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# Exclusive Insights

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# Welcome

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# Welcome

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**Fidelity Investments**

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## The fiscal cliff agreement addresses the tax cliff....

- ▶ Permanently extends 2001 and 2003 tax relief for middle-income families, while allowing the tax relief to expire for higher-income families.
- ▶ Allows the temporary 2% payroll tax cut to expire as scheduled.
- ▶ Allows new taxes enacted under the healthcare law to take effect as scheduled.
- ▶ Higher taxes primarily affect income, wages/earnings, estates, and investment income.



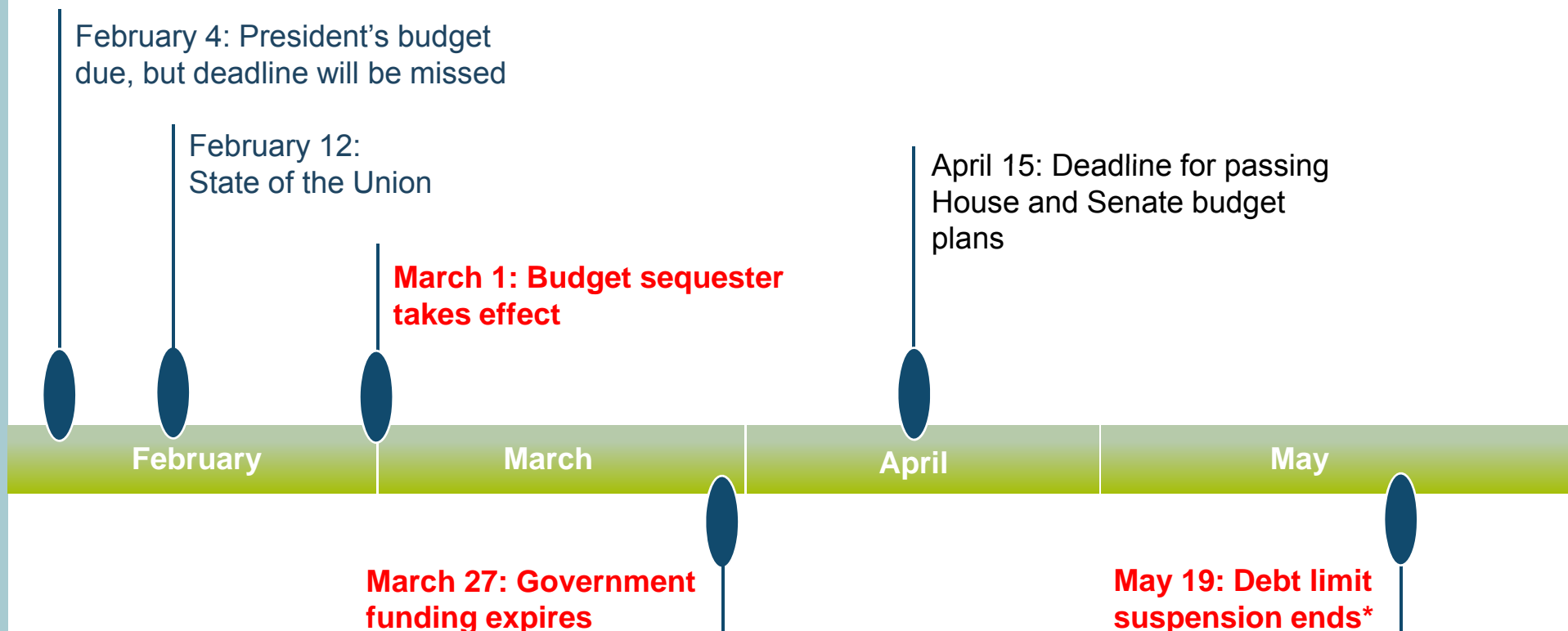
...but does not address several fiscal issues

Items left out of the fiscal cliff agreement will shape the policy landscape in 2013:

- ▶ The debt limit was not raised
- ▶ The budget sequester was delayed, but only by two months
- ▶ Meaningful deficit reduction was not included



## 2013: Key Dates



\*Assuming H.R. 325 is enacted



## Cliffs or Slopes?

- ▶ **March 1: Sequester takes effect**
  - Spending authority reduced by \$85 billion in FY2013
  - Half from defense and national security; half from domestic programs
  - Several programs are exempt
  
- ▶ **March 27: Government funding expires**
  - Partial government shutdown may occur if funding for government agencies is not extended
  
- ▶ **May 19: Debt limit suspension ends\***
  - Use of extraordinary measures could potentially extend borrowing authority beyond May 19

\*Assuming H.R. 325 is enacted

For Investment Professionals

# Global Strategies

## Investment Outlook



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January 2013

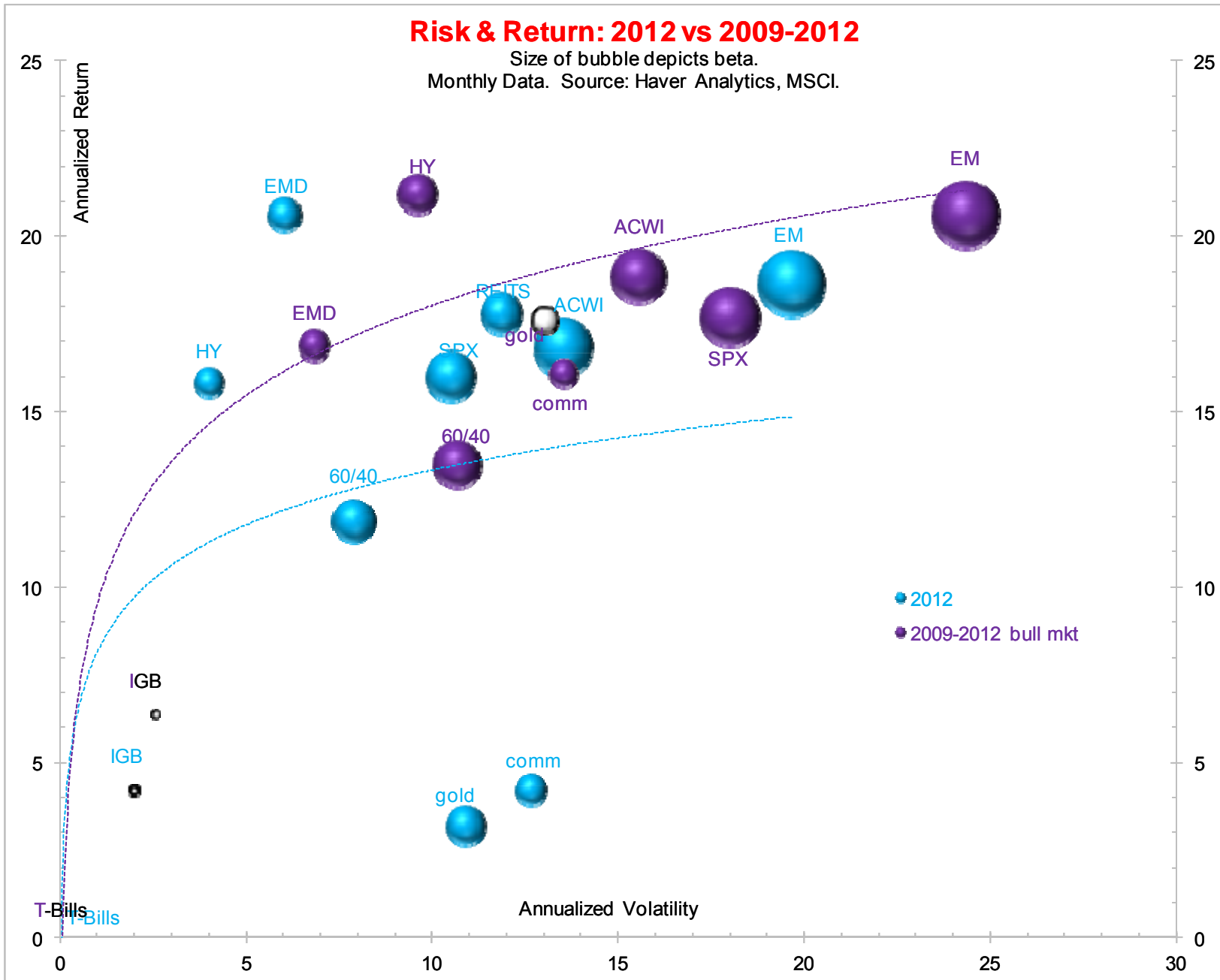
Jurrien Timmer

*Director of Global Macro  
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# Risk & Return: 2012 vs 2009-12



- This chart shows the 2009-12 bull market in purple, and calendar year 2012 in blue. The bubble size depicts the beta (to ACWI).
- Note how gold went from a negative beta and high return over the entire bull cycle to a positive beta and low return during 2012.
- Note also how much less volatile HY got in 2012.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Daily data as of February 8, 2013.



