

*The Economy and the Markets:
Rational Exuberance?
Or..... Irrational Exuberance?*



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Irrational?

- Tesla Has “A Secured Funding Plan” to Take Itself Private
- European Junk Bond Yields
- Argentina/Austria Issued 100-Year Bonds
- Crypto Currencies Soared
- U.S. Household Net Worth \$56T to \$100T in 8 Years
- Illinois Considering Issuing \$107B to Invest in Stocks
- 1/3 of the Companies in the Russell 2000 Are Losing Money

Irrational? Beware Japan

- 40-year Japanese Governments yield 0.87%
- ...below the inflation rate of 1.1%
- Bank of Japan “printing” to drive inflation rate to 2%
- Japan’s debt/GDP predicted to go from 250% to 400% by 2058
- ...while population is projected to decline from 127 million to 93 million
- BOJ Now Owns 78% of All ETFs in Japan

How Do You Compare Investment Opportunities Around the World?



*U.S.
Stock Markets*

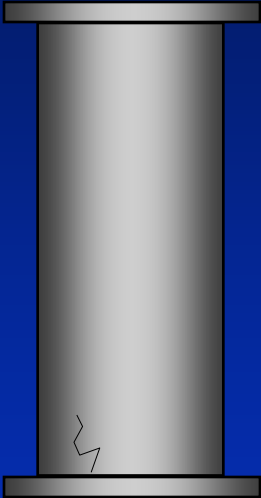
**Rising
Corporate
Earnings**

**Benign
Inflation/
Interest Rates
and Ample
Liquidity**

**Reasonable
Valuations**

Rising Corporate Earnings

Tailwinds



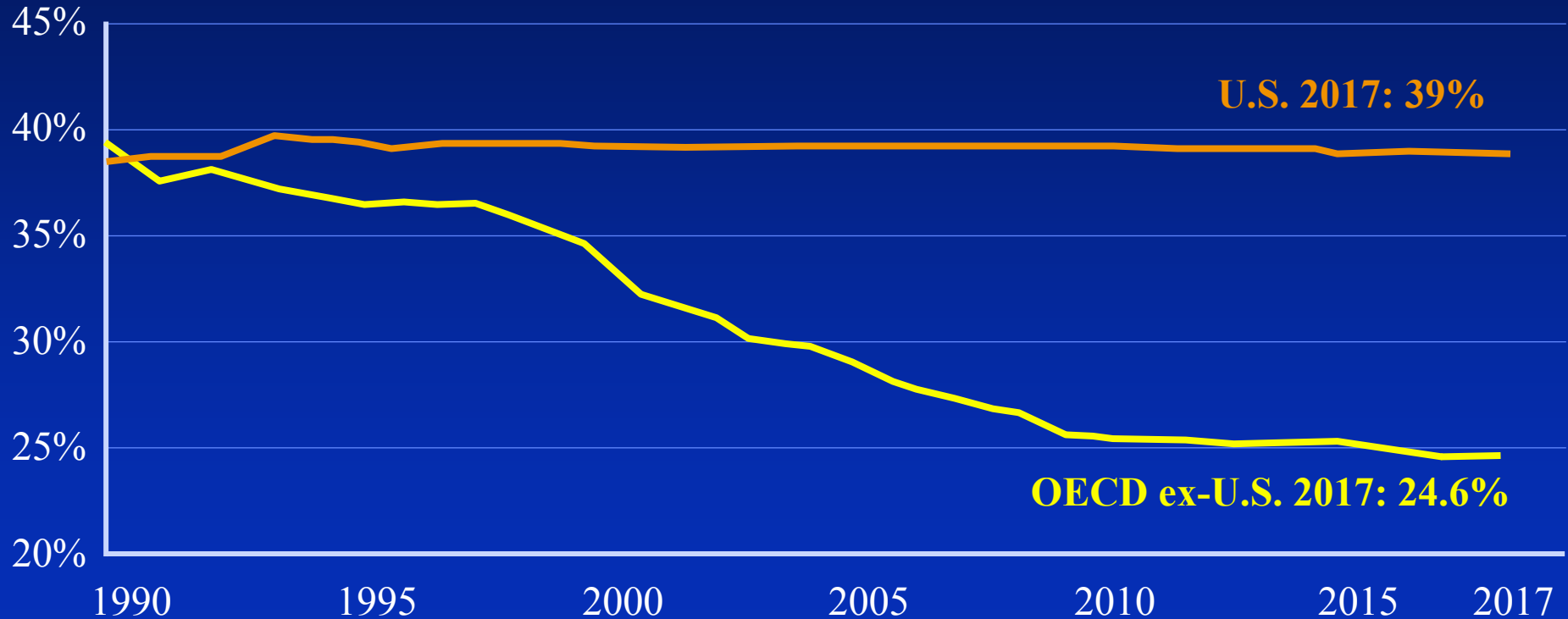
Tax Reform/Fiscal Stimulus
Cap Ex/Unit Labor Costs
World Monetary Policies
Small Business Confidence
Consumer Net Worth/Confidence
Deregulation/Pro-Business Judges
Tariff Breakthrough?
China Now Easing

