DECEMBER 2021

Fixed Income **Monthly**

FOR INVESTMENT PROFESSIONALS ONLY

Fidelity INTERNATIONAL

FIXED INCOME **MONTHLY**

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

Main views

- Neutral on US duration on a discretionary basis, offset by short signals from our quant models. Bias to add on dips, with Fed tapering priced in and signs of US growth slowing.
- Discretionary long in European core duration, with Bund yield fair value closer to -40bp
- Underweight European peripheral government bonds on valuation grounds.
- Underweight UK Gilts, driven by our quant model inputs.

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

- Remain overweight in US breakevens largely on the strength in in the US rental market. Remain underweight US real duration.
- Moved to an underweight in Euro breakevens.
- Remain underweight UK breakevens given valuations continue to look stretched.

Investment Grade Credit	– –	–	=	+	++
Investment Grade Credit Beta		→	●		
USD IG		●			
EUR IG		→		●	
GBP IG		●			
Asian IG (USD)			●		

- Retain an underweight in US IG and GBP IG on the back of expensive valuations.
- Changed our EUR IG exposure to overweight, after the recent spread widening we have been adding exposure again.
- Neutral in Asia IG, taking profit in some names and waiting for more favourable valuations in other industrial sectors.

Financial and Corporate Hybrids	– –	–	=	+	++
Financial and Corporate Hybrids			●		
Contingent Convertibles				●	
Investment Grade Corporate Hybrids			●		

- We remain positive on AT1s, as banks continue to benefit from the reflation trade, with room for further spread tightening.
- Neutral on Corporate Hybrid valuations; perpetual premia continues to be in the ballpark of pre-Covid levels.

High Yield	– –	–	=	+	++
High Yield Credit Beta			→	●	
US High Yield			●		
European High Yield			→	●	
Asian High Yield				●	

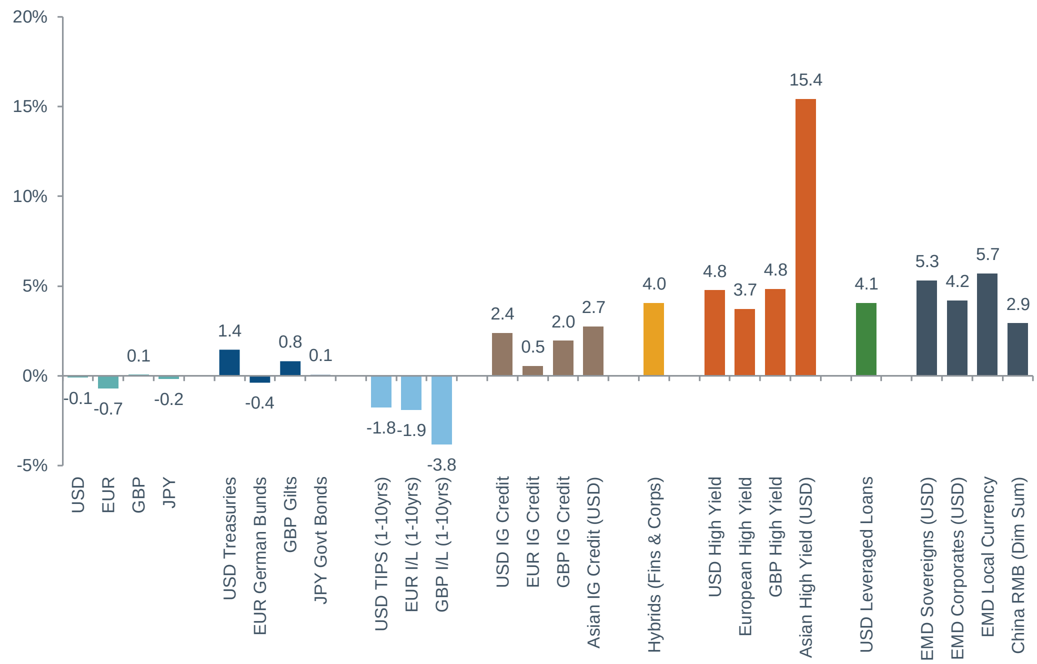
- Moving positive on European HY, as wider spreads leave room for improved performance and compression.
- Neutral on US HY, cautious on moving to a positive stance due to the current macro environment and a hawkish tilt from the Fed.
- Asia HY remains attractive on valuation grounds, although we do anticipate additional idiosyncratic headlines.

Emerging Markets	– –	–	=	+	++
EM Hard Currency Sovereign Debt				●	
EM Hard Currency Corporate Debt				●	
EM Local Currency Duration			●		
EM FX		●			
China RMB Debt			●		

- EM debt continues to be supported by an easy global monetary policy as well as an ongoing demand for yield.
- We remain underweight EMFX, given our concerns around Chinese growth and commodity prices.
- Flat local currency duration, watching how EM inflation dynamics play out.