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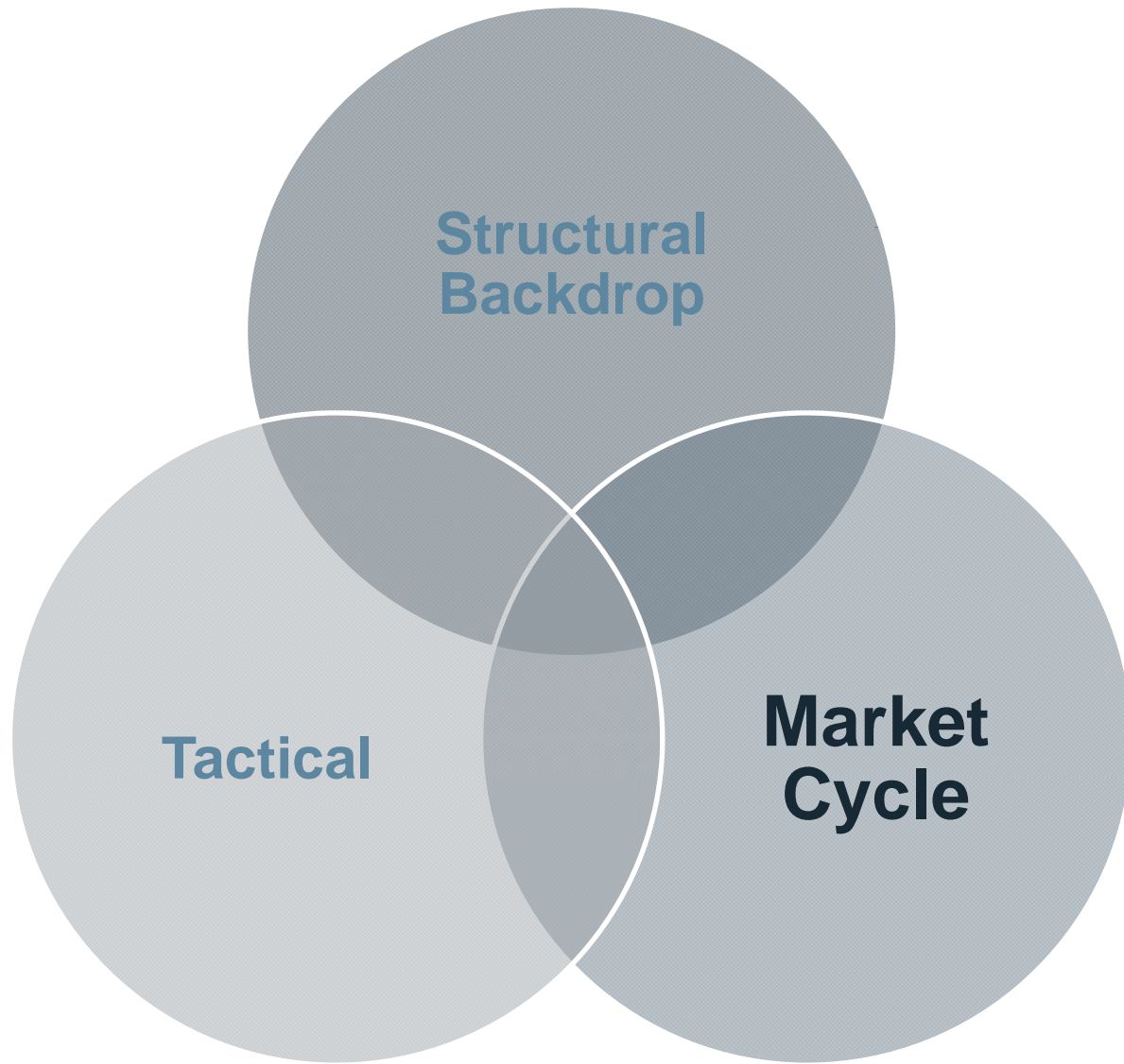


