



## Don't bet on a Trump or Fed put

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Fidelity International's outlook from the Fixed Income investment team

For investment professionals only

# Executive Summary

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In the days either side of the 2 April “Liberation Day” tariff announcement, the US 10-year Treasury yield whipsawed, initially slumping from 4.4% to 4%, then bouncing to 4.5%. In early May, yields have settled around 4.3% but remain volatile. The hold in rates at the May FOMC meeting was expected, but the committee’s warning of rising economic risks should be heeded by the market.

Risk assets have largely recovered with the S&P 500 recouping its April losses and roughly where it was just before Trump’s election win. A similar story is playing out in credit, with US investment grade offering a spread of just 70-80bps and high yield around 350bps. If we incorporate recession probabilities and corporate default rates, these levels do not suggest the market is pricing in any material chance of a recession. If the market is basing this on expectations of a Trump or Fed put, this confidence may be misplaced.

The new US administration is disrupting the modus operandi of the past half century. Since disbanding the Bretton Woods system in the 1970s, a wave of financialisation has occurred globally. The US has turned into the big global consumer while China is the supplier, which had led to consistent US trade deficits. Capital inflows into the US have propped up the dollar and suppressed its cost of debt, financing ongoing budget deficits and swelling its debt load.

These pressures are not new, but in recent years whenever they have threatened the economy, authorities have stepped in to support the market in a “stop-go” rhythm. But this looks increasingly less likely in the future.

Since the wake of the pandemic, when US authorities turbo charged debt issuance and inexplicably funded it using short term debt as opposed to locking in low long term rates, an economic downturn has been lurking in the shadows. Budget deficits of around 6-7% - unprecedented outside wartime or recession - have kept that downturn at bay.

But the new US government has a different agenda. It wants to reverse the trade deficit and unwind capital imbalances, motivating the trade war that is currently impacting sentiment and likely to show up in hard economic data over the coming months. In addition, the Treasury secretary is eyeing 3% as a budget deficit target, which would mean significantly reigning in fiscal spending. The Fed would likely respond to growth headwinds, but unlike previous episodes since the Global Financial Crisis, it won’t have an entirely free hand given higher inflation levels.

Risk asset markets are complacent to such a scenario, betting on policymakers to resolve the risks. The US government could capitulate to market demands, but even if it entirely reversed course, it would take time to dissipate the uncertain spending environment for businesses and consumers. Investors should be mindful of the expectations embedded in asset prices and adopt more defensive positioning given the risks ahead.

**Steve Ellis**  
Global CIO Fixed Income



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## Strategy summary

We favour long duration positions in select economies where valuations are attractive. We continue to think there are risks of stagflation and a growth slowdown. We are broadly underweight credit across all geographies in the context of tight historical spreads and geopolitical uncertainty.

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## Macro and unconstrained

The 'US exceptionalism' trade (long USD, long US risk assets, short US duration) has unwound as euphoria has faded, and we've recently become more constructive on US rates. We see upside risks to long-term inflation and we still have high conviction in emerging market currencies and rates.

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## Investment grade credit

Headline risks drove IG credit spreads in April, starting with broad widening after 'Liberation Day' announcements. IG credit technicals remain strong, but we remain underweight or neutral credit in all regions as valuations remain rich, particularly when we expect geopolitical uncertainty to continue.

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## High yield

High yield markets were not immune to the volatility in April but witnessed a sharp U-turn half way through the month. Spreads initially widened due to the retaliatory tariffs announced by the US and subsequent heightened recession fears. Despite some de-escalation on the tariff front, macro-economic risks remain skewed to the downside, and we are experiencing an unprecedented period of uncertain policy implications.

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## Emerging markets

Emerging market debt posted mixed returns in April with local currency bonds (3.2%) significantly outperforming hard currency sovereign (-0.2%) and hard currency corporate debt (-0.4%). Given the recent wider spread levels, we are seeking to rotate into names that have widened a lot to cover some of our underweight in hard currency. We continue to be overweight EM local duration with high real yields and credible central banks.

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## Quant appendix

## Important Information

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.

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

**Bond investments:** The price of bonds 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:** Overseas investments will be affected by movements in currency exchange rates. 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:** Investing in emerging markets can be more volatile than other more developed markets.

**Derivatives:** Some fixed income investments 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, and expose investors to the risk of financial loss if a counterparty used for derivative instruments subsequently defaults.