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. 3 December 2021. 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 2021 (%)

Government	1 Month	YTD	2020	2019	2018	2017
US Treasuries	0.9	-1.8	8.2	7.0	0.8	2.4
EUR Bunds	1.9	-1.0	3.0	3.1	2.4	-1.4
UK Gilts	3.1	-2.6	8.8	7.3	0.5	1.9
Inflation Linked						
USD	1.1	5.8	11.5	8.8	-1.5	3.3
EUR	1.4	5.9	3.1	6.0	-1.4	1.3
GBP	6.2	10.2	11.3	6.5	-0.3	2.3
Investment Grade Corporate						
USD	0.1	-0.8	9.8	14.2	-2.3	6.5
EUR	0.2	-0.9	2.6	6.3	-1.1	2.4
GBP	1.3	-1.7	8.7	10.8	-2.0	4.9
Asian Dollar	0.4	0.0	7.6	11.5	-0.1	5.3
Financial and Corporate Hybrids						
Contingent Convertibles	-1.0	3.3	6.8	17.6	-3.7	14.4
Investment Grade Corporate Hybrids	-0.4	0.9	3.8	14.2	-4.6	12.1
High Yield						
US	-1.0	3.4	6.2	14.4	-2.3	7.5
European	-0.7	2.5	3.6	13.8	-3.9	7.4
Asia	-0.9	-5.6	8.4	13.2	-3.3	6.1
Emerging Markets						
EM USD Sovereigns	-1.8	-3.2	5.3	15.0	-4.3	10.3
EM USD Corporates	-0.6	0.5	7.1	13.1	-1.6	8.0
EM Local Currency (USD unhedged)	-2.7	-10.1	2.7	13.5	-6.2	15.2
China RMB	0.3	2.9	3.7	5.6	5.2	5.1

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 2021. Total Returns based off JPM and ICE BofA Merrill Lynch bond indices as of 30 November 2021. Custom index used for Asia High Yield (ICE BofA Merrill Lynch Q490 Index)

Macro and Rates Overview

Monthly Review

- Government bond markets gained ground in November as concerns mounted around a new and more contagious COVID variant.
- Amid ongoing inflationary pressures, the Federal Reserve indicated that the pace of tapering of asset purchases may accelerate, with a formal announcement likely at the December meeting.
- Yield curves flattened further and are now back at January levels.

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

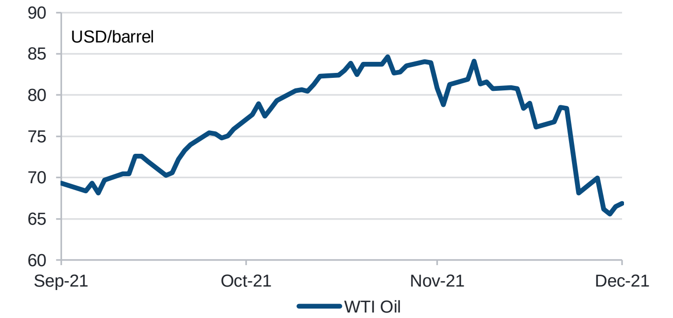
Outlook

November turned out to be a rollercoaster ride for markets. While always a risk that was at the back of people's minds, COVID came back to the fore with a new and more contagious variant, Omicron, that swept through the world. Deja-vu of lockdowns and travel bans, with countries reacting in earnest, fuelled what was already a very volatile environment amid rising inflation and growing signs of less forthcoming monetary policy support by central banks. The reaction across all markets to new COVID-related restrictions was sharp. Risky assets came under pressure, with WTI oil 20% lower on they month, while government bonds outperformed as markets reprice their expectations for inflation and monetary policy.