Headwinds

Iran/Russia Sanctions
Stronger Dollar/Emerging Markets
Europe Softens
Wages Rising
Supply Chain Uncertainty
Record Debt
Monetary Tightening on the Way
China Financial Crisis?/Trade War
Demographics
World Event Risk

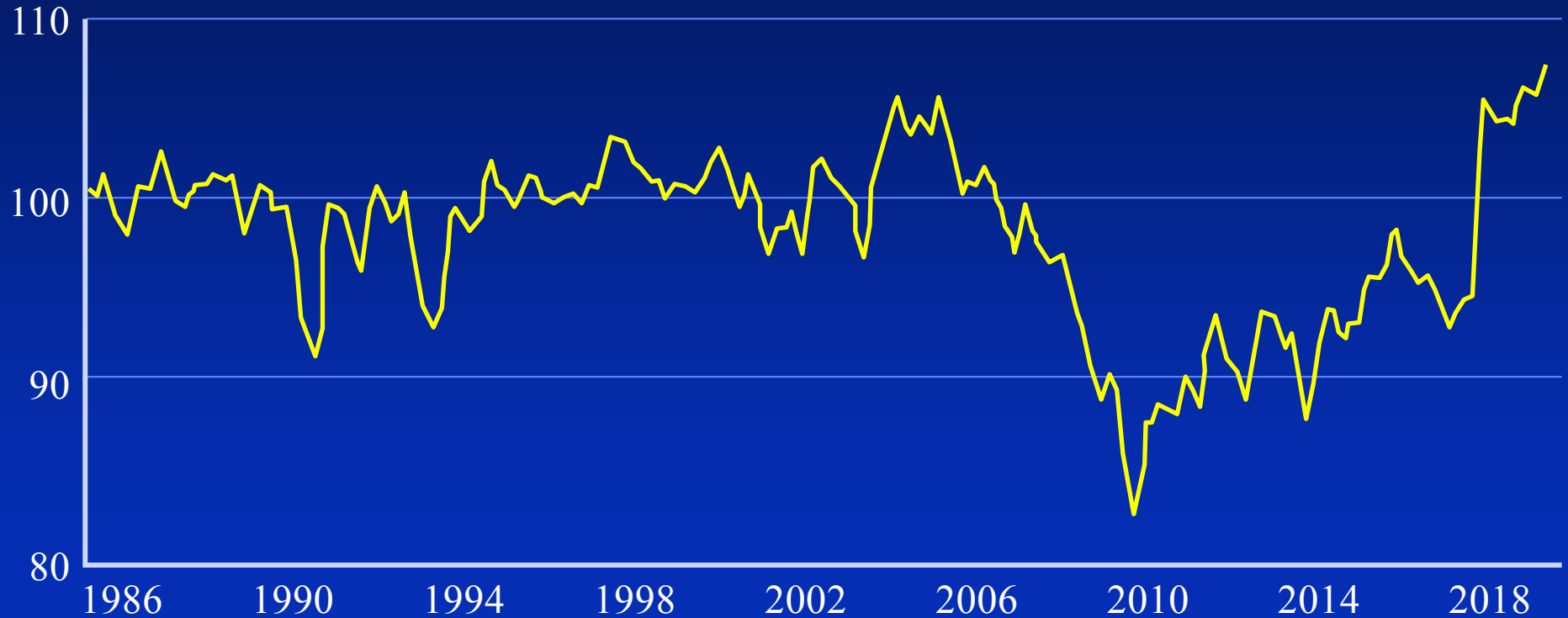
Why Corporate Tax Cut?

U.S. Was at a Huge Disadvantage



Animal Spirits

NFIB U.S. Small Business Optimism Index



Source: Cornerstone Macro, as of 9/5/2018.

Excitement

U.S. Daily Consumer Confidence



Is the U.S. Consumer Improving?

(70% of GDP)

- Job Openings / Layoffs Way Down
- Wages Better
- Sustainable Wealth Reversal?
- Debt Service Burden Low
- Wide Array of Free Online Apps, Services
- Confidence Strong

Unemployed Being Kept Out of Work

- 25% of U.S. workers require a license
- Requirements and dollars skyrocket
- Nonviolent ex-offenders aren't allowed licenses