Secular  
Themes

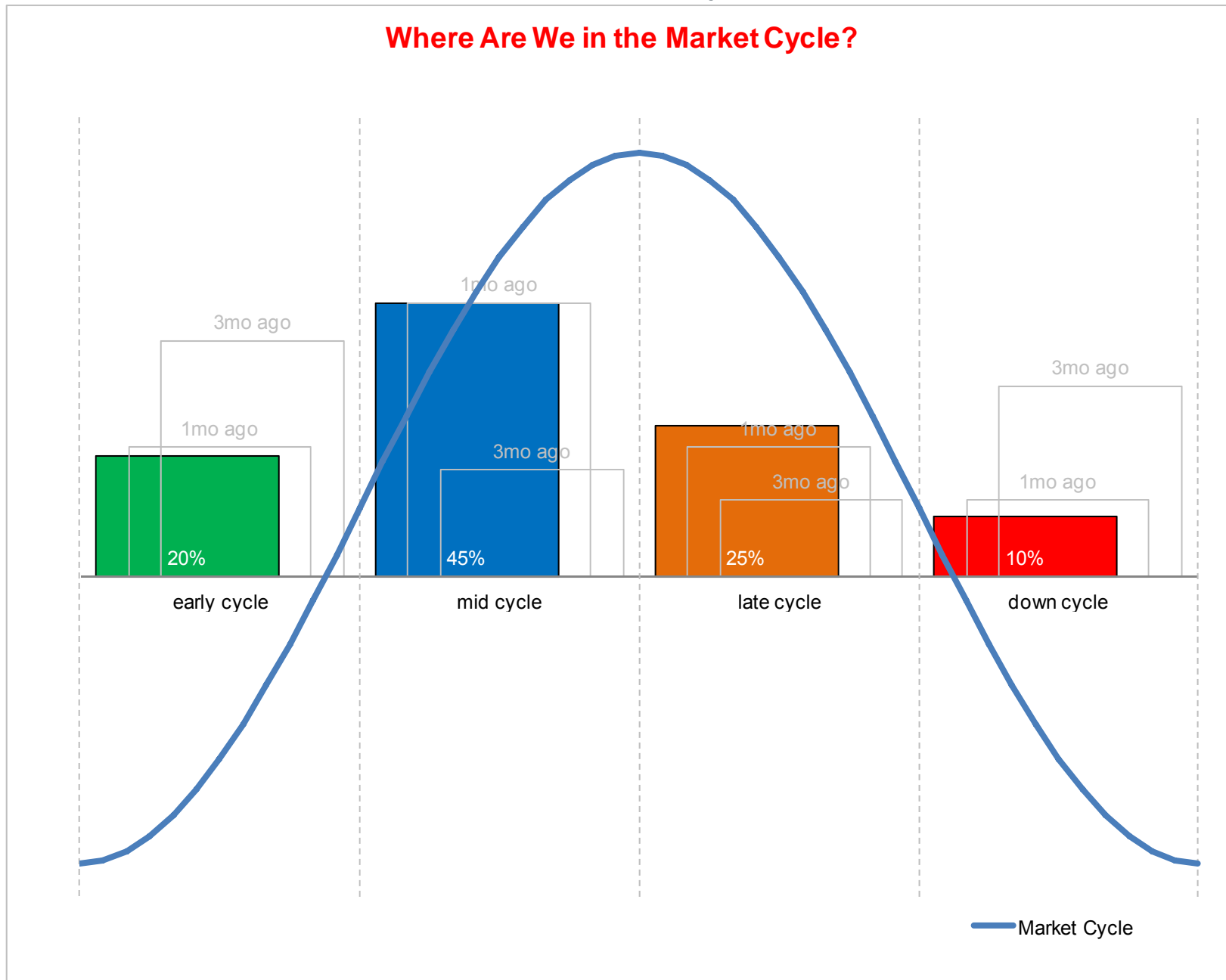
# PORTFOLIO STRATEGY

Tactical  
Opportunities

Market  
Cycle



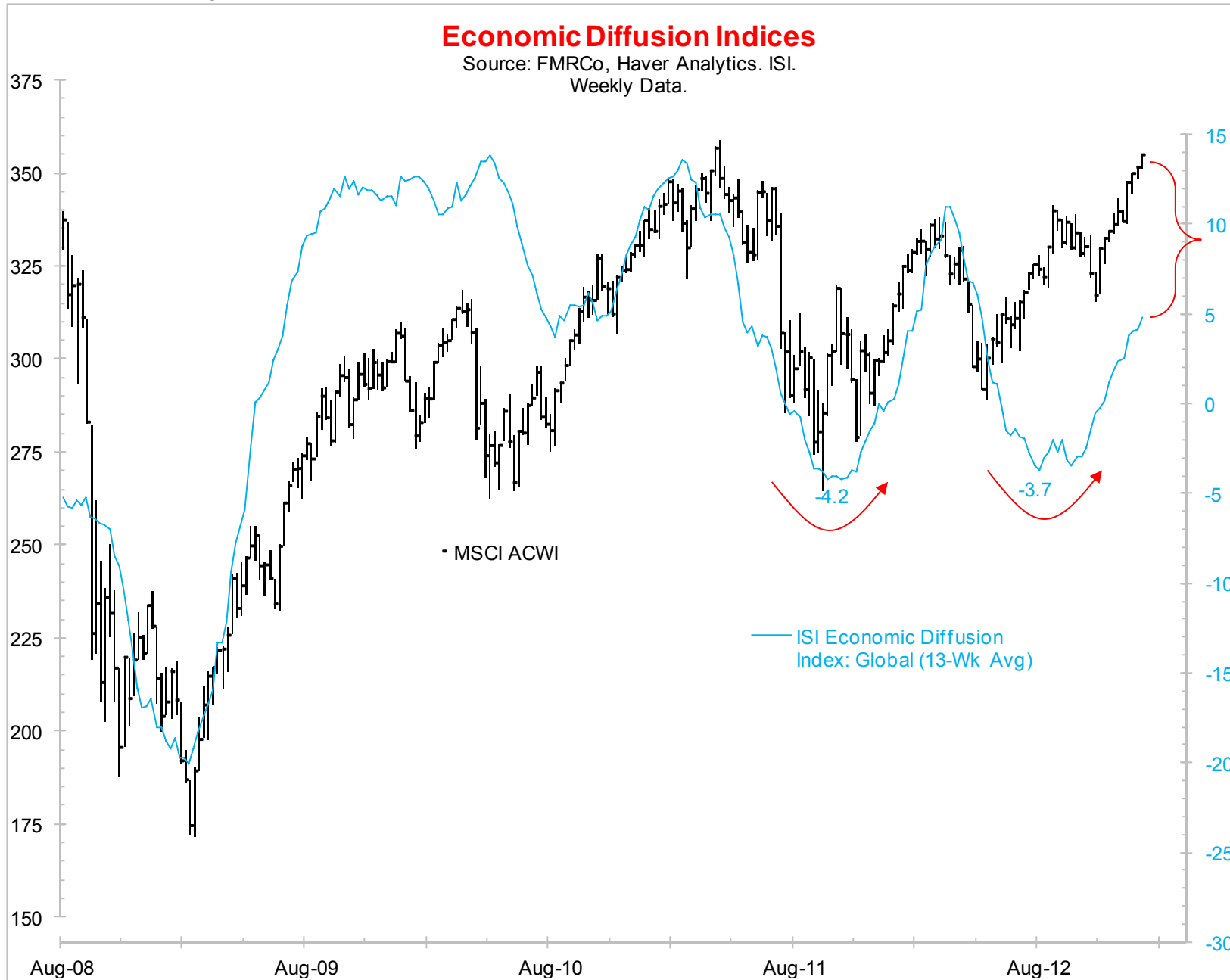
# Where Are We in the Market Cycle?



- The global market cycle has moved further into mid-cycle territory in recent weeks.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Weekly data as of February 8, 2013.

# Economy Momentum on the Rise



- Many of the various high frequency continue to show positive momentum.
- The question is, has the market rallied too far in relation to the fundamentals?

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Weekly data as of February 8, 2013.

# Markets Are Supported by QE

## The Fed's System Open Market Account (SOMA)

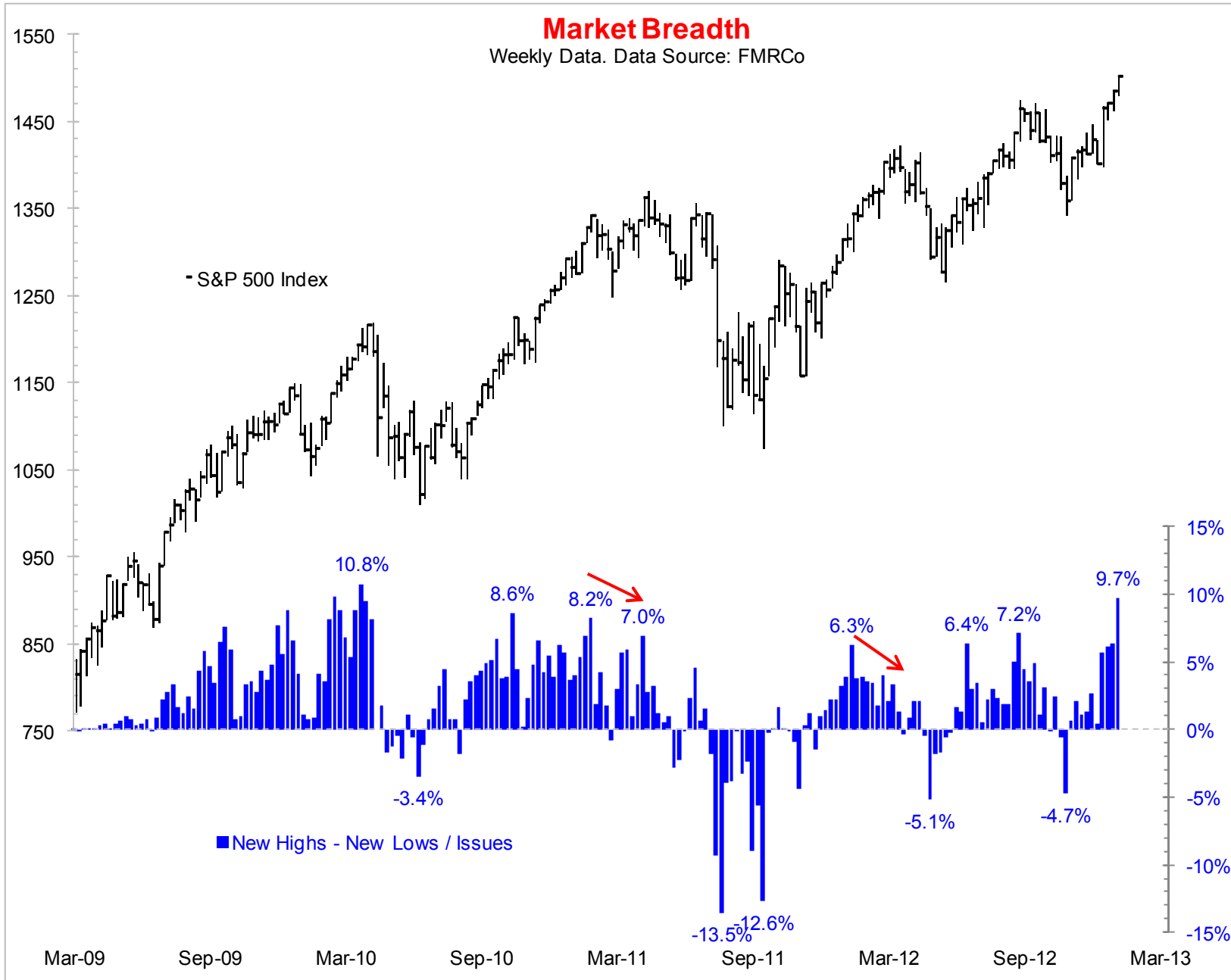
Data Source: FMRCo, Bloomberg. Weekly data.



- Besides improving economic momentum, stocks are also being supported by the Fed's accommodative monetary policy.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Weekly data as of February 8, 2013.

