DECEMBER 2020

Fixed Income **Monthly**

FOR INVESTMENT PROFESSIONALS ONLY

Fidelity INTERNATIONAL

FIXED INCOME **MONTHLY**

FOR INVESTMENT PROFESSIONALS ONLY | DECEMBER 2020

Important Information

This information is for Investment Professionals only and should not be relied upon by private investors. It must not be reproduced or circulated without prior permission.

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: Fixed income funds invest in bonds whose price 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: Some fixed income funds may invest in overseas markets. 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: Fund investing in emerging markets can be more volatile than other more developed markets.

Derivatives: Some fixed income funds 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. The fund may be exposed 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.

Other: Fidelity Funds do not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility. 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.

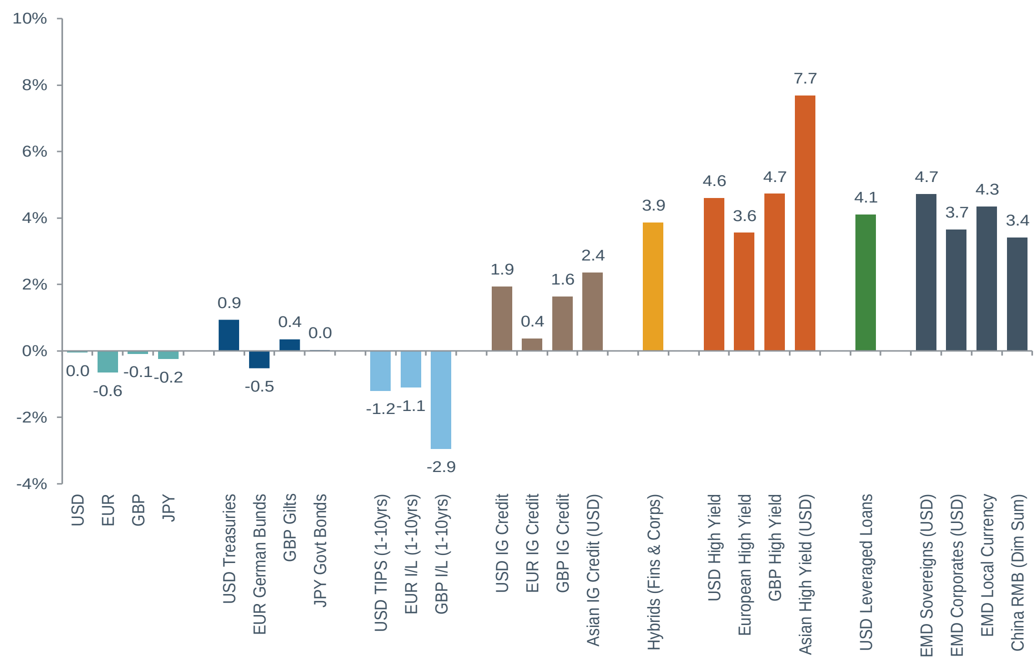
Strategy Summary

The FIXED INCOME MONTHLY provides a forward-looking summary of the medium-term views from the Fidelity 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 within a fund and the views shared below. 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 in a fund.

Rates	– –	–	=	+	++	Main views
Duration			●			▪ Pared back our US Treasuries duration exposure, following the positive vaccine news and the shift in global rates momentum ▪ Cautious on European rates on the back of valuations. ▪ Reinstated our underweight in Periphery, particularly in Spain and Portugal, following the strong rally in the asset class. ▪ Pared back UK duration exposure, driven by our quant models inputs.
UST Rates			●		←	
EUR Rates - Core		●				
EUR Rates - Periphery		●	←			
GBP Rates			●	←		
Inflation	**– –**	**–**	**=**	**+**	**++**	
Breakeven Inflation			→	●		▪ Moved to overweight in US and UK breakevens, the latter on a tactical basis following the conclusion of the reform into RPI. ▪ Longer term constructive on US breakevens, as structural drivers are still supportive. ▪ Remain long in Japanese breakevens where breaks trade close to their embedded floor.
IL – USD			→	●		
IL – EUR			●			
IL – GBP			→	●		
IL – JPY				●		
Investment Grade Credit	**– –**	**–**	**=**	**+**	**++**	
Investment Grade Credit Beta			●			▪ Moved to a small underweight in EUR IG, on the back of valuations, following the strong rebound since March. ▪ Pared back risk in GBP IG due to rising Brexit risks. ▪ Constructive on Asian IG, thanks to positive technicals, a better fundamental backdrop than other regions, and still attractive valuations.
USD IG			●			
EUR IG		●	←			
GBP IG			●			
Asian IG (USD)				●		
Financial and Corporate Hybrids	**– –**	**–**	**=**	**+**	**++**	
Financial and Corporate Hybrids				●		▪ AT1s screen as attractive, policymakers will keep banks whole even as fundamentals come under pressure. ▪ Corporate Hybrids have underperformed on the back of excess supply and now offer very attractive compensations and low default risk.
Contingent Convertibles					●	
Investment Grade Corporate Hybrids				●		
High Yield	**– –**	**–**	**=**	**+**	**++**	
High Yield Credit Beta			●	←		▪ Moved both US HY and European HY to neutral after a substantial rally in November. ▪ HY returns likely to be driven more by carry than capital appreciation at this point in time. ▪ Asia HY remains attractive on valuation grounds both relative to other regions and on a historical basis.
US High Yield			●	←		
European High Yield			●	←		
Asian High Yield				●		
Emerging Markets	**– –**	**–**	**=**	**+**	**++**	
EM Hard Currency Sovereign Debt					●	▪ EM debt supported by an easy global monetary policy, ongoing demand for yield and a weaker USD. ▪ EMFX still undervalued, while the USD likely to remain on the backfoot. ▪ Local Currency duration supported by low central bank rates, with CPI increases in EM likely to be temporary.
EM Hard Currency Corporate Debt				●		
EM Local Currency Duration				●		
EM FX					●	
China RMB Debt				●		

Yields across fixed income asset classes

- Cash
- Government Bonds
- Inflation Linked
- Investment Grade Credit
- Hybrids
- High Yield
- Loans
- Emerging Market Debt



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

Source: Fidelity International, Bloomberg, JPM and ICE BofA Merrill Lynch bond indices. 2 December 2020. Shows 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 other asset classes. The Yield to Maturity (also known as the Redemption Yield) is the anticipated return on a bond / fund expressed as an annual rate based on price / market value as at date shown, coupon rate and time to maturity. The redemption yield is gross of any charges and tax. Yield to Worst: is the lowest potential yield that can be received on a bond considering all potential call dates prior to maturity. Hybrids universe defined as 50% Corporate Hybrids and 50% Financial Hybrids indices.