Central banks on their part have yet to incorporate the Omicron variant and its implications in their forecasts, and how they do so will be an important driver for markets in 2022. In the interim, the focus remains firmly on inflation. In particular, the Fed seems to have capitulated. They no longer consider inflation a temporary phenomenon, and in November guided markets towards an acceleration in the pace of tapering starting as early as the December meeting. On the macro front, conditions are in place for further inflation in early 2022, driven by high excess savings, depressed inventories, and continued robust demand. However, we see more downside risks to prices in the second half of 2022 as effects of 2021 fiscal stimulus wear off and in reaction to the removal of stimulus that has already been announced by the Fed and other central banks. We expect inflation to peak in Q1 and then settle down, but still above 2%. The market has already priced in a less accommodative stance by the Fed, with one hike expected in 2022 and the hint of a faster tapering schedule that that had only a minimal impact on yields. The removal of stimulus, however, won't be without challenges for the Fed given the need to keep real rates low. Should these rise meaningfully, the impact on risky assets will be swift, given the rise in the debt burden and heightened sensitivity to financial conditions. The Omicron variant adds another later of uncertainty, as its severity and impact on macro conditions that is still unclear. Rate curves meanwhile continue to flatten and in the US we areat January levels. Investors expect a relatively shallow hiking cycle by the Fed, and a limited impact from even an accelerated tapering schedule, given the still very negative net supply expected in the Treasuries market next year. Nevertheless, volatility will remain a key feature in US and other DM rates markets in the month ahead, with our focus on the ability for the market to price in a faster Fed hiking cycle as a function of the labour force participation rate on one hand, and slower growth driven by potentially new COVID restrictions on the other.

Over in Europe, with the Omicron variant spreading and European inflation reaching the highest levels since the creation of the Euro, there will be plenty to look out for at the December ECB meeting, arguably their most important of the last 18 months. Not only the ECB will be signalling its intentions for the QE programme and possible rate hike path, but it the meeting will also take place at a time of the year where liquidity is already quite challenged, and any miscommunication could have an outsized effect on the market. In our view, the ECB will have to carefully craft its message, reinforcing the forward guidance about no hikes in 2022 as well as announcing a QE size that avoids the perception of "cliff edge". The recent inflation spikes have strengthened the hawks' hand within the Governing Council and thus chances of a big QE announcement are quite low. Realistically the options available are either of a sizeable QE programme, with sizeable monthly volumes of 40bn EUR pcm or higher until end of 2022 or a smaller QE programme, with lower monthly purchases, but which lasts until at least the middle of 2023. Given the importance of forward guidance, we believe the ECB will err towards the second option. By extending the QE programme into 2023, and either lowering the monthly purchase amount or turning it into an envelope to appease the hawks, the ECB will strengthen its commitment to supporting the market, while pricing away any chance of a rate hike in 2022 or early 2023. European sovereign curves are close to their flattest levels ever, signalling a policy mistake in the making. We do not agree with this view. The ECB will only tighten policy when data warrants it, something that is not the case in our view at the moment. As a result, we remain long European duration, particularly in Bunds, but see the yield curve more likely to steepen from here. At the same time, we are still cautious on peripheral spreads, which may come under further pressure should the Omicron variant warrant additional actions by governments or should the ECB indeed choose a smaller, more flexible, and longer-lasting QE programme.

Oil markets were not immune to the risk-off moves



Source: Fidelity International, Bloomberg, December 2021

US yield curve back to January 2021 levels

Source: Fidelity International, Bloomberg, December 2021.

Inflation-Linked Bonds

Monthly Review

- Global breakeven moves were mixed in November with US and Euro breakevens falling while UK breakevens marched higher.
- Inflation rates across the globe remain high with US CPI hitting +6.2% year-on-year (YoY) and UK RPI reaching +6.0% YoY both their highest levels since the 1990s. Euro Area inflation reached +4.9% YoY, its highest level since the index began.
- A combination of high energy prices, supply-chain issues and continued strong demand for goods.

Strategy

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

Outlook

The picture was mixed for breakeven rates in November, with US and Euro breakevens lower on the month whilst UK breakevens continued to rise. Year-on-year (YoY) inflation remains elevated globally, with only east Asia bucking the trend. The debate on whether this inflation is persistent or transitory continues, with most in a middle camp believing that inflation will be transitory, but supply chain bottlenecks and increased consumer demand will persist for longer than initially expected. A stagflationary scenario still seems unlikely to occur and our macro and inflation teams continue to monitor this risk.

In the US, CPI data saw another rise in October of +0.9% Month-on-Month (MoM). Headline CPI reached +6.2% YoY and core CPI now sits at +4.6% YoY. The rise in headline CPI was largely driven by a rise in food (+0.9% MoM) and energy (+4.8% MoM), contributing to large YoY increases in both, notably now +30.0% YoY in energy. November saw a fall in brent crude oil price from October highs to 70.6 USD per barrel, as a result of increased probability of lockdowns due to the new covid variant, Omicron. This was then reflected in a fall in US breakeven rates. Inflation of second-hand cars also remains high at +26.4%, as covid restrictions easing has allowed consumers to spend their lockdown savings. We continue to see steady increases in the shelter component of the basket, with the effects spilling into the purchase prices as we predicted. November saw a more modest rise of +0.5% MoM, but when compared to other components of the basket it will arguably have the largest impact on consumers.