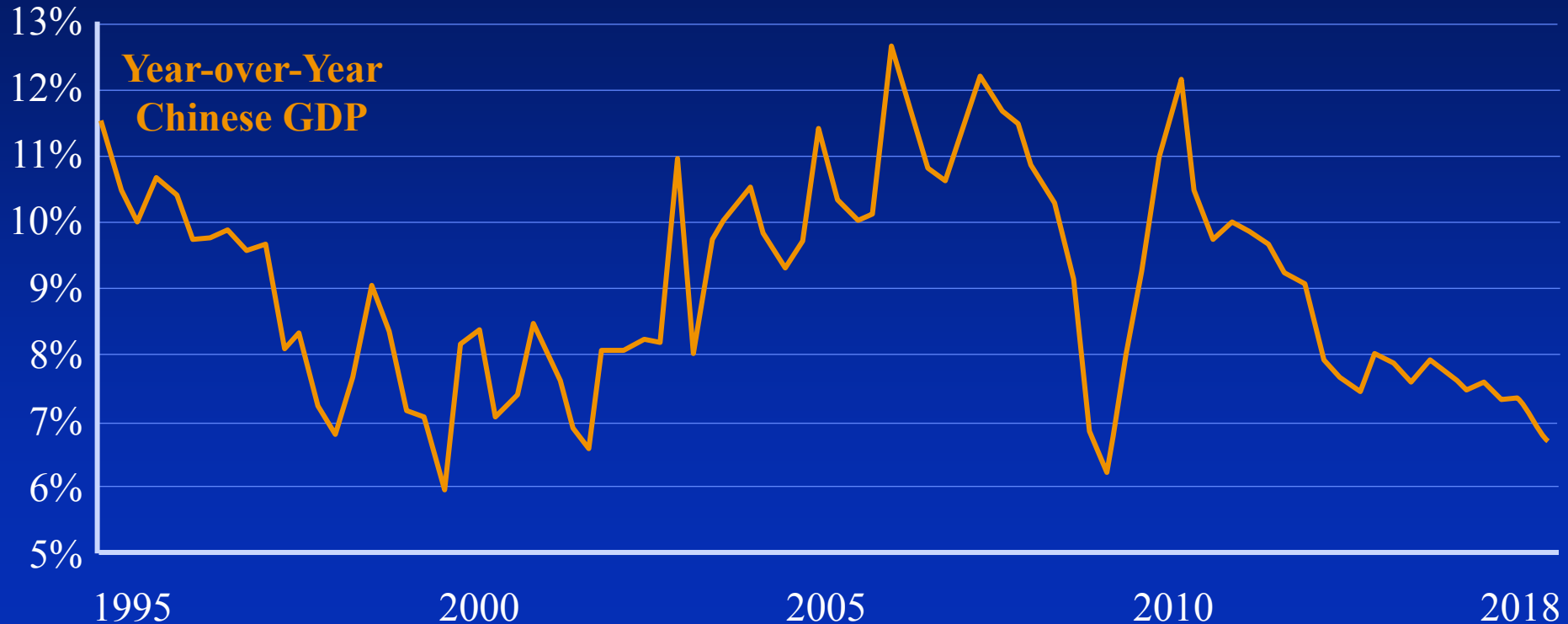
Deregulation!

Pages in the Federal Register



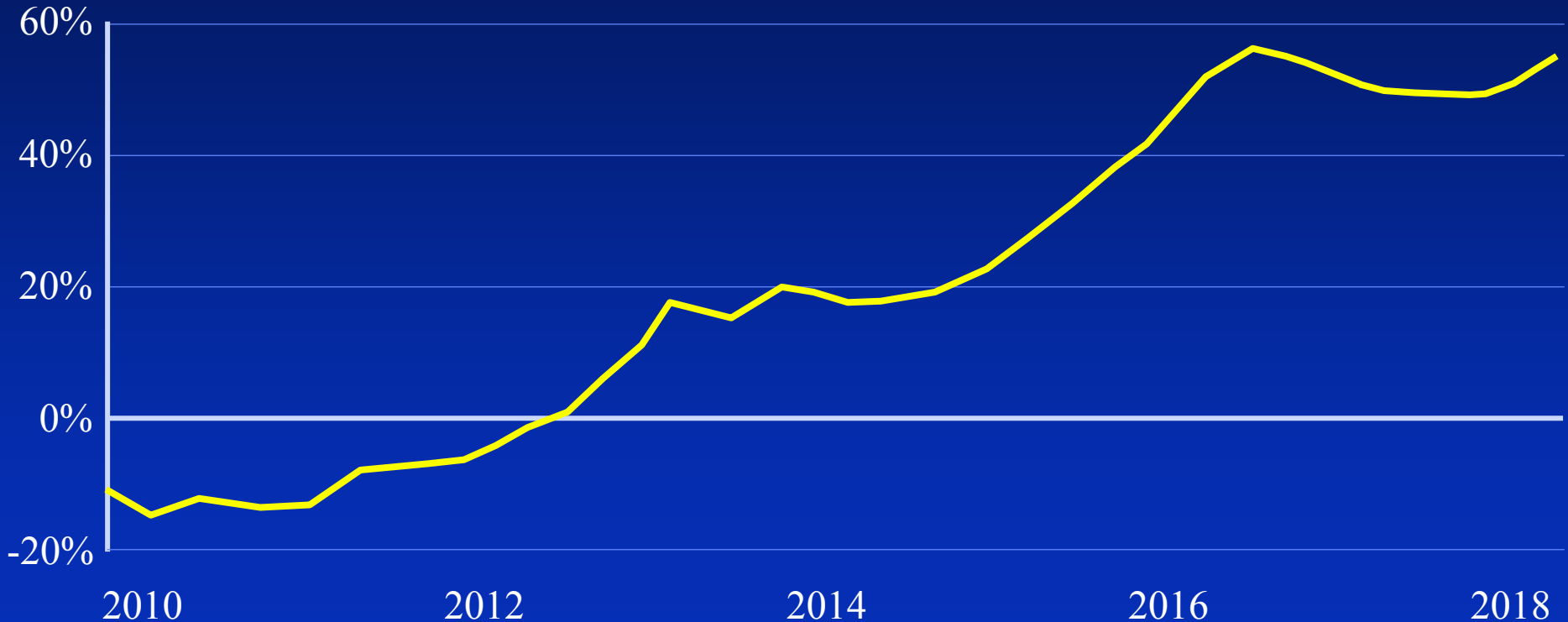
Worst Since Tiananmen Square?