Summary of returns as at 30 November 2020 (%)

Government	1 Month	YTD	2019	2018	2017	2016
US Treasuries	0.4	8.5	7.0	0.8	2.4	1.1
EUR Bunds	-0.5	3.0	3.1	2.4	-1.4	4.1
UK Gilts	-0.5	7.0	7.3	0.5	1.9	10.6
Inflation Linked						
USD	1.2	10.3	8.8	-1.5	3.3	4.8
EUR	1.5	2.6	6.0	-1.4	1.3	3.8
GBP	0.1	10.7	6.5	-0.3	2.3	25.2
Investment Grade Corporate						
USD	2.7	9.3	14.2	-2.3	6.5	6.0
EUR	1.0	2.5	6.3	-1.1	2.4	4.8
GBP	2.0	6.9	10.8	-2.0	4.9	11.7
Asian Dollar	1.2	7.3	11.5	-0.1	5.3	4.6
Financial and Corporate Hybrids						
Contingent Convertibles	4.8	5.7	17.6	-3.7	14.4	7.3
Investment Grade Corporate Hybrids	2.7	2.9	14.2	-4.6	12.1	7.1
High Yield						
US	4.0	4.2	14.4	-2.3	7.5	17.5
European	4.1	2.6	13.8	-3.9	7.4	10.3
Asia	2.9	5.8	13.2	-3.3	6.1	15.2
Emerging Markets						
EM USD Sovereigns	3.9	3.3	15.0	-4.3	10.3	10.3
EM USD Corporates	2.7	5.6	13.1	-1.6	8.0	9.7
EM Local Currency (USD unhedged)	5.5	-0.8	13.5	-6.2	15.2	9.9
China RMB	0.2	3.5	5.6	5.2	5.1	4.1

Past performance is not a reliable indicator of future results. The value of investments and the income from them can go down as well as up so you may get back less than the amount originally invested. Source: Fidelity International, ICE, Datastream, 30 November 2020. Total Returns based off JPM and ICE BofA Merrill Lynch bond indices as of 31 October 2020.

Macro and Rates Overview

Monthly Review

- US Treasury long-end yields fell as investors mulled over prospects of Federal Reserve extending purchases to longer-dated maturities possibly at next Fed meeting.
- German Bund yields rose as investors extended their bets on a global economic recovery spurred by hopes of an effective vaccine.
- 10-year UK Gilt yields hit their highest level since COVID-19 lockdown measures were first introduced in March.

Strategy	– –	–	=	+	++
Duration			●		
UST Rates			●		←
EUR Core		●			
EUR Periphery		●	←		
GBP Rates			●	←	

Outlook

As we enter the last stretch of 2020, a year that so far felt far "longer" than normal for most of us, we can certainly look back to what has a been unique period in many respects. We have endured a global health crisis that, hopefully, we will soon put behind us, economies were put on standstill, markets capitulated and rebounded faster than ever before, as central banks and governments put all orthodoxies aside in support of the global economy.

The recent vaccine breakthroughs have led to a sharp positive reaction across all risky assets, as these priced in a rosier outlook for 2021. The road ahead, however, still offers uncertainty on the macro and political front, perhaps more so than what markets are currently pricing in. Economies bounced back from the first wave of COVID-19 but many have moved into a tougher regime of further restrictions, eased only by hopes for the swift rollout of an effective vaccine. As policymakers and investors grapple with the "new normal", the elephant in the room they'll have to confront will be how to manage the heavy public debt racked up governments as they attempt to replace lost economic demand. Indeed, the IMF has called on developed market countries to take advantage of the low rates put in place by central banks and to continue to borrow heavily. It has also recommended boosting public consumption and investment programmes to support a recovery. The shift in ideology is significant, especially given the fact that the spending spree so far has already pushed developed market public debt ratios beyond those seen after World War Two.

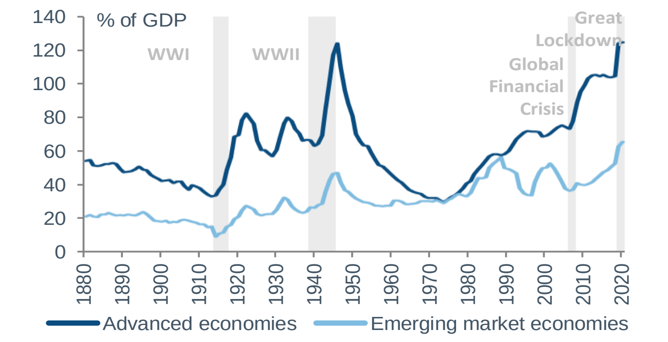
More fiscal stimulus is likely in the coming months. But, in the US at least, a divided government could limit its size and reach. We expect the US government to provide a COVID relief package in H1 2021 of around USD 1 trillion, but overall fiscal spending will be far lower than had the Democrats swept the board at the 2020 election. Amid a second (and perhaps third) wave of COVID, this is unlikely to be enough to maintain strong economic momentum into 2021. Our estimates suggest that total stimulus of around USD 2 trillion, which includes COVID relief as well as other measures, would add just 1.5 percentage points to GDP in 2021. All in all, the path to economic recovery in 2021 is unlikely to be smooth. The rollout of a COVID-19 vaccine may come too late to stop another severe virus wave and the economic disruption may only be partially mitigated by a more modest fiscal impulse in the US. In the medium term, the recovery will depend on how well the sharp expansion of debt to deal with the COVID crisis is managed and which path countries take towards debt sustainability.

Meanwhile, central banks have been on the front line of the COVID-19 crisis and will remain the biggest game in town if US fiscal support proves limited. Indeed, central banks in the G6 countries have almost doubled their balance sheets since the start of the COVID crisis. There is little sign of balance sheet tapering or rate rises on the horizon. On the contrary more stimulus is expected, both by the ECB at their December meeting, and by the Fed. However, the possibility of a vaccine emerging in 2021 and the huge monetary and fiscal response to the crisis in an era of ultra-low rates means the risk of 'duration tantrums' (i.e. spikes in longer-dated bond yields) persists.

