










## Q2 Quarterly Sector Update Video

[Title fly in] Matthew Goulet, Vice President of Sector Investment Strategy at Fidelity Investments

**Matt Goulet:** Hello, I'm Matt Goulet. At Fidelity Investments, we believe managing sector exposure can be an effective way to build a diversified equity portfolio. There are many ways to evaluate sectors, but in our Quarterly Sector Scorecard, we focus on five metrics based on investment time horizon: business cycle, fundamentals, relative valuations, momentum, and relative strength.

## Scorecard: Positive Signals for Technology, Health Care

| Sector   | Time Horizon View     |              |                     |          |                           | Weight in S&P 500® Index | Performance as of 3/31/2015 |              |                |
|--|-----------------------|--------------|---------------------|----------|---------------------------|--------------------------|-----------------------------|--------------|----------------|
|  | Longer Business Cycle | Fundamentals | Relative Valuations | Momentum | Shorter Relative Strength |                          | Latest Quarter              | Year to Date | Dividend Yield |
|  Consumer Discretionary |                       |              | —                   | +        | +                         | 13%                      | 4.8%                        | 4.8%         | 1.4%           |
|  Consumer Staples       |                       |              | —                   |          | +                         | 10%                      | 1.0%                        | 1.0%         | 2.6%           |
|  Energy                 |                       | —            |                     | —        | —                         | 8%                       | -2.9%                       | -2.9%        | 3.0%           |
|  Financials             |                       | —            | +                   |          |                           | 16%                      | -2.1%                       | -2.1%        | 1.8%           |
|  Health Care            |                       | +            | —                   | +        | +                         | 15%                      | 6.5%                        | 6.5%         | 1.5%           |
|  Industrials            | +                     | +            |                     |          |                           | 10%                      | -0.9%                       | -0.9%        | 2.1%           |
|  Information Technology | +                     | +            | +                   | +        |                           | 20%                      | 0.6%                        | 0.6%         | 1.5%           |
|  Materials              | —                     |              |                     | —        | —                         | 3%                       | 1.0%                        | 1.0%         | 2.2%           |
|  Telecom                |                       |              | +                   | —        | —                         | 2%                       | 1.5%                        | 1.5%         | 5.0%           |
|  Utilities             | —                     | —            |                     |          |                           | 3%                       | -5.2%                       | -5.2%        | 3.6%           |

Past performance is no guarantee of future results. Sectors are defined by the Global Industry Classification Standard (GICS®); see additional index information in the Appendix. Factors are based on historical analysis and are not a qualitative assessment by any individual investment professional. Green portions suggest outperformance, red portions suggest underperformance, and unshaded portions indicate no clear pattern vs. the broader market, as represented by the S&P 500® Index. Quarter-end and year-to-date performance reflects performance of the S&P 500 Sector Indices. It is not possible to invest directly in an index. All indexes are unmanaged. Percentages may not sum to 100% due to rounding. Source: Fidelity Investments, FactSet, as of 3/31/2015.