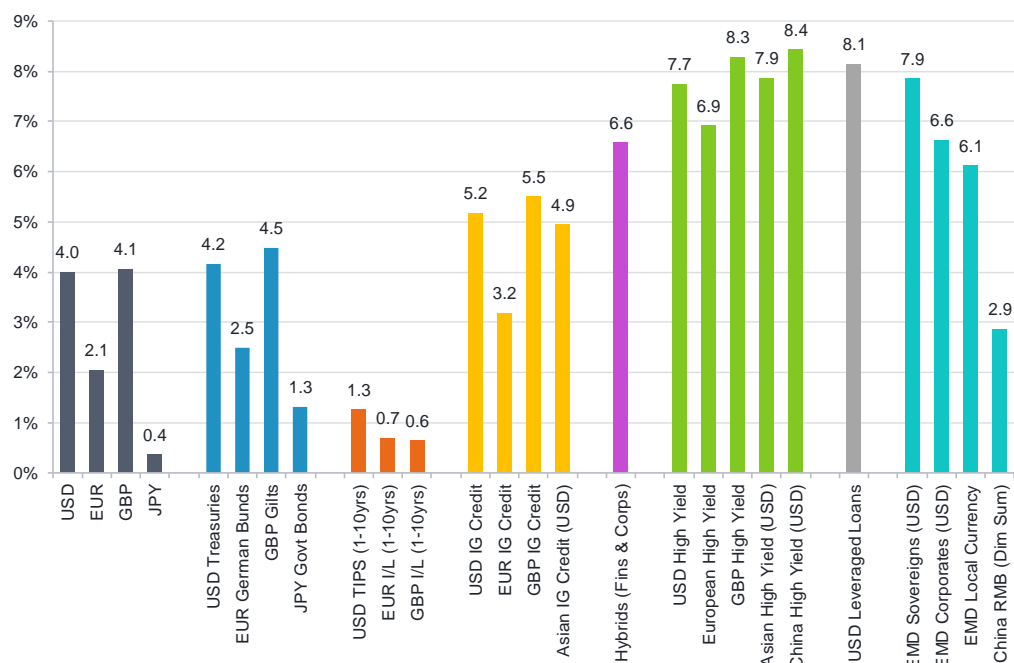
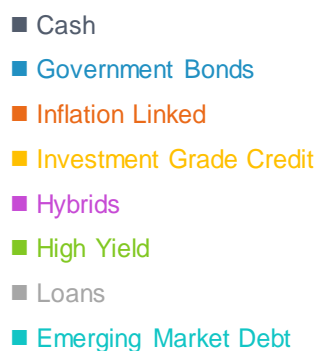
**Hybrid securities:** Hybrid securities typically combine both equity and debt sensitivities and exposures. Hybrid bonds are subordinated instruments that have equity like characteristics. Typically, they include long final maturity (or no limitation on maturity) and have a call schedule increasing 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.

# Strategy summary

The Fixed Income Monthly provides a forward-looking summary of the medium-term views from Fidelity's 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 and the views presented in this document. 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.

Macro and unconstrained	--	-	=	+	++	Main views
<b>Overall duration</b>				●		<ul style="list-style-type: none"> <li>▪ The US economy faces twin deficits and relies on foreign investment, but recent policy has not supported foreign investors, leading to increased bond yields and a weaker US Dollar.</li> <li>▪ We see opportunities in EM currencies and rates where real yields are still very high, while maintaining some long positions in inflation-linked assets.</li> <li>▪ We have used recent weakness to add back some credit risk to a more neutral position.</li> </ul>
USD duration			→	●		
EUR duration			●	←		
GBP duration				●	←	
Inflation				●		
Credit		→	●			
Investment grade credit	--	-	=	+	++	
<b>Investment grade credit beta</b>		●				<ul style="list-style-type: none"> <li>▪ Global IG credit technicals remain strong, creating market opportunities, although macroeconomic and geopolitical uncertainty may drive IG spreads wider in the medium term.</li> <li>▪ Headline risks remain, despite markets ending April in a period of relative calm. Tariffs and headlines are expected to cause inflationary pressures in the near term, but longer-term impacts are uncertain.</li> </ul>
USD IG		●				
EUR IG		●				
GBP IG		→	●			
Asian IG (USD)		●				
High yield	--	-	=	+	++	
<b>High yield credit beta</b>			●			<ul style="list-style-type: none"> <li>▪ We maintain an underweight stance in US HY amidst the current volatility.</li> <li>▪ We maintain a neutral stance on European HY as macro volatility is weighing on confidence, but yields remain attractive.</li> <li>▪ We maintain a neutral stance in AHY as the low duration nature of the asset class provides insulation against macro volatility and tariffs.</li> </ul>
US high yield		●				
European high yield			●			
Asian high yield			●			
Emerging markets	--	-	=	+	++	
EM hard currency sovereign debt		→	●			<ul style="list-style-type: none"> <li>▪ Given the recent wider spread levels, we are looking to cover some of our underweight credit beta in hard currency.</li> <li>▪ We continue to be overweight EM local duration with high real yields and credible central banks</li> <li>▪ We remain neutral on EM currencies, trying to be nimble in our positioning and looking at relative value trades.</li> </ul>
EM hard currency corporate debt		→	●			
EM local currency duration				●		
EM FX			●			
China RMB debt			●			

## Yields across fixed income asset classes



Source: Fidelity International, Bloomberg, JPM and ICE BofA Merrill Lynch bond indices, 30 April 2025. Yield to maturity for all instruments except HY and EM (yield to worst), USD loans (yield to 3yrs), and inflation-linked bonds (real yield). Hybrids universe defined as 50% Corporate Hybrids and 50% Financial Hybrids indices.