The careful balancing act between fiscal and monetary policy will be a key driver for markets in 2021. The latest estimates by the IMF and by JP Morgan, see global public debt reaching almost 100 per cent of global GDP at the start of 2021, and the total public and private sector debt expected to touch 280 per cent of global GDP. By the end of 2020, headline fiscal deficits in advanced economies look set to be five times higher than they were the year before. For this debt to be rolled over and to avoid a negative spiral of defaults, central banks must keep refinancing costs low. So far, they have managed to do so: real yields on the 10-year Treasury started 2019 at 50 basis points and are now around -100 basis points.

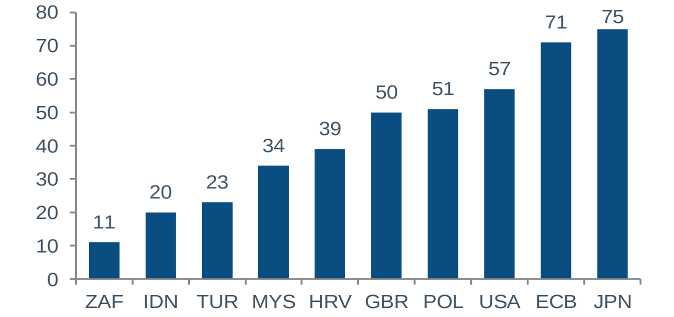
Looking ahead, we see substantial monetary policy support to continue, keeping yields in check. Investors should however be wary that that by their own actions, central banks are making the financial system more vulnerable to a sudden increase in yields, whether triggered by signs of inflation, better growth prospects or a policy mistake similar to the reduction in the Fed's balance sheet that triggered a market tantrum towards the end of 2018.

Debt is the elephant in the room



Source: Fidelity International, IMF, November 2020. Based on a constant sample of 25 DM and 27 EM countries, weighted by GDP in PPP terms.

Central banks remain the biggest game in town



Source: Fidelity International, IMF, November 2020. Shows % of government debt securities issued since February 2020 and purchased by central banks.

Inflation-Linked Bonds

Monthly Review

- Global breakevens rose in November as risky asset rallied on positive vaccine news and a conclusion of the US election.
- The UK concluded its reform to RPI with RPI to be aligned with CPIH from 2030 onwards (and not 2025).
- Oil rallied with WTI futures rising over 25% to $45 a barrel. YTD oil is still down 26%.

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

Outlook

Risky assets rallied in November, driven by positive vaccine news and the conclusion to the US election.

Optimism around a swifter re-opening of economies drove inflation expectations higher with US 10yr breakevens rising from 1.7% to 1.8%, UK 10yr breakevens flat at 3.1% and German 10yr breakevens rising from 0.7% to 0.9%.

Interestingly, this now takes 10yr breakevens above where they were at the start of the year, with the market now pricing in higher inflation expectations over the next 10 years than they did back in December 2019, despite all the challenges that 2020 has thrown to the global economy. Despite the hurdles that the economy has faced this year, inflation linked bonds have offered compelling returns, a useful reminder that the asset class can offer defensive bond-like characteristics as well properties that can help hedge against upside inflation risk, a potentially attractive combination for investors headed into 2021 and beyond.

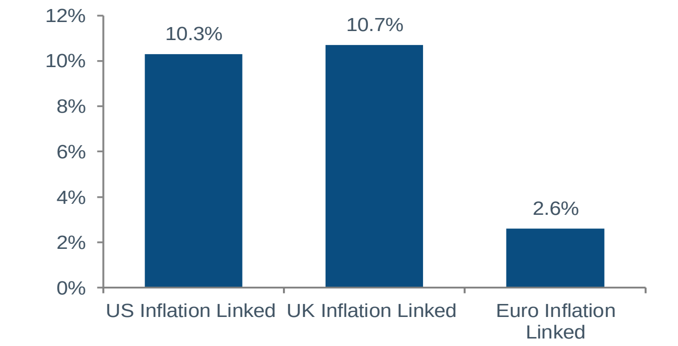
In the UK, all eyes were on the Chancellor's statement as Rishi Sunak responded to calls to reform the Retail Prices Index (RPI), which is used to index UK index-linked Gilts. The key question ahead of the statement was whether the government would implement proposed changes to align RPI with CPIH from 2025 or 2030. Recently, the UK Statistics Authority and HM Treasury jointly consulted on reforming the RPI methodology. The proposed solution would see RPI aligned to CPIH where, from the implementation date, each month's growth in the RPI index will be set equal to the growth in the CPIH index. In our view, a methodology change that reduces RPI to CPIH, (RPI is currently 0.4% higher than CPIH but typically 0.9% higher) every year will negatively impact the present values for index-linked Gilts, something that might hamper the credibility of the index-linked Gilt market. Sunak confirmed the change would take place from 2030, with UK breakevens widening marginally on the news to finish the month unchanged. The choice of the latter date was somewhat reassuring. Overall, given how long the change had been in the works, the market reaction to the Chancellor's announcement was relatively muted, as investors had been pricing in the reform for over a year now. We have been quite active in UK breakevens of late, mainly being underweight due to the above-mentioned risk and structurally expensive UK inflation markets. However, we did move tactically overweight on the news.

In the US, core inflation for October was flat month-on-month (MoM) and up +1.6% year-on-year (YoY). Positive contributors for the month included shelter, which increased +0.1%, partially offset by weakness in medical care. Perhaps unsurprisingly, the apparel and transportation components weighed on the YoY figure while, as we have discussed in the past, used cars and trucks prices have contributed positively to inflation (up +11.5% versus 12 months ago). We have been closely monitoring for any signs of weakness in shelter, a large component of the CPI, yet prices here are still 2% higher than 12 months ago and have risen every month apart from March and April. We moved back to our long bias in US breakevens and maintain our overweight in US real yields.

Euro area inflation was unchanged for November showing stabilisation at cyclical lows. A pick-up in services inflation was offset by softer goods inflation. For the headline rate, weak energy prices continue to weigh on YoY inflation while food prices are higher versus 12 months ago. We pared back our German breakeven overweight exposure ahead of the US election and have remained neutral since.

