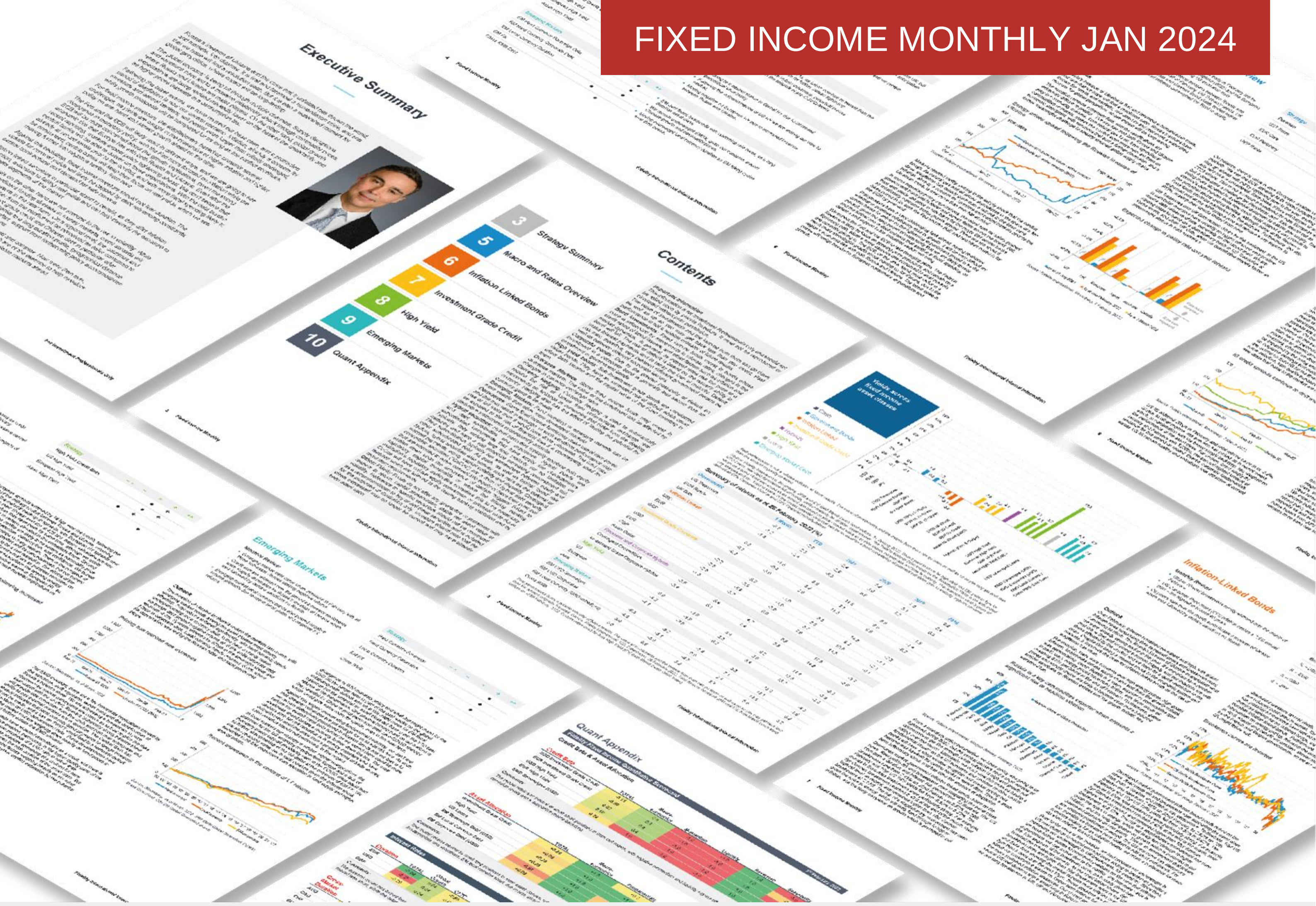


Fixed Income Monthly

Fidelity International's outlook from the Fixed Income investment team

For investment professionals only

Fidelity INTERNATIONAL

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

This document 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 accountability and fiduciary responsibility for all investment decisions in a portfolio. Given this discretion, there may be differences between strategies applied and the views presented in this document. We believe in managing portfolios with a mix of active strategies, including top-down and bottom-up, such that no single strategy dominates risk.