# Strong Breadth



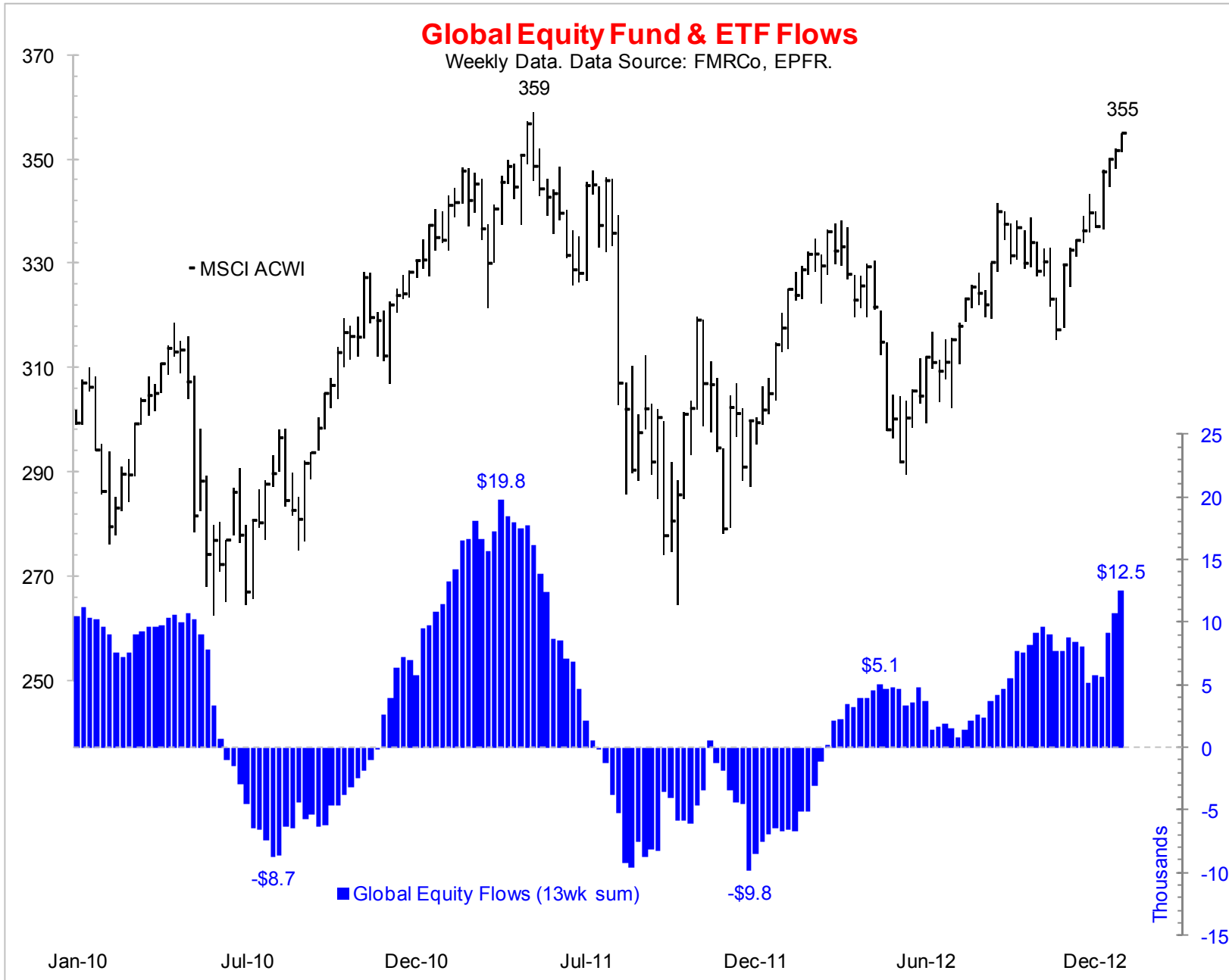
- The market's internal strength is the strongest it has been in several years, resulting in an overbought condition.
- The question is whether this is a "good" overbought or a "bad" overbought.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Weekly data as of February 8, 2013.



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# Ebullient Sentiment

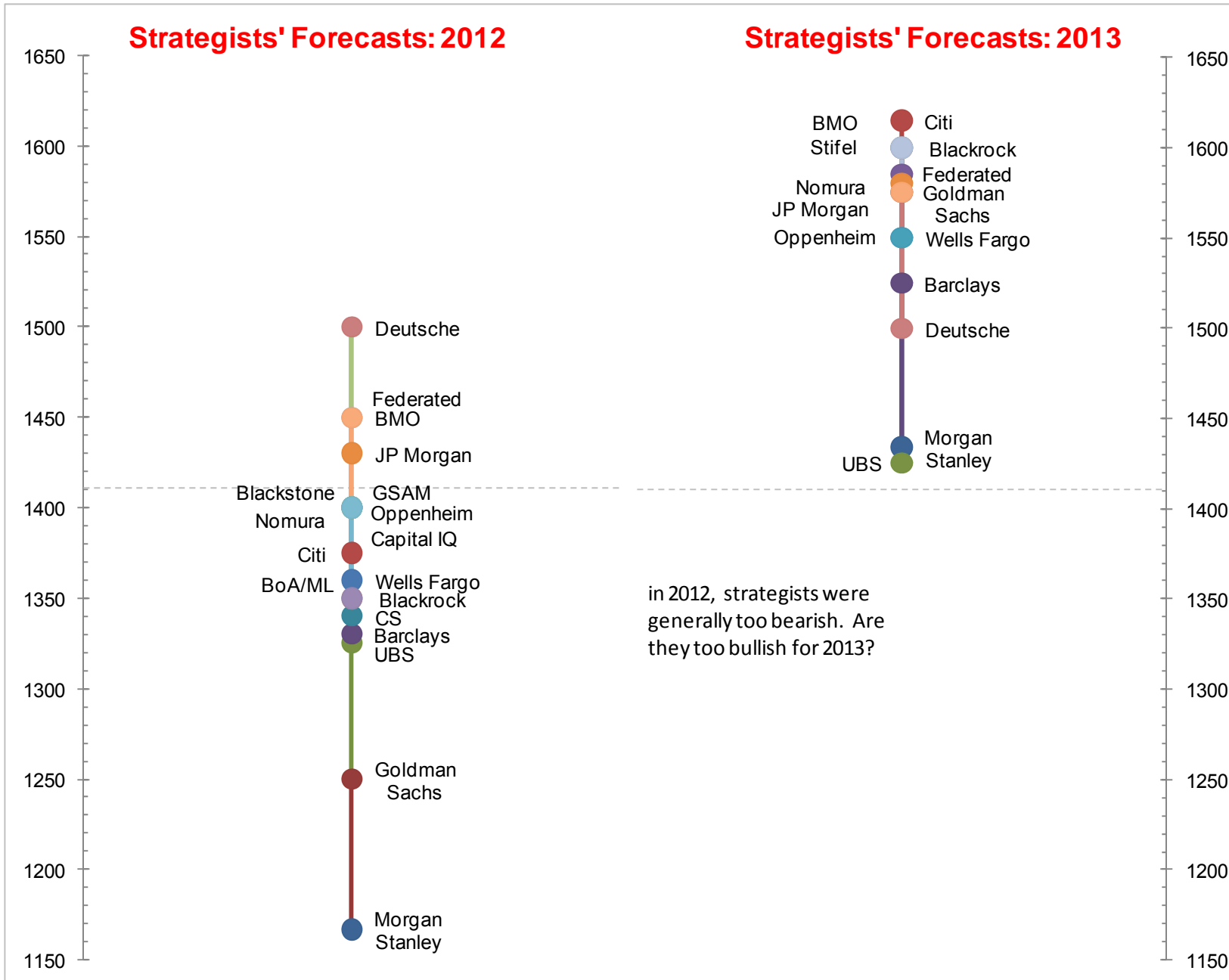


• Investors and strategists have become much more optimistic in recent weeks.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Weekly data as of February 8, 2013.