## Summary of returns - 30 April 2025 (%)

Government	1 Month	YTD	2024	2023	2022	2021	2020
US Treasuries	0.6	3.6	0.5	3.9	-12.9	-2.4	8.2
EUR Bunds	2.0	0.2	0.5	5.1	-17.6	-2.6	3.0
UK Gilts	1.8	2.3	-4.1	3.7	-25.1	-5.3	8.8
<b>Inflation Linked</b>							
USD	0.0	4.2	2.0	3.6	-12.6	6.0	11.5
EUR	1.0	0.5	0.3	5.0	-8.1	6.2	3.1
GBP	0.1	-1.4	-8.8	0.7	-34.4	3.9	11.3
<b>Investment Grade Corporate</b>							
USD	0.0	2.3	2.8	8.4	-15.4	-1.0	9.8
EUR	0.9	1.1	4.7	8.0	-13.9	-1.0	2.6
GBP	1.3	1.8	1.9	9.7	-19.5	-3.0	8.7
Asian Dollar	0.3	2.7	3.6	7.5	-11.0	0.0	7.6
<b>Financial and Corporate Hybrids</b>							
Contingent Convertibles	-0.2	1.3	12.2	5.7	-11.4	4.7	6.8
Investment Grade Corporate Hybrids	0.0	0.8	8.4	10.2	-12.9	1.4	3.8
<b>High Yield</b>							
US	0.0	0.9	8.2	13.5	-11.2	5.4	6.2
European	0.2	1.3	8.3	13.1	-13.9	3.3	3.6
Asia	-0.8	1.8	16.5	-0.1	-13.3	-6.2	8.4
<b>Emerging Markets</b>							
EM USD Sovereigns	-0.2	2.0	6.5	11.1	-17.8	-1.8	5.3
EM USD Corporates	-0.4	2.0	7.6	9.1	-12.3	0.9	7.1
EM Local Currency (USD unhedged)	3.2	7.7	-2.4	12.7	-11.7	-8.7	2.7
China RMB	-1.7	1.3	3.8	4.8	1.9	3.2	3.7

Source: Fidelity International, ICE, Bloomberg, 30 April 2025. JPM and ICE BofA bond indices for total returns. ICE BofA Merrill Lynch Q490 Index for Asia high yield.

# Macro and unconstrained

## Monthly review

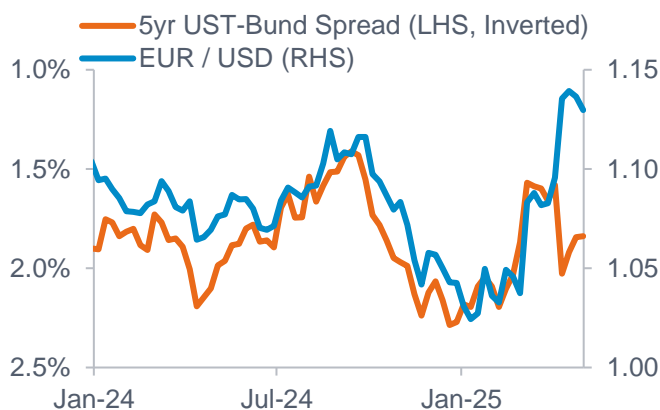
- The US economy faces twin deficits and relies on foreign investment, but recent policy has not supported foreign investors, leading to increased bond yields and a weaker US Dollar.
- We see opportunities in EM FX and rates where real yields are still high, while maintaining some long positions in inflation-linked assets.
- We have used recent weakness to add back some credit risk to a more neutral position.

## Outlook

In recent months, we've discussed how the US dollar was fundamentally overvalued, and that what began as cyclical weakness in the first quarter could evolve into a structural issue. By April, there was clear evidence of this shift. Typically, major currencies are influenced by interest rate or sovereign bond yield differentials. For example, the US dollar has been strong over the past decade primarily because the Fed increased interest rates more than other central banks, due to stronger US growth and, at times, higher inflation. Conversely, the Yen was notably weak from 2021 to 2024 because the Bank of Japan refrained from rate hikes while other central banks did.

Last month, this relationship broke down for US assets, as US government bond yields surged, and the US dollar declined. This is a precarious situation, reminiscent of emerging markets crises and similar to what happened in the UK from mid-August to late September 2022 leading up to the UK's 'mini budget' crisis.

### US dollar rate differentials have broken down



Source: Bloomberg, May 2025.