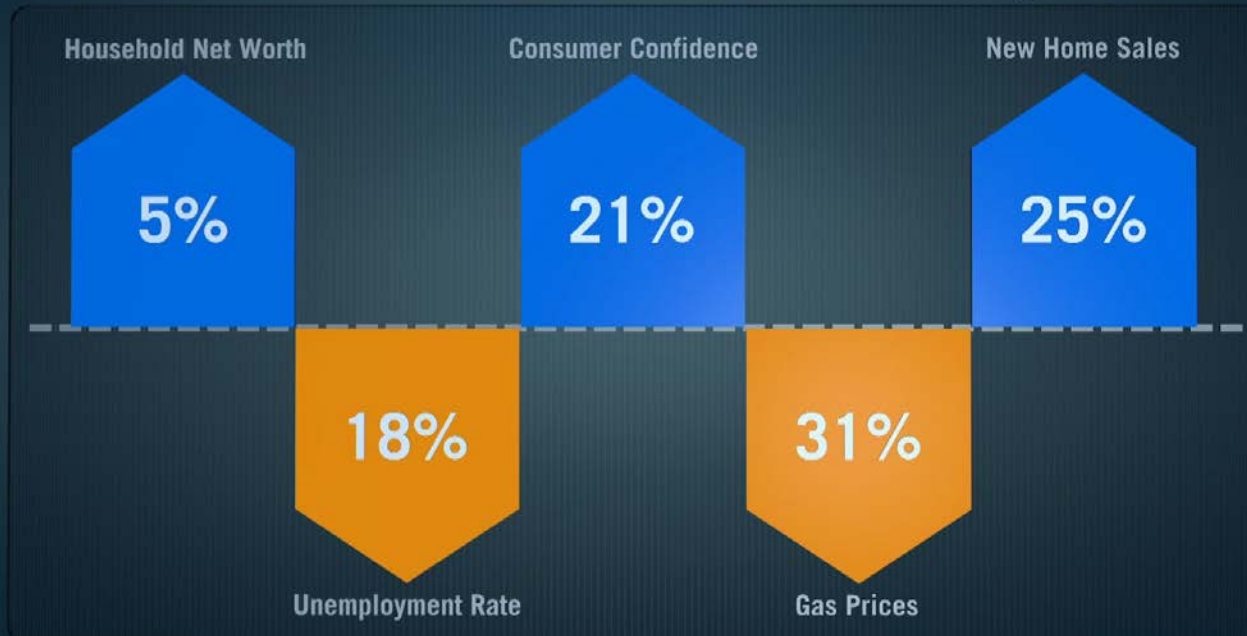
In the first quarter, equity markets trended modestly higher, with the S&P 500 Index up roughly 1 percent.

At the end of March, the Information Technology sector continued to look strong based on our quantitative metrics. From a secular perspective, Technology has benefited from long-term trends, including the growth of cloud-based and mobile computing, which have helped diversify the sector's earnings base and supported earnings growth. We are currently in a phase of the business cycle that typically favors Technology, and the sector's fundamentals have been strong.

Health Care is another sector that looks strong, and in fact has been the market leader so far this year. This is another sector that is benefiting from broad long-term trends, such as an aging global population and a growing middle class in many emerging markets. The sector also is experiencing a tremendous amount of innovation, particularly in biotechnology. These long-term trends have helped push health care earnings up 18% over the past year.

# A Positive Backdrop for Consumer Discretionary

## Economic Indicators for U.S. Consumers (Year-Over-Year Change)



Past performance is no guarantee of future results. 12-month change as of 12/31/2014 (household net worth), 02/27/2015 (unemployment, new home sales), 03/31/2015 (consumer confidence, gas prices). Source: FactSet, U.S. Energy Information Administration.

Meanwhile, Consumer Discretionary has strengthened in recent months and was the second-best performing sector in Q1. Falling gas prices, an improving job market, increased consumer confidence and other factors have improved the outlook for U.S. consumer spending. Within the consumer discretionary sector, retailing companies performed extraordinarily well in Q1.

# Fed Tightening Cycles Can Affect Sector Leadership

Historically High-Dividend-Yielding Sectors and Industries:  
Performance around Fed Tightening Cycles, 1962–2010



Past performance is no guarantee of future results. High-dividend-yielders include the Utilities and Telecommunication Services sectors and the following industries: Real Estate Investment Trusts, Food & Staples Retailing, Household & Personal Products, and Commercial & Professional Services. Sectors and industry groups are weighted according to their market capitalization in the S&P 500 Index, and returns are expressed as non-annualized geometric averages. Source: Standard & Poor's, Fidelity Investments (AART), as of 2/28/2015.

As many investors expect the U.S. Federal Reserve to begin to raise rates this year, we wanted to take a look at how various industry groups have behaved in prior Fed tightening cycles. In this environment, high dividend-yield industries typically underperform leading up to the start of Fed tightening but begin to outperform as the economy moves closer to late cycle. This group of high-dividend-yield industries and sectors would include Telecommunications, REITs, Household & Personal Products, Food & Staples companies, Commercial & Professional Services, and Utilities.

For more information about our views and current themes in sector investing, please see our complete Quarterly Sector Update. Thank you.