# Wall Street is Bullish



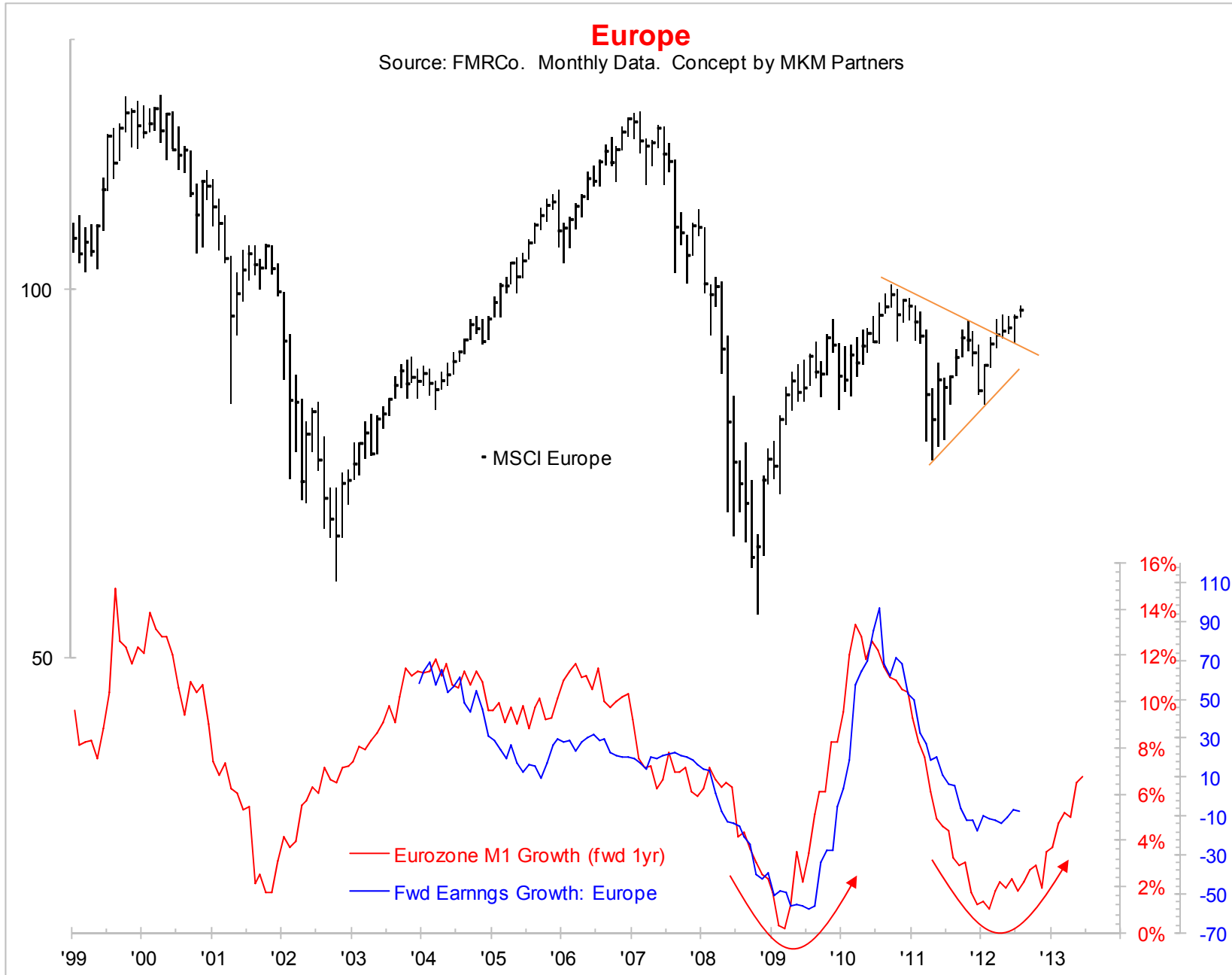
- Last year, Wall Street strategists underestimated the stock market's strength. Their average forecast for year-end 2012 was about 1350.
- This year they are much more bullish (with an average forecast of 1575). This prompts the question whether the consensus is too bullish.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Annual data as of 2011.



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# Better Days Ahead for the Eurozone?



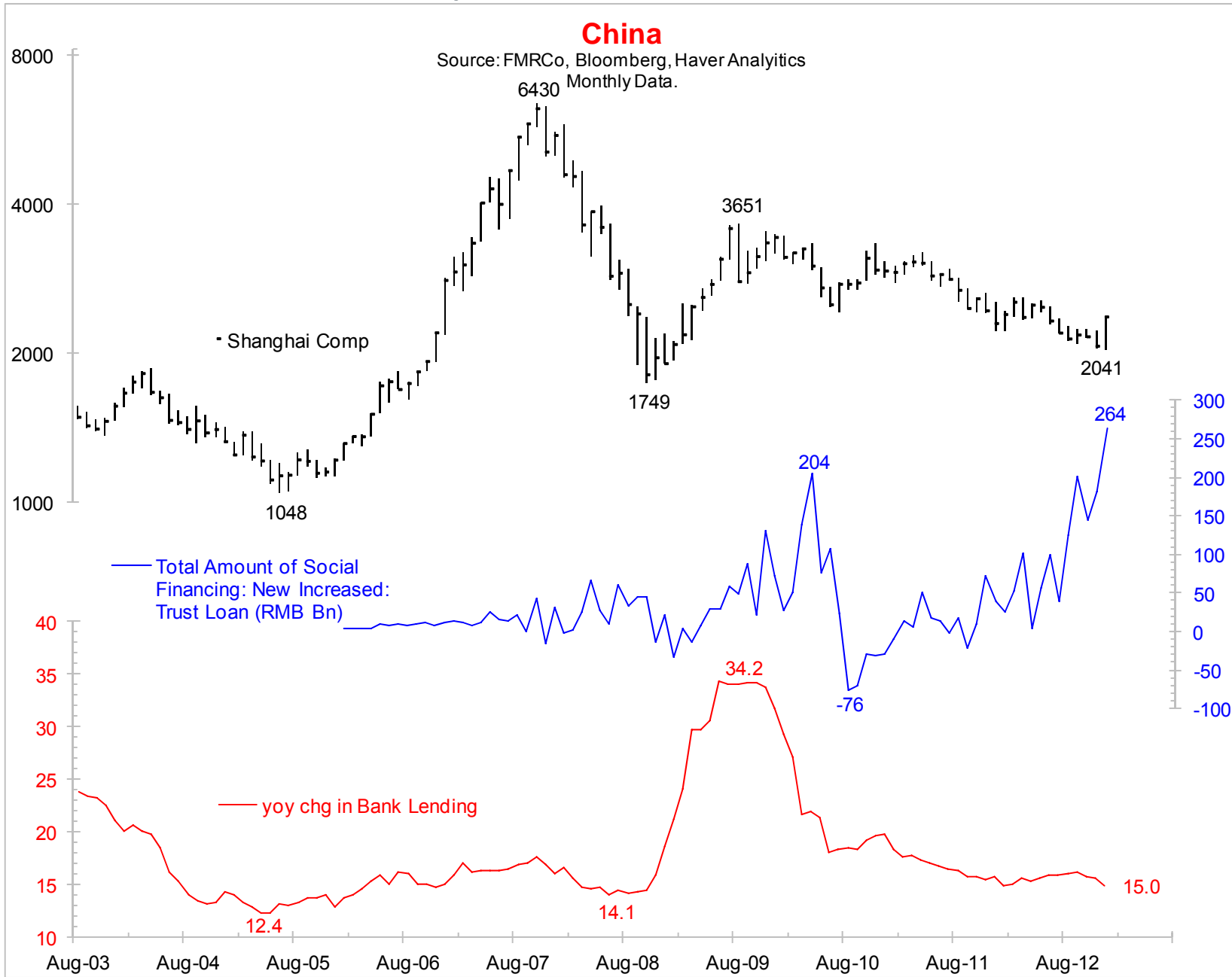
- M1 money supply growth tends to lead earnings by about a year.
- The recent upturn in M1 growth in the Eurozone bodes well for earnings growth.

Data source: FMR, Haver Analytics, Factset. Monthly data as of 8 February 2013.



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# China in Low Quality Rebound