The US economy faces challenges as a twin deficit economy, with ongoing fiscal and current account deficits, relying on foreign investment to fund these deficits. Recent US policy has not favoured foreign investors. The increase in long-term government bond yields, coupled with a weaker US dollar, suggests

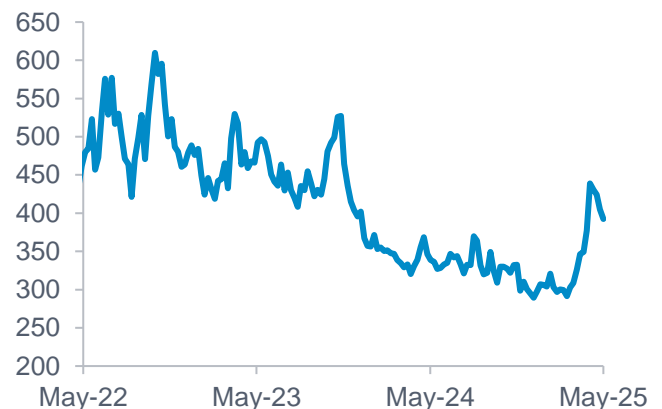
Strategy	--	-	=	+	++
Overall duration				●	
USD duration			→	●	
EUR duration			●	←	
GBP duration				●	←
Inflation				●	
Credit		→	●		

capital flight, with 'bond vigilantes' actively influencing the market.

We anticipate that US tariffs will continue to be reduced as agreements are reached, or as further delays or exceptions are announced. Nevertheless, the damage to US and global growth has already occurred, with uncertainty leading to a period of weaker growth.

We are increasingly comfortable owning US government bonds, capitalising on higher US yields to switch from our previous bullish positions in European government bonds, which are no longer so attractively priced. The correction in risk assets has also provided an opportunity to close out underweights and short positions in credit, as economic pessimism seems adequately priced in for now.

### US High Yield 5-year CDX Spread (bps)



Source: Bloomberg, May 2025.

Recent events reinforce our conviction to be bearish on the US dollar. Emerging market currencies stand to gain from a weak US Dollar, as many are exceptionally cheap with nominal and real yields at historic highs in EM local bonds.

While we consider it unlikely that tariffs imposed this year will de-anchor long-term inflation expectations, the fact that so little inflation is priced in beyond this year still makes inflation protection quite cheap. Therefore, we are maintaining long positions in US and European inflation-linked assets.

# Investment grade credit

## Monthly review

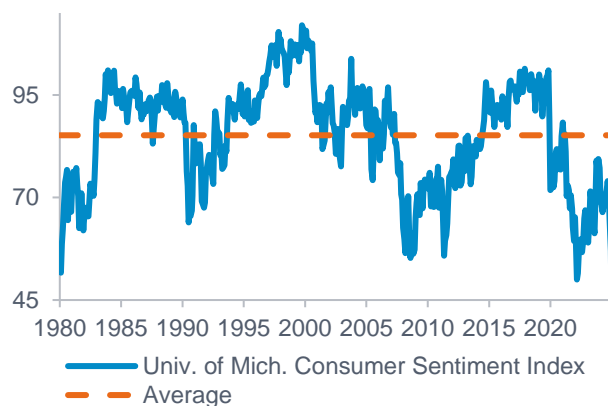
- Global IG credit technicals remain strong, creating market opportunities, although macroeconomic and geopolitical uncertainty may drive IG spreads wider in the medium term.
- Headline risks remain, despite markets ending April in a period of relative calm. Tariffs and headlines are expected to cause inflationary pressures in the near term, but longer-term impacts are uncertain.

Strategy	--	-	=	+	++
IG credit beta		●			
USD IG		●			
EUR IG		●			
GBP IG		→	●		
Asian IG (USD)		●			

## Outlook

Global IG credit returned 0.27% in April with spreads widening by 13bps overall. Markets were extremely volatile following 'Liberation Day', with subsequent global moves continuing to be headline driven. Overall month end moves appear relatively modest, but the announcement of US reciprocal tariffs led to a significant market risk-off tone. IG spreads widened broadly, before retracing some of this movement after the announcement of a 90-day tariff extension. Our credit positioning remains largely defensive, although in some cases we have taken the opportunity to cover some of this where spreads have looked attractive.

### US consumer sentiment has significantly fallen



Source: FRED, April 2025.

US IG credit returned -0.03% in April with spreads widening by 12bps overall. Tariff headlines have continued to weigh on risk assets, and we have seen some increase in US Treasury yields. This has led to concern that US Treasuries have not been acting as a hedge for equities, although yield moves are almost flat on a YTD basis.

