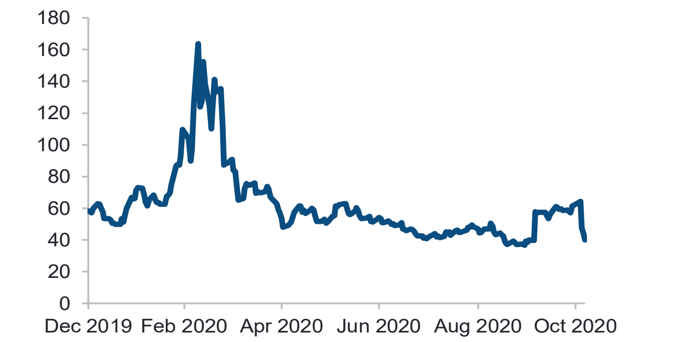
Lastly, in the UK, the BoE announced a larger-than-expected increase in its asset purchase programme and extended it to the end 2021, intending to implement purchases in a flexible manner over the period. Following the recent increase in UK Gilt yields, we added to our duration exposure, driven by our quant model outputs

COVID-19 remains the key driver for markets



Source: Fidelity International, Pantheon Macroeconomics, 6th November 2020. Shows US data.

Rates volatility kept in check by central banks



Source: Fidelity International, Bloomberg, ICE BAML MOVE index, November 2020

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