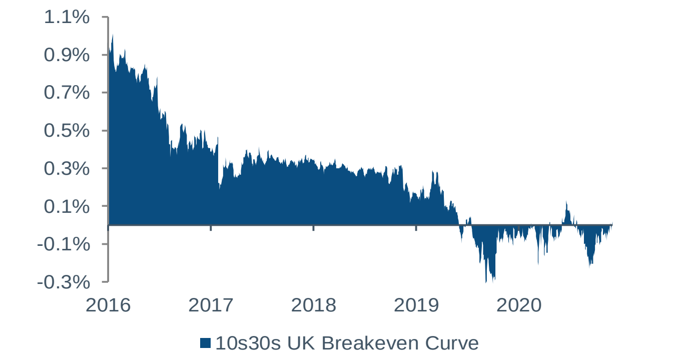
Outside of this, we retain a long in Japanese breakevens where breaks trade close to their embedded floor.

YTD 2020 inflation linked bond returns



Source: Fidelity International, Bloomberg, 30 November 2020. ICE BofAML indices used.

UK breakeven curve inverted back in September 2019



Source: Fidelity International, Bloomberg, December 2020.

Investment Grade Credit

Monthly Review

- Investment grade (IG) credit spreads tightened further in November amid US election results and positive vaccine headlines.
- Despite the short-term uncertainty concerning virus numbers and potential lockdowns, investors appear broadly constructive on the asset class.

Strategy

Strategy	– –	–	=	+	++
IG Credit Beta			●		
USD IG			●		
EUR IG		●	←		
GBP IG			●		
Asian IG (USD)				●	

Outlook

Investment grade (IG) credit had one of its strongest months of the year in November. Buoyed by several positive tailwinds, the asset class outperformed government bonds across all regions on a total return basis and recorded impressive spread tightening across the board. Similar to October, several factors proved favourable for risk assets and fuelled the strong demand for corporate bond. This month, it was the numerous developments surrounding a COVID-19 vaccine, the alleviation of US political risks following Biden's election victory, and the ongoing support from central banks and governments which drove performance in IG credit. Overall, we are still constructive on the asset class given the improving backdrop, strong technical picture and more optimistic vaccine-driven outlook. Nevertheless, we continue to advocate for neutral-to-defensive positioning in most regions based on valuations which look increasingly expensive on a historical basis.

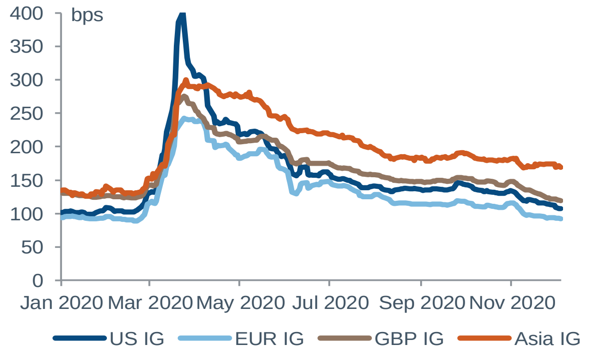
Over the month, European IG spreads tightened by a notable 22bps while the index recorded positive total returns of just over 1%. Despite some European countries still under nationwide lockdowns, the asset class was given a significant boost following the announcement by several large pharmaceutical companies about the development of a COVID vaccine with very high efficacy rates. Among those reporting successful trials were US-based companies Pfizer and Moderna, and UK-based AstraZeneca. In the days following the announcements, EUR IG spreads rallied back to levels not seen since February, with sectors like airlines, leisure and retail the biggest beneficiaries of the news. Although the fundamental outlook in Europe remains subdued, optimism around the vaccine appeared to exceed investor fears. While we remain constructive following the recent positive developments, we are equally cognisant that the road to economic recovery will be long and not without uncertainties, even with a vaccine made available. We are also mindful of how far valuations in EUR IG have come, particularly in sectors less impacted by the pandemic. As a result, we have recently reduced our exposure and are now marginally underweight, but will look to add back risk on market weakness.

The US corporate bond market was another beneficiary of the positive vaccine news this month, recording one of its best performances year to date. In aggregate, US IG spreads tightened by 21bps over the month, while total returns for the index came in at an impressive 2.7%. Much like in Europe, the long-awaited vaccine news drove the risk-on sentiment, while the Biden victory in the Presidential elections provided an additional boost for risk investors and alleviated weeks of market volatility. Even though the Democrats failed to secure a Blue Wave victory, a Biden presidency will likely provide a positive backdrop for risk sentiment in the US and should help to keep IG spreads in check. Overall, despite a positive technical picture, we remain broadly neutral in US IG across our portfolios on account of valuations, which continue to look expensive on a historical basis, and the still weak fundamental picture, which is lagging other regions. As before, we will look to take advantage of any weakness in the market and have recently added some risk in sectors that will likely benefit from a resumption in economic activity.

Turning to Asia IG, November was another strong month both in spread and total return terms. As has been the case for much of 2020, the abundant liquidity backdrop and persistent demand for income from investors continues to support the asset class. Over the month, spreads tightened by 8bps, while the index returned 1.2% in local currency terms. This takes its year to date performance to just over 7%. Overall, our view on Asia IG remains constructive and we are overweight the asset class in our portfolios. Valuations have rallied since the March and April wides but still remain somewhat wider than where they were before the COVID sell-off. Unprecedented support from central banks and strong fundamentals, particularly relative to other regions, further underpin our positive view.

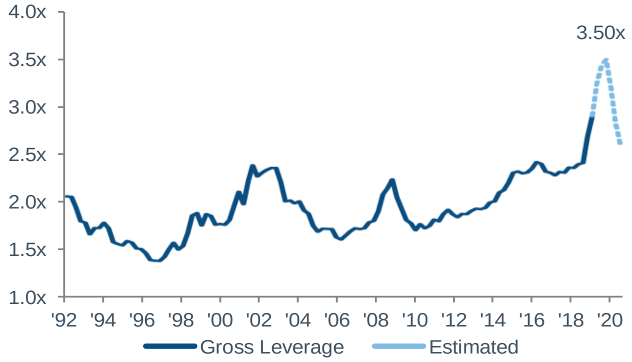
Sterling IG had another robust performance this month, returning 1.97%, tightening by 26bps over the month. Vaccine related developments, a strong technical backdrop, and sone positive news around Brexit were the main drivers of the asset class strength. Overall, we remain constructive on GBP IG over the long term, but continue to advocate for a more neutral positioning, on the back on valuations which, much like European and US IG, have rebounded significantly from the March and April wides.

Valuations have normalised in most regions



Source: Fidelity International, Bloomberg, ICE BofA bond indices, shows option-adjusted spreads, to 4 December 2020.