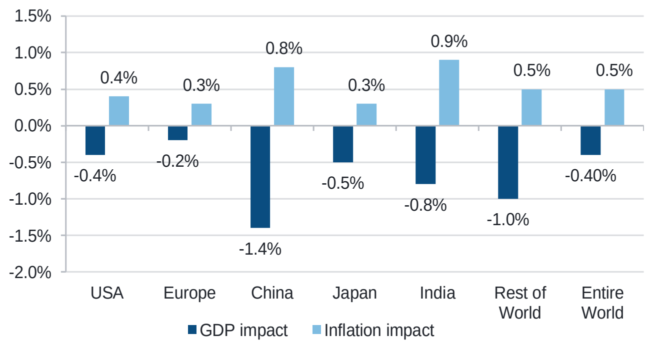
Our current US positioning is neutral on breakevens. We are however operating a 0.5yr short in US real yields, which we believe is the right place to be for the next 12-18 months as economic data continues to be strong. We should therefore see an increase in US real yields over the course of the period.

In October, European HICP rose to +4.1% YoY, with a MoM increase of +0.9%. Eurozone inflation was anticipated to rise in November, and this rise has been greater than expected with preliminary HICP numbers coming in at nearly 5%. Spanish inflation has reached 30-year highs of +5.6% and Belgian inflation is now at more than 3 times the ECB's target rate. Additional lockdowns enforced in Europe and the risk of further restrictions placed further pressure on numbers, and low vaccination uptake in many European countries presents further risks of these. We therefore sold some European risk in November and are currently positioned 0.25yr short breakevens due to the risk that a new variant poses to Europe.

UK CPIH reached +3.8% YoY in October, with a MoM increase of +0.9%. A significant increase when compared to October 2020, which saw no change in CPIH. The largest positive contributions to the figure were made by housing and household services (+1.2% MoM), transport (+1.1%) and restaurants and hotels (+0.4%). Price rises in energy were considered the main driver of MoM increases in housing and household services, which is unsurprising given headline news and the rise in the energy price gap from 1st October. Transport has seen varied movements over the past year, but recent price hikes in fuel have contributed to the October MoM rise. It is worth noting that, for the last 3 months in the UK there has been no deflation in any sectors- a theme that looks set to continue until the expected April inflation rate peak. 10yr UK breakevens continue to rise, and we continue to operate a 0.5yr short with the view that rates must come down from this peak in the near future.

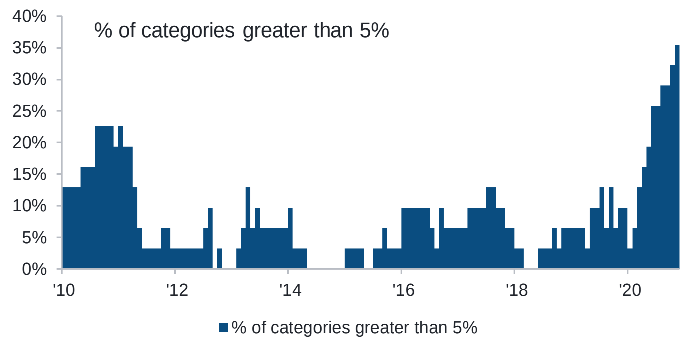
We think inflation linked bonds offer investors an attractive proposition for 2022 and are unsurprised by the continued strong inflows into the asst asset class. Investors face (among others) three key risks in 2022, upside inflation risk, central bank tightening and elevated valuations in risk assets.

US CPI highest inflation since 1990



Source: Fidelity International, Bloomberg, November 2021.

Inflation is broadening out: the proportion of categories growing at more than 5% YoY is growing



Source: Fidelity International, Bloomberg, November 2021.

Investment Grade Credit

Monthly Review

- Investment Grade (IG) markets recorded spread widening in all geographic regions in November and posted mixed albeit relatively stable returns across the board
- Concerns around inflation as well as the outbreak of the Omicron variant were the main drivers for volatility observed in almost all markets over the month of November.
- Our views on valuations have changed, we continue to be underweight the US as well as in Sterling IG credit. We are overweight in EUR IG and neutral on Asia IG.

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

Outlook

Going into the end of the year, Investment Grade (IG) credit was affected by the volatility seen across the rates markets and credit spreads subsequently widened across the board, but the asset class remained relatively resilient over the course of November. There has been a long list of drivers supporting a widening/tightening of credit spreads, but in summary, they have almost balanced out at the end of the month. Corporate earnings remain largely positive, especially in the US, on the other hand, supply has been above expectations over November again. Meanwhile concerns around the persistence of inflation and the expected Central Bank announcements as well as the surfacing of the Omicron variant resulted in the volatility seen across the market in November.