Rates	– –	–	=	+	++
Duration				●	
UST rates				●	
EUR rates - core				●	
EUR rates - periphery		●			
GBP rates			→	●	

Main views

- Remaining overweight on both UST and EUR rates (core) given our view that we are on course for cyclical recessions.
- Underweight on European peripheral duration with valuations still stretched and risk-reward skewed to the downside given expected supply will lead to significant spread widening.
- Moving slightly overweight UK duration driven by our quant models. Discretionary view is neutral given the rate cuts already priced in and how quickly the market has moved in recent weeks.

Inflation	– –	–	=	+	++
Breakeven Inflation			●		
IL – USD				●	
IL – EUR		●			
IL – GBP			●		
IL – JPY			●		

- December's real yield rally caused us to take profits and trim some of our long positions in US and UK real duration. We are now operating a 0.5yr long in US real duration and 0.25yr long in UK real duration.
- We retain our long US breakevens, short European breakevens cross market trade to take advantage of long-term inflation trends in each region.

Investment grade credit	– –	–	=	+	++
Investment grade credit beta			●		
USD IG			●		
EUR IG					●
GBP IG			●		
Asian IG (USD)		●			

- IG spreads have now tightened to levels well inside their long-term averages and thus we are neutral on global IG corporates.
- Though valuations are less appealing, the fundamental strength of global IG corporates can't be ignored and we think that they are well placed to remain fundamentally sound in the range of scenarios that could occur in 2024.
- We remain very constructive on European IG, valuations remain attractive versus other regions and we think there is still potential for EUR IG to outperform riskier areas of the market (such as HY).

Financial and corporate hybrids	– –	–	=	+	++
Financial and corporate hybrids			●		
Contingent convertibles			●		
Investment grade corporate hybrids			●		

- Short call securities look attractive due to yield curve inversions and favourable convexity profile in the event of a call.
- After beta rally we see less scope for significant compression but still like short call AT1 given high propensity to call.
- Neutral in corp hybrids, given relatively resilient performance.

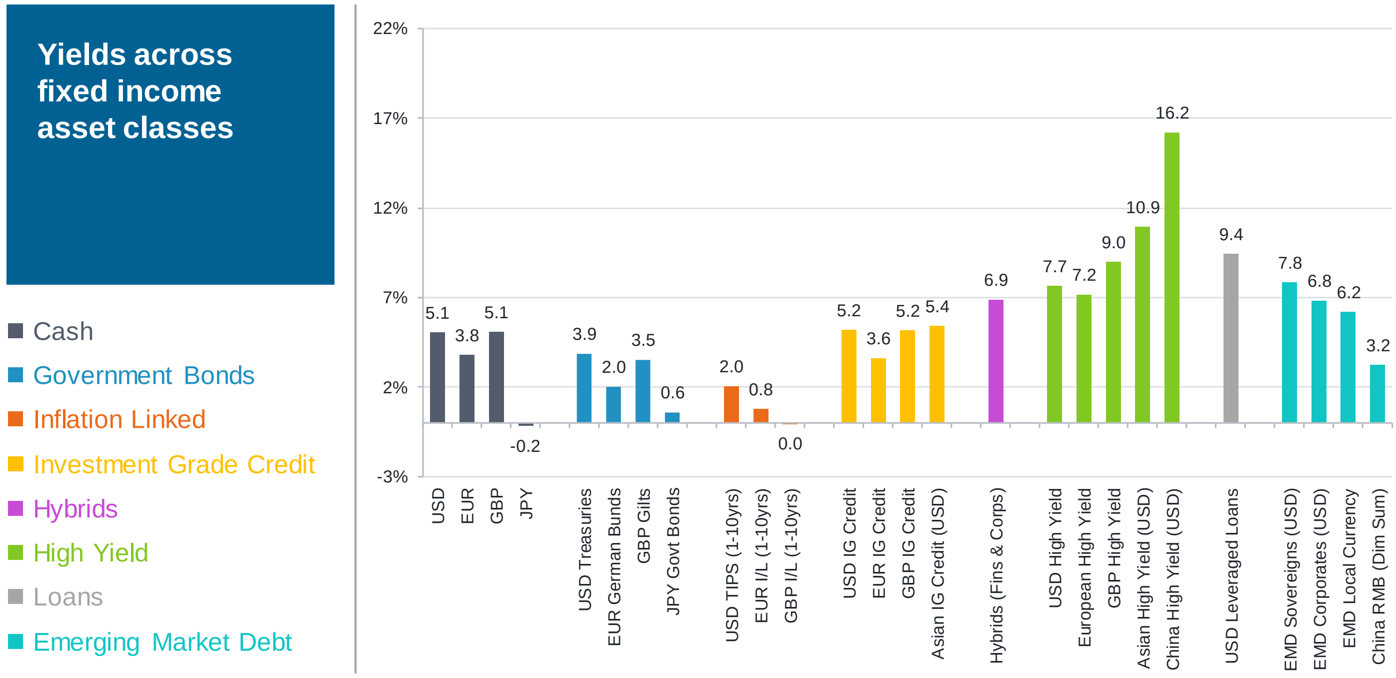
High yield	– –	–	=	+	++
High yield credit beta		●	←		
US high yield		●	←		
European high yield		●	←		
Asian high yield		●	←		