IG leverage expected to peak at 3.5x



Source: Bloomberg, Refinitiv, S&P, FTSE Fixed Income, Morgan Stanley Research estimates

High Yield

Monthly review

- In November we saw elections and vaccine headlines trigger a powerful risk on rally with high yield markets seeing one of the best monthly performance year to date.
- Risk on sentiments remain higher on hopes that coronavirus vaccine rollouts will boost economic recovery and ward off corporate defaults.
- Putting aside April, when markets staged a bounce-back after the March sell-off, it is the best month since 2012 in Europe.

Strategy

Strategy	– –	–	=	+	++
High Yield Credit Beta			●	←	
US High Yield			●	←	
European High Yield			●	←	
Asian High Yield				●	

Outlook

November was a remarkably stellar month for the Global High Yield (HY) market, which was up 4.1% MoM in local currency terms. The month began on a nervous tone, but the resolution to the US election, and most crucially the vaccine breakthrough melted away the uncertainty of the previous months. Markets reacted strongly to the apparent light at the end of the COVID-19 tunnel, driving a sudden and euphoric HY rally. The market reaction has reaffirmed our previous assertion that the virus trajectory remains the biggest driver for HY in the short to medium term.

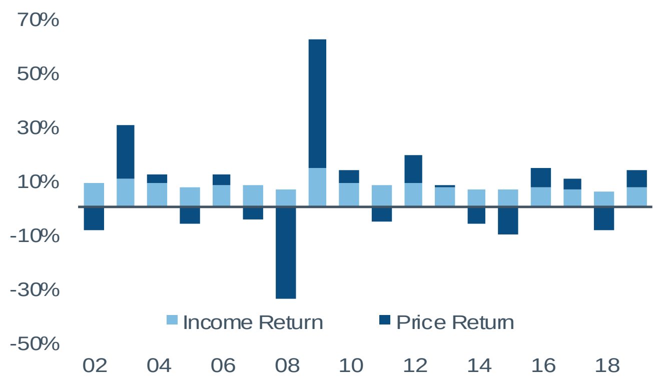
While the vaccine news is overwhelmingly positive, we are mindful of the short-term impact that restrictions will have on consumption, and the volatility that could arise from potential roadblocks, such as new mutations and issues around vaccine distribution. We acknowledge that spread levels have corrected significantly since March, and therefore think it is prudent to move our overall beta positioning back to neutral as the asset class returns are likely to be driven more by carry than spread tightening from current levels.

Looking to the regional markets, US HY saw its strongest monthly performance since July, returning 4% in November, with spreads tightening 98bps on the month in the immediate aftermath of the election. Most notably, there was 100bps of tightening between B and CCC-rated names, as energy and airline names outperformed. That said, US HY is still 15bps wider than post-election tights as a seamless transition of power in the White House remains uncertain. In terms of supply, we predict a typical seasonal reduction in the pace of issuance between now and year end. Looking into 2021 however, consensus is for issuance to remain elevated, as companies will continue taking advantage of favourable conditions for refinancing, or potentially conducting more M&A. We still prefer defensive sectors but recognise that broad economic re-opening will particularly benefit certain cyclical and consumer discretionary industries. In the face of the aggressive moves we have seen in November, we are taking our beta stance to neutral for US HY. The uncertainty surrounding 2021 brings with it the risk of a rise in defaults, especially in the event of a reduction in fiscal support, although this is not our base case.

European HY returns were a remarkable 4.3% in November, and spreads tightened by 110 bps, making November one of five months in the last decade to surpass 4% in total return terms. We believe we will still see a grind tighter into year-end but are mindful that despite December historically being a strong month for HY, November's standout performance could limit the momentum going forward. Positioning-wise, we are continuously rotating away from names that have limited spread compensation and into COVID-sensitive sectors that are expected to benefit from economies reopening. European HY returns have surprised to the upside in 2020, despite COVID-19, with levels of government and policy support ensuring that defaults remained low. Since the March troughs there has been significant capital appreciation throughout the HY issuers cohort. Going forward the asset class is becoming more about carry, so we shift towards a neutral stance here. While mindful that the asset class still provides good levels of risk adjusted income, the potential for outsized returns here is more muted than earlier in the year.

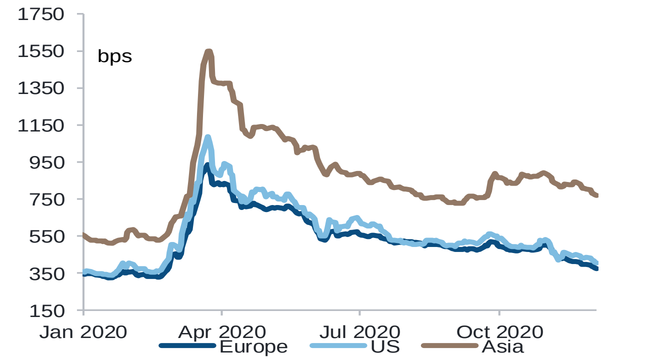
Asia HY returned 2.8% in November, with spreads tightening by 76 bps. Despite short-term uncertainty, China property, which represents a large share of Asia HY indices, continues to be an area of strong potential in the medium to long term view. Supply has been relatively muted, with a lack of new issues meaning that there is currently not enough paper to meet a substantial buyer demand. Despite selective risk reduction for some particularly volatile names, on the whole we remain overweight as we are mindful of the positive technicals that characterise some cyclical names within the Asian HY space. We expect the search for income to remain strong, with demand for Asian HY remaining resilient. We are cognisant of the asset class' transition to more of a "carry asset class", but nevertheless spread levels remain more attractive relative to both other parts of the HY universe and to historical averages. The biggest risk factors are centred around market liquidity, and renewed China and US trade risks.

Carry in High Yield remains a big driver of returns



Source: Fidelity International, Bloomberg, ICE BofA as of November 2020

Spreads continue to tighten



Source: Fidelity International, Bloomberg, ICE BofA as of November 2020

Emerging Markets

Monthly review

- Emerging market debt posted positive returns over the month with local currency bonds outperforming hard currency.
- Credit spreads tightened over the month and most emerging market currencies strengthened against the US dollar on the back of benign outcome of US elections and positive developments around vaccines against COVID-19.