And, It's Unreliable Anyway...



Worrisome

China Commercial Bank: Non-Performing Loans (Year-over-Year Growth)



Source: Cornerstone Macro, as of 8/15/2018.

China: Vacant Floor Space of Commercial Buildings

% Change – Year to Year



Source: Cornerstone Macro, as of 8/15/2018.

Old Days of China “Super-Growth” Are History?

Short-Term Outlook Soft

- Property Bubble
- Infrastructure Bubble?
- Excess Consumer Stuff / Saturation
- Heavy Debt / Loan Losses
- “Social Credit Scorecard” (Internet Censorship/Monitoring)
- Xi Enshrined “Core Leader”
- Pollution
- Demographic Dilemma
- Military Threats

But... Headlines Getting Too Negative?

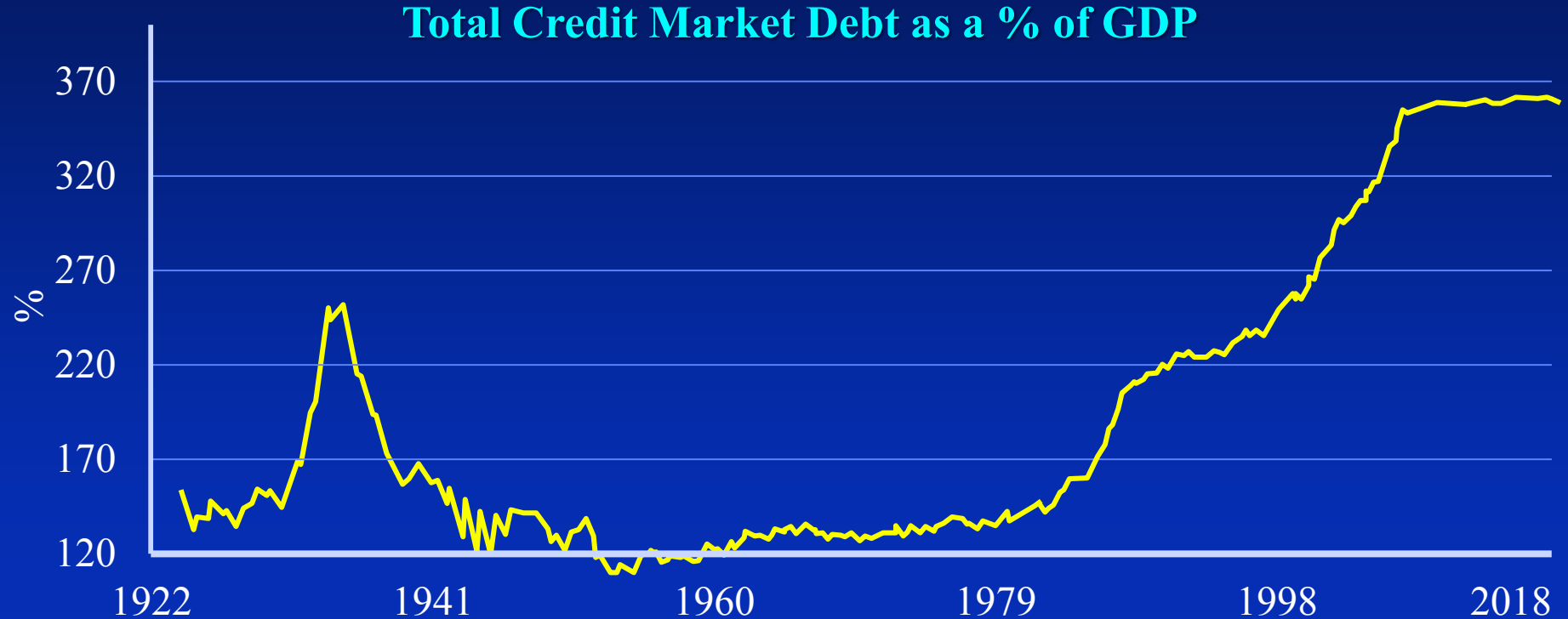
“Xi’s Power Has China Downside”

What are they doing?