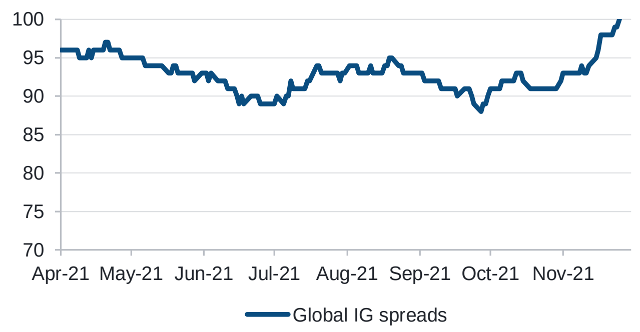
European IG corporate spreads have widened the most (+23bps) over November relative to other regions, posting an absolute return of +10bps. Credit spreads have been trading close to all-time tights over the last months amid increasing inflation expectations, thus, volatility caused by concerns around the outbreak of a potentially more transmissible variant initiated a sudden risk-off move in credit spreads. We acknowledge that it could take weeks or even months to have enough data for a clear assessment of Omicron - and while it does have the potential to be a turning point for credit markets, this could very well end up as a false alarm. On the supply and demand side, European credit issuance has picked up again relative to October, with new issuances of c€48bn, despite continuously meeting challenging demand conditions as well as the seasonal slowdown in trade activity. Due to the recent market moves we have shifted our outlook to overweight in European IG credit and have selectively invested in corporates that benefit from more favourable valuations since the widening of credit spreads.

US IG credit posted the highest absolute negative return over November (-40bps). Fed officials sent signals about a potential faster pace of taper as inflation levels have reached new peaks amid strong economic data releases. While Powell has continued to push back on shifting the Fed's strategy throughout the month of November - only highlighting on 1st December that 'transitory' inflation is in the past - credit spreads widened by +13bps over November nevertheless. This was further supported towards the end of the month as trade activity decreased in the investment grade primary market over Thanksgiving and the variant-induced selloff, causing a sharp repricing of rates, which subsequently weighed on credit spreads. Liquidity shortages and positioning have also likely played a part in the sharp repricing we have seen over the last weeks in November. Overall, we continue to keep a defensive stance in US Investment Grade.

Meanwhile in Asia, credit spreads widened by +6bps following the outbreak of the Omicron variant. However, the asset class was subject to a significant selloff in risky assets earlier in the month as investors retreated from China IG property. China may not be at direct risk of the Omicron variant given strict travel restriction which appear to stay in place, but a second-order impact can still affect economic growth and an underperformance of China could potentially drag counterparts in South-east Asia lower. In summary, Asia IG was subject to a double-negative effect due to the selloff in the Chinese property sector and the spike in yields due to the Omicron variant which resulted in strong downward pressure for asset prices. But it became apparent that Asia IG was more resilient, spreads haven't widened as much on a relative basis and Asia IG still posted a positive albeit marginal return of +10bps. We have selectively invested in high-quality property names which have tightened since, we remain cautious and only invest selectively in industrial sectors which offer favourable valuations.

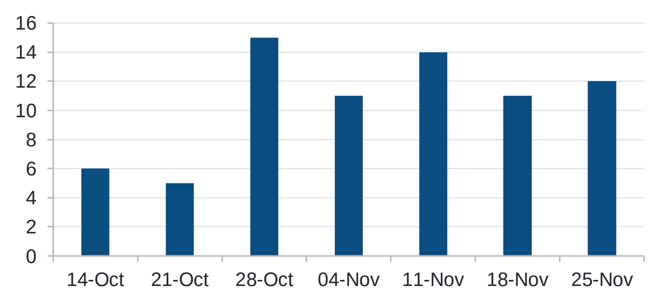
It was a similar story across Sterling IG, where credit spreads widened by +10bps. However, Sterling IG was broadly resilient to the sudden market moves seen in similar market segments and the asset class recorded a positive absolute return of 1.0%. In terms of valuations, Sterling credit continues to look relatively expensive, we acknowledge that valuations do look more interesting after the recent widening in credit spreads, but we do require further good news on fundamentals to justify adding to exposure. For the time being, we remain cautious in Sterling credit.

IG credit spreads so far immune to rates market volatility



Source: Fidelity International, Bloomberg, 30 November 2021.

European Credit supply remains elevated (€bn)



Source: Fidelity International, Bloomberg, J.P. Morgan. Reporting weeks is Thursday to Thursday, 03 December 2021.

High Yield

Monthly review

- High Yield (HY) markets posted negative returns as credit spreads widened in November.
- Risk sentiment deteriorated as the emergence of the Omicron variant sparked fears of renewed lockdown and investors focused on the potential impact on the global economy.