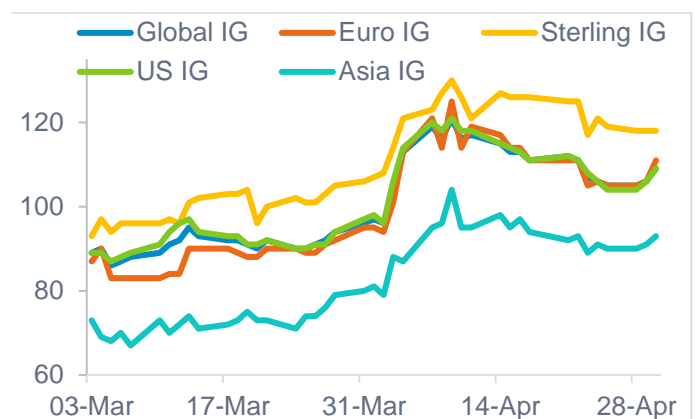
Although US spreads have moved wider, they remain tight on a historical basis. We have taken advantage of volatility to increase high-quality credit exposure across select sectors, while remaining underweight credit overall. Tariffs have increased the risk of a global recession, where we would expect significant Fed cuts, particularly given our concerns on the health of the US consumer. We are maintaining our slight overweight to US duration.

Euro IG credit returned 0.9% in April with spreads widening by 16bps overall. European growth dynamics remain conflicted, with potential trade wars and limited momentum in Russia-Ukraine peace-talks competing with fiscal stimulus packages and potential trade deals. European rates appear more resilient than Treasuries, leading to the possibility of asset rotation from the US to Europe. The German fiscal announcement means European states now have more flexibility to stimulate demand, which we expect to limit growth downside.

We are maintaining a conviction underweight in Euro IG credit, as upside appears minimal given spreads have not significantly deviated from historical tightness.

Sterling IG credit returned 1.3% in April with spreads widening by 7bps. Despite more limited tariff exposure, UK credit spreads have similarly been driven by global political headlines. We have covered underweights in Sterling IG credit but remain cautious into expected further volatility, and neutral in rates.

### Spreads stabilise after April's sharp moves wider



Source: Bloomberg, April 2025.

Asia IG credit returned -0.04% in April with spreads widening by 13bps overall. Despite tariff uncertainty, spreads have retraced some of their widening, with the market ending April in what appears to be a fragile new equilibrium, supported by the potential for Chinese government stimulus. We are continuing to hold USD assets, but we are demanding a higher premium.

# High yield

## Monthly review

- High yield markets posted mixed returns during April on retaliatory tariffs by the US.
- European HY and US HY spreads widened initially but reversed later in the month amid rapidly shifting narratives.
- Asian HY posted negative returns and underperformed other regions amid fears of a global trade war.

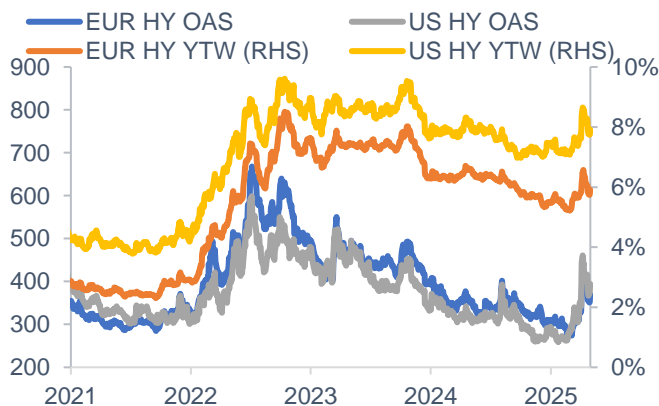
Strategy	--	-	=	+	++
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HY credit beta				●	
US high yield		●			
European high yield			●		
Asian high yield			●		

## Outlook

Global high yield markets were not immune to the volatility in April, but witnessed a sharp U-turn halfway through the month, posting almost neutral returns of -0.1%. Spreads initially widened due to the retaliatory tariffs announced by the US and subsequent heightened recession fears. Despite some de-escalation on the tariff front, macro-economic risks remain skewed to the downside, and we are experiencing an unprecedented period of uncertain policy implications.

### Spreads stage a U-turn in April



Source: Fidelity International, ICE Indices, Bloomberg, 30 April 2025

US high yield bonds posted almost flat returns with spreads widening by 39bps. The core outlook remains unchanged amidst the volatility, making it increasingly difficult to predict anything with certainty. US high yield spreads recovered some of the widening seen earlier in the month due to rapidly shifting narratives.

