



ASSET ALLOCATION VIEWPOINT

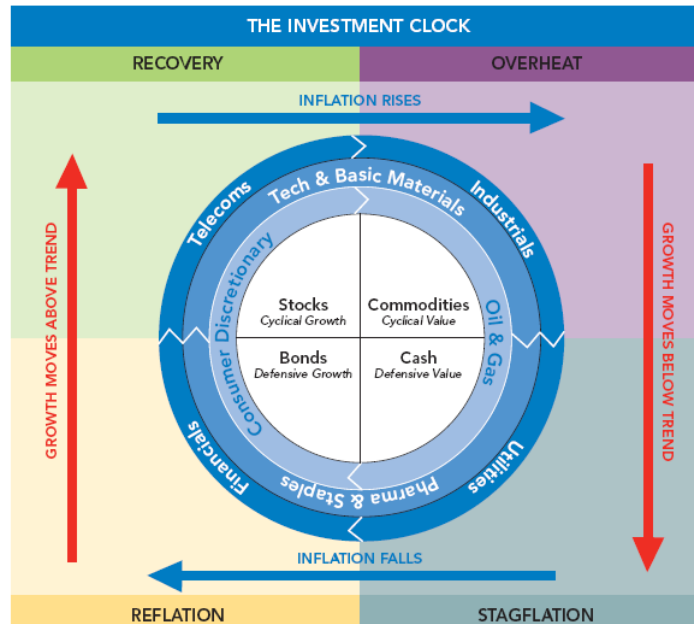
AUGUST 2009

Trevor Greetham joined Fidelity in January 2006 as Asset Allocation Director.

In addition to managing funds, Trevor is a member of Fidelity's Asset Allocation Group.

Prior to joining Fidelity, he spent ten years at Merrill Lynch, where he was Director of Asset Allocation. Trevor began his career with UK life insurer Provident Mutual.

He holds an MA in Mathematics from Cambridge University and is a qualified actuary.



Source: Fidelity. For illustration only

The Investment Clock approach generates growth and inflation readings based on past trends and the current momentum of lead indicators. These indicators are updated on a monthly basis to build an expectation of how the global economy may perform over the coming three to six months.

The growth reading sets the relative weighting of cyclical and defensive assets (North-South on the clock diagram). The inflation reading sets the weighting of financial assets versus real assets (East-West).

HIGHLIGHTS

Macroeconomic conclusions

- A wide range of data points suggest the early stages of a V-shaped recovery.
- Fearing the worst, policy makers have set out to do too much. The G8 said pro-growth policies should be abandoned only once it was "certain" the recession was over. The long lags before policy takes effect almost guarantee a strong upswing.

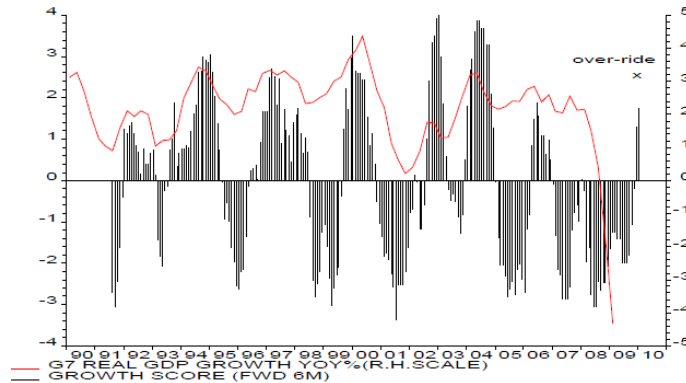
Key asset allocation conclusions

- Overweight equities and property with a preference for emerging markets and Asia.
- Overweight the consumer sector but moving more into tech and financials – likely to do well late cycle, as in Japan in the 1990s.
- Overweight bonds, but less so. Overweight corporate and high yield bonds to benefit from spread tightening.
- Overweight commodities. A powerful industrial up-cycle should benefit the asset class, even as spare capacity weighs on consumer-facing industries.
- No cash. With interest rates close to zero, you have to be a bear of all other asset classes to hold it.

GROWTH SCORECARD

The global growth scorecard is at its strongest level since the V-shaped recovery of 2003/4. Central banks are operating ultra-loose policy; the OECD lead indicators have troughed; business confidence is turning upwards; and economists have stopped downgrading their estimates.