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

Outlook

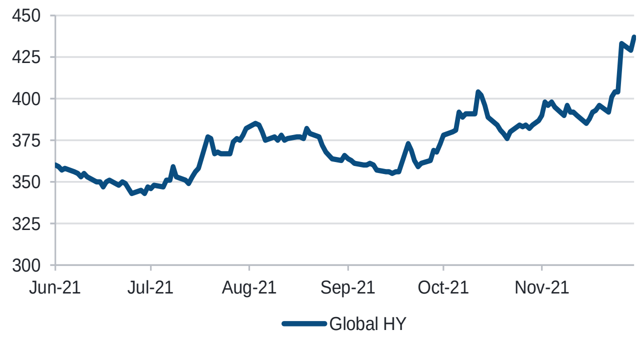
Global High Yield (HY) markets saw negative returns of -1.1% in November. Historically HY has delivered a steady coupon, despite volatility in returns and we believe that it is well placed to do so going into next year. Spreads widened by 50bps this month, meaning new opportunities to purchase at attractive spreads have presented themselves. After a relatively steady month, the end of November saw increased volatility due to concerns surrounding the new coronavirus variant, Omicron. Whilst we will monitor global progression carefully, we are inclined to think that moves such as these will become more common as we brace ourselves for living with covid due to market complacency to this reality. Volatility in the EM HY space should decrease once local inflation trends subside and we receive more clarity on the pace of future Fed hikes. Overall, our stance on Global HY is positive going into 2022- confident that the risk-reward premium of HY will continue to work in our favour and bottom up name selection is the best way to navigate the current macro environment.

US HY markets posted negative returns of -1.0% in November, with spreads widening by 52bps. Over 2021 US HY has delivered extended outperformance against other mainstream fixed income cohorts, it is only natural that we are now seeing returns more in line with global trends. However, with spreads now more than 60bps wider than the Q3 tights and market yields also adjusting accordingly, it is sorely tempting to push the US HY score back into positive territory. Year-end seasonality has proven very strong over the past two-plus decades but of course cannot be entirely relied upon- with the Fed tilting to a hawkish stance and markets likely to endure further volatility given macro conditions. November saw Q3 earnings season and an overwhelming average EBITDA growth when compared to the prior year, with tailwinds in place for further improvement. The primary supply pipeline remains steady, with broader market trends pointing to an increase in appetite for higher leverage and more deals pricing closer to initial price guidance than at any other time in recent memory. We are sticking with a neutral stance on US HY, tempted to move to a positive view, as it continues to provide an attractive combination of elevated income profile and a low correlation with ever more volatile rates.

European HY markets returned -0.6% this month, another month of negative returns following the 11-month positive return tally clocked earlier in the year. Spreads widened by 49bps, not helped by announcements of further lockdowns in Germany and Austria. As said above, we should expect to see this as a reality of living in a world with covid and a market that often forgets to price in the risks that this brings. These movements are likely to push opportunistic refinancing into the new year. Looking into 2022, we remain focused on the path of monetary policy and inflation outlook and how to work this in our favour. Sector allocation and regional rotation look like the best way to navigate this environment. Reopening plays remain interesting, despite increased concerns surrounding Omicron, due to their attractive spread margins. Our view that higher energy prices are here to stay also keeps our stance on energy favourable. We also see the banking sector as attractive due to policy consistently favouring the industry. Strong performance of hybrids and lower quality debt recently has aided performance and we are moving to a positive stance on European HY, as wider spreads leave room for improved performance and compression.

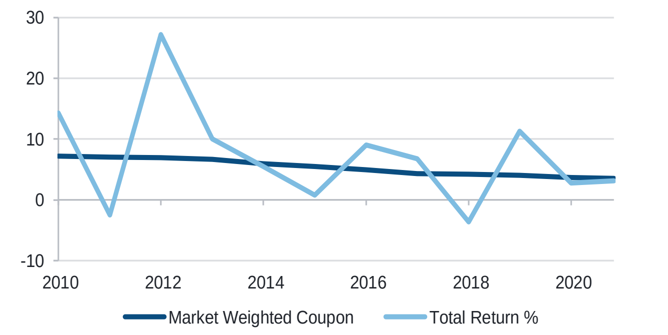
The Asia HY index saw some promising movements in November, slightly curtailed by recent Omicron headlines and thus delivering an overall return of -1.5%, with spreads widening by 23bps. These movements were thanks to attractive valuations and the non-property sector benefiting from credit supply. We anticipate additional idiosyncratic headlines and month-to-month volatility through to the end of the year. Similar themes relating to covid in Europe are seen in Asia- in the new year we must learn to live with endemic covid. Asia has underperformed with respect to reopening due to zero tolerance and low vaccination rates, which may provide future opportunities as it has with Europe and the US. Our view on Asia HY remains positive in light of the opportunities that these attractive valuations present.