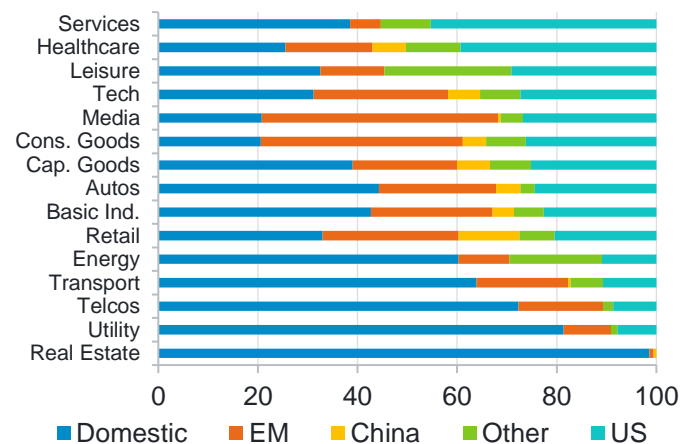
The return potential for this asset class hasn't changed since the end of March. But negative growth and inflation trends introduce a minor risk to financial stability. It is difficult to see spreads moving significantly tighter unless tariffs are effectively abandoned. As recession risk appears underpriced by credit spreads, it is prudent to move up in quality and reducing exposure to cyclical sectors. We are underweight US HY and retain a modestly defensive credit beta and quality bias and expect carry to be a driver of near future returns.

European HY posted 0.2% returns with spreads widening by 47bps in April. We are relatively cautious, given a high probability of low growth and high inflation. Regardless of the trade war, confidence is low, and

consumer spending decisions are being deferred. Europe seems a safer region for investment, although risks remain, particularly given the EU's significant trade with the US. Some countries and sectors, such as capital goods, industry and autos are more impacted, necessitating careful monitoring.

A further tailwind comes from the ECB, which continues to cut rates. A hard landing could lead to credit spreads widening materially, but this is not our base case. Moreover, European HY has a high proportion of BB rated bonds, which have relatively lower default rates, indicating that the market is in good shape. We remain neutral on EHY with a preference for defensive and domestic industries.

### Ave regional revenue split for Euro credit sectors



Source: Fidelity International, ICE Indices, Bloomberg, 30 April 2025

In April, Asian HY experienced negative returns as escalating trade tensions between the US and China led to cautious sentiment. Despite uncertainties, the current market is fundamentally stronger, with lower leverage than five years ago, indicating more resilience.

Despite the challenges, market dislocations can uncover opportunities. China and India can mitigate economic impacts by boosting domestic consumption and through monetary and fiscal support. Their bargaining power with the US enables favourable trade negotiations. As conditions stabilise, opportunities to add risk at attractive valuations may arise. Overall, attractive yields provide a strong reason to remain invested.

# Emerging markets

## Monthly review

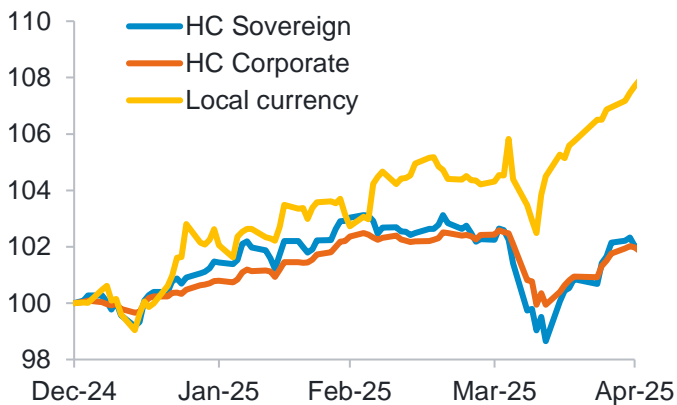
- Emerging market bonds posted mixed returns with local currency bonds outperforming hard currency.
- Hard currency bonds total returns were weighed down by wider spreads.
- Local currency bond returns were supported by a positive FX returns.

Strategy	--	-	=	+	++
HC sovereign		→	●		
HC corporates		→	●		
LC duration				●	
EM FX				●	
China RMB				●	

## Outlook

Emerging market debt posted mixed returns in April with local currency bonds (3.2%) significantly outperforming hard currency sovereign (-0.2%) and hard currency corporate debt (-0.4%). EM credit spreads witnessed volatility in line with other risk assets. Spreads widened after the US 'Liberation Day' tariff announcements but soon reversed as the narratives changed over the month.

### Local currency outperforms hard currency YTD



Source: Fidelity International, JPMorgan, Bloomberg, as of 30 April 2025.

We came into April underweight credit beta in hard currency sovereigns and corporates due to concerns that spreads were too tight for the macro mix of exogenous and idiosyncratic risk factors. Given the recent wider spread levels, we are seeking to rotate into names that have widened a lot to cover some of our underweight. We remain cautious and our focus is to maintain relatively high credit quality and liquidity, while capitalising on idiosyncratic or market opportunities to add attractive credits.

Spread underperformers in the crossover space, regions or sovereigns that are less exposed to tariffs offer opportunities. At a regional level, we expect Asia credits to underperform other parts of EM going forward, given tight valuations and the current tariff trajectory.

For the region, the key will be the extent and duration of tariff-related disruptions to supply chains, meaning growth rates will be more volatile as companies take time to adjust. In general, we prefer Latam and

CEEMEA and think some countries are attractive like Mexico, Romania, and Colombia.