Strategy	– –	–	=	+	++
Hard Currency Sovereign					●
Hard Currency Corporates				●	
Local Currency Duration				●	
EM FX					●
China RMB				●	

Outlook

Emerging market debt (EMD) saw very strong returns in November, with spreads compressing in the hard currency space and yields falling across local currency debt markets. Local currency was the best performer over the month, returning 5.5%, driven primarily by positive returns from EM currency appreciation. In the hard currency space, sovereign debt posted total returns of 3.9%, while corporate debt returned 2.7%. Spreads tightened by 41bps in the sovereign space where they reached 380bps, and 45bps in the corporate space to end the month at 341bps. EM assets continued to move in line with global risk markets, where sentiment was buoyed by positive vaccine news, a rebound in global activity and continued policy support from governments and central banks around the world. Global PMIs reached 53 and US 10-year real yields finished November at -94bps. This combination is supportive for EM assets looking forward, as growth continues to rebound and the reach for yield theme will likely drive further inflows into EM debt.

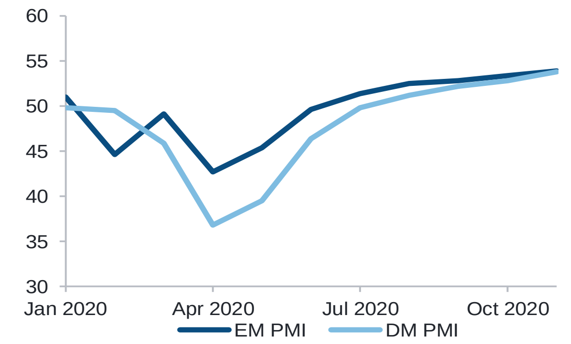
With the US elections now behind us, we are starting to get more visibility on the approach that the new US administration under Biden will take over the next four years. The team Biden has chosen signals an administration with pragmatism, orthodoxy, multilateralism, pro-global trade, and joined up policy decisions between the Treasury and the Fed. This last point will be crucial as we head into the next phase of the cycle.

2021 looks set to be a strong year for EM assets and we are bullish in the near term for a number of reasons. What stands out to us is the continued easing from central banks, effective roll out of a global vaccine, a market friendly US administration and rising commodity demand (copper and oil in particular). All these points support our thesis for a global reflation rally in growth-sensitive risky assets. Compared to other credit asset classes, where spreads are nearing all-time tights, hard currency EMD spreads still have some room to run relative to their pre-COVID levels. So, for us, as implied volatility and risk premium continue to fall, investors' hunt for yield and income will keep capital looking for assets like EMD to meet their needs. As a result, EM credit is our highest conviction going into 2021.

We also remain positive on EM FX going into the year end. The outlook for the US dollar is likely to remain weak in the near future. The impact of the COVID-19 winter wave looks set to prompt further easing from the Fed and the ECB. This, along with positive developments regarding vaccines, should provide further support to risky assets. We remain constructive on EM FX where key laggards still look attractive. Some commodities such as copper have traded well, with demand growing especially from China. Thus, we added to some exposure to the Chilean peso during the month. We also have long discretionary positions in the Peruvian sol, Russian ruble, Hungarian forint, Turkish lira, Indian rupee, Thai baht and Singapore dollar. However, we are wary of the growing consensus and positioning around the global reflation trade. Our pickings are getting slimmer.

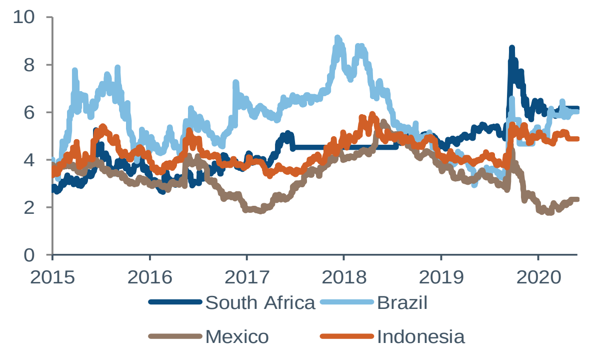
We maintain an overweight local currency duration position but have reduced our overweight from the peaks. Chile and Mexico are our key overweight duration positions along with some exposure to frontier markets and an underweight position in Poland. The support provided by central banks may be negative in the long term for EM balance sheets, but in the near future, will provide liquidity to bond markets as rate cuts continue to benefit local currency EM duration. While local currency yields have fallen as a result of policy easing, steeper curves amongst some higher yielding names offer attractive carry and rolldown characteristics, if inflation remains subdued. However, we are mindful of some emerging market central banks reaching the lows of policy rates and may remain on hold or even hike due to some idiosyncratic reasons. We remain constructive in the near term but are more cautious in the medium term.

Manufacturing PMIs have rebounded



Source: Fidelity International, Bloomberg, November 2020.

EM still has attractive real yields (%)



Source: Fidelity International, Bloomberg, November 2020. 10-year yields based off core CPI.

Quant Appendix

Fidelity Fixed Income Quantitative Scorecard

4th December 2020

Credit Beta & Asset Allocation

Credit Beta	TOTAL	Macro-economics	Momentum	Liquidity	Reversion	Seasonality
USD Investment Grade Credit	0.49	0.4	0.6	0.4	1.0	0.3
EUR Investment Grade Credit	0.24	0.4	1.0	0.4	0.0	0.0
USD High Yield	0.12	0.4	1.0	0.4	-1.0	1.0
EUR High Yield	0.08	0.4	1.0	0.4	-1.0	0.7
EMD Sovereigns (USD)	-0.18	-1.0	1.0	0.4	-1.0	0.0

Comments:

Our credit beta models have added risk in USD investment grade and USD high yield, reduced risk in EUR high yield, and are close to unchanged in EUR investment grade and EM sovereigns. Generally, the recent rally has moved the momentum signal more positive on all assets, while, in contrast, our liquidity signal has deteriorated. The reversion signal has moved more positive on USD IG, driving the addition of risk in that asset, while it is now negative for high yield and emerging market assets, driving a reduction in risk for EUR HY. Seasonality has improved for USD HY, leading the model to add risk there.

Asset Allocation	TOTAL	Macro-economics	Fundamentals	Sentiment and Liquidity	Valuation and Reversion
Investment Grade Credit	+0.96	+1.0	+1.0	+0.9	+1.0
High Yield	+0.86	+1.0	+1.0	+1.2	+0.3
US Loans	+0.86	+1.0	+1.0	+1.2	+0.3
EM Sovereign Debt (USD)	+0.76	+1.0	0.0	+0.5	+1.0
EM Local Currency Debt	+0.36	+1.0	0.0	+1.2	-1.0
EM Corporate Debt (USD)	+0.76	+1.0	+1.0	+0.9	+0.3

Comments:

The asset allocation model remains risk on and has added a little bit of risk across the board driven by improved sentiment and liquidity signals. This improved sentiment has been offset to some extent in high yield and loans by the valuation signal turning less positive for these assets. We have also seen an improvement in the fundamental signal for EM corporates.