- Cut interest rates 200 bp
- Allow yuan to weaken 9%
- Boost government spending 10% year-over-year
- Ease bank credit
- Support stock market

American Debt...

Borrowing From the Future...



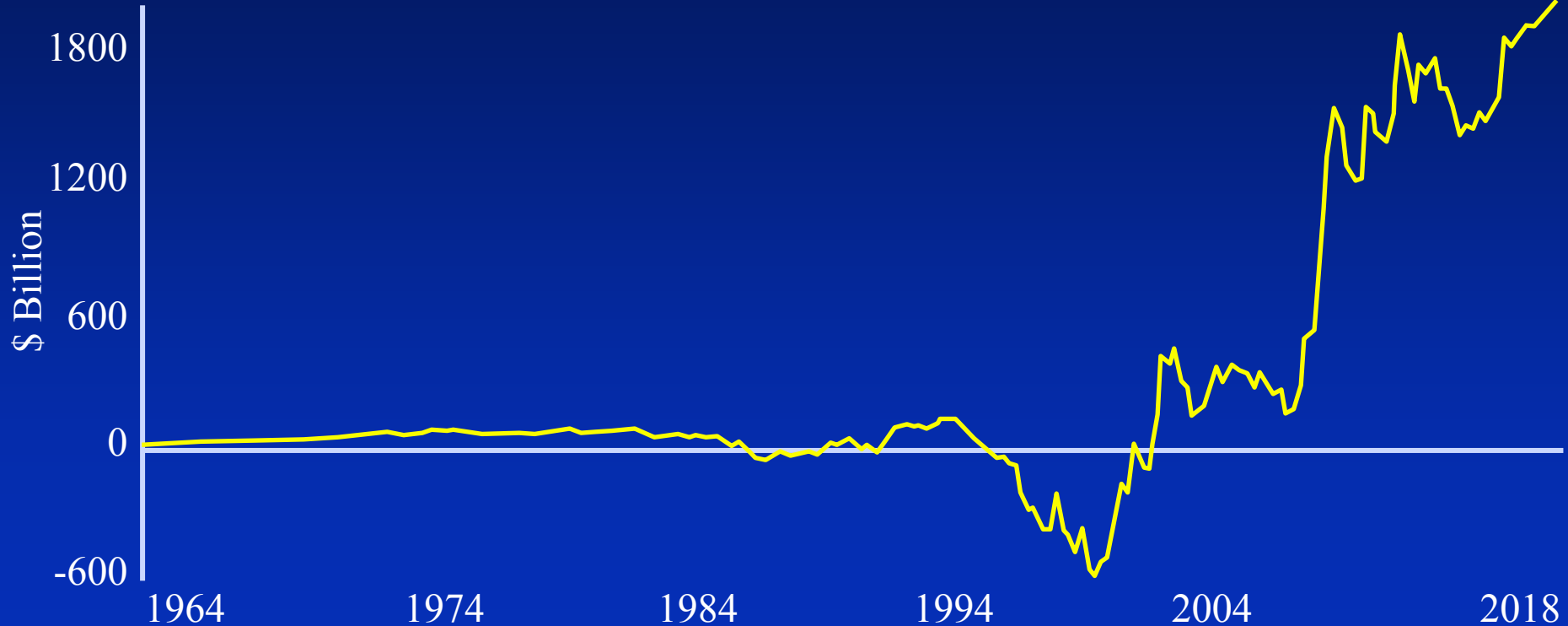
Out of Control?

Total Federal Debt to GNP/GDP



1791 to 1928: GNP. 1929 to 2016: GDP. Source: Bianco Research LLC, as of 6/13/2018.

State & Local Government Unfunded Pension Liabilities



Earnings Growth: Sluggish for 8 Years, Then Trump???



*Excludes IVA & Ccadj, and write-offs. Growth paths are compounded monthly to yield 5%, 7% and 10% annual rates.
Source: Yardeni, as of 5/30/2018.

Benign Inflation / Interest Rates / Ample Liquidity

Positives

Stronger Dollar

Flight to Safety

The Amazon Effect

Productivity to Improve

Inflation Cyclically Peaking?