Widening spreads in November provides opportunity for tightening and compression



Source: Fidelity International, ICE BofA Indices, December 2021. Shows Gov OAS.

HY historically has delivered a steady coupon in times of volatility



Source: Fidelity International, ICE BofA indices, December 2021

Emerging Markets

Monthly review

- Emerging market debt posted negative returns over the month with local currency bonds underperforming hard currency.
- Local currency bonds suffered due to rising yields and weakening of most EM currencies against the US dollar.
- Meanwhile, credit spreads widened over the month amid concerns around the new variant of COVID-19, Fed hawkishness and rise in COVID-19 cases in Europe.

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

Outlook

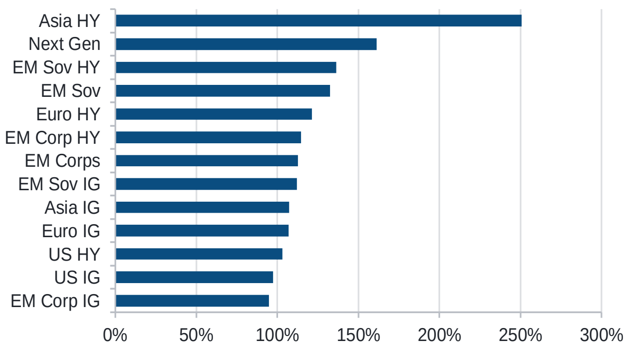
Emerging market debt posted negative returns across the board in November, with local currency bonds continuing to underperform hard currency debt. In the hard currency space, both sovereign debt and corporate debt returns posted negative returns of -1.8% and -0.6% respectively. Spreads widened by 33bps in the sovereign space and 23bps in the corporate debt space respectively. Local currency bonds were down -2.7%, driven primarily by FX depreciation. The strong cyclical factors that boosted growth in the earlier part of this year have now faded and EMD performance has been driven by rising inflation pressures and the resumption of the central bank hiking cycle.

Although some value has emerged in parts of EM credit, such as Latin America, SSA and China, we remain cautious on the whole and have recently taken profit in outperformers. Our outlook for the asset class generally continues to be driven by the widespread consensus that the Fed needs to hike. This has negative effects on asset allocator inflows into long-maturity asset classes like EMD. In addition, signs of slowing economic growth, both due to the China property crunch and the consumption impacts of rising food/energy costs at a time where many markets are priced for strong growth rebounds, make us cautious. Nevertheless, the China property sector is one area we have been adding risk in, particularly focusing on the names we feel have long term viability and strong fundamentals, although we are mindful that this part of the market is still very volatile. We are also constructive on certain oil exporting credits like Colombia and Ghana, which look attractive at current spread levels. On the other hand, valuations look stretched in certain low beta credits, where spreads have compressed into pre-COVID levels. Looking ahead, the positive technical from high nominal yields relative to other markets of fixed income should help drive inflows. Over the medium term, the reversal of the aforementioned risks could lead us to become more positive.

We are now overweight in local rates having recently cut our short position in Poland and gradually added longs in Russia, Mexico, Brazil and South Africa. We believe the interest rate hiking cycle is well underway, as many countries have hiked to reach a positive real rate, and in many more the long end of the rates curve has priced in these hikes. Inflation seems to be peaking in most countries, though a rise in oil and food prices continue to be looming risks. Base effects alone will decelerate CPI prints going forward, which would enable some central banks to pause raising interest rates. Further, slowing growth could make additional rate hikes difficult for some central banks.

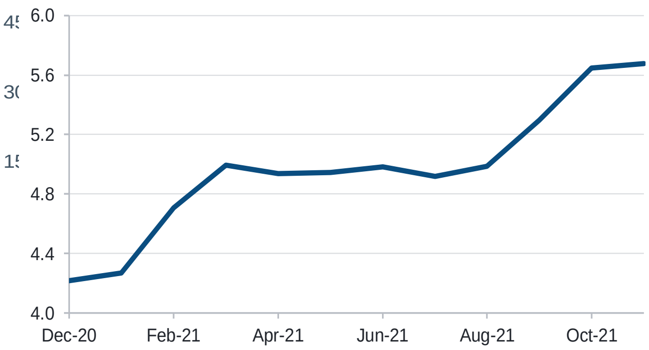
We have been bearish on EM FX and long the US dollar since late September, given concerns around growth in China and commodity price shocks. We expressed this view using large underweights in South African rand and Mexican peso, as the two currencies that have been trading as liquid proxies for EM risk sentiment, to reduce our FX beta. The long US dollar trade experienced a tailwind in November from its strength against developed market currencies and especially the Euro, which made us consider reducing our underweight in EM FX. We believe EM currencies moved fast with some selling off considerably. We added some exposure to the Russian ruble due to its strong macro-economic fundamentals and high central bank credibility. We also have some discretionary long positions in the Israeli shekel and Czech koruna, along with exposure to selected frontier market currencies and short positions in the Mexican peso, South African rand and Euro.