Interest Rates

Duration	TOTAL	Global Growth	5y5y Fv	Commods	Gold	Cyc Vs Def	Reversion	Global Momentum	Slope	Seasonality
EUR	-0.26	-0.02	0.00	-0.03	-0.04	-0.01	0.01	-0.17	-0.00	-0.02
USD	-0.02	-0.01	0.00	-0.16	-0.00	-0.07	-0.07	-0.10	0.39	-0.00
GBP	-0.12	-0.01	0.00	-0.06	-0.00	-0.04	0.26	-0.22	-0.00	-0.05

Comments:

The model now flat or short across all markets. This reflects the improving commodity picture and the shift in global momentum from long to short

Cross-Market Duration	TOTAL (beta-neutral)	TOTAL	Slope	Real yield	Forward yield	Growth	Inflation	Unemployment
AUD	0.25	0.39	1.03	-0.15	-0.27	0.71	0.23	0.08
CAD	0.30	0.42	1.24	-0.05	0.53	-0.32	-0.24	-0.08
CHF	0.08	-0.12	-0.77	0.33	0.30	-0.04	0.05	0.29
EUR	-0.82	-0.45	-0.90	-0.38	-0.40	0.05	0.18	-0.44
GBP	0.27	0.22	0.48	0.02	0.50	-0.03	-0.40	0.23
JPY	0.09	-0.03	-0.91	1.23	0.65	-0.24	0.14	-0.24
NZD	-0.22	-0.13	-0.33	-0.19	-0.63	0.20	1.04	-0.17
SEK	0.08	-0.24	-0.75	-0.03	-0.37	-0.05	0.10	0.61
USD	-0.17	-0.06	0.91	-0.77	-0.32	-0.28	-1.10	-0.28

Comments:

The current cross-market rates view is to be overweight AUD, CAD, Japan, Swiss and GBP against EUR, New Zealand and USD. Over the month the model has gone short US and reduced some of the short in New Zealand. This reflects the mean reversion signals taking some profit after the underperformance of New Zealand rates over the month.

Quant Appendix explained

Fidelity Fixed Income Quantitative Scorecard

Credit Beta & Asset Allocation

Credit beta:
1. Global macroeconomic surprises compared to consensus expectations
2. Momentum: large one-way moves in either cross-asset-class volatility or credit spreads
3. Liquidity: trends in bond market bid-offer-spreads
4. Reversion: deviation of spreads from their recent average value, expecting reversion to the mean
5. Seasonality: technical indicator driven by historic returns in the corresponding period

Credit Asset Allocation:
1. Macro: Global leading indicators plus qualitative growth and rates/inflation assessment
2. Fundamentals: Aggregated trend of single-company forecasts for leverage, margins and indebtedness
3. Sentiment and Liquidity: trend in bid-offer-spreads, cross-asset-class volatility and spread volatility
4. Valuation and Reversion: deviation of spreads from their historic averages, and risk premium above expected losses given long term average default rates

Directional Duration:
1. Growth forecast momentum: lower forecasts are dovish, lead to lower rates
2. Fair value: signal comparing the difference between 5y5y forwards
3. Commodities momentum: a proxy for state of the economic cycle
4. Gold momentum: a proxy for risk sentiment and flight to quality
5. Cyclical stocks outperformance: a proxy for economic optimism
6. Reversion: deviation of yields 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. Forward yield: forward yields adjusted for GDP trend, tend to revert to the mean
4. Growth forecast momentum: lower forecasts are dovish, lead to lower rates
5. Inflation forecast momentum: lower forecasts are dovish, lead to lower rates
6. Unemployment forecast momentum: lower forecasts are hawkish, lead to higher rates

TOTAL	1 Macro-economics	2 Momentum	3 Liquidity	4 Reversion	5 Seasonality
0.20	0.1	1.0	0.7	0.0	-0.7
0.08	0.1	-0.6	0.7	0.5	-1.0
0.12	0.1	1.0	0.7	-0.5	-0.3
0.37	0.1	1.0	0.7	0.5	-0.3
-0.18	-0.8	0.0	0.7	0.7	0.0

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 Global Growth	2 5y5y FV	3 Commods	4 Gold	5 Cyc Vs Def	6 Reversion	7 Global Momentum	8 Slope	9 Seasonality
-0.06	0.00	-0.00	-0.01	-0.01	-0.22	-0.15	-0.00	0.21
-0.02	0.00	-0.02	-0.00	-0.06	-0.08	-0.10	0.54	-0.00
-0.02	0.00	-0.01	-0.00	-0.04	0.14	0.01	0.02	0.18

1 Slope	2 Real yield	3 Forward yield	4 Growth	5 Inflation	6 Unemployment
-0.2	-0.1	-0.4	-1.1	-0.4	0.0
-1.3	0.5	0.4	0.4	-0.3	-0.2
1.0	0.1	0.5	0.4	-0.1	-0.5
0.8	-0.3	-0.1	0.6	-0.3	0.0
-0.6	0.4	0.3	-0.7	1.1	0.2
0.8	0.1	-0.2	0.3	-0.4	0.0
0.6	-0.6	-1.1	0.1	-0.1	0.1
0.3	-0.5	-0.4	0.5	0.5	0.1
-1.3	0.4	1.1	-0.6	0.0	0.2

Important Information

This information must not be reproduced or circulated without prior permission.

Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client.

Fidelity International refers to the group of companies which form the global investment management organisation that provides information on products and services in designated jurisdictions outside of North America. This communication is not directed at, and must not be acted upon by persons inside the United States and is otherwise only directed at persons residing in jurisdictions where the relevant funds are authorised for distribution or where no such authorisation is required.

Unless otherwise stated all products and services are provided by Fidelity International, and all views expressed are those of Fidelity International. Fidelity, Fidelity International, the Fidelity International logo and F symbol are registered trademarks of FIL Limited.

Continental Europe: We recommend that you obtain detailed information before taking any investment decision.

Denmark/Finland/Italy/Luxembourg/Norway/Portugal/Spain/Sweden: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg.