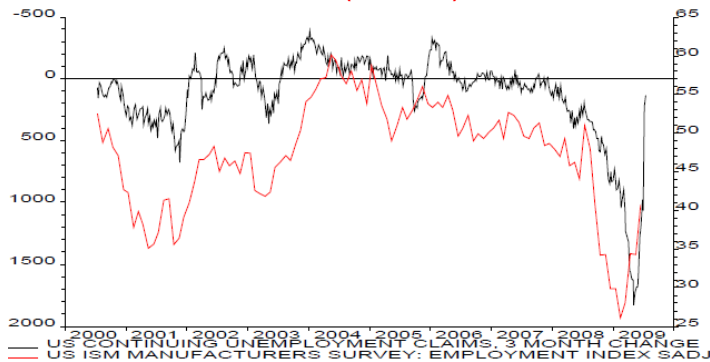
GLOBAL GROWTH SCORECARD LEAD INDICATOR AND G7 GDP GROWTH



Source: Datastream, 16.07.09
 Note: The global growth scorecard is a diffusion index taking into account indicators, business confidence and consensus GDP forecasts. It is pushed forwards 6 months on this chart.

It would be useful to see unemployment rates peak out to confirm a sustained recovery. This never happened in the bear market rally of 2002, despite a sizeable pick-up in lead indicators. There are some positive signs. An inventory rebuild of the magnitude lead indicators suggest almost always involves a rapid re-hiring of many workers. The ISM Employment survey continues to improve. Continuing unemployment claims may be peaking out.

CHANGE IN US UNEMPLOYMENT CLAIMS (INVERTED) AND ISM EMPLOYMENT SURVEY

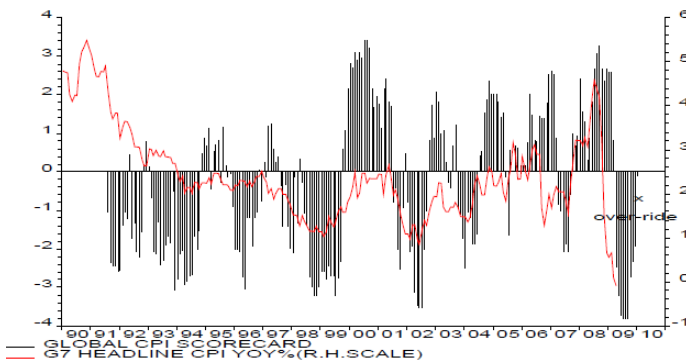


Source: Datastream, 16.07.09

INFLATION SCORECARD

The inflation scorecard has been getting rapidly less negative lately. Industrial restocking, Chinese stimulus and surging US dollar liquidity may all drive headline inflation higher. However, core CPI tends to fall sharply when output gaps are large and negative. Excess capacity is likely to trigger price wars in many industries facing the consumer.

GLOBAL INFLATION SCORECARD LEAD INDICATOR AND G7 HEADLINE CPI



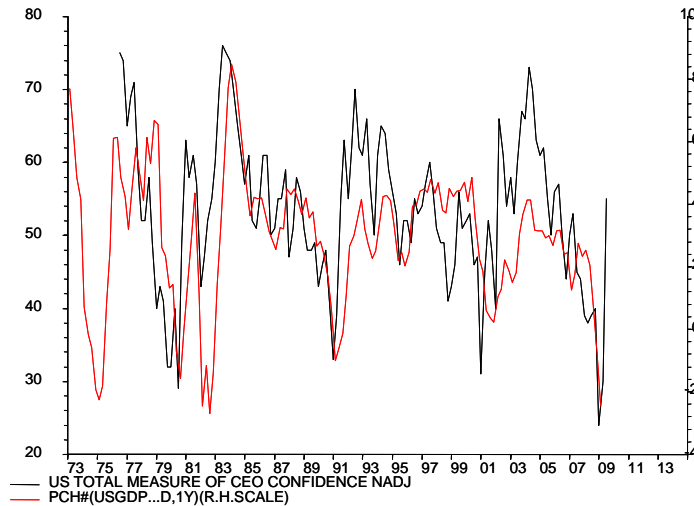
Source: Datastream, 16.07.09
 Note: The global inflation scorecard is a diffusion index taking into account OECD output gap estimates, the oil price, pricing power surveys and consensus CPI forecasts. It is pushed forwards 6 months on this chart.

SPECIAL INTEREST TOPIC
Greater confidence among CEOs

The US CEO confidence survey seems to suggest a V-shaped recovery is under way. The quarterly conference board survey of CEO business confidence taken over mid-May to mid-June shows a strong improvement. 46% expect profits to increase (a big jump), with the durable goods industry the most optimistic, where 77% of those surveyed expect profits to increase.