Lower Bond Yields Elsewhere

Aging Demographics

Risks

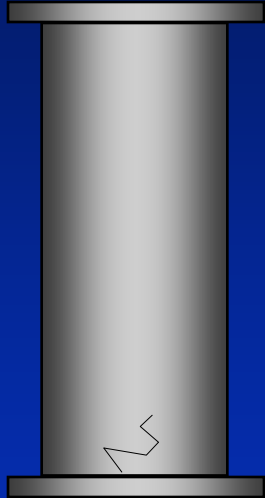
Currency Crises

Huge Underfunded Liabilities

U.S. Budget Deficit to Grow

Fed Overtightens?

Central Bankers Have Overprinted?



Quantitative Easing (Money Printing)

Combined Balance Sheet of the “Big Four” Central Banks (Fed, ECB, BoJ, BoE)

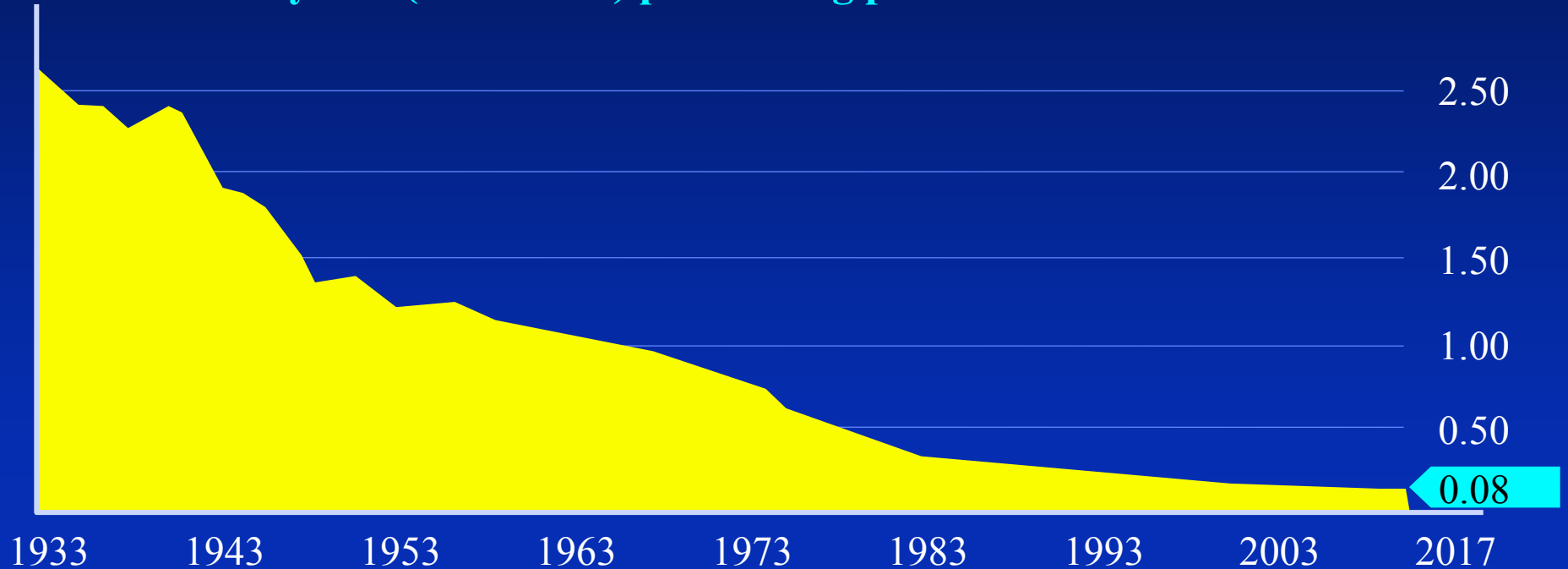


Source: Bianco Research, as of 6/13/2018.

From 5¢ Cokes to \$5 Lattes

Purchasing Power of the Dollar (1933-2017)

84 years (1933-2017) purchasing power of USD down 97%



The Extreme

The Free Fall of Venezuela's Currency (Bolivar black-market value, USD)



Reasonable Valuations

Positives

Turkey Releases Pastor?

China Headlines Overly Negative?

Central Banks Still Printing

Tax Reform Earnings Boost

Deregulation/Pro-Business Judges

Tariff Breakthrough?

Mid-Terms Over Soon

Risks

Protectionism (Smoot-Hawley)

Hong Kong/China Financial Crisis

Iran/Russia Sanctions

Narrow Market/High P/Es

Fed Overtightens?

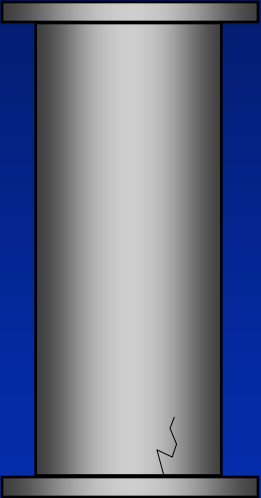
Strong Dollar on Emerging Markets

Seasonal Weakness?