Austria: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg as well as from the paying agent in Austria, UniCredit Bank Austria AG, Schottengasse 6-8, 1010 Vienna, or on www.fidelity.at.

Belgium: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from FIL (Luxembourg) S.A. and CACEIS België NV, with head office at Havenlaan 86C, B320, 1000 - Brussels, the financial service provider in Belgium.

Czech Republic: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our paying agent UniCredit Bank Czech Republic a.s., Zeletavska 1525/1, 14092 Prag 4 - Michle, Czech Republic. The KIID is available in Czech language.

France: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge upon request at FIL Gestion, authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 21 Avenue Kléber, 75016 Paris.The document is available in French upon request. If you do not wish to receive documents in English dedicated to Professional, please contact your Fidelity contact. Issued by FIL Gestion, authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 21 Avenue Kléber, 75016 Paris.

Germany: Investments should be made on the basis of the current prospectus/Key Investor Information Document (KIID), which is available along with the current annual and semi-annual reports free of charge from FIL Investment Services GmbH, Postfach 200237, 60606 Frankfurt/Main or www.fidelity.de. For German Wholesale clients issued by FIL Investments Services GmbH, Kastanienhöhe 1, 61476 Kronberg im Taunus. For German Institutional clients issued by FIL (Luxembourg) S.A., 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. For German Pension clients issued by FIL Finance Services GmbH, Kastanienhöhe 1, 61476 Kronberg im Taunus.

Hungary: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our distributor Raifeisenbank Zentralbank Österreich AG, Akademia u. 6, 1054 Budapest. The KIID is available in Hungarian language.

Croatia: We recommend that you obtain detailed information before taking any investment decision. Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our paying agent Zagrebačka banka d.d., Trg bana Josipa Jelačića 10, 10000 Zagreb.

Liechtenstein: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg as well as from the paying agent in Liechtenstein, VP Bank AG, Äulestrasse 6, 9490 Vaduz.

Netherlands: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the current annual and semi-annual reports free of charge from our distributors, and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. In the Netherlands, documents are available from FIL (Luxembourg) S.A., Netherlands Branch (registered with the AFM), World Trade Centre, Tower H, 6th Floor, Zuidplein 52, 1077 XV Amsterdam (tel. 0031 20 79 77 100). The Fund is authorised to offer participation rights in the Netherlands pursuant to article 2:66 (3) in conjunction with article 2:71 and 2:72 Financial Supervision Act.

Poland: This material does not constitute a recommendation within the meaning of the Regulation of the Polish Minister of Finance Regarding Information Constituting Recommendations Concerning Financial Instruments or Issuers Thereof dated October 19, 2005. No statements or representations made in this document are legally binding on Fidelity or the recipient and do not constitute an offer within the meaning of the Polish Civil Code Act of 23 April 1964. Investments should be made on the basis of the current prospectus, the KIID (key investor information document) and the Additional Information for Investors, which are available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg, from the representative office in Poland or on www.fidelity.pl.

Romania: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors and from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg. The KIID is available in Romanian language.

Slovakia: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which is available along with the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from our paying agent UniCredit Bank Slovakia, a.s., Sancova 1/A 81333, Slovakia. The KIID is available in Slovak language.

Switzerland: Investments should be made on the basis of the current prospectus and KIID (key investor information document), which are available along with the articles of incorporation as well as the current annual and semi-annual reports free of charge from our distributors, from our European Service Centre in Luxembourg, FIL (Luxembourg) S.A. 2a, rue Albert Borschette BP 2174 L-1021 Luxembourg and from the representative and paying agent in Switzerland, BNP Paribas Securities Services, Paris, succursale de Zurich, Selnaustrasse 16, 8002 Zurich.

Issued by: FIL (Luxembourg) S.A., authorised and supervised by the CSSF (Commission de Surveillance du Secteur Financier) / FIL Investment Switzerland AG, authorised and supervised by the Swiss Financial Market Supervisory Authority FINMA / FIL Gestion, authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 29 rue de Berri, 75008 Paris. For German Wholesale clients issued by FIL Investments Services GmbH, Kastanienhöhe 1, 61476 Kronberg im Taunus. For German Institutional clients issued by FIL Fondsbank GmbH, Kastanienhöhe 1, 61476 Kronberg im Taunus. For German Pension clients issued by FIL Finance Services GmbH, Kastanienhöhe 1, 61476 Kronberg im Taunus.

China: Institutional clients - This material has been requested by you in China and has been prepared by Fidelity to you in China only for informational purposes to institutional investors. Fidelity is not authorised to manage or distribute investment funds or products in, or to provide investment management or advisory services to persons resident in, the mainland China.

Qualified Domestic Institutional Investors (QDII) business - This material has been requested by you in China and has been prepared by Fidelity to you in China only for informational purposes in relation to Qualified Domestic Institutional Investors (""QDII""). Investors should refer to the relevant offering document for full details before investing in any investment funds mentioned herein and to seek professional advice through commercial bankers in the PRC under regulations by the CBRC, where appropriate. Fidelity is not authorised to manage or distribute investment funds or products in, or to provide investment management or advisory services to persons resident in, the mainland China.

Hong Kong: Please refer to the relevant offering documents for further information including the risk factors. If Investment returns are not denominated in HKD/ USD, US/HK dollar-based investors are exposed to exchange rate fluctuations. The material is issued by FIL Investment Management (Hong Kong) Limited and it has not been reviewed by the Securities and Futures Commission (“SFC”).

Korea: This document is for intermediaries' internal use only (or institutional investor) and not for external distribution or fund promotion. All external distribution, amendment and variation of this information require prior written approval from Fidelity International. Fidelity International is not responsible for any errors or omissions relating to specific information provided by third parties. All views may have changed due to market movements or other circumstances thereafter.

Please read the (simplified) prospectus thoroughly before you subscribe to any specific fund. Profit or loss that can be incurred in accordance to outcome of management and currency exchange fluctuation is reverted to investors. Past performance is no guarantee of future returns. The investment is not protected by Korea Deposit Insurance Corporation under Investor Protection Act. Investment involves risks. Funds investing in foreign markets are open to risks related to country's market, political and economic conditions which may cause loss on asset value. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited.

Singapore: FIL Investment Management (Singapore) Limited [“FIMSL”] (Co. Reg. No.: 199006300E) is the representative for the fund(s) offered in Singapore. Potential investors should read the prospectus, available from FIMSL, before investing in the fund(s).

FIPM 5054