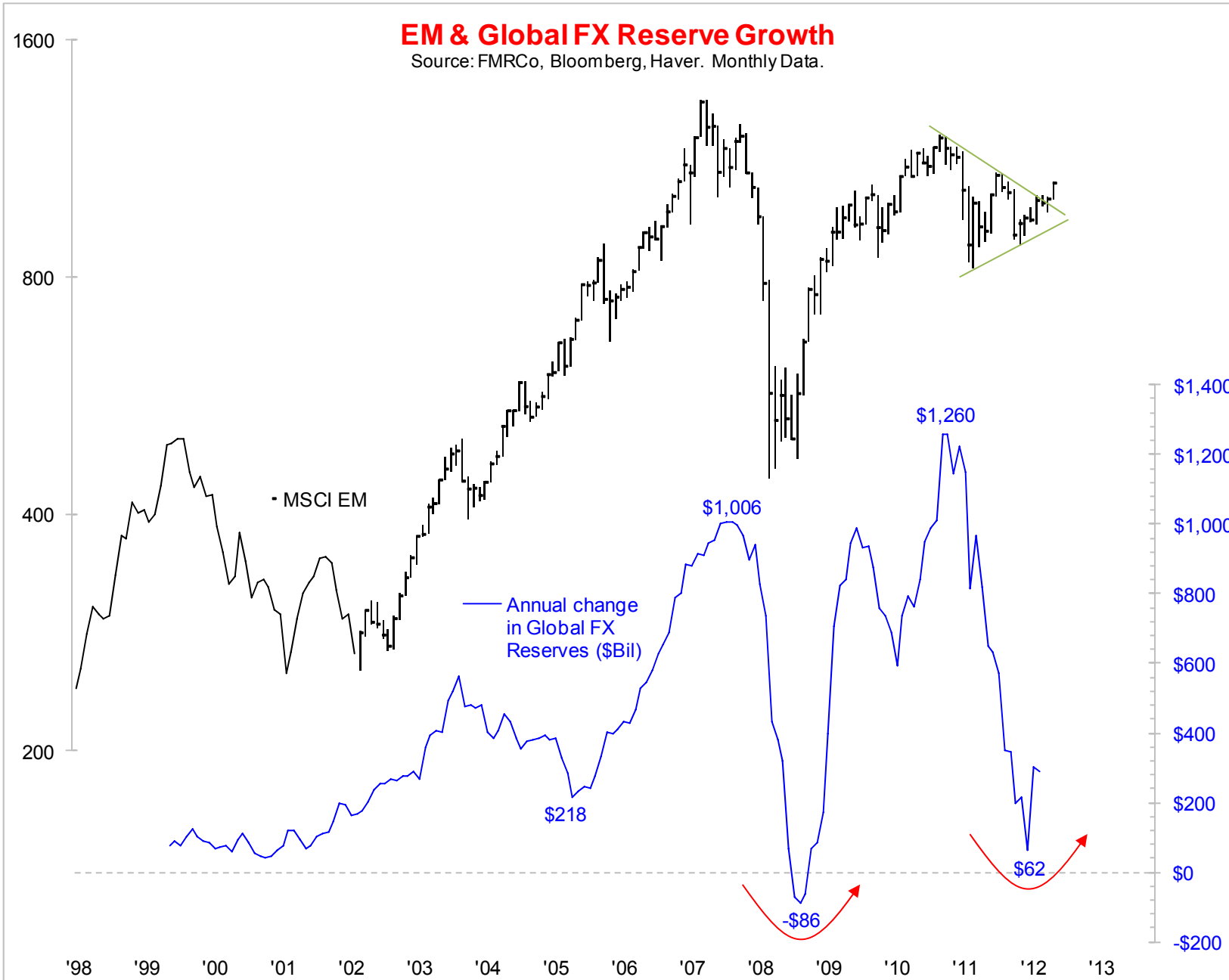
• China's economy is rebounding after having spent most of 2012 in a growth recession. The question is: how sustainable will it be?

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Monthly data as of February 8, 2013.



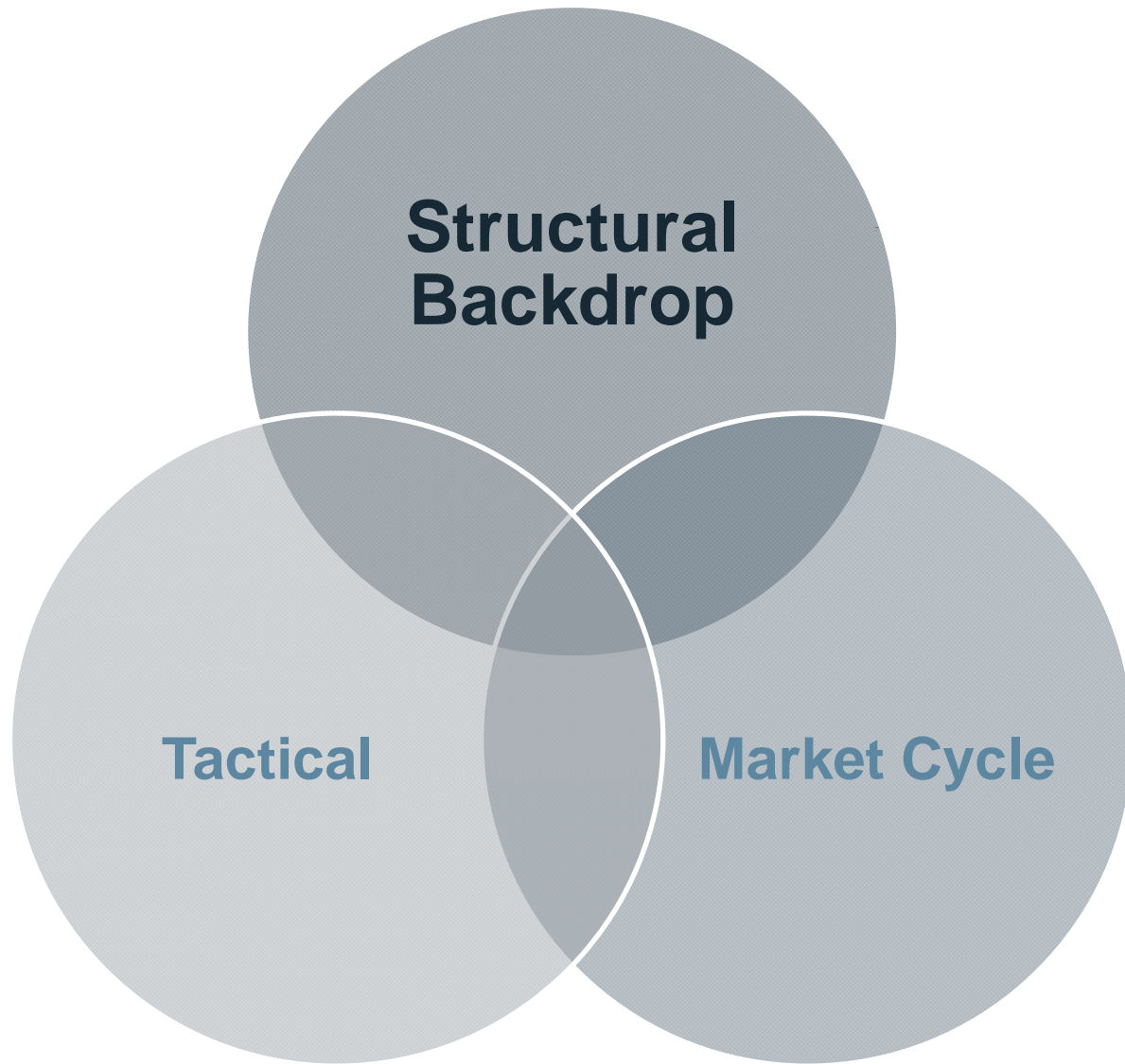
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# Recovery in EM