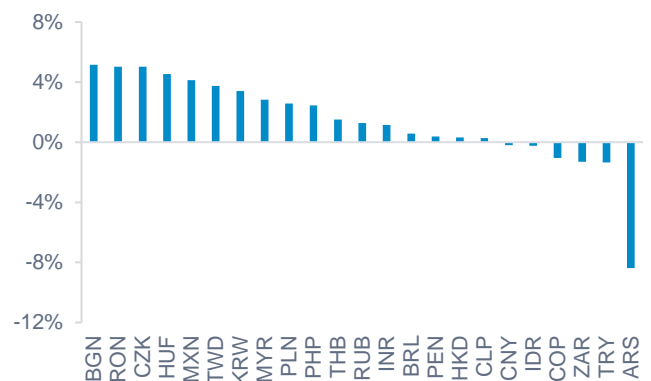
We continue to be overweight EM local duration. We are selectively positioned in countries with high real yields and credible central banks. Latin American countries look particularly attractive as rates are higher, e.g. in Brazil and Columbia.

The general narrative that in a trade war, EM would suffer most has not been playing out so far, as the weaker US dollar has helped to ease some inflation and external pressures. We are positive on Brazilian rates and currency, given the high probability for only one final hike and then pause.

We continue to be neutral on EM currencies. EMFX remains vulnerable to global risk sentiment even if the US dollar has weakened recently. We maintain a cautious stance, favouring currencies with strong external balances and policy credibility.

We have less conviction in the Turkish lira given falling net reserves and potentially ineffective monetary response to pressures from deposit conversion by locals. We are also carefully monitoring any escalation in geopolitical risks including India and Pakistan.

### EM currencies were resilient during April



Source: Fidelity International, JPMorgan, Bloomberg, April 2025.

# Quant tactical scorecard

Fidelity Fixed Income quantitative scorecard

30 April 2025

## Credit beta and asset allocation

Credit beta	TOTAL	Macro-economics*	Sentiment	Valuation	Seasonality
USD investment grade credit	-0.35		-0.6	0.1	-0.7
EUR investment grade credit	-0.22		-0.3	0.1	-0.7
USD high yield	-0.56		-0.9	0.1	-1.0
EUR high yield	-0.41		-0.7	0.1	-0.7
EMD sovereigns (USD)	-0.17	1.0	-0.5	0.1	-0.7

**Comments:** The model has turned more bearish across the board this month. Seasonality has been the main driver of the change and sentiment also worsened compared to last month.

\*The developed markets do not follow the macro signal in this model

Asset allocation	TOTAL	Macro-economics	Fundamentals	Sentiment and liquidity	Valuation and reversion
Investment grade credit	-0.41	-1.0	-0.3	-0.5	-0.2
High yield	-0.52	-1.0	-0.3	-0.5	-0.4
US loans	-0.40	-1.0	-1.0	-0.3	-0.2
EM sovereign debt (USD)	-0.65	-1.0		-0.6	-0.6
EM local currency debt	-0.29	-1.0		-0.5	0.1
EM corporate debt (USD)	-0.51	-1.0	-0.3	-0.6	-0.4

**Comments:** The model remains bearish on credit under a weak macros backdrop. Sentiment and liquidity turned negative this month and fundamental has also weakened.

## Interest rates

Duration	TOTAL	Global growth	CFTC	Commodity	Cyclical vs defensive	Reversion (return)	Reversion (yield)	Global momentum	Slope	Seasonality
EUR	0.50	-1.00	1.29	1.31	0.61	0.00	0.07	0.40	1.27	0.15
USD	0.66	1.00	1.29	1.31	0.61	-1.00	-0.44	0.40	1.54	0.29
GBP	0.71	1.00	1.29	1.31	0.61	0.00	-0.11	0.40	1.43	0.16

**Comments:** The duration model turned more bullish on rates assets this month. Lower commodity prices as well as steepening slopes are creating favourable environments to hold rates assets.

Cross-market duration	TOTAL (beta-neutral)	TOTAL	Slope	Real yield	Fair value	Growth	Inflation	Unemployment	IIP	Budget balance
AUD	0.00	0.34	1.90	0.35	0.24	-0.36	0.39	-0.44	-0.47	-0.43
CAD	0.00	-0.06	-0.77	-0.12	-0.43	0.19	-0.17	0.96	-0.28	-0.02
CHF	-0.17	0.20	0.03	0.66	-1.08	0.16	0.86	0.56	-0.97	0.11
EUR	-0.34	-0.18	-0.02	0.19	-0.29	0.07	-0.11	-0.92	-0.23	-0.02
GBP	0.07	-0.05	-0.93	0.13	0.86	0.09	-0.41	-0.04	2.05	0.01
JPY	-0.25	-0.67	-0.48	-1.77	-1.01	-0.05	-0.04	-0.70	-0.30	0.30
NZD	0.25	0.47	1.42	0.29	0.47	0.03	0.11	0.47	-0.78	-0.22
SEK	0.53	0.19	-0.43	0.48	0.95	-0.18	0.16	0.19	1.88	0.14
USD	-0.28	-0.24	-0.72	-0.21	0.30	0.05	-0.79	-0.09	-0.90	0.14

**Comments:** The model remains broadly unchanged this month. It continues to be long GBP/NZD/SEK against CHF/JPY/USD/EUR.