World Event Risk

Trump's Narratives

Mid-Terms Looming



Valuations Rarely Higher Than This

Stock Market Capitalization as a Percentage of Nominal GDP



Let's Look at the Numbers...

Then & Now: August 1982 vs. September 2018

	August '82	Current
Fed Funds Rate	10.25%	1.87%
10 Year UST Yield	13.6%	2.9%
Trailing S&P 500 P/E	8.8 x	18.9 x
Price to Book	1.0 x	2.8 x
Dividend Yield	6.6%	1.9%
Top Marginal Tax Rate	50%	37%
Capital Gains Tax Rate	20%	23.8%

Do Trump's Narratives Have Long-Term Effects?

On Individuals/Organizations/Countries

- Belittles/Praises
- Threatens/Welcomes
- No multi-country deals/Yes bilateral deals
- Summit proposals/Sanctions
- Bold suggestions/Walked back
- Tariffs imposed... for now/Or eliminated?

However, Huge Breadth of Resources

- Congressionally-vetted Cabinet
- Extensive civil service staffing
- Duly elected Congress
- Independent Judiciary
- Outstanding, 200,000-strong intelligence community
- National Security Council has been shrunk from 1,500 micromanagers to 100

Would You Feel Comfortable and Confident Running a Country at Age 70?

• West Bank Palestinians	Abbas	82
• Iran	Khamenei	79
• U.S.	Trump	72
• Israel	Netanyahu	69
• India	Modi	68
• Russia	Putin	66
• China	Xi	65
• S. Korea	Moon	65
• Turkey	Erdogan	64
• Germany	Merkel	64
• Japan	Abe	64

World Event Risk

Potential Disasters

Currency Crises
Tariffs
North Korea / South Korea
Syria / Lebanon / Iraq / Kurdistan / Refugees
Washington D.C. Volatility
Russia: Turkey / Ukraine / Syria / Afghanistan / Europe
Iran Deal / Nuclear Proliferation
China / Trade / Taiwan / Neighbors Disputes
Israel / Palestine
Italy / Spain
Democracies Regressing
Saudi Succession / Autocracy
Egypt / Tunisia / Yemen / Angola / Kenya
Brexit / Catalonia / Grexit? / Eurozone
Pakistan / India / Maldives
Mexico Election / Venezuela / Colombia
ISIS
Cultural Mistrust / Cheating / Spying / Fear
Cyber Warfare / Laser Warfare Weaponry
Decentralized / Dispersed Technology / Unlimited Information
Environmental Concerns
Weaponization of Space / AI Robots and Drones

Possible Successes

India?
Rising Markets?
Tech Breakthrough
Eurozone?
Japan?
Israeli / Sunni Relations
Taiwan / China
Israel / Palestine Talks
U.S. Natural Gas / Shale Oil Potential
Afghanistan
Iran / Saudi Arabia
North Korea
India / Pakistan
Charles / Camilla
William / Kate
Harry is Married
Thorium / Graphene / Vanadium
IRA / Northern Ireland
Middle East Democracy
Immunotherapies

Brainstorm: Make the Private Sector Soil “Fertile”

(Incentives for Growth, Anyone?)

- Raise the retirement age
- More tax reform: carbon/VAT?
- Free-market pricing of water
- Scrap “prevailing wage” laws
- Develop comprehensive energy policy (natural gas / solar / nuclear)
- Higher user fees (highways, airports, seaports, mass transit, etc.)

Brainstorm: Instructions to Washington...

“Get the Country Moving Again”

(Openness / Productivity of Federal Government)

- Sync House and Senate schedules with 3 (5-day) workweeks in D.C. and one at home
- Overhaul electoral college
- Encourage/recruit legal immigration
- GAAP accounting – FOR GOVERNMENTS
- Incentives for infrastructure revitalization
- Revamp War on Drugs
- Educate the population (e.g., value of internet, phone technology)
- Manage expectations (growth IS going to be slower)

Brainstorm: More Instructions to Washington

(More Incentives to Grow the Country?)

- Continue reorg of K-12, with “competition” and “choice” the key ideas
- Kill crop/ethanol subsidies
- Consumer must “feel” the cost of healthcare / fees for healthy outcomes
- Have D.C. folks subject to our laws/regs – not theirs – and teach them FINANCE
- Harden the national electric grid
- Everybody has to sacrifice

How to Cope?