Pre-crisis spread levels look attractive



Source: Fidelity International, Bloomberg, as of 1st December 2021. *Pre-crisis date 2nd January 2020.

Year to date EM local currency yield



Source: Bloomberg, JP Morgan GBI-EM Global Diversified Composite Yield to Maturity, as of November 2021.

Quant Appendix

Fidelity Fixed Income Quantitative Scorecard

3rd December 2021

Credit Beta & Asset Allocation

Credit Beta	TOTAL	Macro-economics	Momentum	Liquidity	Reversion	Seasonality
USD Investment Grade Credit	-0.10	0.4	-0.3	-1.0	0.0	0.0
EUR Investment Grade Credit	-0.06	0.4	-0.3	-1.0	0.5	0.0
USD High Yield	0.34	0.4	-0.5	-1.0	1.0	1.0
EUR High Yield	0.19	0.4	-0.3	-1.0	1.0	1.0
EMD Sovereigns (USD)	-0.14	-1.0	-1.0	-1.0	1.0	1.0

Comments:

The credit beta models have generally reduced risk over the last month, moving to small shorts in USD and EUR IG and reducing the long in USD HY. This has been driven by the liquidity signal moving to max short and the momentum signal moving short.

Asset Allocation	TOTAL	Macro-economic	Fundamentals	Sentiment and Liquidity	Valuation and Reversion
Investment Grade Credit	+0.36	+1.0	+1.0	-0.6	+1.0
High Yield	+0.27	+1.0	+1.0	-0.2	+0.3
US Loans	+0.26	+1.0	+0.3	-0.0	+0.3
EM Sovereign Debt (USD)	+0.23	+1.0	0.0	-0.7	+1.0
EM Local Currency Debt	-0.54	+1.0	0.0	-0.6	-1.0
EM Corporate Debt (USD)	+0.03	+1.0	+0.3	-0.6	+0.3

Comments:

Model positions are less positive/more negative across the board, driven by the sentiment and liquidity pillar turning negative for all assets. This has shifted the EM Corporate position to near flat from overweight and reduced the size of the IG Credit overweight. On the other hand, we see fundamentals improving for high yield and the macro pillar continuing to support positioning for risk.

Interest Rates

Duration	TOTAL	Global Growth	CFTC	CBAI HY	Commods	Cyc Vs Def	Reversion	Global Momentum	Slope	Seasonality
EUR	-0.12	0.62	-1.09	-1.00	1.37	-0.34	0.16	0.08	-0.80	-0.12
USD	-0.25	0.62	-1.09	-1.00	1.37	-0.34	0.44	0.08	-0.90	-1.43
GBP	-0.17	0.62	-1.09	-1.00	1.37	-0.34	0.38	0.08	-1.01	-0.54

Comments:

The duration model trimmed its short positions over the past month. The main drivers were the commodity signal turning positive and the global momentum signal moving flat from negative. US and German curves have continued to flatten, which has moved the slope signal from positive to negative in EUR and more negative in the US.

Cross-Market Duration	TOTAL (beta-neutral)	TOTAL	Slope	Real yield	Forward yield	Growth	Inflation	Unemployment
AUD	0.32	0.09	-0.30	0.99	0.38	-0.29	0.24	-0.48
CAD	0.13	-0.02	-0.37	-0.38	-0.05	0.46	0.10	0.11
CHF	0.19	0.28	0.72	0.78	-0.37	0.05	0.64	-0.13
EUR	-0.44	-0.08	0.66	-0.55	0.01	-0.01	-0.23	-0.36
GBP	-0.68	-0.64	-1.55	-1.68	-0.06	0.25	-0.90	0.11
JPY	0.31	0.30	0.64	0.48	0.03	-0.27	0.58	0.34
NZD	-0.33	-0.30	-1.01	0.20	-0.02	0.04	-0.54	-0.49
SEK	0.17	0.35	0.63	0.64	0.26	-0.54	0.27	0.84
USD	0.37	0.02	0.57	-0.48	-0.18	0.32	-0.15	0.05

Comments:

The model is broadly unchanged compared to last month. The model remains long CAD, USD, AUD against NZD, EUR and GBP. Some of the EUR short is hedged with longs in CHF and SEK rates.

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

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

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

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

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

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

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

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

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