# Quant tactical scorecard explained

## Fidelity Fixed Income quantitative scorecard

### Credit beta and asset allocation

#### Credit beta:

1. Sentiment: technical indicators including trends in credit spreads.
2. Valuation: levels of spreads relative to history, expecting reversion to the mean.
3. Seasonality: indicator driven by historic returns in the corresponding period.

#### Credit asset allocation:

1. Macro: leading indicators including economic survey data.
2. Fundamentals: aggregated trend of single company forecasts for credit fundamentals.
3. Sentiment and liquidity: technical indicators including trends in credit spreads.
4. Valuation and reversion: deviation of spreads from their historic averages including adjustments for potential default losses and credit fundamentals.

#### Directional duration:

1. Macro future activity tracker: worsening economic outlooks are dovish, lead to lower rates.
2. CFTC: signal tracking the Treasury futures contract holdings of institutional investors.
3. Commodities momentum: a proxy for state of the economic cycle.
4. Cyclical stocks outperformance: a proxy for economic optimism.
5. Reversion (return): deviation of price from their average historic value, expecting reversion to the mean.
6. Reversion (yield): deviation of yield from their average historic value, expecting reversion to the mean.
7. Momentum: measures large moves in a single direction, taking advantage of autocorrelation of flows and returns.
8. Slope of the yield curve: steep curves earn a higher risk premium.
9. Seasonality: technical indicator driven by historic returns in the corresponding period.

#### Cross market duration:

1. Slope of the yield curve: steep curves earn a higher risk premium.
2. Real yield: yields adjusted for inflation, tend to revert to the mean.
3. Fair value: forward yields adjusted for GDP trend, tend to revert to the mean.
4. Growth forecast momentum: lower forecasts dovish, lead to lower rates.
5. Inflation forecast momentum: lower forecasts dovish, lead to lower rates.
6. Unemployment forecast momentum: lower forecasts are hawkish, lead to higher rates.
7. International investment position: Higher investment financing requirements need higher yields to compensate.
8. Budget balance forecast: revisions to the budget balance impact the risk premium

TOTAL	1	Sentiment	2	Valuation	3	Seasonality
0.35		0.5		0.1		-0.7
0.17		0.4		0.1		-1.0
0.01		0.1		0.1		-0.7
0.17		0.2		0.1		0.0
0.17		0.5		0.1		-0.7

TOTAL	1	Macro-economics	2	Fundamentals	3	Sentiment and liquidity	4	Valuation and reversion
0.08		0.8		0.0		0.0		0.0
0.64		-1.6		0.5		1.5		0.5
0.75		-1.1		1.5		1.6		0.0
0.58		-0.9		1.5		1.6		-0.5
-0.34		-1.5		-1.5		-0.7		1.0
-0.07		-1.5		-0.3		-0.1		0.5
-0.09		-1.3		-0.5		-0.1		0.5

1	2	3	4	5	6	7	8	9
Global growth	CFTC	Commodity	Cyclical vs defensive	Reversion (return)	Reversion (yield)	Global momentum	Slope	Seasonality
0.46	1.42	-0.10	0.17	2.00	1.79	-1.84	-0.95	0.51
0.46	1.42	-0.10	0.17	2.00	1.28	-1.84	-0.69	0.14
0.46	1.42	-0.10	0.17	2.00	1.67	-1.84	0.09	0.07

1	2	3	4	5	6	7	8
Slope	Real yield	Forward yield	Growth	Inflation	Unemployment	IIP	Budget balance
-0.04	0.23	0.19	-0.15	0.13	-0.07	0.45	0.10
0.12	0.22	0.39	-0.23	-0.30	0.28	1.48	-0.18
-0.51	-0.11	-0.67	0.17	0.33	-0.19	-1.70	0.07
-0.44	0.10	-0.54	0.17	-0.25	-0.58	-0.22	0.38
0.25	0.27	0.46	0.19	-0.08	-0.20	0.49	0.51
0.55	-1.17	-0.21	0.71	0.27	-0.53	0.85	0.27
0.22	0.32	0.31	-0.22	0.27	0.65	-0.20	-0.28
0.01	0.23	-0.41	-0.36	0.26	0.88	-1.54	-0.38
-0.16	-0.09	0.48	-0.28	-0.62	-0.23	0.40	-0.50

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