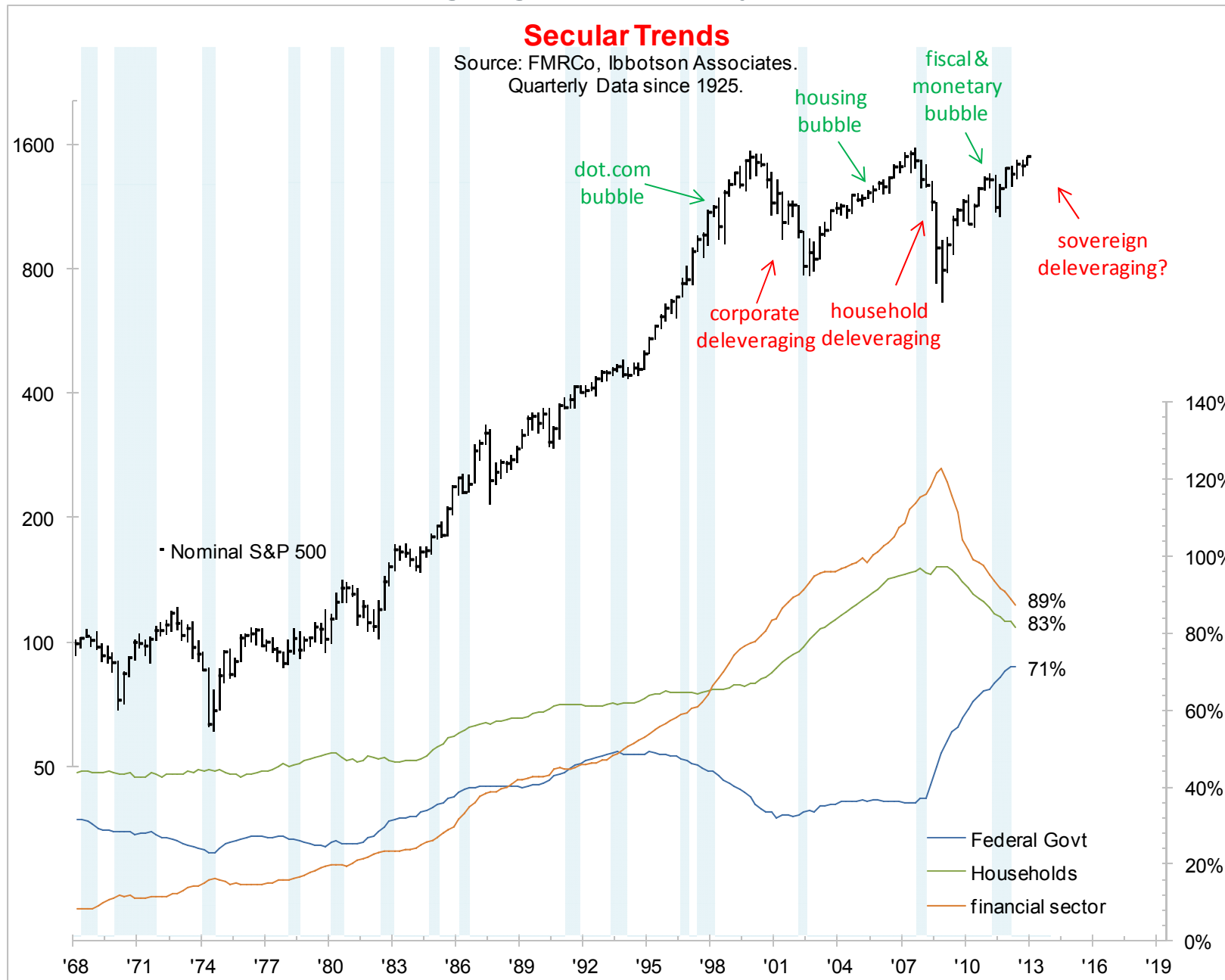


- The performance of EM equity markets and currencies appears to be closely linked to the growth of global FX reserves (or the lack thereof).
- With the growth in FX reserves now turning up, EM equities are breaking out.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Monthly data as of February 8, 2013.



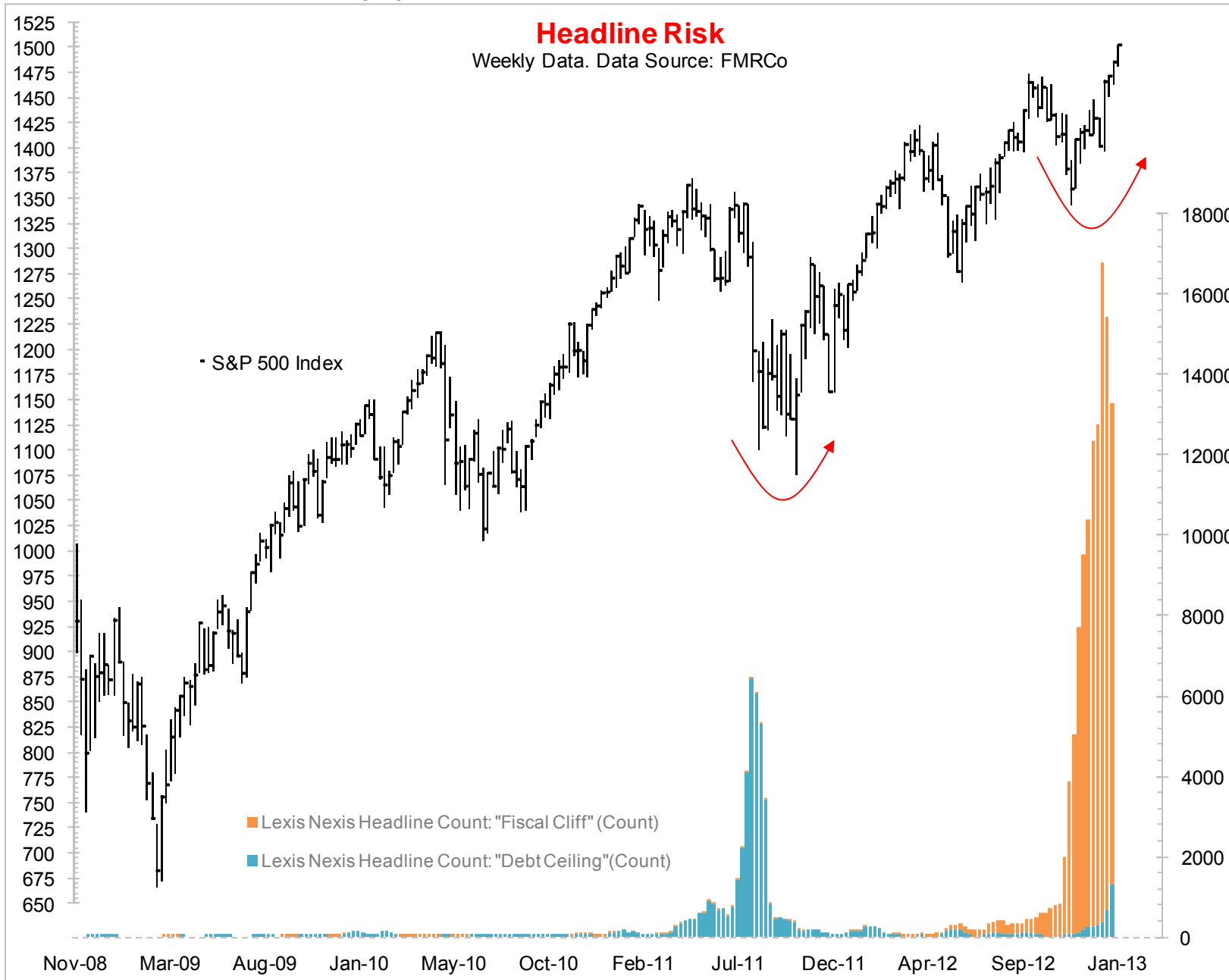
# The Debt Deleveraging Super-Cycle



- After a three decades long increase in financial leverage, we have been in what could be a 15 year debt deleveraging super cycle for the private sector. This deleveraging has almost dollar for dollar been offset by a re-leveraging of the public sector balance sheet.
- If fiscal austerity is coming, then both private and public sector balance sheets may de-lever at the same time, which could create a drag on growth.

Data source: FMR, Haver Analytics, Factset. Quarterly data as of 8 February 2013.

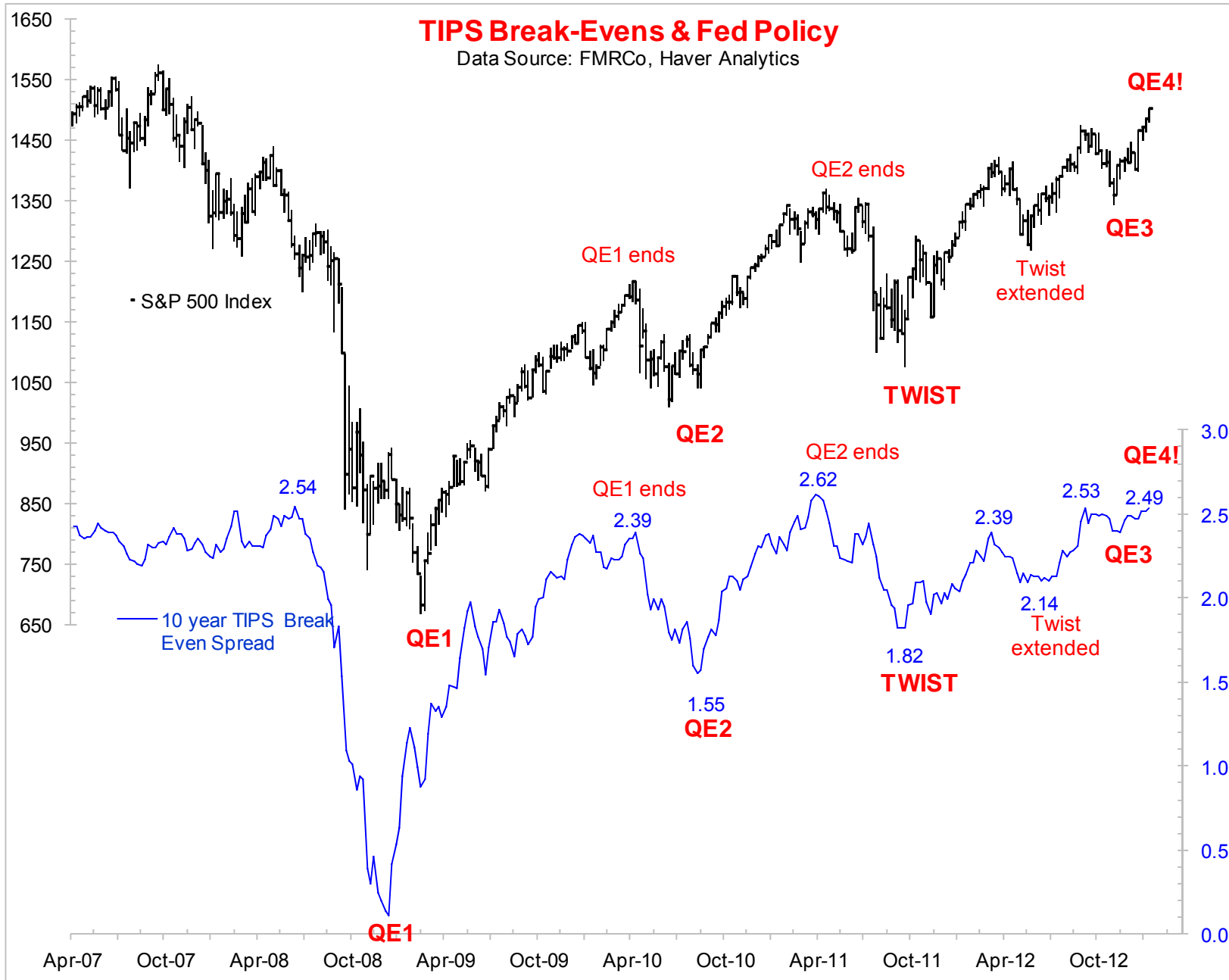
# The Fiscal Cliff(s): a Known Unknown?