Income & Growth

- Capital & Income Fund
- New Markets Income Fund
- Convertible Securities Fund
- Financials?
- Global E/I
- Option Writing?
- Small Cap Value
- 2-Year Treasuries
- Preferred Stocks

Growth

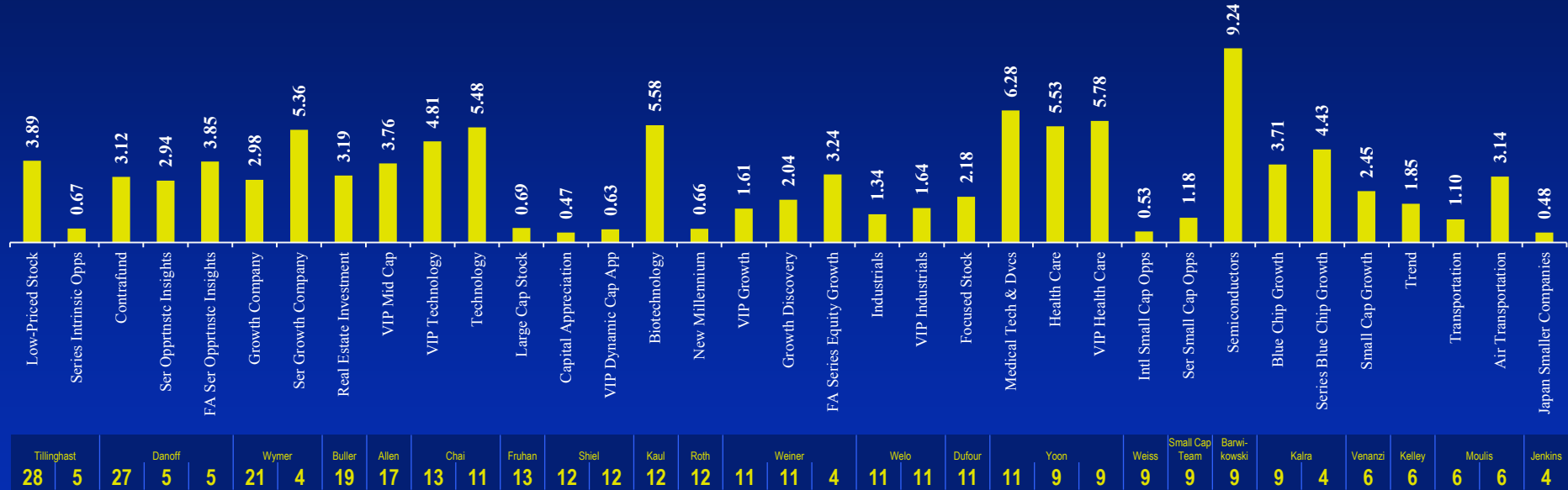
- Block-Chain Tech
- Water / Ag Plays
- Quantum Computing
- Sensors / Actuators
- Int'l Small Cap Opps
- Energy Infrastructure / Solar
- Cyber Security / Drones / AI
- Video Production
- Genome Sequencing / Stem Cell Tech
- Small Cap Discovery
- Emerging Markets
- China on Weakness

Other

- Commodities
- Lock In Long Rates
- Quality Closed End
- Europe?
- Natural Resources?
- Korea

Fidelity's Actively Managed Equity Funds Outperform!

Funds with PMs with >4 Years of Fund Tenure Beating the S&P 500 by 30bps or More, Annualized Over PM Tenure



Tillinghast	28	5	27	Danoff	5	5	Wyrmer	21	4	Buller	19	Allen	17	13	Chai	11	Fruhan	13	Shiel	12	12	Kaul	12	Roth	12	11	Weiner	11	4	11	Welo	11	Dufour	11	11	Yoon	9	9	Weiss	9	Small Cap Team	9	9	Barw-kowski	9	9	Kalra	4	Venanzi	6	Kelley	6	Moulis	6	6	Jenkins	4
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Average annual outperformance, excess return percent against the S&P 500, 35 Equity Funds with at least 30 bps (0.30%) of annual active return over current PM tenure. Minimum tenure of 4 years shown. If multiple managers run a fund, lead manager name is shown, unless the fund is team run, then the team name is shown. Source: FMR Co., as of 6/30/2018.

Includes changes in share price and reinvestment of dividends and capital gains. Analysis excludes funds with sales charges.

Current performance may be higher or lower than that quoted. Visit institutional.fidelity.com or call your investment professional for most recent month-end performance.

Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold.

Don't Short the United States

(America the Beautiful / Social Capital Huge)

- Work Ethic/Resilience/Flexibility/Choice/Mobility
- Innovation/Ingenuity/Risk profile (think Silicon Valley)
- Capitalistic system fosters competition
- Intellectual and financial magnet
- Competitiveness (deep/liquid capital markets, rule of law, property rights)
- Rehabilitation, not liquidation (via Chapter 11)
- Superior infrastructure (shipping, inventory costs)
- Accounting transparency
- Universities
- Lots of natural gas/fresh water/geographically removed/river network
- Freedoms (ideas, suffrage, religion, immigrants)

Conclusion

- Keep your goals in sight
- Review your portfolio regularly / rebalance
- Use a financial representative to help you in choices / asset allocation



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