"Among chief executive officers who expect profits to increase, 56 percent believe cost reductions will drive profits up, while 33 percent cite market/demand growth as the main source of improvement. Only 7 percent cite new technology as a driver of growth and the remaining 4 percent cite price increases."

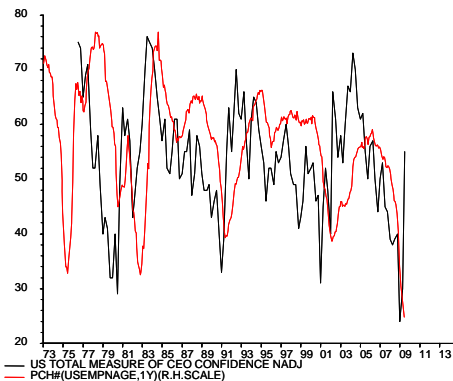
CEO CONFIDENCE AND GDP GROWTH



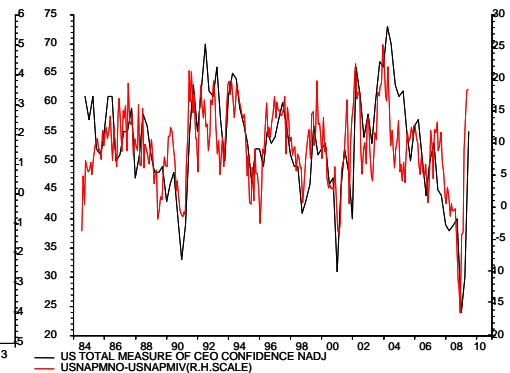
Source: Datastream, 9.07.09

Plotted against GDP growth, CEO confidence reads off at an above-trend growth level. It suggests companies will soon be raising their guidance in a meaningful way. History also suggests a re-hiring spate is about to kick off.

CEO CONFIDENCE AND PAYROLLS GROWTH



CEO CONFIDENCE AND INVENTORY LEAD CYCLE INDICATOR



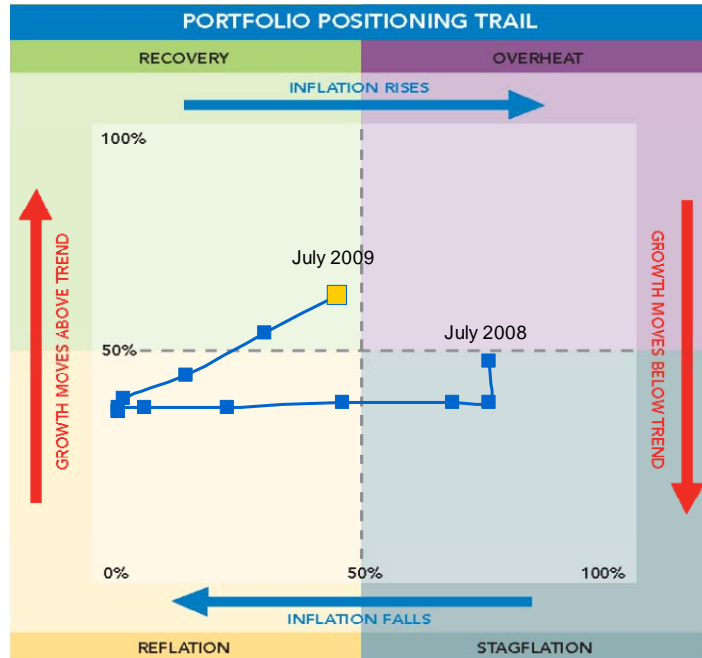
Source: Datastream, 9.07.09

Re-hiring would be consistent with the wrong-footing apparent in the inventory cycle lead indicators, with which the CEO survey also has a good fit. You might argue this data is a few weeks out of date and everything is weakening again but with lead indicators remaining strong, any weakness feels temporary and a buying opportunity for stocks.

THE INVESTMENT CLOCK

The growth and inflation readings feed into the Investment Clock model to determine a probability for each of the four cycles of the Clock prevailing in the coming three to six month period.

The Investment Clock model is allocating the highest probability to equity-friendly Recovery since June 2007. If current trends continue we could soon find ourselves technically in the Overheat phase.



Source: Fidelity. The chart shows growth and inflation plotted against each other over time. For illustration only.

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