- The good news is that the fiscal cliff is a "known unknown." Judging by the headline count, it looks like a lot of risk has already been priced into stocks.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Monthly data as of February 8, 2013.

# QE4 Risks Inflation



•The Fed is not only doing more QE, but it is doing it as aggressively as QE1. QE1 was started when the TIPS B/E was close to zero. QE3/4 is being started with a B/E of 2.5%! That's like giving an adrenaline shot to a healthy patient.

Data source: FMR, Bloomberg, Haver Analytics, Factset, CQG. Monthly data as of February 8, 2013.



# Is the Secular Bear Market Ending?



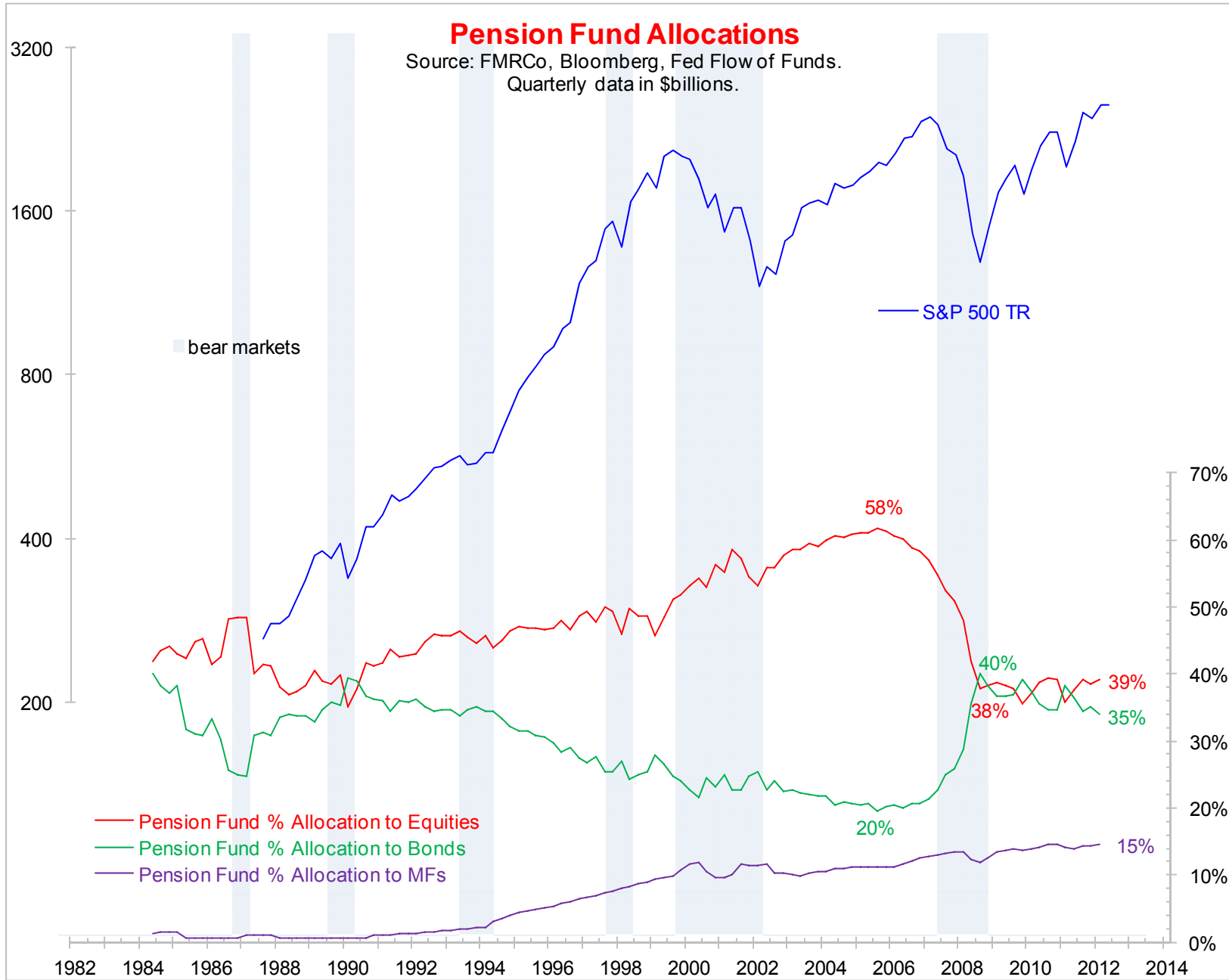
- There are technical signs that the secular bear market for equities since 2000 is turning. If that is the case, there are many investors who are not positioned for a sustained period of above average returns.

Data source: FMR, Haver Analytics, Factset. Quarterly data as of 8 February 2013.



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# The Great Rotation?



• If a new secular bull market is indeed underway, it will take a long time for most investors to catch up in terms of their asset allocation.

Data source: FMR, Haver Analytics, Factset. Quarterly data as of 8 February 2013.



Secular  
Themes

# PORTFOLIO STRATEGY

Tactical  
Opportunities

Market  
Cycle

Q&A



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A diffusion index is a method of summarizing the common tendency of a group of statistical series. If a greater number of the series are rising than are declining, the index will be above 50; if fewer are rising than declining, it will be below 50.

MSCI All Country World- MSCI ACWI (All Country World Index) Index is a market capitalization weighted index that is designed to measure the investable equity market performance for global investors of developed and emerging markets.

The Value Line Index is equally weighted and arithmetically averaged based on the price change of each of the index's 1650 component stocks from the previous day's close. Source: Kansas City Board of Trade

The Russell 2000 Index is a market capitalization–weighted index designed to measure the performance of the small-cap segment of the U.S. equity market . It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.



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The MSCI Europe Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of the developed markets in Europe.

The Shanghai Stock Exchange Composite Index is a market capitalization-weighted index. The index tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange.

The Dow Jones Industrial Average, published by Dow Jones & Company, is a price-weighted index that serves as a measure of the entire U.S. market. The index comprises 30 actively traded stocks, covering such diverse industries as financial services, retail, entertainment, and consumer goods.

The MSCI Emerging Markets Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in emerging markets.



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Sector investments may involve greater volatility than more broadly diversified investments.

Lower-quality debt securities involve greater risk of default or price changes due to the credit quality of the issuer.

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All indexes are unmanaged and no investment may be made in any index. Stock values fluctuate in response to the activities of individual companies and general market and economic conditions. Small-cap stocks are generally more volatile than large-cap stocks. Value stocks can perform differently from the market as a whole. They can remain undervalued by the market for long periods of time.

30-year treasury and 10 year treasury are a fixed income securities backed by the full faith and credit of the U.S. government and are used as benchmarks for the pricing of various corporate fixed income instruments.





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The Fed Funds rate is the rate of interest on overnight loans of excess reserves among commercial banks. 30-year treasury and 10 year treasury are a fixed income securities backed by the full faith and credit of the U.S. government and are used as benchmarks for the pricing of various corporate fixed income instruments. The S&P Gold group is an index of gold stocks as defined by Standard & Poor's. The NAREIT All Issues REITs Index is an index of real estate investment trusts as defined by the Nat'l Assoc. of Realtors.

All data downloaded from Haver Analytics. All country and regional equity indices: MSCI. All bond indices: Barclays. Gold: Handy & Harman. All GSCI: Goldman Sachs Commodity Index. Currencies: Morgan Stanley. Hedge Fund Data: Hennessee.

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