- Moved to an underweight position on US HY after the recent rally led to tighter spread levels.
- Tactically more cautious on European HY given tight valuations though fundamanetals are still robust and yields are attractive.
- For Asian HY, moved to an underweight position, will look to move back to neutral if spreads normalise or see more bullish macro scenario out of DM/China.

Emerging markets	– –	–	=	+	++
EM hard currency sovereign debt			→	●	
EM hard currency corporate debt		●			
EM local currency duration				●	
EM FX				●	
China RMB debt			●		

- Overweight EM Sovereign credit and EMFX, largely premised on falling rate volatility, light positioning, favourable net issuance trends and an overvalued US dollar.
- Overweight local duration amid weak global inflation momentum and broadening of monetary policy easing cycles within EM .
- Our bullish stance on EMFX and EM Sovereign is more tactical than on rates.

Yields across fixed income asset classes



Source: Fidelity International, Bloomberg, JPM and ICE BofA Merrill Lynch bond indices, 29 December 2023. Yield to worst for high yield and EM, yield to 3yrs for USD Loans, real yield for inflation-linked bonds, yield to maturity for all others. The Yield to Maturity (also known as the Redemption Yield) is the anticipated return on a bond expressed as an annual rate based on price / market value as at date shown, coupon rate and time to maturity. Hybrids universe defined as 50% Corporate Hybrids and 50% Financial Hybrids indices.

Summary of returns as of 29 December 2023 (%)

Government	1 Month	2023	2022	2021	2020	2019
US Treasuries	3.4	3.9	-12.9	-2.4	8.2	7.0
EUR Bunds	3.4	5.1	-17.6	-2.6	3.0	3.1
UK Gilts	5.8	3.7	-25.1	-5.3	8.8	7.3
Inflation Linked						
USD	2.5	3.6	-12.6	6.0	11.5	8.8
EUR	2.6	5.0	-8.1	6.2	3.1	6.0
GBP	7.1	0.7	-34.4	3.9	11.3	6.5
Investment Grade Corporate						
USD	4.0	8.4	-15.4	-1.0	9.8	14.2
EUR	2.8	8.0	-13.9	-1.0	2.6	6.3
GBP	4.9	9.7	-19.5	-3.0	8.7	10.8
Asian Dollar	3.1	7.5	-11.0	0.0	7.6	11.5
Financial and Corporate Hybrids						
Contingent Convertibles	3.9	5.7	-11.4	4.7	6.8	17.6
Investment Grade Corporate Hybrids	3.2	10.2	-12.9	1.4	3.8	14.2
High Yield						
US	3.7	13.5	-11.2	5.4	6.2	14.4
European	3.1	13.1	-13.9	3.3	3.6	13.8
Asia	2.3	-0.1	-13.3	-6.2	8.4	13.2
Emerging Markets						
EM USD Sovereigns	5.8	11.1	-17.8	-1.8	5.3	15.0
EM USD Corporates	3.7	9.1	-12.3	0.9	7.1	13.1
EM Local Currency (USD unhedged)	3.4	12.7	-11.7	-8.7	2.7	13.5
China RMB	2.4	4.8	1.9	3.2	3.7	5.6

Source: Fidelity International, ICE, Datastream, 29 December 2023. Total Returns based off JPM and ICE BofA Merrill Lynch bond indices as of 29 December 2023. Custom index used for Asia High Yield (ICE BofA Merrill Lynch Q490 Index).

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