### **Important Information**

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### **Past performance and dividend rates are historical and do not guarantee future results.**

Investing involves risk, including risk of loss.

All indexes are unmanaged, and performance of the indexes includes reinvestment of dividends and interest income, and, unless otherwise noted, is not illustrative of any particular investment. An investment cannot be made in any index.

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

Because of its narrow focus, sector investing tends to be more volatile than investments that diversify across many sectors and companies. Sector investing is also subject to the additional risks associated with its particular industry.

### **Endnotes**

The S&P 500 index rose by 0.95% during the first quarter of 2015, according to Morningstar, Inc.

### **Market Indexes**

The S&P 500<sup>®</sup> Index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC. Sectors and industries are defined by the Global Industry Classification Standard (GICS<sup>®</sup>).

The S&P 500 Sector Indices include the 10 standard GICS sectors that make up the S&P 500 Index. The market capitalization of all 10 S&P 500 sector Indices together compose the market capitalization of the parent S&P 500 Index; all members of the S&P 500 Index are assigned to one (and only one) sector.

S&P 500 sectors are defined as follows: **Consumer Discretionary:** companies that provide goods and services that people want but don't necessarily need, such as televisions, cars, and sporting goods; these businesses tend to be the most sensitive to economic cycles. **Consumer Staples:** companies that provide goods and services that people use on a daily basis, like food, household products and personal-care products; these businesses tend to be less sensitive to economic cycles. **Energy:** companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, or other energy-related services and equipment, including seismic data collection; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. **Financials:** companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and real estate, including REITs. **Health Care:** companies in two main industry groups: health care equipment suppliers and manufacturers, and providers of health care services; and companies involved in research, development, production, and marketing of pharmaceuticals and biotechnology products. **Industrials:** companies whose businesses manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. **Information Technology:** companies in technology software and services and technology hardware and equipment. **Materials:** companies that are engaged in a wide range of commodity-related manufacturing. **Telecommunication Services:** companies that provide communications services primarily through fixed-line, cellular, wireless, high bandwidth, and/or fiber-optic cable networks. **Utilities:** companies considered to be electric, gas, or water utilities, or companies that operate as independent producers and/or distributors of power.

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### **Glossary**

**Dividend Yield**

Annual dividends per share divided by share price.

**Relative Strength**

The comparison of a security's performance relative to that of a benchmark, typically a market index.

**Methodology****Business Cycle**

The business cycle as used herein reflects fluctuation of activity in the U.S. economy and is based on Fidelity's analysis of historical trends.

**Fundamentals**

Sector rankings are based on equally weighting the following four fundamental factors: EBITDA growth, earnings growth, return on equity, and free-cash-flow margin. However, we have evaluated the Financials sector only on earnings growth and return on equity because of differences in its business model and accounting standards.

**Momentum**

Compares the price change of a sector versus itself over a 12-month period, with a one-month reversal on the latest month; identifying persistence in returns can be a useful indicator of sector performance during a six- to 12-month period.

**Relative Strength**

Compares the strength of a sector versus the 500<sup>®</sup> Index over a six-month period, with a one-month reversal on the latest month; identifying relative strength patterns can be a useful indicator for short-term sector performance.

**Relative Valuations**

Valuation metrics for each sector are relative to the S&P 500<sup>®</sup> Index. Ratios compute the current relative valuation divided by the 10-year historical average relative valuation. Sectors are then ranked by their weighted average ratios, which are weighted as follows: P/E: 35%; P/B: 20%; P/S: 20%; free-cash-flow yield: 20%; dividend yield: 5%. However, the Financials sector is weighted as follows: P/E: 59%; P/B: 33%; dividend yield: 8%.

**Primary Contributors****Asset Allocation Research Team (AART)**

AART is part of the Global Asset Allocation division of Fidelity's Asset Management organization. AART conducts economic,



fundamental, and quantitative research to develop asset allocation recommendations for Fidelity's portfolio managers and investment teams.

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The Equity Division within Fidelity Asset Management consists of 11 portfolio groups, as well as Select and Advisor Focus sector portfolios. Each group is responsible for portfolio management supported by in-depth fundamental research.

### **Fidelity SelectCo**

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